Title: Long term State Pension sustainability: increasing the State Pension age to 67	Impact Assessment (IA)
Lead department or agency: Department for Work and Pensions	**IA No:**
Other departments or agencies:	**Date:** 05/12/2011
	Stage: Initial
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries:

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 the biggest fiscal crisis in generations. The ratio of pensioners to working-age people is increasing, and the latter largely support the former through National Insurance and tax contributions. We have already brought the increase in State Pension age to 66 forward to 2020 and need to take further action now to bring forward the increase to 67. Currently this is not scheduled to happen for 25 years and we must bring this timetable forward to ensure that the system remains sustainable in the face of continuing improvements to life expectancy.

What are the policy objectives and the intended effects?

The policy objectives are to revise the timetable for increasing State Pension age to 67 such that:

a. improvements 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;

c. proposals are brought forward at the earliest opportunity to maximise notice to affected individuals; and

d. future spending on the state pensions system is sustainable.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

This Impact Assessment examines the fiscal costs and benefits of the following option against the baseline:

Proposal: Increase men and women's State Pension age from 66 to 67 between April 2026 and April 2028.

Baseline: Men and women's State Pension age increases from 66 to 67 between April 2034 and April 2036.

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 changes to State Pension age.**
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: 05/12/2011

Summary: Analysis and Evidence

Policy Option 1

Description: Increase state pension age to 67 between 2026 and 2028

Price Base Year 2011	PV Base Year 2011	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate: 31,400 PV**

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	10	Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	76,100		N/A	**38,800 PV**

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

• Individuals see reduction in pension-age state benefits of £62.6 billion and increase in Income tax and National Insurance payments of £9.7 billion

• The Exchequer spends additional £3.7 billion on working-age welfare benefits.

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

• Those affected may have to adjust their retirement plans accordingly.
• Option has a negligible indirect impact on the private sector.
• Bringing forward the increase in the State Pension age would generate some implementation costs but timescales mean that we are unable to provide a meaningful estimate of these, though the scale is likely to be very low compared to the overall magnitude of costs and benefits of the policy.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	10	Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	137,400		N/A	**70,200 PV**

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

• Exchequer benefits from reduced spending on pension-age benefits by £62.6 billion and increased Income tax and National Insurance payments of £9.7 billion.

• Individuals gain £3.7 billion in additional working age welfare benefits, and expected higher employment might boost gross employment income by £61.4 billion over the period.

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

• Intergenerational fairness is promoted by taking into account recent and likely further 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 further.
4. Effect on working-age welfare benefits spend depends on DWP modelling of employment impact.
5. Analysis excludes potential effect on HB/CTB spend.
6. Analysis is based on the structure of the welfare system, state pensions, taxes and National Insurance current at the time of publication (though note point 1 above). Welfare reform and any future State Pension reforms would affect the estimates made.
7. Modelling assumes that the timetable for increasing State Pension age to 68 is unchanged and the legislated increase to 66 by 2020 is in the baseline.

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: N/A	**Benefits:** N/A	**Net:** N/A	No	NA

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			6/4/2026		
Which organisation(s) will enforce the policy?					
What is the annual change in enforcement cost (£m)?					
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:**	**Non-traded:**	
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	
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

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	16
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.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

No.	Legislation or publication
1	A state pension for the 21st Century (Cm 8053)
2	A sustainable State Pension: when the State Pension age will increase to 66 (Cm 7956)
3	State pension age review – Call for Evidence
4	Pensions Act 2011
5	Pensions Act 2007
6	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	-2,400	-6,300	-8,600	-9,000	-9,400	-9,700	-9,900	-10,000	-7,700	-3,100
Annual recurring cost										
Total annual costs	-2,400	-6,300	-8,600	-9,000	-9,400	-9,700	-9,900	-10,000	-7,700	-3,100
Transition benefits	6,100	11,700	14,900	15,800	16,600	17,200	17,300	16,700	13,400	7,800
Annual recurring benefits										
Total annual benefits	6,100	11,700	14,900	15,800	16,600	17,200	17,300	16,700	13,400	7,800

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

Numbers rounded to the nearest £100 million in 2011/12 price terms

Evidence Base

Issue and rationale for change

1. Projections of life expectancy show that individuals can, on average, expect to spend increasing periods of time in receipt of State Pension. On the basis of the 2010-based projections a man reaching State Pension age of 65 in 2011 could expect to spend 21.1 years in retirement; under the proposed change, a man reaching State Pension age of 67 in 2028 can expect to spend 21.4 years in retirement, on average. The trend is similar for women: projected life expectancy for a woman reaching 65 in 2011 is 23.8 years and for a woman reaching 67 in 2028, 24.0 years, on average.

2. Furthermore, these projections are not static. ONS produce life expectancy projections on a biennial basis taking into account new mortality data between releases. Successive releases have shown a general upward trend in the revision of life expectancy. Under the 2004-based projections a man retiring in 2011 could have expected to spend 20.1 years in retirement, 1 year less than the 2010-based projections. For women, the difference in average life expectancy at age 65 in 2011 between the two sets of projection is 1.1 years.

3. The Pensions Act 2011 brought forward the equalisation of male and female State Pension age to December 2018, from April 2020, and the date by which State Pension age rises to 66 to October 2020, from April 2026, At present, the timings for further increases in State Pension age are as legislated for in the Pensions Act 2007; increasing to 67 between 2034 and 2036 and 68 between 2044 and 2046. Improvements in longevity that resulted in the increase in State Pension age to 66 are not confined to those cohorts alone; cohorts retiring from 2028 are likely to see further improvements to life expectancy. Following consultation in April 2011[1], the Government is considering how the State Pension age could better reflect changes in life expectancy in the future.

4. Under the proposed option, State Pension age would increase to 67 between 2026 and 2028, bringing forward the increase by 8 years and ensuring those who have seen an increase in State Pension age due to the Pensions Act 2011 do not face a further rise.

5. The Government has also consulted on significant reform of the state pension system through its Green paper *'A state pension for the 21st century'.* This Impact Assessment is based on the current system, taking account of increasing State Pension age to 66 by 2020 as legislated for in the Pensions Act 2011, and will be updated in full in due course, incorporating analysis of future reform when proposals are brought forward.

The demographic context

6. The timetable for increasing State Pension age to 67, legislated for in the Pensions Act 2007, was determined using 2004-based projections of average cohort life expectancy. The Office for National Statistics (ONS) published the 2010-based projections in October 2011, and Table 1 summarises the upward revisions between the two sets of projections since the original timetable for State Pension age increases beyond 65 was set in 2007.

7. Revisions between the 2004-based and 2010-based projections mean that a man aged 66 in 2027 can, on average, expect to spend an additional year and a half in retirement and a woman can expect, on average, an extra 1.6 years in retirement. The 2010–based projections indicate that men retiring at 67 in 2028 can expect to spend 21.4 years in retirement, the equivalent of 31.3% of adult life in receipt of state pension. This is a greater proportion of adult life in retirement than had been expected under the 2004-based

[1] The Green Paper *A state pension for the 21st century* (Cm 8053) consulted on options for a more automatic mechanism for increasing the state pension age.

projections for the same cohort of men who, under the 2007 Act timetable, would have retired a year earlier and who could have expected to spend 20.7 years or 31.0% in retirement on average. It is also a slightly longer length of time than a man retiring at 65 today (21.1 years)

Table 1: Revisions in projected cohort life expectancy for those reaching 66 in 2027 (UK average)

	Life Expectancy at 66 (years)	Life Expectancy at 66 (years)	Revision between projections (years)	Percentage of adult life receiving State Pension	Percentage of adult life receiving State Pension
	2004-based projection	**2010-based projection**		**2004-based projection**	**2010-based projection**
Male	20.7	22.2	1.5	31.0%	32.6%
Female	23.1	24.7	1.6	33.4%	34.9%

Source: 2004-based principal population projections, Government Actuary's Department (GAD); 2010-based principal population projections, Office for National Statistics (ONS).
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.

8. The revisions in life expectancy projections since the timetable to increase State Pension age to 67 in 2036 and then to 68 ten years later was originally published mean that it is necessary to take appropriate action to ensure that State Pension remains sustainable in the long term. The Government is proposing to bring forward the increase to 67 now, but it will also be necessary to consider how best to take account of the revisions in life expectancy when considering further increases to State Pension age. The current data mean that the case for action on 67 is compelling and by taking this action now, we are able to make individuals aware of the change at the first available opportunity.

The economic context

9. Increasing life expectancy is good news, but comes with a cost. The independent Office for Budget Responsibility project that total age-related expenditure will increase by 5.3 percentage points of GDP between 2015-16 and 2060-61. Of this increase, over 40 per cent comes from increasing expenditure on State Pensions, which increases by 2.4 percentage points of GDP over the same period. It is critical that we tackle the fiscal challenge presented by demographic change now to ensure the State Pension remains sustainable over the long-term and fair between the generations.

10. The UK economy is currently recovering from the biggest fiscal crisis in generations. This makes it all the more important for the UK to have a credible fiscal plan over the medium and long-term. To do so will enhance market confidence, helping to maintain low long-term interest rates.

11. International organisations such as the IMF and OECD have highlighted that governments should prioritise reform of the State Pension age, as part of wider measures to ensure long-term sustainability of the public finances

Options Appraisal

"Do nothing" – the baseline

12. Inaction does nothing to address the impact of increased longevity on the state pensions system, nor does it promote intergenerational fairness.
13. Under the current timetable and latest population projections, the number of years that men, on average, will spend in receipt of state pensions will rise from 21.1 years in 2011 to 22.9 years in 2034, when the increase to 67 is set to begin in the baseline. For women, even though there would be a reduction of life expectancy at State Pension age from 27.9 years in to 25.3 years in 2034 (see Tables 5 and 6), on average, the time spent in receipt will still be higher than under the earlier 2004 population projections which had indicated a life expectancy at state pension age of 23.6 years for women in 2034 on average.
14. This option does not meet the policy objectives. It results in increased State Pension spend by failing to address the upwards revision in average life expectancy, 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 pension benefits system.

Option 1 – increase from 66 to 67 between April 2026 and April 2028

15. This option brings the increase to 67 forward by 8 years. By starting the increase in 2026 it means that those affected by bringing forward the increase to 66 to 2020 under the Pensions Act 2011 will not experience another change to their State Pension age in quick succession. In addition, by making an announcement now, the Government ensures that individuals are aware of the change at the first available opportunity.
16. The key fiscal benefit of this option is that it delivers net benefits-related savings to DWP of £58.9 billion in real terms, with a further £9.7 billion gained in increased income tax receipts and National Insurance contributions from people working for longer (see Tables 2 and 3).
17. Option 1 is estimated to affect around 8.0 million people in Great Britain (GB) born between 6 April 1960 and 5 April 1969, who will have their State Pension age delayed. No individual would experience an increase in their State Pension age of more than 12 months, relative to the timetable set in 2007.
18. A rise in State Pension age of one year is projected to decrease the lifetime pension income of men and women at most by between 3.5 per cent and 4.0 per cent (see Table 8 and the notes), based on DWP modelling of hypothetical individuals. 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 16).
19. However, we would expect the lifetime pension income of men and women affected by the change to be revised upwards in the light of improvements in longevity in subsequent life expectancy projections. On the latest projections, men aged 67 in 2028 will still spend 31.3 per cent of their adult life in receipt of state pensions on average. Though this is slightly lower than the proportion for men reaching State Pension age in 2011, it is well above the ratio in 2000 (29.6%). Women aged 67 in 2028 would still spend more time than men in receipt of state pensions at 33.7% of their adult life on average, or two and a half years more than men.
20. For men the projected proportion of adult life in receipt of state pensions is expected to remain slightly lower than for those retiring in 2011 for the cohorts reaching State Pension age between 2027 and 2032. However, this needs to be taken in context of the substantial upwards revisions in projected longevity which has taken place in the last decades. Between 1981 and 2000, the proportion of adult life in receipt of state pensions grew by 6

percentage points for men (23.7% to 29.6%) and 4 percentage points for women (35.9% to 40.2%).

21. Moreover despite this slight and temporary reduction in the projected proportion of adult life in receipt of state pensions, the time spent in retirement by those reaching State Pension age after 2026 following the proposed increase is projected to remain higher than for those aged 65 today – 21.1 years for men and 23.8 years for women, on average, compared to 21.4 years and 23.9 years respectively, for the first cohorts whose State Pension age will be 67. When the original timetable for the increase from 65 to 68 was set, the expectation was that life expectancy at 66 in 2026 would be just over 20.6 years for men and 23 years for women.

22. This option helps address this revision in average cohort life expectancy projections. In this way it supports intergenerational and intragenerational fairness, and helps make the state pensions system more sustainable in the face of increasing longevity.

Detail of impact

23. Details of the impact of the proposed option against the baseline is set out in the tables below. Additional information on differential impact is set out in the Equality Impact Assessment (Annex, page 16).

Table 2: Effect on DWP spend on benefits compared to baseline, £ billion, 2011/12 price terms

	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	Total
Net saving	1.5	4.7	6.6	6.9	7.3	7.6	7.8	8.0	6.3	2.4	**58.9**
Of which											
Pensions	1.6	5.0	7.0	7.4	7.7	8.0	8.3	8.5	6.6	2.5	62.6
Working age	-0.1	-0.3	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.3	-0.1	-3.7

Source: DWP analysis
Notes: Totals may not appear to sum correctly due to rounding

Table 3: Additional income tax and NI receipts, £ billion, 2011/12 price terms

2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	Total
0.8	1.0	1.1	1.2	1.2	1.2	1.1	1.0	0.7	0.5	9.7

Source: HMRC analysis based on estimates produced by the HMT cohort employment model
Notes: Totals may not sum due to rounding

Table 4: 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 11 months	12 months	Total
Men	220	205	210	220	3,110	3,960
Women	225	210	215	225	3,185	4,060
Total	440	415	420	445	6,295	8,020

Source: Office for National Statistics Population estimates
Note: Estimates are rounded to the nearest 5,000 and totals may not appear to sum correctly due to rounding. These estimates are based on the number of men and women alive in 2010, and resident in GB.[2] The birth distribution which was adopted is based on the distribution of births in England and Wales for the given cohorts affected by SPA changes (1960 to 1969).

[2] 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 pensions 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 5: Simplified illustration of the State Pension age timetable (UK)

	2011	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Men											
Current	65	66	66	66	66	66	66	66	66	66.17	66.67
Proposal	65	66.17	66.67	67	67	67	67	67	67	67	67
Women											
Current	60.67	66	66	66	66	66	66	66	66	66.17	66.67
Proposal	60.67	66.17	66.67	67	67	67	67	67	67	67	67

Notes: Age at which people reach State Pension age is given for the July of each year. Figures after a decimal point are expressed as a percentage of each year

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

	2011	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Men											
Current	21.1	22.1	22.2	22.3	22.4	22.5	22.7	22.8	22.9	22.9	22.5
Proposal	21.1	22.0	21.6	21.4	21.5	21.7	21.8	21.9	22.0	22.1	22.2
Women											
Current	27.9	24.6	24.7	24.8	24.9	25.0	25.2	25.3	25.4	25.3	25.0
Proposal	27.9	24.5	24.1	23.9	24.0	24.1	24.2	24.3	24.4	24.5	24.7

Note: The data in the table are cohort life expectancy at the state pension age given in Table 6 for the average man and woman resident in the UK in the specified year.

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

	2011	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Men											
Current	31.9	32.5	32.6	32.7	32.7	32.8	33.0	33.1	33.2	33.1	32.5
Proposal	31.9	32.2	31.6	31.3	31.4	31.6	31.7	31.8	31.9	32.0	32.1
Women											
Current	40.7	34.8	34.9	35.0	35.1	35.2	35.4	35.5	35.6	35.4	34.9
Proposal	40.7	34.6	34.1	33.7	33.8	33.9	34.0	34.1	34.2	34.3	34.4

Note: The data in the table are cohort life expectancy at the state pension age given in Table 6 for the average man and woman resident in the UK in the specified year, as a percentage of their cohort life expectancy at age 20.

Table 8: Maximum change in lifetime total state and private pension transfers compared to current State Pension age timetable (hypothetical cases)

a) Lifetime median earnings

	Men	Women
Retire at old State Pension age	-3.0%	-2.5%
Retire at new State Pension age	-2.0%	-1.5%

b) Lifetime high earnings

	Men	Women
Retire at old State Pension age	-3.0%	-2.5%
Retire at new State Pension age	-1.5%	-1.0%

c) Dependent upon Guarantee Credit element of Pension Credit in retirement

	Men	Women
Retire at old State Pension age	-4.0%	-3.5%
Retire at new State Pension age	-4.0%	-3.5%

Source: DWP analysis using the I-PEN model
Note: Proportions are rounded to the nearest half percentage point.

Methodology note:

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 6 April 1961 with average life expectancy when they reach State Pension age (SPa):
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.

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, while some would not have the maximum delay in State Pension or Pension Credit age illustrated (those born between 6 April 1960 and 5 April 1961 and 6 April 1968 and 5 April 1969 will experience a delay of less than one year).

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.

Income in all years is considered in 2011/12 price terms.

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

Assumptions and Risks

24. **Increase in State Pension age to 66:** The increase in State Pension age to 66 between 2018 and 2020 as legislated by the Pensions Act 2011 is included in the baseline.
25. **Future increases in State Pension age:** Modelling is limited to 2036 as this is when State Pension age would rise to 67 under the current legislation. The modelling assumes the rise in State Pension age to 68 (between 2044 and 2046) remains unchanged.
26. **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.
27. **Increased DWP spend outside of policy period:** From 2036, when State Pension age would be 67 under the current timetable for all persons reaching State Pension age in that year, the effect of bringing forward the increase in State Pension age is estimated to result in a slight increase in benefit spend (of around £0.5 billion p.a.) compared to the baseline. This is because, based on the current State Pension scheme, a proportion of those affected will have increased State Pension entitlement from contributing for longer. This impact declines over the lifetime of those affected by the delayed State Pension age.
28. **Income tax and National Insurance figures:** Estimated additional yield is based on employment impacts (see paragraph 39 and Table 11) 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[3] projected to 2011/12. No estimate is made of potential tax revenue from additional profits made by companies.

29. HMRC modelling indicates that there may be £1.9 billion 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 further increase in revenue of around £1 billion is forecast over the five years following the implementation of this policy.

30. **Longevity projections:** State Pension spending is substantially affected by revisions in longevity projections. The above analysis was based on the 2010-based national population projections. Further upward revisions in life expectancy at State Pension age would result in higher spending on state pensions and pensioner benefits. They would also reduce the estimates of the potential loss in lifetime pension transfers as a result of pension age change.

31. **Impact on gross employment earnings and on GDP**: Projected additional gross employment earnings and national output are based on the estimated employment impacts (see paragraphs 41 and 42) of the policy. 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.

32. **Reform of the State Pension and welfare system:** the Department for Work and Pensions has consulted on reforms to the State Pension system. Along with recent reforms which are expected to significantly improve pension outcomes, for women in particular, this will change the assessment. The Department is also taking forward reforms of the wider benefit system but these changes are not taken into account in this assessment. The assessment will be revised as necessary in the light of the proposals when they are brought forward.

Administrative Burden

33. The administrative burden on DWP of changing the date at which State Pension age increases to 67 would be minimal when compared to the savings that the change would realise

34. A communications strategy for these changes has yet to be determined but it is not expected to add to the cost of communicating the original timetable. Updating IT would incur some costs although, for the large part, it is expected that changes could be made as part of future IT improvements.

Wider Impacts

Impact between constituent countries of Great Britain

35. 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.

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

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

Table 9: Cohort average life expectancy (years) at State Pension age by country in Great Britain

a) Men

	2011	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
England											
Current	21.3	22.3	22.4	22.5	22.6	22.7	22.8	23	23.1	23.05	22.7
Proposal	21.3	22.15	21.8	21.6	21.7	21.8	22	22.1	22.2	22.3	22.4
Wales											
Current	20.8	21.8	21.9	22	22.1	22.2	22.4	22.5	22.6	22.55	22.2
Proposal	20.8	21.65	21.3	21.1	21.3	21.4	21.5	21.6	21.7	21.8	21.9
Scotland											
Current	19.6	20.6	20.7	20.9	21.0	21.1	21.2	21.3	21.4	21.5	21.1
Proposal	19.6	20.5	20.2	20.0	20.1	20.3	20.4	20.5	20.6	20.7	20.8

b) Women

	2011	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
England											
Current	28.1	24.8	24.9	25.0	25.1	25.2	25.3	25.4	25.6	25.5	25.1
Proposal	28.1	24.7	24.3	24.1	24.2	24.3	24.4	24.5	24.6	24.7	24.8
Wales											
Current	27.6	24.4	24.5	24.6	24.7	24.8	24.9	25.0	25.2	25.1	24.7
Proposal	27.6	24.3	23.9	23.7	23.8	23.9	24.0	24.1	24.2	24.3	24.4
Scotland											
Current	26.3	23.2	23.3	23.4	23.6	23.7	23.8	23.9	24.0	24.0	23.6
Proposal	26.3	23.1	22.7	22.5	22.6	22.8	22.9	23.0	23.1	23.2	23.3

Source: 2010-based principal population projections, Office for National Statistics

Notes: The data in the table are cohort life expectancy at the state pension age given in Table 5 for the average man and woman resident in the UK in the specified year.

Impact on people from different socio-economic backgrounds and on healthy life expectancy/disability-free life expectancy

37. 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 10).

Table 10: Improvements in life expectancy at age 65 for manual and non-manual workers

Improvement between:	**1977-81 and 2002-06**		**1992-96 and 2002-06**		**1997-2001 and 2002-06**	
	years	**%**	**years**	**%**	**years**	**%**
All men	4.1	24.6	2.2	13.2	1.2	7.2
Non-manual	4.0	22.2	2.3	12.8	0.9	5.0
Manual	3.7	23.1	2.0	12.5	1.4	8.8
All women	2.8	14.4	1.5	7.7	1.0	5.1
Non-manual	2.7	13.1	1.1	5.3	0.7	3.4
Manual	1.9	10.2	1.2	6.4	0.9	4.8

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).

38. As shown in Table 6, the new timetable for the increase to 67 should not result in a noticeable decline in the length of time spent in receipt of state pensions for the average person living in United Kingdom. Over the last twenty years, growth in life expectancy for manual workers has been slower than that for the average person. If these trends continue, on the basis of the current life expectancy projections, there could be a slight and temporary reduction – of not more than a third of a year - in time spent in receipt of state pensions for those previously in manual employment.

39. Men and women reaching 65 in 2007 could expect to enjoy about three extra years of healthy life, on average, when compared to 1981.[4] However, average healthy life expectancy and disability-free life expectancy, in absolute terms, are not rising as quickly as life expectancy. If the trends continue, on the basis of the current life expectancy projections, there could be a slight and temporary reduction – of not more than a quarter of a year – in disability-free time spent in receipt of state pensions.

Labour market

40. Based on the assumptions noted in paragraph 26, the proposed option would result in an additional 325,000 people working in 2031.

Table 11: Additional number of people working (thousands)

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
195	245	285	305	315	325	315	280	235	190

Source: HMT cohort employment model
Note: Estimates rounded to the nearest 5,000 and relate to people aged 16 to 74 in the given year.

41. Increasing State Pension age is projected to reduce by 8 percent the number of people aged 55 to 66 who are not in employment; however within that overall group, the impact on those aged 66 is projected to be more significant with a reduction of up to 22 percent during the years affected by the State Pension age change.

Table 12: Percentage change in the number of 55 to 66 year olds not in employment

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
-5%	-6%	-8%	-8%	-8%	-8%	-7%	-6%	-5%	-3%

Source: HMT cohort employment model
Note: Rounded to the nearest whole percent

Table 13: Percentage change in the number of 66 year olds not in employment

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
-10%	-15%	-20%	-22%	-22%	-22%	-22%	-19%	-15%	-10%

Source: HMT cohort employment model
Note: Rounded to the nearest whole percent

42. The projected rise in the number of people working as a result of the rise in state pension age should generate a significant increase in gross employment earnings. Under the proposed option the peak increase compared to baseline would be of £7.5 billion (in 2011/12 prices) in 2031.[5]

[4] 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 2005-07*. Please note there is a break in the data series due to revised methodology.

[5] The estimate of the additional gross employment earnings was computed by multiplying the additional number of people working by the projected median gross earnings. The median gross earnings by gender and age were taken from the Annual Survey of Hours and Earnings (ASHE) 2011, and increased in line with projected national earnings growth.

Table 14: Additional gross employment earnings as a result of more people working, £ billion, 2011/12 price terms

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
3.7	5.3	6.3	6.8	7.2	7.5	7.4	6.7	5.7	4.7

Source: DWP analysis based on estimates from the HMT cohort employment model and projected average earnings
Note: Rounded to the nearest £0.1 billion, estimates consider overall increase in employment for those aged 54 to 74.

43. 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[6] and assuming a constant capital-labour ratio, the increase in labour supply due to the increase in State Pension age could boost national output by between £6.2 billion and £12.4 billion a year during the period 2026 to 2035.

Table 15: Impact of additional employment on GDP, £ billion, 2011/12 price terms

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
6.2	8.9	10.5	11.4	12.0	12.4	12.4	11.1	9.5	7.9

Source: DWP analysis based on estimates from the HMT cohort employment model
Note: Rounded to the nearest £0.1 billion, estimates consider overall increase in employment for those aged 54 to 74.

Private sector

44. There is negligible, indirect impact on the private sector. The setting of the State Pension age affects when individuals can start accessing State Pension benefits, rather than the time when they retire from employment or the age when private pension benefits can start being drawn.

Implementation

45. Implementation by DWP will consist of IT changes and communicating the change to customers, with consequential call handling.
46. 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, and is considering how best this can be done.
47. 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.

Conclusion

48. The preferred option is to increase the State Pension age to 67 between 2026 and 2028.
49. The baseline, or ‘do nothing’ option, does nothing to further address the policy objectives. It neither furthers intergenerational and intragenerational equity, nor helps to make the state pensions system more sustainable in the face of increasing longevity
50. Increasing the State Pension age to 67 between 2026 and 2028 best addresses the policy objectives, balancing both fairness and sustainability.

[6] See ONS Blue Book, Section 2.

Post Implementation Review (PIR) Plan

51. Implementation does not finish until April 2028. The Government will consider how to ensure that the State Pension age continues to keep pace with increases in longevity to ensure fairness between the generations, 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

Introduction

1. The Pensions Act 2011 increases 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. The rationale behind this is set out in "*A sustainable State Pension: When the State Pension age will increase to 66"* (the White Paper).[7]

2. The Pensions Act 2007 also set a timetable for increasing the State Pension age from 66 to 67 between April 2034 and April 2036. In the light of revisions in life expectancy projections since that timetable was set, the Government is now proposing to bring that increase forward by eight years, so that it will be phased in between April 2026 and April 2028. This will mean the State Pension age will increase by 12 months for men and women born between 6 April 1961 and 5 April 1968; men and women born between 6 April 1960 and 5 April 1961, and between 6 April 1968 and 5 April 1969 will have their State Pension age increased by between 1 and 12 months.

3. The Government announced its decision on 29 November as part of the Chancellor of the Exchequer's Autumn Statement, in order to provide as much notice as possible to the people who will be affected by the change.

Why bring the increase to 67 forward?

4. The timetable set by the Pensions Act 2007 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 the work of the Pensions Commission who concluded that State Pension age needed to rise to reflect increases in longevity if the State Pension was to remain affordable in the long term and provide a decent foundation for retirement. There was broad agreement within and outside Parliament that these conclusions were correct.

5. However, since that timetable was set in 2007, revised life expectancy projections have been produced, which indicate that people who were due to reach State Pension age in the late 2020s will, on average, spend about a further year and a half in retirement than was originally thought. Bringing the date at which State Pension age reaches 67 forward to 2028 will still mean that men and women reaching State Pension age in that year can expect, on average, to spend longer in retirement than was originally expected based on their previous State Pension age of 66 and using the projections that the 2007 timetable was based on.

6. Without further action, this increase in the average amount of time spent in retirement will result in increased spending on state pensions. 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 growth in average earnings, price increases or 2.5 per cent. from April 2011.

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

7. The Government considers that bringing forward the date at which the State Pension age increases to 67 is necessary to ensure we continue to share the extra cost of rising longevity fairly between those contributing to, and those receiving, State Pension.

Scope of this assessment

8. 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 affect, replacing the three 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).

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

10. 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 proposed change is unlikely to affect anyone in that protected group.[8]

Evidence base

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

12. The Equalities and Human Rights Commission has recognised that 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 – which is clearly important in analysing the impact of the proposed change – where the only protected characteristic for which projections are published is gender.

Gender impact

Impact on time in receipt of the State Pension

13. Bringing forward the increase to 67 by eight years is expected to have a similar impact on men and women in terms of the amount of time they can expect to receive their State Pension. Based on the latest projections of life expectancy, compared to an unchanged State Pension age (of 66), men and women retiring at 67 in 2028 will, on average, see the amount of time spent receiving their State Pension reduced by around 0.8 years (around nine and a half months), on average, to 21.4 years for men and 23.9 years for women. The proportion of adult life spend in retirement will also reduce, compared to the existing timetable, by up to 1.3 percentage points for both men and women. However, irrespective of when an increase in State Pension age is introduced, individuals retiring immediately after the change has been implemented would experience a decrease in both the number of years and the proportion of adult life they could expect to spend in retirement.

[8] 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.

14. We estimate that around 3.9 million men and 4 million women in Great Britain will be affected by the proposal. 80% of both men and women will experience an increase in their State Pension age of one year. The proportion of men and women who will experience an increase of 1 to 3 months, 4 to 6 months, 7 to 9 months and 10 to 11 months is also identical, at roughly 5%, 5%, 5% and 4% respectively.

Impact on lifetime pension income

15. As women tend to live longer than men, the proposed 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[9] from age 25;
    - if they work on to their new State Pension age, they continue to add to their private pension pot and delay converting it into a pension until reaching that age;
    - the low earners have no private saving, and build up insufficient State Pension to exceed the threshold for the Guarantee Credit element of Pension Credit; [10]
    - all income groups will experience the projected average life expectancy for men and women at State Pension age.

16. 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.

17. Based on this model, men 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 3 per cent in State Pension income compared to 2.5 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 2.5 per cent and 3 per cent.

18. For high and median earners, working on to the higher State Pension age of 67 would, based on this model, reduce the loss to between 1 and 2 per cent of lifetime pension income for both men and women. 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 amounts (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.

[9] 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.

[10] 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.

Likelihood of adjusting to the new State Pension age

19. This section looks 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 (taken as 59/64 for women/men) 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 Table 1 shows, the employment rate currently 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 State 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 the population

	Age				
	50-54	**55-59**	**60-64**	**65-69**	**70+**
All					
Employed	80.3%	69.3%	44.2%	18.7%	3.9%
Unemployed	3.9%	4.1%	1.9%	0.6%	*
Inactive	15.9%	26.5%	53.9%	80.7%	96.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Men					
Employed	82.9%	73.4%	54.0%	22.7%	6.1%
Unemployed	5.0%	5.2%	3.3%	*	*
Inactive	12.1%	21.4%	42.7%	76.6%	93.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Women					
Employed	77.7%	65.4%	34.9%	15.0%	2.1%
Unemployed	2.8%	3.1%	*	*	*
Inactive	19.5%	31.5%	64.4%	84.5%	97.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Unemployment rate given as percentage of the population rather than 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,
Labour Force Survey Q3 2011

20. 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 current State Pension age, however, retirement becomes the single biggest reason for inactivity among men – around three times more men compared to women in this age group cite retirement as the reason for inactivity.

21. 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: 34.7% of women aged 50-54, and 23.9% of women aged 55-59 cite this as reason for inactivity, compared to 11.5% of men aged 50-54 and 8.1% of men aged 55-59.

22. 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 50 to State Pension age group who are inactive for this reason, falling from 15.7% to 11.2% between 1998 and 2011. The trend is slightly more marked among men, currently standing at 11.5% from a position of 16.5% in 1998. The corresponding improvement for women is only slightly less strong, with a decrease from 14.7% to 10.5%.

23. 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 10.7 per cent in the third quarter of 1998 to 7.1 per cent in the third 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.

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

	Age			
	50-54	**55-59**	**60-64**	**65-69**
All				
Sick, injured or disabled	52.4%	48.3%	20.9%	8.6%
Looking after family or home	26.0%	17.6%	6.1%	2.3%
Retired and would like work	*	*	2.1%	2.8%
Retired and does not want any work	5.6%	21.2%	63.5%	82.9%
Does not need or want employment	5.9%	6.3%	3.0%	1.7%
Other	10.0%	6.0%	4.5%	1.7%
Total	100.0%	100.0%	100.0%	100.0%
Men				
Sick, injured or disabled	67.7%	59.7%	34.4%	10.2%
Looking after family or home	11.5%	8.1%	3.8%	*
Retired and would like work	*	*	2.6%	3.0%
Retired and does not want any work	6.0%	22.0%	48.6%	81.8%
Does not need or want employment	*	4.0%	3.5%	2.1%
Other	11.0%	5.5%	7.0%	2.0%
Total	100.0%	100.0%	100.0%	100.0%
Women				
Sick, injured or disabled	43.2%	40.9%	12.3%	7.2%
Looking after family or home	34.7%	23.9%	7.5%	3.4%
Retired and would like work	*	*	1.7%	2.7%
Retired and does not want any work	5.4%	20.7%	72.8%	83.9%
Does not need or want employment	7.3%	7.9%	2.7%	1.4%
Other	9.4%	6.4%	3.0%	1.4%
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,
Labour Force Survey Q3 2011

24. The analysis in this section shows that older people are currently less likely to be in employment than younger people, and older women are less likely to be employed outside of the home than older men. While these differences are in part explained by early retirement, for people not in work and without access to a private pension the proposed 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 exists under the legislated timetable for increasing State Pension age to 67.

Summary – gender impact

25. This proposal affects men and women equally in respect of additional length of time to State Pension age. Women will, however, on average still receive their State Pension for longer than men.

26. 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, because of lower average life expectancy. Furthermore, men are likely to be in a better position to offset some of this loss through higher additional contributions to a private pension scheme. However, the proportion of lifetime pension income lost is likely to be reduced if subsequent sets of life expectancy projections revise the amount of time that an individual can expect to spend in retirement upwards.

Gender reassignment impact

27. We have no evidence to suggest that the proposed change would have a measurably differential impact on trans-gender people compared to non-trans gender people, given that State Pension age will rise to 67 for everyone by April 2028.

Race impact

Impact on time in receipt of State Pension

28. 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. [11] While these methods have limitations, they provide some evidence that life expectancy may vary according to a person's ethnic background.[12]

29. 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.[13]

30. 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.[14]

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[11] 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.

[12] *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.

[13] ONS 2004: Focus on ethnicity and identity http://www.ons.gov.uk/ons/rel/ethnicity/focus-on-ethnicity-and-identity/focus-on-ethnicity-and-identity-summary-report/index.html

[14] 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

31. 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.[15] 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 consequently more likely to be in manual and unskilled social classes.[16] [17] 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.

32. 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.

33. Projections of life expectancy by socio-economic group are not available but the significant improvements seen in men and women aged 65 between 1982 -2006 highlight that the majority of life expectancy improvements in the recent past are observed in life after the age of 65. Between 1997/2001 and 2002/06, life expectancy at 65 for men in the routine and manual group (i.e. classes 5 to 7) increased by 1.2 years, while for men in the managerial and professional group (classes 1 and 2), by 0.9 years. Over the same period, women employed in all occupations had life expectancy at 65 increase, on average, by 0.8 years. Improvement in life expectancy for manual and non-manual workers at age 65 is set out in Table 10 in the Impact Assessment.

34. If the above trends continue, life expectancy is likely to increase for all socio-economic groups. A robust projection of life expectancy by social class does not exist so we cannot assess how the impact of a move to 67 will vary between groups. However, a gap in life expectancy between different social groups is expected to persist for some decades, albeit (possibly) narrowing for men. Past trends indicate that those in lower socio economic groups may be affected proportionately more than other groups but that this effect is likely to be small.

Impact on lifetime pension income

35. Analysis is based on our modelling of how the proposed change will affect lifetime pension incomes of hypothetical single individuals (see paragraph 15). 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.

36. 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

[15] Parliamentary Office of Science and Technology: Postnote *Ethnicity and Health* January 2007 No. 276.

[16] 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.

[17] Berthoud, R. (1998) *The Incomes of Ethnic Minorities*. York, Joseph Rowntree Foundation

benefits (53 per cent compared to 31 per cent from White ethnic origin).[18] 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.[19] (Note, however, that these data relate to all current pensioners and may not correspond to younger pensioners.) Automatic enrolment will encourage private saving and help to ensure that gorups of people with historically low private pension provision save more and improve their incomes in retirement.

37. 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 maximum proportionate loss of around 4.0 per cent of lifetime pension income compared to 3.0 per cent for men and 3.5% and 2.5% for women. We would not expect the impact of the increase to 67 under the legislated timetable to be significantly different.

Likelihood of adjusting to the new State Pension age

38. 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 proposed change, we are not able to make detailed comparisons, due to lack of data. It is worth noting that there is a large degree of variability in data reporting on ethnic minorities aged 50 to State Pension age due to small sample sizes.

39. 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.

Table 3: Breakdown of labour market status by proportion of ethnic group

	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%*

Source: Labour Force Survey, Q1-4 2010[20]
* Not significant due to small sample size
Totals may not sum due to rounding. 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.

40. 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;

[18] 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.
[19] ONS Pension Trends Chapter 13, September 2010 from Households Below Average Incomes (DWP): estimate based on 3-year average 2006/07 – 2008/09.
[20] Use of latest 2011 data is unavailable due to changes to the Labour Force Survey in 2011.

- 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.

41. There is some evidence that gaps in labour market participation may be narrowing. Between 2002 and 2010[21], for people aged 50 to State Pension age, employment rates have increased by around 5 percentage points for people from a non-white ethnic background compared to around 3 percentage points for people from a white ethnic background, but the employment rate gap still stands at around 9 percentage points. The inactivity rate for people from a non-white ethnic background fell by around 6 percentage points, around a third greater than the fall for people from a white ethnic background.

42. Overall, the evidence suggests that the proposal may adversely impact on some ethnic groups who are less likely to be employed up to the new State Pension age. However, improvements in the employment rate gap between certain ethnic minorities and the general population for example may help mitigate this impact.

Race Impact - Summary

43. There is some evidence to suggest that the proposal 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 will mitigate the impact.

Disability impact

Impact on time spent receiving the State Pension

44. 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 proposed 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

45. The impact of the proposed 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.[22] Furthermore, not all disabled people are eligible for these benefits.[23] On average,

[21] Comparison to include latest 2011 data is unavailable due to changes to the Labour Force Survey in 2011.

[22] Pensions Policy Institute (2008) *The underpensioned: disabled people and people from ethnic minorities*, p. 25

[23] 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.

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.

46. 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.[24]

47. An increase of a year is likely to reduce overall lifetime pension income by around 4.5% per cent for a person reliant on Pension Credit. 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).

Likelihood of adjusting to the new State Pension age

48. 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.

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

50. 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.[25]

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 (EA) and those not reporting a current disability consistent with the EA

		Aged 50-SPA, %	
	EA Disabled	Not EA Disabled	All
Employed	46.1%	81.5%	71.1%
Unemployed	3.7%	3.9%	3.9%
Inactive	50.1%	14.6%	25.0%
- sick or disabled	36.5%	0.8%	11.2%
- looking after family/home	4.8%	3.5%	3.9%
- retired	5.9%	6.7%	6.5%
- others	3.0%	3.6%	3.4%

Note: Unemployment rate given as percentage of the population rather than ILO unemployment rate.
Respondents who report a current disability consistent with the Equality Acr are defined as disabled.
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,
Labour Force Survey Q3 2011

[24] Source: Family Resources Survey 2008/09; DWP modelling of entitlement to Pension Credit

[25] Source: Labour Force Survey, Q3 2010.

51. 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 16.0 per cent overall in the third quarter of 1996 to 11.2 per cent in the third quarter of 2011. However, the gap in employment rates between disabled and non-disabled (Table 4) remains significant.

Disability impact - summary

52. The data currently available suggest that increasing the State Pension age to 67 earlier than originally planned is likely to have a stronger impact on some disabled people compared to non-disabled people in terms of their ability to adjust to a higher State Pension age, due to facing greater obstacles in entering or remaining in employment. As a result, disabled people are more likely than non-disabled people to be dependent on working-age benefits in the period immediately before their new State Pension age. Measures to support disabled people into work may mitigate this impact.

Age equality impact

53. By definition, setting a minimum age for entitlement to State Pension gives rise to different treatment according to age, because people below that age are not eligible for a State Pension. Under the original timetable, people born after 5 April 1968 would not have become eligible for their State Pension until they were above the age of 66; these proposals will extend that restriction to those born after 5 April 1960.

54. The Government recognises that this may have an impact for those who are directly affected. However, it also considers that the increase is justified to prevent the rate at which life expectancy is projected to increase from greatly outstripping the timetable by which State Pension age is set to increase. This would, in turn lead to a considerable burden being passed to younger generations who would have to pay for the additional costs arising from increase longevity.

Monitoring

55. 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 of the decision coming into effect. In the present case, subject to Parliamentary approval, the change will not start to take effect until 2026. 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.

56. The Government has consulted on proposals for a more automatic mechanism for ensuring that further changes in life expectancy are taken into account in deciding the level of the State Pension age, and is currently considering what form such mechanism should take. Any mechanism would consider whether 67 continued to be the appropriate level for State Pension age.

57. This assessment also makes a number of assumptions about the potential impact of the proposed 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.

Conclusion

58. The proposed change will bring forward the date from which the State Pension age increases to 67 for men and women by 8 years, to April 2028.

59. This timetable has been chosen because the Government considers the available evidence on life expectancy demonstrates that the current timetable is too slow in reacting to increased longevity. The Government is announcing the increase now so that the people who will be affected are made aware of the proposed change at the earliest possible opportunity.

60. Overall, we conclude that based on the available evidence, the proposed change to the current 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)

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