

Report by the Government Actuary - Terms of Reference

1. Purpose

The purpose of the report on State Pension age (SPa) by the Government Actuary is to analyse whether those reaching State Pension age in a future specified period can expect to spend a specified proportion of adult life in receipt of State Pension based on the current legislated timetable and, if not, to propose how the State Pension age timetable should change to deliver this¹.

2. Background

From the 1940s until April 2010, the SPa was 60 for women and 65 for men.

Legislation to increase the SPa:

- **Pensions Act 1995** – provision to equalise the SPa for men and women by increasing the SPa for women from 60 to 65 between April 2010 and April 2020.
- **Pensions Act 2007** – provision to increase the SPa to 66 over two years starting from April 2024, to 67 over two years starting in April 2034, and to 68 over two years starting in April 2044.
- **Pensions Act 2011** – provision to bring forward the increase from 65 to 66 between December 2018 and October 2020. To achieve this, the Act brought forward the increase in women’s SPa, so that it reaches 65 by November 2018.
- **Pensions Act 2014** – provision to bring forward the increase in the SPa to 67 to between April 2026 and April 2028. People born after 5 March 1961 but before 6 April 1977 have a SPa of 67.

The government has introduced a regular and structured method for considering future changes in SPa by introducing, under section 27 of the Pensions Act 2014, the requirement for regular reviews by the Secretary of State. These reviews will take place every Parliament, with each report published within six years of its predecessor.

The first review is taking place this Parliament, and the Secretary of State is required to publish his report on the review before the 7th May 2017.

The Secretary of State’s review of the SPa will be based on the principle that people should expect to spend a given proportion of their adult lives receiving a State Pension and will take into account reports from:

- the Government Actuary’s analysis of the proportion of their adult life that individuals in the future can expect to spend receiving State Pension; and
- an independently-led body, commissioned to produce a report on the wider factors that should be taken into account when setting SPa, such as variations in, for example, healthy life expectancy, and differences in life

¹ See Appendix A.

expectancy between socio-economic groups. The independent review is due to report by March 2017.

Any future changes to SPa will, as now, require primary legislation and will be subject to the full scrutiny of Parliament. Any such changes will seek to give individuals affected by changes to their SPa at least 10 years' notice from their expected SPa.

The Government review of SPa is forward looking and will not make recommendations for any changes to happen before 2028.

3. Scope of the report

The Secretary of State for Work and Pensions requires the Government Actuary to analyse and report whether those reaching SPa in a specified future period can expect to spend specified proportions of adult life in receipt of State Pension based on the current legislated timetable and, if not, how the SPa timetable should change to deliver this.

This report should include:

- Commentary on trends in life expectancy data;
- A timetable regarding future SPa changes;
- Impacts on old age dependency ratios;
- Appropriate sensitivity analysis.

4. Methodology & Assumptions

The proportion of adult life spent in receipt of State Pension based on life expectancy at SPa can be expressed as

$$\text{Proportion of adult life spent in receipt of State Pension} = \frac{\text{(Life expectancy at SPa)}}{\text{(Life expectancy at SPa + SPa - adult life starting age)}}$$

The proposed methodology provides that SPa completes any increase in the year in which the proportion of adult life spent in receipt of State Pension at the existing SPa first reaches the proportion set by Secretary of State (to the nearest 0.1 per cent).

However, increases in SPa do not happen instantly, but are phased in over a period of time to ensure a smooth transition. Government has chosen to retain the phasing-in process adopted for the proposed increase to SPa of 67, which takes place over two years, and so the transition to SPa of 68 would begin two years before the proportion of adult life spent drawing a State Pension at 67 would reach the desired percentage to the nearest 0.1 per cent. For modelling purposes, in the event that consecutive increases in SPa were necessary in order to reach the desired percentage of adult life over SPa, it should be assumed that the second two year transition period would follow directly after the first, with no gap between them.

There are a number of variables that feed into the above formula, including:

Age when adult life begins

Details of the core principle to guide the review were set out by DWP alongside Autumn Statement 2013.² The DWP background note stated that the age of 20 should be used as the starting age for the purpose of calculating the proportion of adult life spent in receipt of State Pension. This is based on OECD convention and is commonly used as a comparator for matters relating to pensions. The Government Actuary should therefore consider 20 as the age at which adult life begins.

Measurement of life expectancy

The principal projections of UK cohort life expectancy³, published by the Office for National Statistics every two years, allow projected life expectancy at any age to be calculated. The Government believes that these projections are the appropriate ones for the purposes of the SPa report by the Government Actuary.

Government believes that although life expectancies between the sexes remain different (but are converging), the appropriate measurement must consider life expectancies for the population as a whole with men and women taken together. Therefore, the average “life expectancy at SPa” for use in the Report should be calculated using probabilities of death at each age and in each year, weighted for the different numbers of men and women in the population at the relevant age and year.

Life expectancies will be based on the age exact as at the middle of the calendar year that falls in the financial year in question.

Specified period

The report by the Government Actuary will suggest a timetable regarding future SPa changes from 2028/29 as far as the published ONS figures (2064).

Specified proportion of adult life spent in receipt of State Pension

The DWP background note published at Autumn Statement 2013 set out details of the core principle to guide the review: that people should expect to spend ‘up to one third’ of their adult life drawing a State Pension, to reflect the experience of the most recent generations. The Government Actuary should consider two scenarios:

- 33.3%, the maximum possible under the ‘up to a third’ principle, and the assumption that OBR have used in spending projections since 2013; and
- 32.0%, to reflect the average amount of their adult life people reaching 65 (male SPa) in the last twenty years (between 1996 and 2015) were expected to spend above this.

Geographical Coverage

The analysis will be for the United Kingdom as a whole.

Sensitivity analysis

The Government Actuary is invited to conduct appropriate sensitivity analysis, including, but not limited to:

² For further detail see Department for Work and Pensions (2013), *The core principle underpinning future State Pension age rises: DWP background note*, December

³ The Pensions Commission (2005) recommended that official publications use the cohort measurement of life expectancy when describing current and future trends in longevity.

- analysis based on high and low life expectancy variant projections;
- analysis of the likelihood of upward and downward revision of life expectancy forecasts to reflect recent fluctuations in ONS life expectancy projections, and its effect on SPa timetables;
- any other factors which may be material.

5. Deliverables

The expectation is that the report by the Government Actuary will be finalised by January 2017.

This report will state whether those reaching pensionable age in the specified future period can expect to spend specified proportion(s) of adult life in receipt of State Pension based on the current legislated timetable and, if not, how the SPa timetable should change to deliver this.

Appendix A Extract from Pensions Act 2014

27 Periodic review of rules about pensionable age

- (1) The Secretary of State must from time to time -
 - (a) review whether the rules about pensionable age are appropriate, having regard to life expectancy and other factors that the Secretary of State considers relevant, and
 - (b) prepare and publish a report on the outcome of the review.
- (2) The first report must be published before 7 May 2017.
- (3) Each subsequent report must be published before the end of the period of 6 years beginning with the day on which the previous report was published.
- (4) For the purposes of each review, the Secretary of State must require the Government Actuary or Deputy Government Actuary to prepare a report for the Secretary of State on -
 - (a) whether the rules about pensionable age mean that, on average, a person who reaches pensionable age within a specified period can be expected to spend a specified proportion of his or her adult life in retirement, and
 - (b) if not, ways in which the rules might be changed with a view to achieving that result.
- (5) The Secretary of State must, for the purposes of a review, appoint a person or persons to prepare a report for the Secretary of State on other specified factors relevant to the review.
- (6) The Secretary of State must lay before Parliament any report prepared under this section.
- (7) For the purposes of subsection (4) -
 - (a) a person's adult life is the part of the person's life after he or she reaches the specified age;
 - (b) the proportion of a person's adult life spent in retirement is the proportion of his or her adult life spent after reaching pensionable age.
- (8) In this section -

"pensionable age" has the meaning given by the rules in paragraph 1 of Schedule 4 to the Pensions Act 1995 (and "the rules about pensionable age" means those rules);

"specified" means specified by the Secretary of State.