

Title: Long term State Pension sustainability: increasing the State Pension age to 67 IA No: Lead department or agency: Department for Work and Pensions Other departments or agencies:	Impact Assessment (IA)
	Date: 16/01/2013
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Helen Ganson; Helen.Ganson@dwp.gsi.gov.uk
Summary: Intervention and Options	RPC Opinion: Out of Scope

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009)	In scope of One-In, One-Out?	Measure qualifies as
£34,000m	N/A	N/A	No	NA

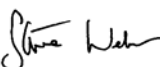
What is the problem under consideration? Why is government intervention necessary?
Since the Pensions Act 2007 set the timetable for increasing the State Pension age from 65 to 68, both the demographic and the economic contexts have changed. Life expectancy is increasing faster than projected, bringing 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.

What are the policy objectives and the intended effects?
The policy objectives are to revise the timetable for increasing the State Pension age to 67 such that:
a. projected 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 pension 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:
Baseline: Men and women's State Pension age increases from 66 to 67 between April 2034 and April 2036.
Proposal: Increase men and women's State Pension age from 66 to 67 between April 2026 and March 2028.

Will the policy be reviewed? It will not be reviewed. If applicable, set review date: Month/Year					
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro No	< 20 No	Small No	Medium No	Large No
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

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) that the benefits justify the costs.

Signed by the responsible Minister:  Date: 16/01/2013

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: 34,000

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	80,800	N/A	42,700

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

- Individuals will see a reduction in pension-age state benefits of £66.6 billion and increase in Income tax and National Insurance payments of £10.3 billion
- The Exchequer will spend an additional £3.9 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.
- The proposal 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 cost is likely to be very low compared to the overall magnitude of the 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	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	145,000	N/A	76,700

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

- Exchequer benefits from reduced spending on pension-age benefits by £66.6 billion and increased income tax and National Insurance payments of £10.3 billion.
- Individuals gain £3.9 billion in additional working age welfare benefits, and expected higher employment might boost gross employment income by £64.2 billion over the period.

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

- Intergenerational fairness is promoted by taking into account recent increases in average life expectancy.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

1. Revisions in economic and employment income assumptions, and longevity projections, would affect estimates.
2. Analysis and estimates are based on the current welfare, state pension, taxation and National Insurance systems in place at the time of publication. Analysis excludes effects on Housing and Council Tax Benefits.
3. The baseline assumes the increases in State Pension age are as currently legislated.

BUSINESS ASSESSMENT (Option 1)

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

Evidence Base

References

No.	Legislation or publication
1	Pensions Act 2011
2	Pensions Act 2007
3	Pensions Act 1995
4	Equality Impact Assessment, Long term State Pension sustainability: increasing the State Pension age to 67. (5 December, 2011)
5	The single-tier pension: a simple foundation for saving (Cm 8528)

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	-2,600	-6,700	-9,100	-9,600	-10,000	-10,300	-10,500	-10,700	-8,100	-3,200
Annual recurring cost										
Total annual costs	-2,600	-6,700	-9,100	-9,600	-10,000	-10,300	-10,500	-10,700	-8,100	-3,200
Transition benefits	7,000	12,300	15,600	16,600	17,500	18,100	18,300	17,600	14,000	8,100
Annual recurring benefits										
Total annual benefits	7,000	12,300	15,600	16,600	17,500	18,100	18,300	17,600	14,000	8,100

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

Numbers rounded to the nearest £100 million in 2012/13 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 2013 can expect to spend 21.4 years in receipt of his state pension; under the proposed change, a man reaching State Pension age of 67 in 2028 can also expect to spend 21.4 years in receipt of his state pension, on average. Projected life expectancy for a woman reaching 65 in 2013 is 24.1 years and for a woman reaching 67 in 2028, 23.9 years, on average.¹
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 2010-based projections, a man reaching State Pension age in 2013 could expect to live for another 21.4 years, which is 1.1 years more than the 2004-based projections. For women, the difference in average life expectancy at age 65 in 2013 between the two sets of projections is 1.3 years.
3. The Pensions Act 2011 amended the Pensions Act 1995 to bring forward the equalisation of male and female State Pension age to November 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 1995, as amended by 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 may see further improvements to life expectancy. Following consultation in April 2011 on how the State Pension age could better reflect changes in life expectancy, the Government has now published its proposals for a regular review of State Pension age in *The single-tier pension: a simple foundation for saving*.
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.²
5. The reforms to the state pension system proposed in *The single-tier pension: a simple foundation for saving* are substantial. The proposals will be subject to Parliamentary scrutiny and may be amended before becoming law. This Impact Assessment, therefore, is based on the current system.

The demographic context

6. The timetable for increasing the State Pension age to 67, as legislated for in the Pensions Act 2007, was determined using 2004-based projections. The Office for National Statistics (ONS) published the 2010-based projections in October 2011, and Table 1 illustrates the upward revisions which have occurred since the original timetable for State Pension age

¹ All life expectancy figures used in this Impact Assessment are ONS mean average cohort life expectancy figures from the principal projection, unless otherwise stated. Cohort life expectancy is calculated using age-specific mortality rates which allow for known or projected changes in mortality in later years. The ONS regards this method, as opposed to period life-expectancy, as a more appropriate measure of how long a person of any given age would be expected to live. Mean averages are used, as this is the convention used by the ONS. The Government Actuary's Department produced the 2004-based projections. The phrase 'in receipt of state pension' is used throughout this document to refer to the period of life spent over the State Pension age.

² See Annex A for the proposed timetable for implementing the rise in State Pension age to 67.

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 receiving a state pension and a woman can expect, on average, an extra 1.6 years. The 2010-based projections indicate that men reaching State Pension age of 67 in 2028 could expect to spend 21.4 years in receipt of state pension, the equivalent of 31.3% of adult life. This is a greater proportion of adult life in receipt of state pension than had been expected under the 2004-based projections for the same cohort of men who, under the 2007 Act timetable, would have reached their State Pension age a year earlier and who could have expected to spend 20.7 years, or 31.0% of their adult lives in receipt of state pension on average.

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

	Life Expectancy at 66 in 2027 (years)		Revision between projections (years)	Percentage of adult life receiving state pension under current legislation	
	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 for the purposes of this Impact Assessment, in line with OECD convention.

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 the state pension system remains sustainable in the long term. The Government is now proposing to bring forward the increase to 67 to 2028, 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 in good time.

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 5.0 percentage points of Gross Domestic Product (GDP) between 2016-17 and 2061-62.³ Of this increase, over 50% comes from increasing expenditure on state pensions, which increases by 2.7 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 system 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

³ Office for Budget Responsibility: Fiscal Sustainability Report – July 2012 (<http://budgetresponsibility.independent.gov.uk/fiscal-sustainability-report-july-2012/>), p.67

and long-term. To do so will enhance market confidence, helping to maintain low long-term interest rates.

11. International organisations such as the International Monetary Fund and the Organisation for Economic Co-operation and Development 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 pension system, nor does it promote intergenerational fairness.
13. Under the current timetable and latest life expectancy projections, the number of years that men, on average, will spend in receipt of state pension will rise from 21.4 years in 2013 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 27.2 years in 2013 to 25.3 years in 2034 (see Tables 5 and 6), on average, the time spent in receipt of state pension will still be higher than under the earlier 2004-based 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 not justifiable in terms of intergenerational fairness. It carries the risk of needing to address the rise in spending by increased taxation.

The Proposal – increase from 66 to 67 between April 2026 and March 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 in good time.
16. The key fiscal benefit of this option is that it delivers net benefits-related savings to DWP of £62.6 billion in real terms, with a further £10.3 billion gained in increased income tax receipts and National Insurance contributions from people working for longer (see Tables 2 and 3).
17. The proposal is estimated to affect around 8.0 million people in Great Britain 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 3.3% and 3.8% (see Table 8 and associated notes), based on DWP modelling of hypothetical individuals. Working longer and saving more 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.
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% 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 2013, 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 pension is expected to remain slightly lower than for those retiring in 2013 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 just under 6 percentage points for men (23.7% to 29.6%) and over 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 pension, the time spent in receipt of a state pension by those reaching State Pension age after 2026 following the proposed increase is projected to be similar to that of those aged 65 today – 21.4 years for men and 24.1 years for women, on average, compared to 21.4 years and 23.9 years respectively, for the first cohort whose State Pension age will be 67. When the original timetable for the increase from 65 to 68 was set, the projections suggested that life expectancy at 66 in 2026 would be around 20.6 years for men and 23 years for women.
22. The proposal helps address this revision in average cohort life expectancy projections. In this way it supports intergenerational 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 are set out in the tables below. When this Impact Assessment was first issued, in December 2011, an Equality Impact Assessment was produced. Since then, there has been no indication that there have been any material changes in the effects of the policy, as identified previously, on people who share protected characteristics and those who do not.⁴

Table 2: Effect on DWP spend on benefits compared to baseline, £ billion, 2012/13 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	4.9	6.9	7.3	7.7	8.1	8.3	8.6	6.7	2.6	62.6
<i>Of which</i>											
Pensions	1.7	5.3	7.4	7.8	8.2	8.6	8.8	9.1	7.1	2.7	66.6
Working age	-0.1	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.1	-3.9

Source: DWP analysis – benefit expenditure under 2011 economic assumptions uprated to 2012/13 prices

Notes: Totals may not sum due to rounding

⁴ See the previous issue of this Impact Assessment, which includes the Equality Impact Assessment in pages 16-27. The Equality Act 2010 strengthened the existing framework of anti-discrimination legislation, and seeks to provide protection against discrimination on the grounds of race, disability, gender, age, gender reassignment, sexual orientation, pregnancy and maternity, and religion and belief (known collectively as the protected characteristics).

Table 3: Additional income tax and NI receipts, £ billion, 2012/13 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	1.1	1.2	1.3	1.3	1.3	1.2	1.1	0.7	0.4	10.3

Source: HMRC analysis based on estimates produced by the OBR 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

	Under 3 months	3 to <6 months	6 to <9 months	9 to <12 months	12 months	Total
Men	185	210	210	215	3,145	3,965
Women	190	215	215	220	3,235	4,075
Total	375	420	425	435	6,380	8,035

Source: Office for National Statistics Population estimates

Note: Estimates are rounded to the nearest 5,000 and totals may not sum due to rounding. These estimates are based on the number of men and women projected to be alive in 2012, and resident in GB.⁵ The birth distribution which was adopted is based on the distribution of births in England and Wales for the given cohorts affected by State Pension age changes (1960 to 1969).

Table 5: Simplified illustration of the State Pension age timetable (UK)

	2013	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	61.67	66	66	66	66	66	66	66	66	66.17	66.67
Proposal	61.67	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)

	2013	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Men											
Current	21.4	22.1	22.2	22.3	22.4	22.5	22.7	22.8	22.9	22.9	22.5
Proposal	21.4	22.0	21.6	21.4	21.5	21.7	21.8	21.9	22.0	22.1	22.2
Women											
Current	27.2	24.6	24.7	24.8	24.9	25.0	25.2	25.3	25.4	25.3	25.0
Proposal	27.2	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)

	2013	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Men											
Current	32.2	32.5	32.6	32.7	32.7	32.8	33.0	33.1	33.2	33.1	32.5
Proposal	32.2	32.2	31.6	31.3	31.4	31.6	31.7	31.8	31.9	32.0	32.1
Women											
Current	39.5	34.8	34.9	35.0	35.1	35.2	35.4	35.5	35.6	35.4	34.9
Proposal	39.5	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 for those people surviving to at least State Pension age.

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

Table 8: 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	-3.3%	-2.9%
Retire at new State Pension age	-2.4%	-2.1%

b) Lifetime high earnings

	Men	Women
Retire at old State Pension age	-3.2%	-2.8%
Retire at new State Pension age	-2.2%	-1.9%

c) Interrupted working record, receives Pension Credit throughout retirement

	Men	Women
Retire at old State Pension age	-3.8%	-3.3%
Retire at new State Pension age	-3.8%	-3.3%

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:

A: Full career, average earnings: assumes the person is in continuous employment since age 25 on average earnings for a man or woman and saving 8% of earnings into a private Defined Contribution (DC) scheme from 2012 (with the start of automatic enrolment);

B: Full career, high earnings: assumes person in continuous employment since age 25 on double average earnings and saving 8% of earnings into a private DC scheme from 2012 (with the start of automatic enrolment);

C: Interrupted working record; contributing a total of 8% of earnings to a DC scheme from 2012 when in work and dependant on Pension Credit throughout retirement.

The modelled individuals lose one year's worth of state pension.

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 March 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 2012/13 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. There is assumed to be no detrimental impact on employment for other age groups as a result of more older people in work.⁶ This modelling was done by DWP using the Office for Budget Responsibility's cohort employment model with the same assumptions as used in the July 2012 Fiscal Sustainability Report,⁷ although the OBR had no part in the production of the figures in this Impact Assessment.
27. **Income tax and National Insurance figures:** Estimated additional yield is based on employment impacts (see 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 2012/13 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 2009-10 Survey of Personal Incomes⁸ projected to 2012-13 using economic assumptions consistent with the OBR's March 2012 economic and fiscal outlook. No estimate is made of potential tax revenue from additional profits made by companies.
28. **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, which are the latest available at the date of publication. 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 State Pension age change.
29. **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 38 and 39) 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.
30. **Reform of the state pension and welfare system:** the Department for Work and Pensions has published proposals for reforming the state pension system in *The single-tier pension: a simple foundation for saving*. At the same time, the introduction of Universal Credit in 2013 will significantly reform the welfare system. However, because the single-tier pension reform has yet to be approved by Parliament, and because changes to the welfare system have not yet been introduced, the assumptions in this Impact Assessment are based on the current state pension and welfare systems.

⁶ The Institute for Fiscal Studies has looked at the accusation that older workers block young people's employment. They said "we find no evidence of long-term crowding-out of younger individuals from the labour market. The evidence, according to a variety of methods, points always in the direction of an absence of such as relationship." (Releasing Jobs For the Young? Early Retirement and Youth Unemployment in the United Kingdom – IFS Working Paper W10/02)

⁷ Office for Budget Responsibility: Fiscal Sustainability Report – July 2012 (<http://budgetresponsibility.independent.gov.uk/fiscal-sustainability-report-july-2012/>)

⁸ HMRC (2012), *Survey of Personal Incomes (SPI)*, 2009-10

Administrative Burden

31. 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
32. 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

33. 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 have experienced approximately the same increase in life expectancy in absolute terms over the last decade.
34. 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

	2013	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
England											
Current	21.6	22.3	22.4	22.5	22.6	22.7	22.8	23.0	23.1	23.1	22.7
Proposal	21.6	22.2	21.8	21.6	21.7	21.8	22.0	22.1	22.2	22.3	22.4
Wales											
Current	21.1	21.8	21.9	22.0	22.1	22.2	22.4	22.5	22.6	22.6	22.2
Proposal	21.1	21.7	21.3	21.1	21.3	21.4	21.5	21.6	21.7	21.8	21.9
Scotland											
Current	19.9	20.6	20.7	20.9	21.0	21.1	21.2	21.3	21.4	21.5	21.1
Proposal	19.9	20.5	20.2	20.0	20.1	20.3	20.4	20.5	20.6	20.7	20.8

b) Women

	2013	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
England											
Current	27.4	24.8	24.9	25.0	25.1	25.2	25.3	25.4	25.6	25.5	25.1
Proposal	27.4	24.7	24.3	24.1	24.2	24.3	24.4	24.5	24.6	24.7	24.8
Wales											
Current	26.9	24.4	24.5	24.6	24.7	24.8	24.9	25.0	25.2	25.1	24.7
Proposal	26.9	24.3	23.9	23.7	23.8	23.9	24.0	24.1	24.2	24.3	24.4
Scotland											
Current	25.6	23.2	23.3	23.4	23.6	23.7	23.8	23.9	24.0	24.0	23.6
Proposal	25.6	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

35. 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 by socio-economic classification⁹

NS-SEC classification	Life expectancy at 65			Improvement from 1982-86 to 2002-06	
	1982-86	1992-96	2002-06	years	% increase
All men	13.1	14.5	16.7	3.6	28
Managerial & professional	15.1	16.2	18.4	3.3	22
Intermediate	13.9	15.6	17.5	3.6	26
Routine & Manual	13.0	13.9	15.8	2.8	21
All women	17.0	18.0	19.5	2.5	15
Managerial & professional	19.1	19.7	21.3	2.2	12
Intermediate	18.4	19.6	20.5	2.1	11
Routine & Manual	17.3	18.0	18.9	1.6	9

Note: These are period life expectancy data for England & Wales from the ONS Longitudinal Studies. 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.

36. As shown in Table 6, the new timetable for the increase to 67 should not result in a significant 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 routine and manual workers has been slower than average. 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 pension for those previously in routine and manual employment.

37. Men and women reaching 65 in 2008-10 could expect to enjoy almost two and a half extra years of healthy life, on average, when compared to 1981.¹⁰ 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

38. Based on the assumptions noted in paragraph 26, the proposed option would result in an additional 310,000 people working in 2031.

⁹ ONS (2011), *Trends in Life Expectancy by the National Statistics Socio-economic Classification 1982-2006*, ONS.

¹⁰ DWP estimates from period average healthy life expectancy tables in Great Britain for 1981-2005. ONS (2004), *Healthy Life Expectancy at birth and at age 65 in Great Britain and England, 1981-2001*, ONS, and ONS (2012), *Health expectancies at birth and at age 65 in the United Kingdom 2008 to 2010*, ONS. Please note there is a break in the data series due to revised methodology.

Table 11: Additional number of people working (thousands)

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
190	240	275	295	305	310	305	270	195	150

Source: DWP analysis of OBR cohort employment model

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

39. Increasing State Pension age is projected to reduce by 8% the number of people aged 55 to 66 who are inactive; however within that overall group, the impact on those aged 66 is projected to be more significant with a reduction of up to 22% during the years affected by the State Pension age change.

Table 12: Percentage change in the number of 55 to 66 year olds who are inactive

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
-5%	-6%	-7%	-8%	-8%	-8%	-7%	-6%	-4%	-3%

Source: DWP analysis of OBR cohort employment model

Note: Rounded to the nearest whole percent

Table 13: Percentage change in the number of 66 year olds who are inactive

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
-10%	-15%	-20%	-21%	-22%	-22%	-22%	-19%	-9%	-7%

Source: DWP analysis of OBR cohort employment model

Note: Rounded to the nearest whole percent

40. 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 £7.8 billion (in 2012/13 prices) in both 2031 and 2032.¹¹

Table 14: Additional gross employment earnings as a result of more people working, £ billion, 2012/13 price terms

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total
4.4	5.5	6.5	7.0	7.5	7.8	7.8	6.9	5.9	4.9	64.2

Source: DWP analysis based on estimates from the OBR 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. Totals may not sum due to rounding.

41. The increase in labour supply will also boost GDP above the projected baseline. On the basis that employment earnings account for around 60% of gross value added¹² 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 £7.3 billion and £13.0 billion a year during the period 2026 to 2035.

Table 15: Impact of additional employment on GDP, £ billion, 2012/13 price terms

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total
7.3	9.2	10.8	11.7	12.5	13.0	12.9	11.6	9.8	8.1	106.9

Source: DWP analysis based on estimates from the OBR cohort employment model

Note: Rounded to the nearest £0.1 billion, estimates consider overall increase in employment for those aged 54 to 74. Totals may not sum due to rounding.

Private sector

42. There is a 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

¹¹ 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 2012 provisional, and increased in line with projected national earnings growth.

¹² See ONS Blue Book, Section 2.

when they retire from employment or the age when private pension benefits can start being drawn.

Implementation

43. Implementation by DWP will consist of IT changes and communicating the change to customers, with consequential call handling.
44. 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 changes in State Pension age to individuals affected in a timely way, and is considering how best this can be done.
45. 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

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

Post Implementation Review (PIR) Plan

49. Implementation does not finish until March 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, and has published proposals for a regular review mechanism, outlined in *The single-tier pension: a simple foundation for saving*.

Annex A: Proposed timetable for implementing the rise to 67

Period within which birth date falls	Age at which State Pension age will be reached
6 April 1960 – 5 May 1960	66 years and 1 month
6 May 1960 – 5 June 1960	66 years and 2 months
6 June 1960 – 5 July 1960	66 years and 3 months
6 July 1960 – 5 August 1960	66 years and 4 months ¹
6 August 1960 – 5 September 1960	66 years and 5 months
6 September 1960 – 5 October 1960	66 years and 6 months
6 October 1960 – 5 November 1960	66 years and 7 months
6 November 1960 – 5 December 1960	66 years and 8 months
6 December 1960 – 5 January 1961	66 years and 9 months ²
6 January 1961 – 5 February 1961	66 years and 10 months ³
6 February 1961 – 5 March 1961	66 years and 11 months
6 March 1961 – 5 April 1977	67

Notes:

For the purposes of determining the age at which State Pension age will be reached, the following applies;

1 A person born on 31st July 1960 is considered to reach the age of 66 years and 4 months on 30th November 2026.

2 A person born on 31st December 1960 is considered to reach the age of 66 years and 9 months on 30th September 2027.

3 A person born on 31st January 1961 is considered to reach the age of 66 years and 10 months on 30th November 2027.

The proposed method for implementing the increase in the State Pension age to 67 between 2026 and 2028 differs from that laid out in the Pensions Act 2007 and 2011. The method in these Acts groups people born over the course of one tax month (starting on the 6th of one calendar month, ending on the 5th of the subsequent month), and assigns them a State Pension age which falls on the first day of a later tax month. For example, under the Pensions Act 2011, which brought forward the rise in the State Pension age to 66, people born between 6 January and 5 February 1954 will reach their State Pension age on 6 May 2019.

After consideration, the Government has proposed the method set out in the table above for implementing the rise in the State Pension age to 67, as it is simpler and easier to communicate to those affected. There are currently no plans to alter the method used to implement the other increases in State Pension age, as legislated for in the 2007 and 2011 Acts.