



# A sustainable State Pension: when the State Pension age will increase to 66

Presented to Parliament by the Secretary of State  
for Work and Pensions by Command of Her Majesty  
November 2010

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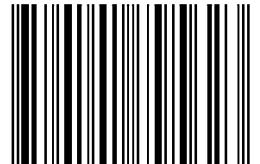
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## Foreword by the Minister of State for Pensions

This Government believes that the State Pension should be a firm foundation for income in later life. That is why the Government has committed to restoring the earnings link with the basic State Pension from April 2011, with a ‘triple guarantee’ that the basic State Pension will rise by the highest of average earnings, prices, or 2.5 per cent.

More of us are now reaching State Pension age, and living to claim a State Pension for longer, than ever before. Increasing longevity is a cause for celebration. But the legislated timetable for increases in State Pension age was based on expectations of longevity that have since been revised. So those approaching retirement now will be claiming State Pension for longer than expected.

In the face of increased life expectancy, making no change to the timetable for the increase in State Pension age to 66 risks the sustainability of the state pensions system. As longevity improvements are shared between the generations, it is only fair that costs are too. Therefore, the Government has decided to bring forward the increase in State Pension age to 66. The increase will start to take effect in December 2018. The State Pension age for men and women will be 66 from April 2020.

This is only one step in ensuring that the State Pension is fit for the world we are in. Given the greater than expected gains in longevity that we have seen, and may see, this Government will continue to act to keep the system fair, sustainable, and a firm foundation for people in retirement.



**Steve Webb MP**  
Minister of State for Pensions

# Executive summary

1. Our society is living longer. A far higher proportion of people now live to 65 than ever before. Today, a man of 65 can expect to live to 86, and a woman of 65 to 89, on average<sup>1</sup>.
2. That people are living longer is good news. However, the state pensions system needs to be sustainable and fair to each generation. The State Pension age has not kept pace with demographic changes. The Pensions Act 2007 legislated for the State Pension age to rise for both men and women to 66 by 2026, to 67 by 2036, and to 68 by 2046. But subsequent gains in average life expectancy have outpaced the projections on which this timetable was based. Official projections for those reaching 65 in 2026 have since been increased by 1.5 years for men and 1.6 years for women.
3. These revisions in official average life expectancy projections, just for those reaching State Pension age this year, are expected to mean extra State Pension costs of £6.5 billion over the lifetime of this cohort.
4. In the face of these demographic challenges, the Government has reviewed the timing of the increase in State Pension age to 66. In response to a Call for Evidence, many people recognised the need for the State Pension age to rise, and to rise to 66 sooner than planned. However, respondents were concerned that those affected had sufficient notice; that the proportion of older age spent in good health is considered; and that people might be affected differently.
5. Women's State Pension age is currently rising from 60 to be equalised with men's at 65 by April 2020. To enable an earlier increase to 66, the equalisation timetable will be adjusted from April 2016 so that women's State Pension age will reach 65 by November 2018. This will also affect the minimum qualifying age for Pension Credit, which is based on, and rising in line with, women's State Pension age.

1. Cohort average life expectancy, principal projections. DWP analysis based on ONS Cohort Life Tables for the UK (2008), principal projections.

## **8 Executive summary**

6. The Government has decided that the increase to 66 should be brought forward, so that the State Pension age will rise from 65 to 66 between December 2018 and April 2020 for both men and women. The increase will be phased in at a rate of three months' increase in State Pension age every four months.
7. This decision means a total of 4.9 million people in Great Britain will have their State Pension age revised. Of these, 4.4 million men and women will have an increase in State Pension age of a year or less. It will result in £30.4 billion of savings between 2016/17 and 2025/26, which would otherwise need to be met by the working-age population.
8. Bringing forward the increase to 66 means that those who will benefit from increasing longevity will also share the costs. The State Pension will be more affordable, and continue to provide the firm foundation we need for security in older age.

# The State Pension age – the need for action

1

## Summary of the issue

**When the first contributory pension was introduced, many people did not live long enough to receive it. But more of us are living to State Pension age, and receiving the State Pension for longer, than at any time in our history.**

**The state pensions system needs to be both fair and sustainable in the face of societal and demographic change. The Pensions Act 2007 legislated for increases in State Pension age. Under the Act, the State Pension age was planned to rise for men and women to 66 by 2026, 67 by 2036, and 68 by 2046.**

**Even since this timetable was set, official projections for average life expectancy at 65 in 2026 have gone up an extra 1.5 years for men, and 1.6 years for women. Increased life expectancy is a cause for celebration – and it is changing our very idea of older age. Yet rising life expectancy comes at a financial cost, which falls mainly on our working-age population.**

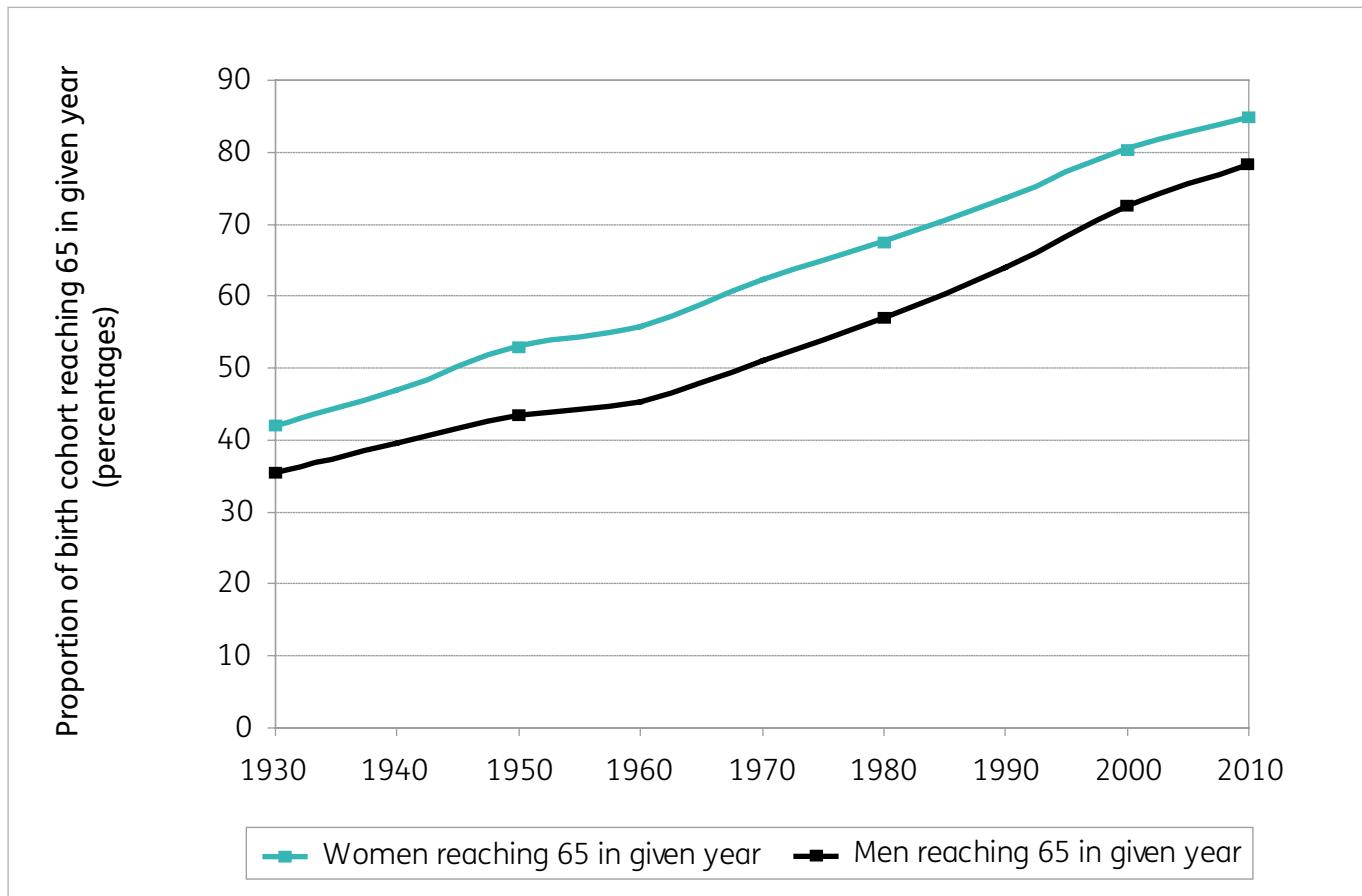
**The State Pension should be a firm foundation for a secure old age. To help ensure this, the Government has been considering how to bring forward the increase in State Pension age to 66.**

## Living longer than expected

1. The first contributory pension was introduced in 1926. Since then, our society has undergone significant demographic changes. More people are reaching 65 than before. Of men and women of the same birth year, only 34 per cent and 40 per cent respectively lived to reach 65 in 1926. Now, 78 per cent of men of the same birth year will reach 65 in 2010<sup>2,3</sup>. For women, 85 per cent of the same birth year will live to 65 in 2010. These changes are shown in Figure 1.
2. Cohort average life expectancy, principal projections. Department for Work and Pensions (DWP) analysis based on the Office for National Statistics (ONS) Cohort Life Tables for England and Wales (2008), principal projections.
3. Life expectancy can be measured by either the period or cohort method. Period life expectancy at a given age for a population is the average number of years a person would live, if he or she experienced the particular population's age-specific mortality rates for that time period throughout his or her life. It makes no allowance for any later actual or projected changes in mortality rates. Cohort life expectancies are calculated using age-specific mortality rates which allow for known or projected changes in mortality in later years and are thus regarded as a more appropriate measure than period life expectancy of how long a person of a given age would be expected to live, on average. Whenever possible, the ONS recommends using the cohort approach in order to get a better approximation of the actual number of years an individual would live for each particular age.

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**Figure 1 Rates of survival to age 65, over time<sup>4</sup>**

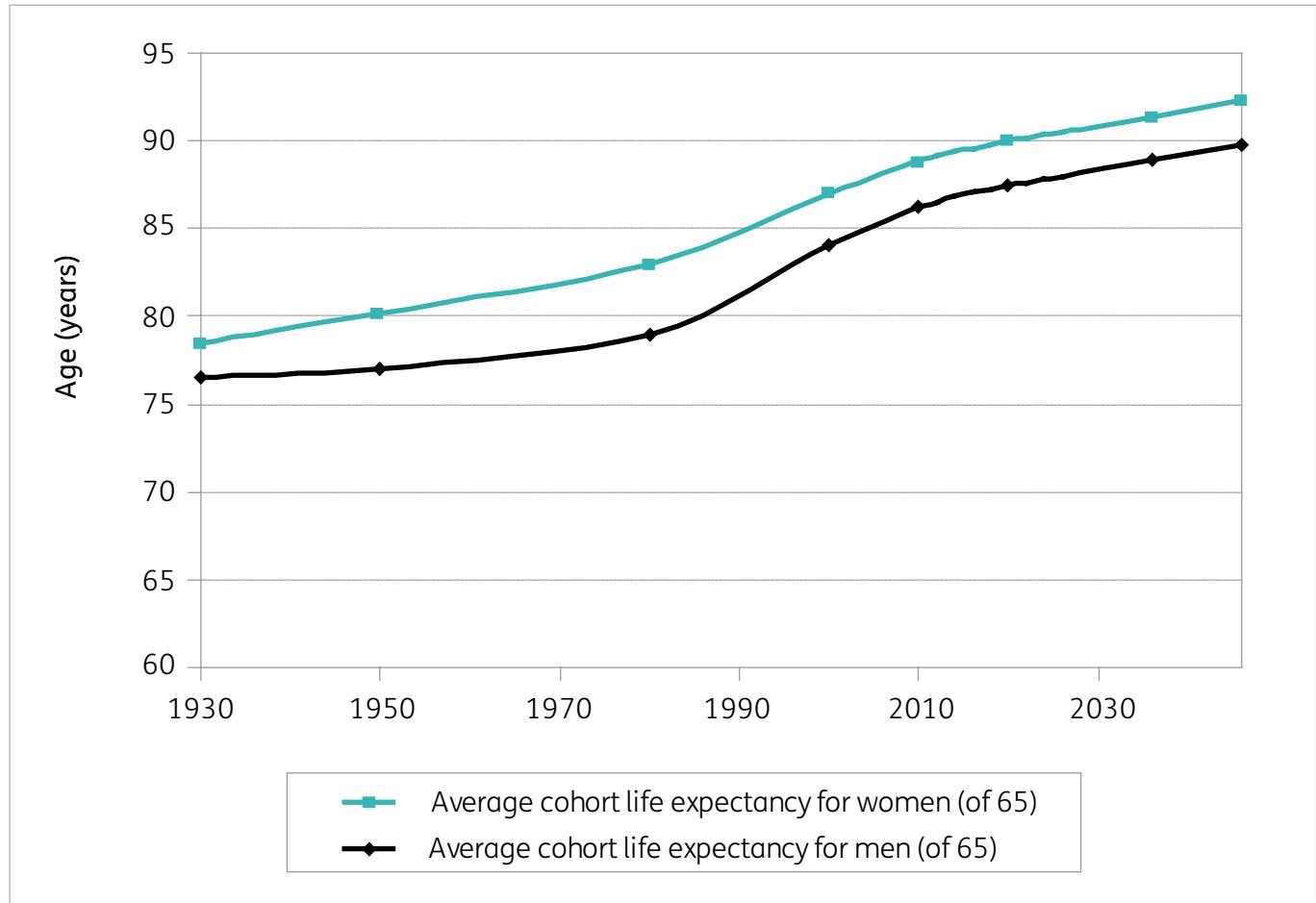


2. By any measure, people are living longer after they reach 65 than ever before (see Figure 2). In 1980, a woman of 65 would have been expected to live to 83, on average. Her daughter, reaching 65 this year, can expect to live to 89, on average. And her granddaughter, when she reaches 65 in 2040, should expect to live to 92, on average. In three generations, the expected average length of life after age 65 has risen by nine years.<sup>5</sup>

4. DWP analysis based on ONS Cohort Life Tables for England and Wales (2008), principal projections.

5. Cohort average life expectancy, principal projections. DWP analysis based on ONS Cohort Life Tables for the UK (2008), principal projections.

**Figure 2 Projected average cohort life expectancy for men and women of 65<sup>6</sup>**

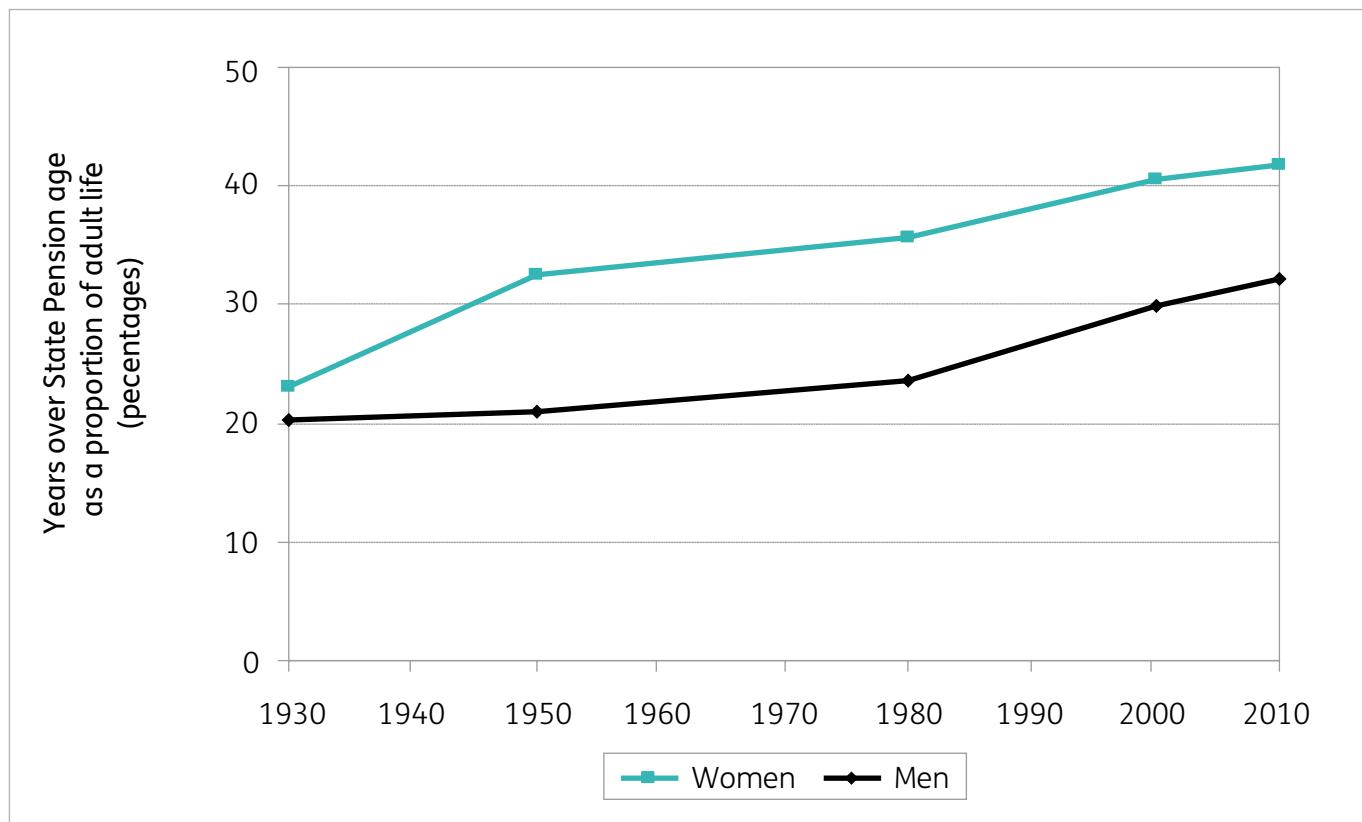


3. The State Pension age has not kept pace with these increases in life expectancy since 1926. If it had, it would now need to be at least 75.
4. Consequently, we are receiving a State Pension for longer than ever before. In 1980, a man received a State Pension for 24 per cent of his adult life, on average, as shown in Figure 3. Today, a man will receive it for 32 per cent of his adult life, on average. For women, the proportion of adult life spent in receipt of a State Pension has increased from 36 per cent in 1980 to 42 per cent today, on average.<sup>7</sup>

6. For data up to 1980, DWP analysis is based on ONS Cohort Life Tables for England and Wales (2008), principal projections. For data after 1980, DWP analysis is based on ONS Cohort Life Tables for the UK (2008), principal projections.

7. Adult life is defined as the age of 20 and over. DWP analysis based on ONS Cohort Life Tables for the UK (2008), principal projections.

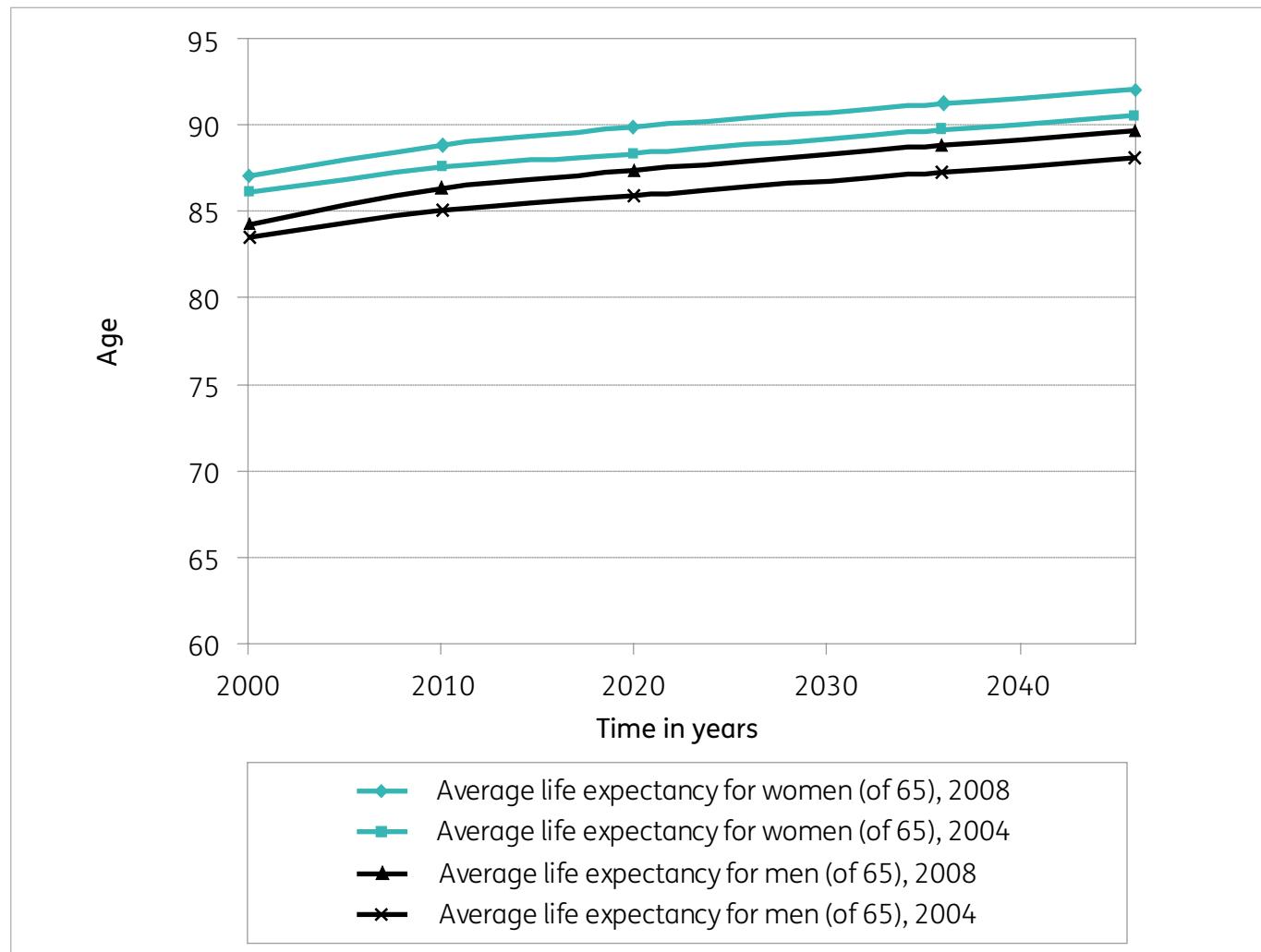
**Figure 3 Years over State Pension age as a proportion of adult life<sup>8</sup>**



5. But improving survival rates and increasing longevity are not the only demographic changes. At the same time as life expectancy is increasing, long-term UK population growth is slowing. The long-term trend is for fewer working-age people relative to pensioners, even with the future increases in State Pension age under existing legislation. The ‘baby-boomer’ generations masked this long-term decrease for a few decades – but the baby-boomers themselves are now retiring.
  6. In 1955, there were four people of working-age (age 20 to State Pension age) for every one person of State Pension age in the UK. There are now around three people of working-age to every person of State Pension age or older, and this ratio is expected to decline.
  7. Consensus among demographers is that life expectancy will continue to improve. Although there is debate about the pace of improvement and the health trends that affect lifespan, it is considered unlikely that life expectancy will reduce.
  8. As the pace of longevity improvements to date has been faster than expected, official projections have consistently underestimated actual average lifespans. Even in the last few years, these projections have been revised upwards.
8. For data up to 1980, DWP analysis is based on ONS Cohort Life Tables for England and Wales (2008), principal projections. For data after 1980, DWP analysis is based on ONS Cohort Life Tables for the UK (2008), principal projections.

9. This is reflected in the most recent (2008) revision of official projections of life expectancy. In 2026, life expectancy for men and women of 65 is projected to be, on average, 1.5 years and 1.6 years more than indicated by the 2004 projections. The previous timetable for State Pension age increases was set using the 2004 projections – before the new information on the improvements in longevity contained in the 2008 projections. Figure 4 shows the revisions in official average life expectancy projections between 2004 and 2008.

**Figure 4** Revisions in official average cohort life expectancy projections, for men and women of 65 in a given year<sup>9</sup>



## The financial challenges of an ageing population

10. Increases in life expectancy are indisputably good news. But an ageing population brings challenges. Spending on retirement pensions alone has risen, in current price terms, from £32.9 billion in 1980 to £69.5 billion this year.<sup>10</sup>

9. DWP analysis based on ONS Cohort Life Tables for the UK (2008), principal projections.

10. Retirement pensions figure consists of DWP expenditure on basic State Pension and additional State Pension.

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11. Today the Government spends about £100 billion each year on pension-age benefits.<sup>11</sup> This is almost as much as it currently spends on public order, defence and transport combined.
12. Just considering those people reaching State Pension age in 2010, the revisions of average life expectancy projections between 2004 and 2008 are expected to result in an extra State Pension cost of £6.5 billion (in current price terms) over their lifetimes.<sup>12</sup>
13. These state pensions are mainly paid for by the current working population through their National Insurance contributions, in what is sometimes referred to as a social contract between younger and older generations. In turn, as younger people age they will expect their state pensions to be paid for by the next generation of workers. But as our population ages, there are proportionately fewer working-age people paying towards the growing costs of the state pensions of our pensioners.
14. An ageing population creates fiscal pressures, not only through direct expenditure on the state pensions system, but also wider expenditure on health and social care. In 2009–10, age-related public spending on health, pensions and social care is expected to account for 16.5 per cent of Gross Domestic Product (GDP). Relative to current levels of age-related spending on pensioners, projections from the Treasury’s long-term public finances model suggest that the total annual impact of demographic change on the public finances will be around 20.6 per cent of GDP by 2049–50.<sup>13</sup>

**The ageing of the population is a demographic and social issue. But it is also relevant to the position of the public finances: directly, by affecting public spending and tax receipts, and indirectly, through its impact on economic growth.**

Office for Budget Responsibility. (2010). *Pre-Budget Forecast*, p.58.

15. With unchanged policies the impact of an ageing society, including the extra cost of the revised life expectancy projections, will have to be borne through higher taxes, reduced public spending in other areas or higher government borrowing. All three options are likely to have adverse economic consequences.
16. The economic context has also changed since the State Pension age was last reviewed. The UK economy is recovering from the longest and deepest recession since official records began in 1955. The Government is taking steps to address our rising debt, because to fail to do so would also put an unfair burden on future generations. Public borrowing is, in essence, taxation deferred, and it would be irresponsible and unfair to accumulate substantial debts to fund spending that benefits today’s generation at the expense of subsequent generations.
17. So current and future generations of tax payers are facing significant financial challenges. It is only fair the State Pension age is set at a level that means that, as the benefits of rising life expectancy are shared by the generations, so they share in the costs.

11. Pension-age benefits figure refers to expenditure on DWP-administered basic State Pension, additional State Pension, and associated pensioner benefits.

12. DWP modelling based on ONS cohort average life expectancy for men and women reaching State Pension age in 2010.

13. Office for Budget Responsibility. (2010). *Pre-Budget Forecast*, p.59.

## A fair and sustainable State Pension

18. Previous governments have considered the State Pension age. The Pensions Act 1995 legislated for men's and women's State Pension ages to be equalised, in accordance with the European Union Directive on equal treatment of men and women, by increasing women's State Pension age from 60 to 65 between 2010 and 2020.
19. In 2002, an independent Pensions Commission was established to review the regime for UK private pensions and long-term saving, in light of the longer-term challenges faced by the pensions system. The Commission recommended that the State Pension age should be increased broadly in line with increasing life expectancy to ensure the state pensions system was fair to different generations and remained affordable.

**A policy which allows each generation to spend an increasing proportion of life in retirement financed by an increased level of public pension expenditure as a percentage of GDP will be unsustainable in the long run and unfair to subsequent generations of taxpayers.**

The Pensions Commission. (2005). *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission*, p.174.

20. Under current legislation the State Pension age will increase for both men and women from 65 to 68 between 2024 and 2046. But the legislated timetable for future changes to the State Pension age was based on official projections of life expectancy which used longevity information from 2004. The projections were revised in 2008 and mean that tomorrow's pensioners will spend an even greater part of their adult life in receipt of a State Pension than was thought in 2007.
21. No responsible government can afford to ignore the challenges of increasing longevity. It is crucial for both financial sustainability and fairness to each generation that the state pensions system reflects how much longer we are living. To ensure this, the Government has reviewed the timing of the increase in State Pension age to 66. Details of the Call for Evidence that informed that review, and the responses received, are outlined in the next chapter.

## A global concern

22. It is not just the UK that faces the consequences of an ageing population. Average life expectancy is rising in most developed nations, and many are revising their state pension ages and entitlements in response. Norway, Iceland, Israel and the USA already have a state pension age of 66 or higher. Australia, Denmark, Germany, Ireland and the Netherlands will all have a state pension age of 66 before the UK's currently legislated date of 2026.

**Table 1 State pension age increases by country<sup>14</sup>**

State pension age	66	67	68
<b>Date</b>			
In 2010	USA	Iceland Israel (men) Norway	
By 2020	Ireland (2014) Australia (2020) Netherlands (2020) UK (2020) [new plans]		
By 2030	Germany (2024) Denmark (2025) UK (2026) [legislated]	Ireland (2021) Australia (2024) Netherlands (2025) Denmark (2027) USA (2027) Germany (2029)	Ireland (2028)
By 2040		UK (2036)	
By 2050			UK (2046)

<sup>14</sup>. State pension ages reported in Table 1 refer to legislated reforms except for the Netherlands and Ireland. Data from US Social Security Online website, available at: [www.ssa.gov/policy/docs/progdesc/ssptw/](http://www.ssa.gov/policy/docs/progdesc/ssptw/) and from Mutual Information System on Social Protection/Social Security website, available at: [http://ec.europa.eu/employment\\_social/missoc/db/public/compareTables.do](http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do)

# 2

## The Call for Evidence

### Responses to the Call for Evidence

1. The Government issued a Call for Evidence between 24 June and 6 August 2010 on the timing of the increase in State Pension age to 66.<sup>15</sup> The Call for Evidence asked three questions:
  1. **What evidence concerning changes to life expectancy and the changed economic context should be taken into account when bringing forward the increase in State Pension age to 66?**
  2. **What evidence should the Government consider in deciding the notice period for individuals affected by a change in the timing of the State Pension age to 66?**
  3. **What evidence should the Government consider to ensure no group is disproportionately impacted by the level of the State Pension age and any change to the timing of the State Pension age increase to 66?**
2. The Government received 352 responses from individual members of the public and 46 responses from organisations. Organisational respondents were a mix of consumer groups (including larger charities), trades unions, employers and industry groups (both pensions-related and other). A list of responding organisations is given in Annex A.

15. The Call for Evidence document is available for download from the Department for Work and Pensions (DWP) website at <http://www.dwp.gov.uk/spa-66-review>

3. There was a broad degree of acceptance among both individual and organisational respondents of the need to increase the State Pension age to 66. The great majority of respondents accepted that the State Pension age should rise; and most accepted that this needs to happen earlier than planned.
4. However, individuals and organisations broadly accepting of an increase in the State Pension age to 66 raised a range of concerns about bringing forward an increase. Generally, individual respondents were concerned with the impact of bringing forward the increase in State Pension age to 66 on both wider society, and on their personal circumstances. Organisations were concerned with the wider economic implications and impacts on certain groups of bringing forward the increase. These concerns are outlined in detail below.

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

5. Almost all respondents accepted that average life expectancy has increased, and the great majority accepted that life expectancy will continue to increase. However, there was concern among respondents that life expectancy varies, particularly between different socio-economic groups and different geographical areas.
6. Several individuals and organisations suggested that, as life expectancy rises in future, the proportion of working to retired life should be held constant and the State Pension age rise accordingly. Respondents suggested this should give a greater degree of certainty about future State Pension age changes and could mean that the increases to 67 and 68 are brought forward.
7. Most respondents made a distinction between life expectancy and healthy life expectancy. Some acknowledged that older age is generally spent in better health than previous generations. However, more were worried that gains in life expectancy might not be matched by gains in healthy life expectancy so that, while we are living longer, a disproportionate part of that extra time would be spent in ill health. The Government was asked to consider healthy life expectancy in addition to life expectancy when making its decision, and that healthy life expectancy, as well as life expectancy, is lower than average among people from particular socio-economic groups or living in particular areas.

## **Question 1: Our reply**

8. Life expectancy has risen, and is expected to continue to rise. These increases need to be taken into account as the Government decides when to increase the State Pension age to 66, to help ensure that the costs of rising life expectancy are shared across the generations.
9. Lifespans vary within any population and different socio-economic groups have different life expectancies. However, Office for National Statistics (ONS) data indicate that average life expectancy has increased for all socio-economic groups. When considering the manual worker grouping between 1992–96 and 2002–05, life expectancy at 65 rose by nearly two years among male manual workers and by one year among female manual workers.<sup>16</sup>

16. Period average life expectancy data by socio-economic class. Data drawn from ONS. (2007). *Variations persist in life expectancy by social class*. 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 and technical), IIIN (skilled non-manual).

10. Similarly, life expectancy has been increasing across all regions of the United Kingdom (UK). While average male life expectancy at 65 is lowest in Scotland, compared to other countries of the UK, it has risen by 2.1 years from 2000 to now, with an increase of 12 per cent over the last ten years. A similar increase has happened in all the other countries over the same period.<sup>17</sup>
11. Data from the Department of Health show that, while the life expectancy of most of the areas with the worst health and deprivation indicators in England lags behind other more prosperous areas, some areas have seen increases in life expectancy greater than the England average. In Manchester, for example, male life expectancy has improved faster than the England average.<sup>18</sup>
12. The distinction between life expectancy and healthy life expectancy is important, and the data show that long-term differences by socio-economic status and geographical area do exist.<sup>19</sup> The Government as a whole is committed to reducing these long-term differences. Average healthy life expectancy and disability-free life expectancy are not rising as quickly as life expectancy – but they are rising. Men and women of 65 in 2006 could expect to enjoy about three extra years of healthy life, on average, when compared to 1981.<sup>20</sup> Average healthy life expectancy is also rising in all nations of the UK, increasing most quickly for men in Wales and women in Northern Ireland.<sup>21</sup>
13. The State Pension age cannot be calibrated to these differences in life, and healthy life, expectancy. There are limited data to do so, and the system would be complex and difficult to administer.
14. The Government is committed to improving healthy life expectancy, as well as life expectancy. It will do this by raising healthcare standards, establishing a new public health service and tackling health inequalities by working across government. *Equity and Excellence*, the NHS White Paper, seeks to raise standards by making the service more responsive to needs, by putting patients and the public first to improve health and healthcare outcomes – including healthy life expectancy – empowering staff, and strengthening accountability.<sup>22</sup>

17. Average cohort life expectancy, principal projections. DWP analysis based on ONS Cohort Life Tables for England, Wales, Scotland, and Northern Ireland.

18. Period average life expectancy. Department of Health. (2009). *Tackling Health Inequalities: 2006-08 Policy and Data Update for the 2010 national target*.

19. The Marmot Review. (2010). *Fair Society, Healthy Lives*.

20. 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.

21. ONS. (2010). *Statistical Bulletin: Health expectancy at birth and at age 65 in the United Kingdom, 2005-07*. Please note there is a break in the data series due to revised methodology.

22. HM Government. (2010). *Equity and Excellence: Liberating the NHS (Cm 7881)*.

## Question 2: What evidence should the Government consider in deciding the notice period for individuals affected by a change in the timing of the State Pension age to 66?

15. A significant proportion of all individual responses accepted the need for an increase in State Pension age to 66. However, many expressed concern about the possible implementation of an increase in the State Pension age to 66 in 2016, and asked the Government to ensure a reasonable notice period.
16. Calls for a sufficient notice period were driven by concern for the ability of individuals, employers and pensions providers to be able to adjust their planning accordingly. Concern was strong among individual respondents who might be personally affected by bringing forward the increase in the State Pension age, and especially among those already retired or otherwise economically inactive and living on a private pension or savings. Some individual respondents felt that they had an agreement with either the Government or society to work a certain number of years, which was now being broken.
17. A number of both individual and organisational respondents noted the length of notice periods given for previous changes to the State Pension age, and to the minimum retirement age for personal pensions. We were also asked for evidence on how much notice other countries have given of increases in State Pension ages.
18. Of those who suggested a date for when the State Pension age should increase to 66, most suggested 2020 or 2021. This was linked to both concern for sufficient notice of a change and the current timetable for completing the equalisation of female State Pension age at 65 in 2020. A small number of both individuals and organisations called for implementation earlier than 2020 or 2021, including in 2016, and some for implementation later.

### Question 2: Our reply

19. The notice period given to individuals affected by bringing forward the increase to 66 has to be balanced against the need to ensure that the state pensions system is sustainable and fair to each generation.
20. In other countries, an increase in state pension age has been made with differing notice periods, depending on a nations circumstances. Examples include three years in Greece and eight years in Australia.
21. It would have been possible to increase the State Pension age to 66 in 2016, but the Government concluded that this would not give sufficient notice of changes in State Pension age to those affected. However, rapid increases in life expectancy mean it will not be possible to give a notice period similar to those given for previous increases in State Pension age. If we were to give 15 years' notice of changes, such as was given for equalisation of women's State Pension age, this would mean not changing the State Pension age until 2025 – when it would already have begun rising to 66 under the legislated timetable.
22. To make the changes as fair as possible to people of similar ages, but born in different years, the Government will phase in the change to State Pension age, as has been the case with equalisation of women's State Pension age to 65. Phasing also means that those whose State Pension age increases most will have a longer period of notice of any change than those affected earlier for whom the changes will be smaller.

## Question 3: What evidence should the Government consider to ensure no group is disproportionately impacted by the level of the State Pension age and any change to the timing of the State Pension age increase to 66?

### **Men and women**

- 23. Among many individuals and organisations who responded to the Call for Evidence there was concern that the Government ensures men and women are treated fairly with respect to changes to State Pension age. Many respondents said it was important that the Government does not jeopardise the move towards greater equality between the sexes through the equalisation of State Pension ages by increasing men's State Pension age to 66 ahead of women's State Pension age.
- 24. Some respondents drew attention to the European Union (EU) Directive that requires equal treatment of men and women in social security matters. The Government has a legal requirement to work towards the progressive equalisation of State Pension age between men and women as envisaged by the Directive.
- 25. Some organisations also noted that women still have a shorter working life than men, meaning less opportunity to build up a private pension; this was linked to women pensioners being poorer relative to men. A number of respondents affected by current plans for equalisation of women's State Pension age at 65 said it was important that the Government considers the impact on them were their State Pension age to rise to 66, and to allow sufficient notice for plans to be adjusted further.

### **Men and women: Our reply**

- 26. The Government has a legal requirement to ensure that men and women are treated equally. The current equalisation of female State Pension age with men's State Pension age is in recognition of this legal requirement. The Government cannot legally widen the existing gap in State Pension ages between men and women.
- 27. Society has also changed. With greater numbers of women working, we can no longer assume women will rely on their husbands for financial maintenance. More women are now building a State Pension entitlement of their own rather than relying on their husband's. A succession of reforms means women – who often take time away from work to raise a family or care for others – are better able to build up a State Pension than ever before.
- 28. By late 2018 – when State Pension ages will be equalised at 65 – the expected impact of these changes is that around 90 per cent of women and men reaching State Pension age will have entitlement to a full basic State Pension.

### **A diverse society**

- 29. A few individual and organisational respondents suggested that the Government should consider how life expectancy, and healthy life expectancy, may vary by different social groups, such as those from ethnic minorities.
- 30. We were also asked to consider whether finding suitable employment might be more difficult for older people from these groups than for others.

### A diverse society: Our reply

31. A full Equality Impact Assessment is given in Annex D. Data on life expectancy and healthy life expectancy for different ethnic groups are scarce, as was acknowledged in responses to the Call for Evidence. This is because only country of birth and not ethnic group is recorded on death certificates. There is a similar lack of data on life expectancy and healthy life expectancy for disabled people.
32. There is no clear evidence that ethnicity itself is the cause of differences in life expectancy – and stronger evidence that variations are likely to be primarily associated with socio-economic status. More details are given in Annex D.
33. All socio-economic groups are seeing increases in average life expectancy. And while labour market participation rates of ethnic minorities, and of disabled people, are lower than average, the trend is that they are increasing.<sup>23</sup>

### Between each generation

34. Responses on ensuring fairness to each generation were mixed. On the one hand, several respondents, both individuals and organisations, noted that the minimum number of years someone has to contribute via National Insurance to be entitled to a State Pension has been reduced.
35. On the other hand, a few respondents noted that the State Pension age for younger generations is planned to increase to 68 by 2046 – significantly over the State Pension age for those approaching retirement now.

### Between each generation: Our reply

36. Rising life expectancy combined with a decline in the ratio of working-age people to pensioners means that, without change, age-related costs will fall disproportionately on younger generations. To help meet that challenge, the younger working-age population will see their State Pension age rise to 67 or 68 under current timetables. Those now approaching State Pension age should share in the costs as well as the benefits of improved longevity.
37. Those approaching retirement will also benefit more than current pensioners from recent reforms to the State Pension. In June 2010 the Government announced that it will restore the link between the basic State Pension and earnings. When the earnings link was broken, the basic State Pension was 26 per cent of average earnings. By 2009 it was 16 per cent. The restoration of the earnings link will halt this decline.

## Wider issues raised in response to the Call for Evidence

38. In addition to replies covering the three questions in the Call for Evidence, respondents raised other issues. This section covers these wider issues: employment, life in older age, and integrated pensions.

23. ONS Labour Force Survey, Q1 2010.

## Older people in employment

39. Responses about working longer were mixed. Some individual respondents welcomed the possibility of working longer, in recognition of gains in life and healthy life expectancy. Several respondents noted that the UK has relatively high rates of employment beyond State Pension age compared to other European nations.
40. However, a greater number of both individual and organisational respondents had concerns about whether declining health and the current economic context would make it more difficult for older workers to find suitable work if the increase in State Pension age was brought forward. Of particular concern were those employed in manual work who may find continuing work physically challenging, and face lower than average life and healthy life expectancy as a consequence of their work. We were also asked by a few respondents to consider evidence on the impact of extending working lives by a year on health.
41. Concern for employment rates and the health of older workers, and other responsibilities in older age, led many respondents to call for the Government to introduce a more flexible retirement system, which allowed individuals to choose whether and how to continue working beyond State Pension age. We were asked to encourage a more gradual movement into retirement rather than a 'cliff-edge', with more opportunities for part-time and flexible work.
42. In particular, respondents raised concerns that they might be forced out of work by an employer. Currently, the national Default Retirement Age (DRA) of 65 enables an employer to require an employee to retire from their organisation at or above age 65 without having to justify this. We were asked for clarification on what might happen to the DRA when the increase to State Pension age to 66 is brought forward, and to consider whether the DRA undermines government encouragement of working longer.

## Older people in employment: Our reply

43. The age at which most people retire has not kept pace with increases in life expectancy. The peak age of withdrawal from the labour market for men is between 64 and 66, and for women is between 59 and 61. Overall, in England, people are 20 per cent more likely to be working past State Pension age in 2008/09 than they were in 2002/03.<sup>24</sup>
44. The main reasons people leave the workforce before State Pension age are due to their health, to look after family and home, and choosing to take early retirement. However, the proportion of the population between 50 years old and State Pension age out of the labour market due to sickness or disability is declining, from around 16 per cent in 1996 to around 12 per cent in recent years.<sup>25</sup>
45. Continuing to work can boost an individual's income both before and after retirement. Much of the available evidence suggests that individuals who work beyond State Pension age have good health and higher rates of activity – though the causal relationship between working longer and good health is unclear.<sup>26, 27</sup> Increasing effective working life by one year is estimated to be worth up to 1 per cent of Gross Domestic Product,<sup>28</sup> approximately £13 billion or equivalent to 1.7 per cent of our current national debt.<sup>29</sup>

24. Banks, J. et al. (2010). *Financial circumstances, health and well-being of the older population in England: The 2008 English Longitudinal Study Of Ageing (Wave 4)*. London: Institute of Fiscal Studies.

25. ONS Labour Force Survey (various years).

26. Waddell, G. and Burton, K. (2006). *Is Work Good for Your Health and Wellbeing*. The Stationery Office.

27. Smeaton, D. and McKay, S. (2003). *Working after State Pension age: Quantitative Analysis*. DWP research report series No. 182.

28. Barrell, R., Hurst, I., and Kirby, S. (2009). *How to Pay for the Crisis or Macroeconomic implications of pensions reform*. NIESR Dp. 333.

29. Public sector net debt is estimated at £771.5 billion for 2009-10. Office for Budget Responsibility. (2010). *Budget Forecast June 2010*, p.89.

46. Removing the DRA of 65 will enable more people to work beyond State Pension age, and so the Government has undertaken to phase out the DRA. The Department for Business, Innovation and Skills has published a consultation on phasing out the DRA, which closed on 21 October.
47. Nearly two-thirds of those working over their State Pension age are working part time.<sup>30</sup> And recent research published by DWP suggests that 86 per cent of people are willing to work beyond the current State Pension age if it meant they would have a better standard of living.<sup>31</sup> The Government supports flexible working in later life, and will be consulting with stakeholders on how best to extend flexible working legislation.
48. The Government is committed to helping people of all ages find work, and has announced plans for radical reforms of the welfare-to-work system. This will begin with the introduction of the Work Programme due to be rolled out by summer 2011. The Work Programme will be an integrated package of support and will provide personalised help to a wide range of customers of all ages, including Jobseeker's Allowance (JSA) recipients who have been out of work for some time and customers who may previously have been receiving incapacity benefits for many years. Jobcentre Plus staff will have more flexibility to decide how to provide the most cost-effective help for customers for up to 12 months prior to them joining the Work Programme.
49. Until the Work Programme is implemented, the Government will ensure support is in place. Jobcentre Plus has a number of specific measures in place this year for JSA customers aged over 50 years who are struggling to find work because of age-related issues. They can have extra interview time with advisers and early access to intensive help if they need it. This help has been underpinned by new training for Jobcentre Plus advisers, designed to improve their understanding of the labour market issues faced by the over 50s and give better help. Additionally, the Government is working with key business leaders through its *Age Positive* initiative to provide guidance for employers on the business case for employing older workers. *Age Positive* tackles older worker stereotypes and age discrimination, and encourages employers to adopt flexible approaches to working patterns and working without a fixed retirement age.

### **Life in older age**

50. Many respondents also asked the Government to consider the timing of the increase in State Pension age in the wider context of life as a pensioner. A small number of individuals and organisations raised concerns about the impact of an increase in State Pension age to 66 on older people with other responsibilities, such as caring and volunteering. We were asked to consider how wider employment rates might be affected if older people are not able to provide informal care for their grandchildren to enable parents to work. We were also asked to consider the impact on the Government's spending on formal care if informal care was no longer possible.
51. A number of organisations, and a smaller number of individuals, also commented on pensioner income more generally. Several organisations – generally those who rejected an increase in State Pension age, either soon or at all – were concerned about the value of the basic State Pension, and about wider pensioner poverty.

30. ONS Labour Force Survey, Q1 2010.

31. DWP Research Report No 701. (2009). *Attitudes to Pensions*.

### **Life in older age: Our reply**

52. As we live longer, and in better health, attitudes to age are changing – we are now more likely to have a positive view of later life. The Government recognises and values the contribution that older people make to society, and is committed to helping people remain active and healthy as they age. It believes that people deserve dignity and respect in old age and that they should be provided with the support they need. As part of this, *Ageing Well* is a new programme supporting local authorities in improving the lives of older people, by providing services that are designed, with their involvement, to meet their needs and recognise the huge contribution that people in later life make to their local communities. These wider issues, and the needs of older people, will be central to cross-Government policy development.
53. The Government also recognises that grandparents are often a key source of informal childcare for families. The number of years of National Insurance contributions required for a full basic State Pension was reduced, for those reaching State Pension age after April 2010, partly to ensure that those who care for others are not penalised themselves in old age. Jobcentre Plus advisers take account of the family situation when assessing availability for work, and lone parent job seekers with children aged 12 and under no longer have to take a job outside of school hours.
54. The Government also proposes to introduce National Insurance credits to protect the basic State Pension entitlement of grandparents of working-age who look after their grandchildren to enable the children's parents to work. On 15 October 2010, the Government launched a consultation on this proposal and other changes to the National Insurance credits arrangements. Details of the consultation are available at <http://www.dwp.gov.uk/docs/ni-credits-changes-consultation.pdf>

### **Integrated pensions**

55. A small number of respondents raised the issue of the impact of bringing forward the increase to 66 on integrated (or 'bridging') pensions. These private pensions are paid in advance of State Pension age at a higher rate and, when the recipient reaches State Pension age, reduced by an amount calculated with reference to the basic State Pension.<sup>32</sup>

### **Integrated pensions: Our reply**

56. The impact of the increase in State Pension age on integrated pensions will depend on the rules each scheme has in place. Under scheme rules which provide integrated pensions until a specified age (for example age 65), the change in State Pension age may leave an individual with a fall in income between the specified age and their new State Pension age. Under scheme rules which provide integrated pensions until State Pension age as defined in statute, the change in State Pension age will require the scheme provider to fund the additional period of payment of the bridging pension, and so an individual's income should not be affected. The Government notes that it is primarily for the employers and trustees of private pension schemes to consider how to take these possibilities into account, with respect to the requirements of the scheme as a whole. The Government will, however, look in more detail at the issues raised during consultation about the difficulties some schemes may face in changing scheme rules.

32. When National Insurance contributions and state pensions were introduced in 1948, a number of employers who offered occupational pension schemes felt that there was some duplication between the two types of provision. In order to ensure that they and their employees did not have to increase their contributions in respect of pensions, some employers who operated salary-related occupational pension schemes took account of some or all of the State Pension (when it became payable) when calculating the occupational pension payable.

57. We also note that existing tax legislation in place for integrated schemes (paragraph 2 of Schedule 28 of the Finance Act 2004) refers to age 65 (rather than statutory State Pension age) as the maximum age at which an integrated pension may be reduced without incurring extra tax charges. Therefore amendments to this legislation will be needed. HM Revenue & Customs are aware of this issue and will address it as soon as is practical. The representations made by respondents on this point will be considered at that time.

**Other private pension issues**

58. A similar issue regarding the retirement ages of an occupational pension scheme was raised by one organisation. At present, an employee may choose to take early retirement and claim their occupational pension before the State Pension age. One organisation responding to the Call for Evidence suggested it would be difficult for occupational pension schemes to change the retirement age to mirror changes in State Pension age. Amendment of section 67 of the Pensions Act 1995 was suggested to make this easier.

**Other private pension issues: Our reply**

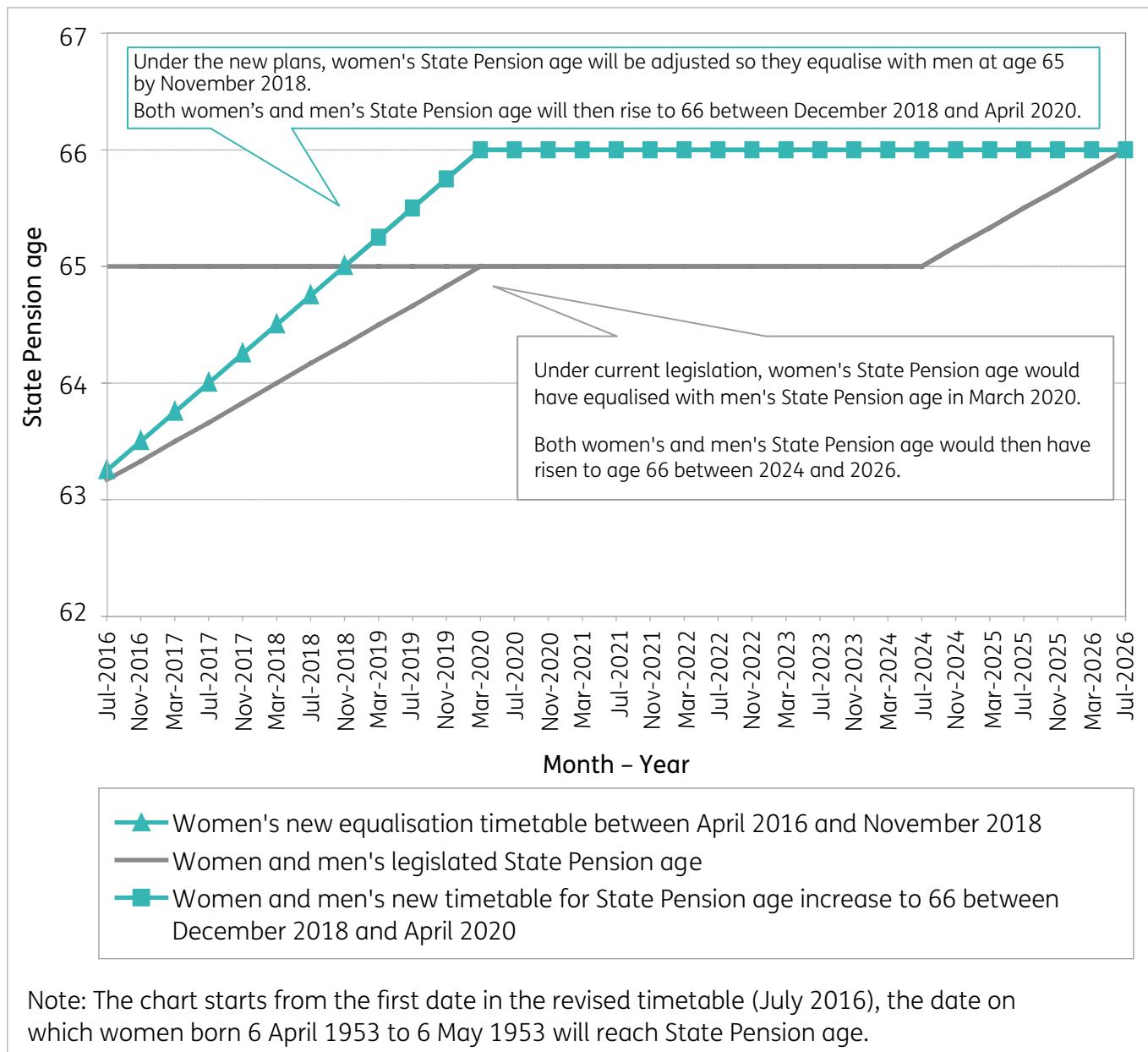
59. Having considered the concern raised around occupational pension retirement ages, DWP notes that section 67 protects a pension the member has already accrued. The Government will not be amending the Pensions Act as suggested, as this would allow schemes to change the retirement age for rights already accrued. Occupational pension schemes can, of course, change the normal pension age for future accruals (subject to the employer consultation requirements).

# A fair and sustainable state pensions system

# 3

## When the State Pension age will rise to 66

1. After carefully reviewing the evidence, the Government has decided that the State Pension age should increase from 65 to 66 between December 2018 and April 2020 for both men and women.
2. To do this, it will be necessary to adjust the current timetable for equalisation of women's State Pension age. Women's State Pension age will therefore rise from April 2016 (when it will be 63) so that it reaches 65 in November 2018, rather than April 2020.
3. Legislation will be introduced to this effect early in 2011. These changes are shown in Figure 5.

**Figure 5 Changes to State Pension age**

## Who will be affected

4. These changes will affect the State Pension age in England, Scotland and Wales. Responsibility for pensions in Northern Ireland is held by the Northern Ireland Assembly and Executive.
5. The legislated State Pension age timetable is unchanged for women born before 6 April 1953 and men born before 6 December 1953.
6. The total number of people affected in Great Britain is estimated at 4.9 million. Of these, approximately 0.5 million men and 0.6 million women will have an increase in their State Pension age of less than a year in relation to the legislated timetable. Approximately 1.8 million men and 1.5 million women will have an increase in State Pension age of exactly a year in relation to the legislated timetable. Tables of revisions in State Pension age by birthday is given in Annex B.

7. This will also affect the minimum qualifying age for Pension Credit which is based on, and rising in line with, women's State Pension age.

## Factors influencing this decision

8. When deciding the timing of the increase to 66, the Government believes that implementation between December 2018 and April 2020 is the option that best balances sustainability with fairness in the face of demographic change.
9. The Government has a legal responsibility under European Union law to make sure it does not discriminate between men and women. Any option that would widen the gap between the State Pension age of men and women would run against this. So the increase in State Pension age to 66 must be applied to both men and women at the same time – it would be counter to the Government's legal duties to increase, for example, men's State Pension age to 66 ahead of women's.
10. The Government also needs to ensure that people have enough notice of change. For example, implementing a rise to 66 in 2016 – which would have to be applied to both men and women – would give little notice for those first affected to adjust their retirement plans.
11. It is also important that an increase in State Pension age is phased. Although any form of phasing increases complexity, it ensures that people with similar birth dates do not have markedly different State Pension ages.

## Implications of this decision

12. The Government considered two main options. Full details of the analysis are given in the Impact Assessment and Equality Impact Assessment contained in Annexes C and D.
13. Ensuring the state pensions system is financially sustainable is fair to future generations. Bringing forward the increase in State Pension age to 66 by 6 years will result in total net savings of approximately £30.4 billion between 2016/17 and 2025/26 (when the State Pension age was due to have reached 66 under existing legislation).<sup>33</sup> This total includes the predicted cost of an increase in claims for working-age benefits.
14. Without a change to the State Pension age timetable, the £30.4 billion savings would have been costs that the working-age population would have to pay for through higher National Insurance contributions, reduced public spending in other areas, or higher government borrowing. Those reaching State Pension age before 2025/26 will gain from increasing life expectancy, but would not carry a fair share of the additional costs.
15. Under the proposed option, the necessary changes to the timetable for equalisation of women's State Pension age mean some women will have their State Pension age increased by more than a year (when compared to the legislated timetable) while the increase in State Pension age will never exceed a year for men.

<sup>33</sup>Based on 2010/11 prices. This net total figure is composed of pensions benefits savings of £33.2 billion and working-age benefits costs of £2.8 billion. See page 35 of the Impact Assessment in Annex C for further information.

## **30 Chapter 3 A fair and sustainable state pensions system**

16. In light of this, the Government looked at increasing the State Pension age to 66 between 2020 and 2022, following the completion of equalisation in 2020 under the existing timetable. However, this would have reduced the net savings to £20.1 billion, or two-thirds of the savings made under the option taken. As a result, the working-age population would have had to bear the additional net costs of £10.3 billion.
17. Life expectancy for women is projected to increase at a slightly slower rate than for men. Nevertheless, because women live longer than men, on average, the changes will still mean women will be able to draw their State Pension for longer than men. Women reaching State Pension age from April 2010 onwards are expected to have higher State Pension entitlements as a result of changes to the State Pension scheme, including the reduction in the number of years needed to qualify for a basic State Pension. By late 2018, when State Pension ages will be equalised at 65, the expected impact of those changes is that around 90 per cent of women and men reaching State Pension age will have entitlement to a full basic State Pension.
18. As Chapters One and Two outlined, life expectancy has been increasing, including for those in lower socio-economic groups. If current trends continue, the increase in the State Pension age from 65 to 66 should be matched by gains in average life expectancy.
19. The Government has also considered the impact of bringing forward an increase to 66 on different ethnic groups, and disabled persons, who may share the life expectancy characteristics of lower socio-economic groups. This is discussed in detail in the Equality Impact Assessment (Annex D).

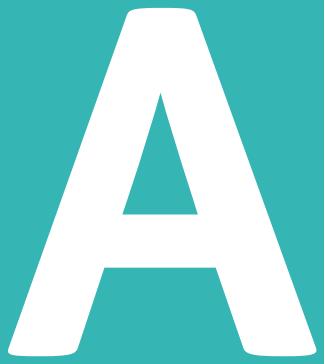
## **How the changes will be implemented**

20. 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.
21. Administrative costs of implementing and communicating the changes are only high-level and indicative at this stage, but are expected to be approximately £11 million.

## **Looking to the future**

22. It is important that, given the principles of sustainability and fairness, the State Pension age should reflect increases in life expectancy.
23. The State Pension age is already planned to increase to 67 and 68. To manage the ongoing challenges posed by changes in projected longevity, the Government will be considering the current timetable for these rises and will bring forward proposals in due course.
24. This Government will ensure that the State Pension remains a firm foundation for a secure older age. The Government's decision to increase the State Pension age to 66 between 2018 and 2020 will mean the costs of recent increases in longevity are shared between the generations, so that the state pensions system is fairer and more sustainable in the future. This measure will help to relieve substantial pressures on public spending arising from an ageing population and boost employment and Gross Domestic Product.

# Annex



## Organisations responding to the Call for Evidence

- |   |  |
|---|--|
| Age UK  | National Federation of Occupational Pensioners               |
| Association of Colleges                                       | National Pensioners Convention                               |
| Association of Consulting Actuaries                           | Northern Ireland Assembly – Committee for Social Development |
| Association of Teachers and Lecturers                         | Northern Ireland Older People's Advocate                     |
| Aviva   | Northern Ireland Public Service Alliance                     |
| B&CE Benefit Schemes  | Parity   |
| Carers UK   | Pensions Policy Institute                                    |
| Confederation of British Industry                             | Prudential   |
| Chartered Institute of Personnel Development                  | Public and Commercial Services Union                         |
| Citizens Advice   | Public Service Pensioners' Council                           |
| Club Vita LLP   | SimplyBiz  |
| Devon County Council  | Standard Life  |
| Equalities and Human Rights Commission                        | The Age and Employment Network                               |
| Enfield Borough Over Fifties Forum                            | The Law Society of Scotland                                  |
| Future Years – Yorkshire and Humber Forum on Ageing           | Towers Watson  |
| GMB trades union  | Travers Smith  |
| Hewitt Associates   | Trades Union Congress  |
| Independent Age   | Union of Construction, Allied Trades and Technicians         |
| Institute of Payroll Professionals                            | Unison   |
| Jaguar Landrover  | Unite  |
| Local Authority Pension Fund Forum                            | Wakefield Council  |
| Medway Older People Communications Network                    | Zurich Financial Services                                    |
| National Association of Pensions Funds                        |  |
| National Association of Schoolmasters Union of Women Teachers |  |

# Annex

# B

## Tables of revisions in State Pension age<sup>1</sup>

**Table 1 Changes to State Pension equalisation timetable (women)**

Period within which birthday falls	Date new State Pension age reached	New State Pension age (years.months)
6 April 1953–5 May 1953	6 July 2016	63.2 – 63.3
6 May 1953–5 June 1953	6 November 2016	63.5 – 63.6
6 June 1953–5 July 1953	6 March 2017	63.8 – 63.9
6 July 1953–5 August 1953	6 July 2017	63.11 – 64.0
6 August 1953–5 September 1953	6 November 2017	64.2 – 64.3
6 September 1953–5 October 1953	6 March 2018	64.5 – 64.6
6 October 1953–5 November 1953	6 July 2018	64.8 – 64.9
6 November 1953–5 December 1953	6 November 2018	64.11 – 65.0

**Table 2 Increase in State Pension age from 65 to 66 (men and women)**

Period within which birthday falls	Date new State Pension age reached	New State Pension age (years.months)
6 December 1953–5 January 1954	6 March 2019	65.2 – 65.3
6 January 1954–5 February 1954	6 July 2019	65.5 – 65.6
6 February 1954–5 March 1954	6 November 2019	65.8 – 65.9
6 March 1954–5 April 1954	6 March 2020	65.11 – 66.0
From 6 April 1954	66 <sup>th</sup> birthday	66

Under current legislation the State Pension age is due to begin rising to 67 from 6 April 2034, which will affect men and women born on or after 6 April 1968.

1. In Tables 1 and 2, State Pension age is given in whole months (not fractions of a year). For example, a new State Pension age of 63.2 is a State Pension age of 63 years and 2 months.

# Annex

# C

## Impact Assessment

Title: <b>A sustainable State Pension: when the State Pension age will increase to 66</b>	<b>Impact Assessment (IA)</b>
Lead department or agency: Department for Work and Pensions	<b>Date:</b> 03/11/2010
	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Primary legislation
	<b>Contact for enquiries:</b> pensions.state@dwp.gsi.gov.uk

## Summary: Intervention and Option

### 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 recession. The ratio of pensioners to working-age people is increasing, and the latter largely support the former through National Insurance and tax contributions. To maintain a sustainable state pensions system and intergenerational fairness, intervention to revise the timetable for increasing State Pension age to 66 is necessary.

### What are the policy objectives and the intended effects?

The policy objectives are to revise the timetable for increasing State Pension age to 66 such that:

- a. recent increases 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; and that
- c. future spending on the state pensions system is sustainable.

### What policy options have been considered? Please justify preferred option (further details in Evidence Base)

This Impact Assessment examines the fiscal costs and benefits of the following options:

Option 1 (preferred) - increase to 66 by April 2020, by:

- increasing women's State Pension age from 63 to 65 between April 2016 and November 2018; and
- increasing men's and women's State Pension age from 65 to 66 between December 2018 and April 2020.

Option 2 - increase to 66 by April 2022, by:

- increasing men's and women's State Pension age from 65 to 66 between April 2020 and April 2022.

Do nothing (baseline - maintain current timetable):

- increase women's State Pension age from 60 to 65 between April 2010 and April 2020; and
- increase men's and women's State Pension age from 65 to 66 between April 2024 and April 2026.

### 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 reconsideration of the legislative timetable for future increases in State Pension age. See Post Implementation Review on page 55.

### 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:

Steve Webb

Date: 03/11/2010

## Summary: Analysis and Evidence

## Policy Option 1

### Description:

Increase State Pension age to 66 by April 2020 (equalisation by 2018)

This assessment only covers the fiscal aspects of the changes, not the wider economic and social costs and benefits.

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV), rounded) (£m)		
			Low: Optional	High: Optional	Best Estimate: 29,400 PV

COSTS (£m)		Total Transition (Constant Price, rounded) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value, rounded)	
Low	Optional	10	Optional	Optional	
High	Optional		Optional	Optional	
Best Estimate	£2,800		N/A	PV £1,900	

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

Key fiscal costs include:

- Additional Department for Work and Pensions (DWP) spend on working-age welfare benefits £2,800 million;
- Delivery costs £11 million (IT, project, notification mailing, and call handling costs).

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

- 2.3 million men will have a revised State Pension age (see Table 5 for details).
- 2.6 million women will have a revised State Pension age (see Table 5 for details).
- Individuals affected may have to adjust their retirement plans accordingly.
- Option has a negligible indirect impact on the private sector.

BENEFITS (£m)	Total Transition (Constant Price, rounded) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value, rounded)
Low	Optional	10	Optional
High	Optional		Optional
Best Estimate	£45,800		N/A

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

Key fiscal benefits include:

- Reduced DWP spending on pensions, £33,200 million;
- Increased income tax and National Insurance receipts £12,700 million.

[To note, these figures may not total to Benefits Total Transition figure due to rounding.]

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

- Intergenerational fairness is promoted by taking into account recent increases in average life expectancy when setting the State Pension age timetable.
- Macroeconomic benefits include increased employment (estimated at 260,000 in 2022) and higher national output. Increasing effective working life by 1 year has been estimated to be worth up to 1% of Gross Domestic Product (GDP), approximately £13 billion.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
1. Revisions of longevity projections and economic assumptions would affect the estimates made.		
2. There may be increased DWP spend on state pensions from people working longer and thus contributing to their State Pension. This is estimated to have a marginal effect of less than £100 million.		
3. Increased income tax and National Insurance Contributions (NICs) receipts depend on HM Revenue & Customs (HMRC) and DWP modelling of aggregate employment impacts, and assumptions on the average income tax/NICs paid by employed and non-employed people.		
4. Effect on working-age welfare benefits spend depends on DWP modelling of employment impact.		
5. Analysis excludes potential effect on Housing Benefit/Council Tax Benefit and Attendance Allowance/Disability Living Allowance spend.		
6. Cost analysis is based on the current structure of the welfare system, state pensions, taxes and National Insurance at the time of publication.		
7. There are increased income tax and NICs receipts outside of the policy period.		
8. Modelling assumes that the timetable for increasing State Pension age to 67 and 68 is unchanged.		

Impact on admin burden (AB) (£m): NIL	Impact on policy cost savings (£m): No scope			
New AB:	AB savings:	Net:	Policy cost savings:	N/A

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	Great Britain				
From what date will the policy be implemented?	06/04/2016				
Which organisation(s) will enforce the policy?	N/A				
What is the annual change in enforcement cost (£m)?	N/A				
Does enforcement comply with Hampton principles?	N/A				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	<b>Traded:</b> N/A		<b>Non-traded:</b> N/A		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	<b>Costs:</b> 100		<b>Benefits:</b> 100		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	<b>Micro</b> 0	<b>&lt; 20</b> 0	<b>Small</b> 0	<b>Medium</b> 0	<b>Large</b> 0
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>1</sup></b> Statutory Equality Duties Impact Test guidance	Yes	See Annex D
<b>Economic impacts</b>		
Competition	No	
Small firms	No	
<b>Environment impacts</b>		
Greenhouse gas assessment	No	
Wider environmental issues	No	
<b>Social impact</b>		
Health and well-being	No	
Human rights	No	
Justice system	No	
Rural proofing	No	
<b>Sustainable development</b>	No	

1. Race, disability and gender Impact Assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded in 2011, once the Equality Act comes fully into force.

## Summary: Analysis and Evidence

## Policy Option 2

### Description:

Increase State Pension age from 65 to 66 between 2020 and 2022

This assessment only covers the fiscal aspects of the changes, not the wider economic and social costs and benefits.

Price Base Year	PV Base Year	Time Period Years 10	Net Benefit (Present Value (PV), rounded) (£m)		
			Low: Optional	High: Optional	Best Estimate: 19,100 PV
<b>COSTS (£m)</b>		<b>Total Transition</b> (Constant Price, rounded) Years		<b>Average Annual</b> (excl. Transition) (Constant Price)	<b>Total Cost</b> (Present Value, rounded)
Low	Optional	10		Optional	Optional
High	Optional			Optional	Optional
<b>Best Estimate</b>	£1,700			N/A	<b>PV £1,200</b>

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

Key fiscal costs include:

- Additional DWP spend on working-age welfare benefits £1,700 million;
- Delivery costs £9 million (IT, project, notification mailing, and call handling costs).

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

- 1.9 million men will have a revised State Pension age (see Table 5 for details).
- 1.9 million women will have a revised State Pension age (see Table 5 for details).
- Individuals affected may have to adjust their retirement plans accordingly.
- Option has a negligible indirect impact on the private sector.

BENEFITS (£m)	Total Transition (Constant Price, rounded) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value, rounded)
Low	Optional	10	Optional
High	Optional		Optional
<b>Best Estimate</b>	£30,700	N/A	<b>PV £20,300</b>

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

Key fiscal benefits include:

- Reduced DWP spending on pensions, £22,000 million;
- Increased income tax and National Insurance receipts, £8,800 million.

[To note, these figures may not total to Benefits Total Transition figure due to rounding.]

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

- Intergenerational fairness is promoted by taking into account recent increases in average life expectancy when setting the State Pension age timetable.
- Macroeconomic benefits include increased employment (estimated at 210,000 in 2022) and higher national output. Increasing effective working life by 1 year has been estimated to be worth up to 1% of GDP, approximately £13 billion.

Key assumptions/sensitivities/risks	Discount rate (%)
1. Revisions of longevity projections and economic assumptions would affect the estimates made.	3.5
2. There may be increased DWP spend on state pensions from people working longer and thus contributing to their State Pension. This is estimated to have a marginal effect of less than £100 million.	
3. Increased income tax and NICs receipts depend on HMRC and DWP modelling of aggregate employment impacts, and assumptions on the average income tax/NICs paid by employed and non-employed people.	
4. Effect on working-age welfare benefits spend depends on DWP modelling of employment impact.	
5. Analysis excludes potential effect on Housing Benefit/Council Tax Benefit and Attendance Allowance/Disability Living Allowance spend.	
6. Cost analysis is based on the current structure of the welfare system, state pensions, taxes and National Insurance at the time of publication.	
7. There are increased income tax and NICs receipts outside of the policy period.	
8. Modelling assumes that the timetable for increasing State Pension age to 67 and 68 is unchanged.	

Impact on admin burden (AB) (£m): NIL	Impact on policy cost savings (£m): No scope
New AB: AB savings: Net:	Policy cost savings: N/A

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	Great Britain				
From what date will the policy be implemented?	06/04/2020				
Which organisation(s) will enforce the policy?	N/A				
What is the annual change in enforcement cost (£m)?	N/A				
Does enforcement comply with Hampton principles?	N/A				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	<b>Traded:</b> N/A		<b>Non-traded:</b> N/A		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	<b>Costs:</b> 100		<b>Benefits:</b> 100		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	<b>Micro</b> 0	<b>&lt; 20</b> 0	<b>Small</b> 0	<b>Medium</b> 0	<b>Large</b> 0
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>1</sup></b> Statutory Equality Duties Impact Test guidance	Yes	See Annex D
<b>Economic impacts</b> Competition Small firms	No	
	No	
<b>Environment impacts</b> Greenhouse gas assessment Wider environmental issues	No	
	No	
<b>Social impact</b> Health and well-being Human rights Justice system Rural proofing	No	
	No	
	No	
	No	
<b>Sustainable development</b>	No	

2. Race, disability and gender Impact Assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded in 2011, once the Equality Act comes fully into force.

## Evidence Base

### References

No.	Legislation or publication
1	State Pension age review – Call for Evidence
2	Pensions Act 2007
3	Pensions Act 1995

### Annual profile of monetised fiscal costs and benefits\* – (£m) constant prices

	Y <sub>0</sub>	Y <sub>1</sub>	Y <sub>2</sub>	Y <sub>3</sub>	Y <sub>4</sub>	Y <sub>5</sub>	Y <sub>6</sub>	Y <sub>7</sub>	Y <sub>8</sub>	Y <sub>9</sub>
Transition costs	50	90	180	320	420	420	430	440	320	100
Annual recurring cost	0	0	0	0	0	0	0	0	0	0
Total annual costs	50	90	180	320	420	420	430	440	320	100
Transition benefits	1,160	1,970	2,980	5,130	6,400	6,590	6,840	6,990	5,470	2,320
Annual recurring benefits	0	0	0	0	0	0	0	0	0	0
Total annual benefits	1,160	1,970	2,980	5,130	6,390	6,590	6,800	6,690	5,470	2,320

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

### Issue and rationale for intervention

1. People now spend more years on average drawing their State Pension than ever before. The relatively few men who reached 65 in 1926 lived a further 11 years on average, and women lived a further 13 years. Today, most men and women reach 65, and can expect to live another 21 years and 24 years respectively, on average.
2. In the legislated timetable, women's State Pension age is due to be equalised with men's (i.e. raised to 65) between 2010 and 2020, with a further rise in State Pension age for all to 66 by 2026, to 67 by 2036 and to 68 by 2046. But the demographic and the economic situation have changed since the timetable for increasing to 66 was set by the Pensions Act 2007. The timetable for the increase to 66 now needs to be reviewed in this new context.

### The demographic context

3. The timetable for increasing State Pension age to 66, legislated for in the Pensions Act 2007, was based on 2004 projections of average cohort life expectancy. The Office for National Statistics (ONS) produced 2008 projections, and Table 1 summarises the upward revision since the current State Pension age increases were set in 2007.

**Table 1 Revisions in projected cohort life expectancy for those reaching State Pension age (SPA) in 2010 (UK average)**

	Life Expectancy at SPA (years)	Life Expectancy at SPA (years)	Revision between projections (years)	Percentage of adult life receiving State Pension	Percentage of adult life receiving State Pension
	2004 projection	2008 projection		2004 projection	2008 projection
Male	20.0	21.3	+1.3	30.8	32.1
Female	27.2	28.7	+1.5	40.5	41.8

These data are cohort mean life expectancies, calculated using age-specific mortality rates which allow for known or projected changes in mortality in later years and are UK average. 'Adult Life' is age 20 and over. Source: 2004-based principal population projections, Government Actuary's Department (GAD); 2008-based principal population projections, ONS.

4. In 2010, the proportion of adult life spent, on average, by a man or woman in receipt of the State Pension is projected to be one percentage point above the proportion forecast in the 2004 population projections. This is equivalent to an extra 1.3 years' life expectancy at State Pension age for men, and 1.5 years for women, on average, compared to that earlier forecast (see Table 1). By 2026, the year when State Pension age is currently due to reach 66, ONS now expects the increase to be even greater: an extra 1.5 years' life expectancy for men and 1.6 years for women, on average.
5. Just taking into consideration people retiring in 2010, the latest revision in life expectancy is estimated to add additional spending on state pensions alone of £6.5 billion, in current price terms, over the lifetime of that single pensioner cohort.
6. The State Pension is a crucial foundation for a secure old age. However, the age of entitlement to State Pension has not kept pace with increases in life expectancy. If the State Pension age had risen in line with average life expectancy at the age of 65 since 1926, when the contributory State Pension was first introduced, it would now need to be at least 75.

#### The economic context

7. The Government must protect fiscal stability in the long term. The UK economy is recovering from the longest and deepest recession since official records began in 1955. Failure to address rising debt in the UK risks pushing up long-term interest rates, which would affect not just the Government, but also families and businesses through the higher costs of loans and mortgages. Public spending on debt interest is unproductive and squeezes out spending on public services and social security. The reaction of bond markets and rating agencies to fiscal responsibility over the long term could leave interest rates lower for longer.
8. A high level of debt also puts an unfair burden on future generations. Public borrowing is, in essence, taxation deferred, and it would be irresponsible and unfair to accumulate substantial debts to fund spending that benefits today's generation at the expense of subsequent generations.
9. So it is important that the financial implications of the state pensions system are addressed. Changing the State Pension age will have some delivery costs to the state, but these will be more than offset by the net savings on benefit expenditure, and the change is crucial to help ensure that the state pensions system is more sustainable in the long term and fair across the generations.

10. An ageing population creates fiscal pressures not only through direct expenditure on the state pensions system but also wider expenditure on health and social care. Relative to current levels of age-related spending on pensioners, projections from the Treasury's long-term public finances model suggest that the total annual impact of demographic change on the public finances will be around 20.6 per cent of GDP by 2029-30.

#### *Intergenerational fairness*

11. The pensions of current pensioners are mainly paid for by the current working population through their NICs. This is sometimes referred to as a social contract between younger and older generations.
12. As life expectancy has increased, the burden this places on our younger generations has grown and it will continue to grow. In 1955, there were four people of working-age (age 20 to State Pension age) for every one person of State Pension age in the United Kingdom (UK). There are now around three people of working-age to every person of State Pension age, and this ratio is expected to decline. Consequently, each working-age person will be paying proportionately more towards the state pensions of older people in the coming years.
13. With unchanged policies, the extra cost arising from improvements in life expectancy will have to be borne through either higher taxes, reduced public spending in other areas or higher government borrowing. All three options are likely to have adverse economic consequences. There are also social implications. As younger people age, they will expect their retirement pensions to be funded by the next generations of workers. This kind of social contract would be put under greater pressure if young workers face rising tax rates to pay for other people's pensions.
14. Bringing forward the equalisation of State Pension age at 65 and the increase to 66 provides a starting point to counterbalance the increases in longevity that are happening today and so helps ensure that the fiscal implications of increased longevity are more sustainable and fairer between generations.

#### **Policy objectives**

15. The policy objectives are to revise the timetable for increasing the State Pension age to 66 such that:
  - a. recent increases in life expectancy are taken into account;
  - b. the burden of support carried by the working-age population, given the wider implications of increased spend on the state pensions system, does not become unmanageable and unfair; and that
  - c. future spending on the State Pension is sustainable.
16. Revising the State Pension age timetable is the most appropriate policy lever to reflect increases in life expectancy projections and thus address the fiscal implications of longevity gains. Without revising the State Pension age timetable, meeting the future spending requirements of the State Pension would entail increased taxation or changes to the pensioner benefits system.
17. The key criteria when assessing options are:
  - a. effect on financial sustainability of the state pensions system; and
  - b. intergenerational and intragenerational fairness.

## 42 Annex C Impact Assessment

### Description of options

#### *Do nothing – the baseline*

18. In the legislated timetable, women's State Pension age is due to be equalised with men's at 65 by April 2020. It is currently rising in steps of one month every two months, so that each single year increase takes two years to phase in.
19. State Pension age for both men and women will then increase from 65 to 66 between April 2024 and April 2026 in steps of one month every two months.

#### *Option 1 – 65 to 66 from 2018 to 2020*

20. State Pension age for both men and women will increase from 65 to 66 between December 2018 and April 2020 in steps of three months every four months.
21. In order to achieve this, the equalisation of State Pension age is accelerated from April 2016 with women's State Pension age increasing in steps of three months every four so that it is 65 by November 2018.
22. The acceleration of equalisation is necessary because it would be discriminatory to increase men's State Pension age to 66 before women's.

#### *Option 2 – 65 to 66 from 2020 to 2022*

23. This option maintains the baseline equalisation timetable as set out at paragraph 18.
24. State Pension age for both men and women will then increase to 66 between April 2020 and April 2022 in steps of one month every two months.

**Table 2 Simplified illustration of the timetable for each option. Transitions in bold.**

	2010	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Men</b>												
Baseline	65	65	65	65	65	65	65	65	65	65	65.66	66
Option 1	65	65	65	65	<b>65.5</b>	<b>66</b>	66	66	66	66	66	66
Option 2	65	65	65	65	65	<b>65.16</b>	<b>65.66</b>	<b>66</b>	66	66	66	66
<b>Women</b>												
Baseline	<b>60.16</b>	<b>63.16</b>	<b>63.66</b>	<b>64.16</b>	<b>64.66</b>	<b>65</b>	65	65	65	65	65.66	66
Option 1	<b>60.16</b>	<b>63.25</b>	<b>64</b>	<b>64.75</b>	<b>65.5</b>	<b>66</b>	66	66	66	66	66	66
Option 2	<b>60.16</b>	<b>63.16</b>	<b>63.66</b>	<b>64.16</b>	<b>64.66</b>	<b>65.16</b>	<b>65.66</b>	<b>66</b>	66	66	66	66

Note: Table shows the approximate State Pension age at July each year – see Annex B for full timetable. Figures after a decimal point are expressed as a percentage of a year, e.g. 65.5 is 65 years and six months.

## Options Appraisal

### *Do nothing – the baseline*

- 25. Inaction does nothing to address the impact of increased longevity on the state pensions system, nor does it promote intergenerational fairness.
- 26. 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 21.3 years in 2010 to 22.8 years in 2024, when the increase to 66 is set to begin in the baseline. For women, even though there would be a reduction from 28.5 years in 2010 to 25.3 years in 2024, on average, the time spent in receipt will still be higher than under the earlier 2004 population projections which had forecast a life expectancy at State Pension age of 23.8 years for women in 2024 on average (see Table 6).
- 27. This option does not meet the policy objectives. By failing to address the revision in the increase in average life expectancy it results in increased State Pension spend, 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 pensioner benefits system.

### *Option 1 – 65 to 66 from 2018 to 2020*

- 28. The key fiscal benefit of this option is that it delivers net benefits-related savings of £30.4 billion in constant prices, with a further £12.7 billion gained in increased income tax receipts and NICs from people working for longer (see Tables 3 and 4).
- 29. Option 1 is estimated to affect 4.9 million people in Great Britain (GB), who will have a revised State Pension age (see Table 5). In particular, the State Pension age for women born December 1953 to October 1954 (who are currently aged 56) would increase by between 1.5 and 2 years. The number affected is approximately 330,000. The Equality Impact Assessment, Annex D, gives a full discussion of the impact of this measure by gender.
- 30. The rise in State Pension age is projected to decrease the lifetime pension income of men and women by between 3 per cent and 5 per cent (see Table 8). However, if they work to the new pension age and save into a private pension, they would recover about half of this loss of lifetime pension income. For those individuals who will experience an increase in State Pension age closer to two years, the potential loss is between 7 per cent and 9 per cent. 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, Annex D.
- 31. However, these losses need to be viewed in context, as the lifetime pension income of men and women reaching State Pension age between 2016 and 2020 will be boosted significantly by improvements in life expectancy (see Tables 6 and 7). On the latest projections, men in 2020 will still spend nearly 32 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 2010, it is well above the ratio in 2000 and subject to revision as new projections become available. For women, while this option shortens the time taken to bring women more closely into line with the proportion of life men spend in retirement, on average, women would still spend two and a half years more time than men in receipt of state pensions.

32. This option helps address the revision in average cohort life expectancy projections (described in Table 1) and closes the gap in the proportion of adult life in receipt of state pensions between the average man and women sooner. In this way it supports intergenerational and intragenerational fairness, and helps make the state pensions system more sustainable in the face of increasing longevity.
33. The wider economic benefits are that it results in additional people in employment (an extra 260,000 people in 2022) and increased GDP growth (see Wider Impacts section for more detail, Tables 14 to 17).

*Option 2 – 65 to 66 from 2020 to 2022*

34. The key fiscal benefit of this option is that it is estimated to deliver net benefits-related savings of £20.1 billion with a further £8.8 billion in increased income tax receipts and NICs.
35. Option 2 would affect 1.1 million fewer people than Option 1, with about 3.8 million people in GB having a revised State Pension age. Option 2 affects about the same amount of men and women, while Option 1 affects around 300,000 more women than men. Under this option, no one would have an increase in State Pension age of more than a year.
36. Under this option, the affected individuals would lose broadly the same as under Option 1: between 3 per cent and 4 per cent of the lifetime pension transfers that they would get under the unchanged State Pension age timetable. By working for an additional year and saving into a private pension, the affected individuals could reduce this loss in lifetime pension transfers to 2 per cent. For those who work longer, the additional employment income would offset any changes in pension income.
37. This option would reduce, on average, the amount of time spent in receipt of state pensions for men and women reaching State Pension age between 2020 and 2025.
38. The delay in raising the State Pension age underpinning this option is hard to justify in view of the significant upward revision in the life expectancy of those reaching age 65 over the next decade, and the consequential fiscal pressures. Those benefiting from increased longevity should share in the associated costs, and this option does not go as far as Option 1 in making this happen.
39. The economic benefits are that it results in additional people in employment (an extra 210,000 people in 2022) and increased GDP growth (see Wider Impacts section for more, Tables 14 to 17).

*Detail of impact*

40. Details of the impacts of Options 1 and 2 against the baseline of currently legislated increases to the State Pension age are set out in the tables below. Additional information on differential impact is set out in the Equality Impact Assessment, Annex D.

**Table 3 Effect on DWP spend on benefits of each option (£ billion, 2010/11 prices)**

	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	Total
<b>Option 1</b>											
Net DWP saving	0.3	0.9	1.7	3.3	4.4	4.6	4.8	5.1	4.0	1.5	<b>30.4</b>
Of which											
Pensions	0.3	0.9	1.9	3.6	4.8	5.0	5.2	5.5	4.3	1.6	33.2
Working-age benefits	-0.0	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3	-0.1	-2.8
<b>Option 2</b>											
Net DWP saving					1.1	3.4	4.9	5.1	4.1	1.5	<b>20.1</b>
Of which											
Pensions					1.2	3.8	5.3	5.5	4.4	1.6	22.0
Working-age benefits					-0.1	-0.3	-0.4	-0.4	-0.3	-0.1	-1.7

Totals may not appear to sum correctly due to rounding.

**Table 4 Additional income tax and NI receipts (£ billion, 2010/11 prices)**

Option	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	Total
<b>1</b>	0.8	1.0	1.2	1.4	1.5	1.6	1.6	1.4	1.1	0.7	12.7
<b>2</b>	0.5	0.5	0.6	0.7	0.9	1.2	1.3	1.3	0.9	0.6	8.8

Totals may not appear to sum correctly due to rounding. Please see paragraph 44 for underlying assumptions.

**Table 5 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 12 months	13 to 15 months	16 to 18 months	19 to 21 months	22 to 24 months	Total
<b>Option 1</b>									
Men	155	123	127	1,932	0	0	0	0	2,337
Women	166	128	132	1,680	115	139	121	126	2,607
Total	321	251	259	3,612	115	139	121	126	4,944
<b>Option 2</b>									
Men	218	180	183	1,292	0	0	0	0	1,873
Women	228	184	188	1,321	0	0	0	0	1,921
Total	446	364	371	2,613	0	0	0	0	3,794

Notes. These estimates are based on the number of men and women alive in 2009, and resident in GB.<sup>3</sup> The birth distribution which was adopted is based on the distribution of births in England and Wales in the given year (1953 to 1960).

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

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

	2000	2010	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Men</b>													
Baseline	19.1	21.3	22.1	22.2	22.3	22.3	22.4	22.5	22.6	22.7	22.8	22.2	22.1
Option 1	19.1	21.3	22.1	22.2	22.3	21.8	21.6	21.7	21.8	21.9	21.9	22.0	22.1
Option 2	19.1	21.3	22.1	22.2	22.3	22.3	22.3	21.9	21.8	21.9	21.9	22.0	22.1
<b>Women</b>													
Baseline	27.2	28.5	26.3	25.9	25.6	25.2	25.0	25.1	25.2	25.3	25.3	24.8	24.6
Option 1	27.2	28.5	26.2	25.6	25.0	24.4	24.1	24.2	24.2	24.3	24.4	24.5	24.6
Option 2	27.2	28.5	26.3	25.9	25.6	25.2	24.8	24.4	24.2	24.3	24.4	24.5	24.6

Note. The data in the table are cohort average life expectancy at State Pension age for men and women resident in the UK in the specified year. Includes effect of the equalisation of women's State Pension age with men's.

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

	2000	2010	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Men</b>													
Baseline	29.8	32.1	32.9	33.0	33.1	33.2	33.3	33.4	33.4	33.5	33.6	32.7	32.5
Option 1	29.8	32.1	32.9	33.0	33.1	32.4	31.9	32.0	32.1	32.2	32.3	32.4	32.5
Option 2	29.8	32.1	32.9	33.0	33.1	33.2	33.0	32.4	32.1	32.2	32.3	32.4	32.5
<b>Women</b>													
Baseline	40.5	41.5	37.9	37.2	36.7	36.0	35.7	35.8	35.9	35.9	36.0	35.2	34.8
Option 1	40.5	41.5	37.7	36.8	35.8	34.9	34.3	34.4	34.5	34.6	34.7	34.8	34.8
Option 2	40.5	41.5	37.9	37.2	36.7	36.0	35.5	34.8	34.5	34.6	34.7	34.8	34.8

Note. The data in the table are cohort average life expectancy at State Pension age for men and women resident in the UK in the specified year, as a percentage of their cohort life expectancy at age 20. Includes effect of the equalisation of women's State Pension age with men's.

**Table 8 Change in lifetime pension transfers compared to baseline****a) Full career average earnings case**

	Born in 1953 %	Born in 1954 %	Born in 1955 %	Born in 1956 %	Born in 1957 %	Born in 1958 %	Born in 1959 %
<b>Men</b>							
<b>Option 1</b>							
(Retire at old State Pension age)	-	-4	-4	-3	-3	-3	-3
(Retire at new State Pension age)	-	-2	-2	-2	-2	-2	-2
<b>Option 2</b>							
(Retire at old State Pension age)	-	-	-	-3	-3	-3	-3
(Retire at new State Pension age)	-	-	-	-2	-2	-2	-2
<b>Women</b>							
<b>Option 1</b>							
(Retire at old State Pension age)	-3	-7	-3	-3	-3	-3	-3
(Retire at new State Pension age)	-2	-4	-2	-2	-2	-2	-2
<b>Option 2</b>							
(Retire at old State Pension age)	-	-	-	-3	-3	-3	-3
(Retire at new State Pension age)	-	-	-	-2	-2	-2	-2

**b) Full career high earnings case**

	Born in 1953 %	Born in 1954 %	Born in 1955 %	Born in 1956 %	Born in 1957 %	Born in 1958 %	Born in 1959 %
<b>Men</b>							
<b>Option 1</b>							
(Retire at old State Pension age)	-	-4	-4	-3	-3	-3	-3
(Retire at new State Pension age)	-	-2	-2	-2	-2	-2	-2
<b>Option 2</b>							
(Retire at old State Pension age)	-	-	-	-3	-3	-3	-3
(Retire at new State Pension age)	-	-	-	-2	-2	-2	-2
<b>Women</b>							
<b>Option 1</b>							
(Retire at old State Pension age)	-4	-7	-3	-3	-3	-3	-3
(Retire at new State Pension age)	-2	-3	-2	-2	-2	-2	-2
<b>Option 2</b>							
(Retire at old State Pension age)	-	-	-	-3	-3	-3	-3
(Retire at new State Pension age)	-	-	-	-2	-2	-2	-2

### c) Person dependent on Pension Credit throughout retirement case

	Born in 1953 %	Born in 1954 %	Born in 1955 %	Born in 1956 %	Born in 1957 %	Born in 1958 %	Born in 1959 %
<b>Men</b>							
<b>Option 1</b>							
(Retire at old State Pension age)	-4	-9	-5	-4	-4	-4	-4
(Retire at new State Pension age)	-4	-9	-5	-4	-4	-4	-4
<b>Option 2</b>							
(Retire at old State Pension age)	-	-	-	-4	-4	-4	-4
(Retire at new State Pension age)	-	-	-	-4	-4	-4	-4
<b>Women</b>							
<b>Option 1</b>							
(Retire at old State Pension age)	-4	-8	-4	-4	-4	-4	-4
(Retire at new State Pension age)	-4	-8	-4	-4	-4	-4	-4
<b>Option 2</b>							
(Retire at old State Pension age)	-	-	-	-4	-4	-4	-4
(Retire at new State Pension age)	-	-	-	-4	-4	-4	-4

Notes: Rounded to nearest full percentage point. This DWP modelling is based on single individuals who have average life expectancy when they reach State Pension age. The modelled individuals lose one year's worth of pension entitlement – except women born in 1954 and men dependent on Pension Credit born in 1954 (who are modelled to lose two years in Option 1 – the maximum possible loss under Option 1). The full career average earnings and high earnings cases are assumed to be saving 8 per cent of their wage into a Defined Contribution pension and contribute towards their pension from age 25 onwards. 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 save to the new State Pension age.

### Risks and Assumptions

41. **Future increases in State Pension age:** modelling is limited to 2026 as this is when the State Pension age would rise to 66 under the current legislation. The modelling assumes the rises in State Pension age beyond 66 remain unchanged.
42. **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.
43. **Increased pension entitlement:** From 2026/27, when the State Pension age would be 66 under the legislated timetable for all persons reaching State Pension age in that year, the effect of increasing State Pension age under both options is estimated to result in a slight increase in State Pension spend (of less than £100 million per year) compared to the baseline. This is because a proportion of those affected will have increased State Pension entitlement from contributing for longer (note: estimates modelled on current state pensions system). In earlier years, the increased spend resulting from higher pension accruals is offset by savings from delayed State Pension age.

- 44. **Income tax and National Insurance figures:** Estimated additional yield is based on employment impacts (see paragraphs 60 and 61) plus baseline employed brought into NICs through change in State Pension age. Based on difference in estimated average tax and NICs paid by employed and non-employed adults of relevant ages under the 2010/11 tax and National Insurance system (for example, estimated tax and NICs paid by additional 66-year old males in employment is based on average tax and NICs paid by 65-year-olds currently). Averages based on Survey of Personal Incomes data for 2007/08<sup>4</sup> projected to 2010/11, which are sensitive to a minority with high earnings.
- 45. HMRC modelling indicates that there may be £2.1 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 similar increase in revenue is forecast over the ten years following the implementation of this policy.
- 46. **Longevity projections:** State Pension spending is substantially affected by revisions in longevity projections. The above analysis was based on the 2008-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.

### **Administrative Burden**

- 47. The administrative burden on DWP of either option against the baseline of currently legislated increases to the State Pension age is minimal compared to the benefits they realise. There is minimal difference in implementation cost between the two options.
- 48. Costs associated with communicating the change will depend on decisions about how this is to be delivered. 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. There is also IT work to be undertaken, with associated staffing costs.
- 49. Costs are high-level and indicative at this stage but, as an illustration of the relatively small difference between the two options, an estimate for IT, project, notification mailing and call handling costs would be £11 million for Option 1 and £9 million for Option 2.
- 50. The cost of implementation is therefore not a factor in deciding between the options, as the cost difference between the options is not significant.

### **Wider Impacts**

#### *Impact between constituent countries of Great Britain*

- 51. Life expectancy differs across GB. Though average life expectancy at State Pension age is lower in Scotland and Wales than in England, men and women in these countries experienced, on average, the same increase in life expectancy in absolute terms over the last decade.
- 52. ONS projections of cohort average life expectancy imply that neither option would result in a widening of the gaps in life expectancy at State Pension ages between the constituent countries of GB.

4. Survey of Personal Incomes (SPI), 2007–08.

**Table 9 Cohort average life expectancy (years) at State Pension age – Men**

	2000	2010	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>England</b>													
Baseline	19.3	21.5	22.2	22.3	22.4	22.5	22.6	22.7	22.8	22.9	23.0	22.4	22.3
Option 1	19.3	21.5	22.2	22.3	22.4	22.0	21.8	21.9	21.9	22.0	22.1	22.2	22.3
Option 2	19.3	21.5	22.2	22.3	22.4	22.5	22.5	22.1	21.9	22.0	22.1	22.2	22.3
<b>Wales</b>													
Baseline	18.9	21.0	21.8	21.9	22.0	22.1	22.2	22.3	22.4	22.5	22.6	22.0	21.9
Option 1	18.9	21.0	21.8	21.9	22.0	21.6	21.4	21.5	21.6	21.6	21.7	21.8	21.9
Option 2	18.9	21.0	21.8	21.9	22.0	22.1	22.1	21.6	21.6	21.6	21.7	21.8	21.9
<b>Scotland</b>													
Baseline	17.6	19.8	20.6	20.7	20.8	20.9	21.0	21.1	21.2	21.3	21.4	20.8	20.8
Option 1	17.6	19.8	20.6	20.7	20.8	20.4	20.2	20.3	20.4	20.5	20.6	20.7	20.8
Option 2	17.6	19.8	20.6	20.7	20.8	20.9	20.9	20.4	20.4	20.5	20.6	20.7	20.8

Source: GAD; 2008-based principal population projections, ONS.

**Table 10 Cohort average life expectancy (years) at State Pension age – Women**

	2000	2010	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>England</b>													
Baseline	27.4	28.7	26.5	26.1	25.7	25.3	25.1	25.2	25.3	25.4	25.5	24.9	24.8
Option 1	27.4	28.7	26.4	25.8	25.1	24.6	24.2	24.3	24.4	24.5	24.6	24.7	24.8
Option 2	27.4	28.7	26.5	26.1	25.7	25.3	25.0	24.6	24.4	24.5	24.6	24.7	24.8
<b>Wales</b>													
Baseline	26.9	28.2	26.0	25.6	25.3	24.9	24.7	24.8	24.9	25.0	25.1	24.5	24.4
Option 1	26.9	28.2	26.0	25.4	24.7	24.2	23.8	23.9	24.0	24.1	24.2	24.3	24.4
Option 2	26.9	28.2	26.0	25.6	25.3	24.9	24.6	24.2	24.0	24.1	24.2	24.3	24.4
<b>Scotland</b>													
Baseline	25.7	27.0	25.0	24.6	24.3	23.9	23.7	23.8	23.9	24.0	24.1	23.5	23.4
Option 1	25.7	27.0	24.9	24.3	23.7	23.1	22.8	22.9	23.0	23.1	23.2	23.3	23.4
Option 2	25.7	27.0	25.0	24.6	24.3	23.9	23.6	23.2	23.0	23.1	23.2	23.3	23.4

Source: GAD; 2008-based principal population projections, ONS.

### Regional impact

53. There are no official projections of regional life expectancy. However, data from the Department of Health show that, while the life expectancy of most of the areas with the worst health and deprivation indicators in England lags behind other more prosperous areas, some areas have seen increases in life expectancy greater than the England average. In Manchester, for example, male life expectancy has improved faster than the England average.<sup>5</sup>

5. Department of Health. (2009). *Tackling Health Inequalities: 2006-08 Policy and Data Update for the 2010 national target*.

*Impact on people from different socio-economic backgrounds*

54. While average life expectancy differs between people from different socio-economic backgrounds, ONS data suggest that there have been improvements in longevity at age 65 across all socio-economic groups (see Tables 11 and 12).

**Table 11 Improvements in life expectancy at age 65 for manual and non-manual workers**

Improvement between:	1977–81 and 2002–05		1992–96 and 2002–05		1997–2001 and 2002–05	
	Years	%	Years	%	Years	%
<b>All men</b>	4.0	31.7	2.1	14.5	1.1	7.1
Non-manual	3.9	27.9	2.1	13.3	0.8	4.7
Manual	3.6	29.3	1.9	13.6	1.2	8.2
<b>All women</b>	2.7	16.2	1.3	7.1	0.7	3.7
Non-manual	2.6	14.5	1.0	5.1	0.6	3
Manual	1.8	10.7	1.1	6.25	0.8	4.5

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 into account 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 and technical) and IIIN (skilled non-manual).

55. Data from ONS Longitudinal Study covering England and Wales suggest that had State Pension age risen by one year between the periods 1997–2001 and 2002–05 (the latest period for which data are available), men and women from the manual classes who reached State Pension age in the 1997–2001 period would spend, on average, no less time in receipt of State Pension than had they retired in the period 2002–05. The proportion of people surviving to this higher State Pension age would also not have been reduced.
56. This suggests that, if these trends continue, an increase in State Pension age of a year by 2020 should not lead, on average, to a reduction in the time spent in receipt of state pensions by people previously employed in manual occupations.

**Table 12 Life expectancy (years) by social class – change in recent years**

	Life expectancy at age	I	II	IIIN	IIIM	IV	V	Non- manual	Manual	All
<b>Male</b>										
1992-1996	65	17.1	15.7	15.4	14.3	14.0	12.6	15.8	14.0	14.6
1997-2001	65	18.3	17.1	16.7	15.2	14.1	13.3	17.1	14.7	15.6
2002-2005	66	17.4	17.3	16.6	15.5	15.0	13.3	17.1	15.2	15.9
<b>Female</b>										
1992-1996	60	25.6	23.9	23.4	22.1	21.4	20.6	23.7	21.5	22.2
1997-2001	60	24.8	24.3	24.1	22.3	21.9	21.0	24.2	21.9	22.8
2002-2005	61	25.5	24.5	23.3	22.0	22.1	20.8	24.0	21.9	22.7
2002-2005	62	24.5	23.7	22.5	21.1	21.3	19.9	23.1	21.0	21.8

Notes. These are period life expectancy data, using DWP estimates drawn from ONS Longitudinal Study. Period life expectancy data may underestimate actual lifespans as they do not take into account of known and/or projected improvements in age-specific mortality.

**Table 13 Survival probability (%) from age 50 by social class – change in recent years**

	Survival to age	I	II	IIIN	IIIM	IV	V	Non- manual	Manual	All
<b>Male</b>										
1992-1996	65	91.1	88.7	87.2	84.5	85.4	76.2	88.7	83.9	85.5
1997-2001	65	92.0	90.8	88.8	86.5	85.9	82.0	90.4	85.9	87.4
2002-2005	66	93.4	90.9	89.9	87.8	86.6	83.2	91.0	87.0	88.2
<b>Female</b>										
1992-1996	60	98.1	96.6	96.8	95.9	95.4	94.2	96.8	95.5	96.0
1997-2001	60	96.8	96.6	96.5	95.9	95.1	94.8	96.6	95.5	96.0
2002-2005	61	98.1	96.1	96.6	96.1	95.1	94.8	96.6	95.6	96.0
2002-2005	62	97.9	95.5	96.1	95.5	94.3	94.5	96.0	94.9	95.4

Notes. These are period life expectancy data, using DWP estimates drawn from ONS Longitudinal Study. Period life expectancy data may underestimate actual lifespans as they do not take into account known and/or projected improvements in age-specific mortality.

### Healthy life expectancy/disability-free life expectancy

57. The distinction between life expectancy and healthy life expectancy is important, and the data show that long-term differences by socio-economic status and geographical area do exist.<sup>6</sup> The Government as a whole is committed to reducing these long-term differences. Average healthy life expectancy and disability-free life expectancy are not rising as quickly as life expectancy – but they are rising. Men and women of 65 in 2006 could expect to enjoy about three extra years of healthy life, on average, when compared to 1981.<sup>7</sup>

6. The Marmot Review. (2010). *Fair Society, Healthy Lives*.

7. 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.

58. Assuming past trends in healthy and disability-free life expectancy continue, while the two options would reduce the average period in retirement spent in good health or disability-free compared to the current timetable, this should remain above the 2010 level among men.
59. The impact of the two options could be stronger on women, as their life expectancy is projected to grow at a slower pace than that for men, and healthy and disability-free life expectancy has increased less rapidly in the past. However, on the basis of past trends, while the two options could reduce slightly the period in retirement spent in good health or disability-free among women, they should still enjoy healthier retirements than men on average.

#### *Labour market*

60. Based on the assumptions noted in paragraph 42 above, Option 1 would result in an additional 260,000 people working in 2022. For Option 2 the figure is 210,000.

**Table 14 Additional number of people working (thousands)**

Option	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
1	140	170	200	230	250	260	260	240	210	170	130
2	80	90	100	130	160	190	210	190	160	130	100

Note: Rounded to the nearest ten thousand.

61. Increasing State Pension age is projected to slightly reduce the proportion of people aged 50 to 65 who are inactive (i.e. neither employed nor seeking work); however within that overall group, the impact on those aged 65 is projected to be more significant with a reduction of up to 23 per cent in the number of inactive people in that age group during the years affected by the State Pension age change.

**Table 15 Percentage change in the number of 55–65-year-olds who are inactive**

Option	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
1	-5%	-6%	-6%	-7%	-8%	-8%	-7%	-6%	-5%	-3%	-2%
2	-3%	-3%	-3%	-4%	-5%	-6%	-6%	-5%	-4%	-3%	-1%

Note: Rounded to the nearest whole percent.

**Table 16 Percentage change in the number of 65-year-olds who are inactive**

Option	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
1	0%	-6%	-12%	-16%	-22%	-23%	-23%	-19%	-15%	-10%	-4%
2	0%	0%	0%	-5%	-11%	-16%	-21%	-18%	-14%	-9%	-3%

Note: Rounded to the nearest whole percent.

**GDP growth**

62. Additional GDP growth is assumed to result from the estimated additional numbers of people in employment, consequently Option 1 has the stronger impact. Note that for Option 1, the additional growth peaks in 2018, because the State Pension age starts to rise from 65 to 66, resulting in the fastest growth in employment. The decline in economic growth projected in some of these years reflects the fact that the increase in labour participation as a consequence of the change in State Pension age occurs earlier. Over the whole period the policy would still result in a larger GDP (see Table 17).

**Table 17 Percentage point change in GDP growth rate from baseline**

<b>Option</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
1	0.07	0.09	0.09	0.09	0.08	0.02	0.00	-0.08	-0.11	-0.12	-0.12
2	0.03	0.03	0.04	0.09	0.10	0.09	0.07	-0.06	-0.08	-0.10	-0.09

63. Increasing effective working life by one year is estimated to be worth up to 1 per cent of Gross Domestic Product,<sup>8</sup> approximately £13 billion.

**Private sector**

64. There is negligible, indirect impact on the private sector under either option. State Pension age is unrelated to the Default Retirement Age (DRA). The DRA is being phased out, which may have an impact on the private and public sectors, but that policy change is not dependent on the proposals discussed in this paper.
65. In the Call for Evidence, three organisations and nine individuals raised an issue concerning the impact of bringing forward the increase to age 66 with regards to integrated pensions. These private pensions are paid in advance of State Pension age at a higher rate and, when the recipient reaches State Pension age, reduced by an amount calculated with reference to the basic State Pension. Some scheme rules may provide an integrated pension until State Pension age as defined in statute, which will be changed by legislation enacting the Government's decision to bring forward the increase to 66. However, this change in statutory State Pension age does not introduce a new regulatory burden on such scheme providers.
66. The Government notes that existing tax legislation in place for integrated schemes (paragraph 2 of Schedule 28 of the Finance Act 2004) refers to age 65 (rather than statutory State Pension age) as the maximum age at which an integrated pension may be reduced without incurring extra tax charges. Therefore amendments to this legislation will be needed, and the representations made by respondents on this point will be considered at that time.

8. Barrell, R., Hurst, I., and Kirby, S. (2009). *How to Pay for the Crisis or Macroeconomic implications of pension reform*. NIESR Dp no. 333.

## Implementation

67. Implementation by DWP will consist of IT changes and communicating the change to customers, with consequential call handling.
68. An initial assessment of the required IT changes has been performed. Several systems will need to be updated, with some work from 2011, but the majority carried out in 2014/15 and 2015/16.
69. 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.
70. 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

71. The preferred option is Option 1: equalisation by 2018, followed by a rise to 66 by 2020.
72. While Option 2 goes some way to meeting the policy objectives, the further delay it entails in raising State Pension age to 66 is hard to justify in the face of the changing context outlined above, especially the significant upwards revision of average life expectancy projections since the legislated timetable was set.
73. The Government recognises the differential impact of an increased State Pension age on different groups as explained in more detail in the Equality Impact Assessment. As acknowledged, the preferred option (Option 1) does have a stronger impact on certain groups. However, Option 2 does not eliminate all differential impact and it forgoes the larger impact on sustainability and intergenerational equality that Option 1 brings.
74. Option 1 best addresses the policy objectives, balancing fairness and sustainability.

## Post Implementation Review (PIR) Plan

75. Implementation does not finish until 2020. In light of increased longevity, the Government will consider the current timetable for further rises in State Pension age, 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

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## Equality Impact Assessment

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## 1. Introduction

- 1.1 The Government proposes to increase the State Pension age to 66 for both men and women by April 2020, bringing forward the date from which it was due to reach 66 under legislation passed in 2007 by six years. At present, women's State Pension age, which is gradually being increased to bring it into line with men's, is not due to reach 65 until April 2020. To make the proposed change without increasing the gap in State Pension age between men and women, women's State Pension age will first be increased to 65 more quickly between April 2016 (when it will be 63) and November 2018.<sup>1</sup> The increase to 66 will then be phased in between December 2018 and April 2020.
- 1.2 As a result of these changes, women born from 6 April 1953 to 5 April 1960 and men born from 6 December 1953 to 5 April 1960 will have a higher State Pension age than if no change to the current timetable was made.

### Why bring the increase to 66 forward?

- 1.3 The current timetable 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 broad acceptance within and outside Parliament of the reality that rising longevity can no longer be ignored if the State Pension is to be both affordable in the long term, and provide a decent foundation income in retirement.
- 1.4 Since that timetable was set in 2007, the projections it was based on have been revised, adding a year and a half to the time people can, on average, expect to spend drawing their State Pension. Without corrective action, this will result in increased spending on the State Pension. 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 increase in average earnings or prices or 2.5 per cent, from April 2011.
- 1.5 Bringing forward the timing of the increase to 66 is a necessary adjustment to the legislated timetable to ensure we continue to share the extra cost of rising longevity fairly between those contributing to and those receiving the State Pension.
- 1.6 A more detailed account of the background and context for the proposed change is at Chapter One.

### Scope of this assessment

- 1.7 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 will take effect, replacing the three current 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).

1. European Union Directive 79/7 requires Member States to implement equal treatment between men and women in social security matters. The legislated timetable for equalising the State Pension age was set by the Pensions Act 1995. Any change to that timetable that either increased the existing gap between men and women or delayed the point at which the pension ages became equal is likely to breach the terms of the Directive.

- 1.8 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 length of 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).
- 1.9 As a matter of good practice, the Department for Work and Pensions (DWP) aims to assess the impacts of its policy changes against the extended duties ahead of the legislative requirement coming into force, as far as this is possible. The assessment does not, however, look at sexual orientation or religion and belief, as we have insufficient evidence on which to base conclusions (see paragraph 1.14). Nor does it look at pregnancy and maternity, as the proposed change is unlikely to affect anyone in that protected group.<sup>2</sup>

### Evidence base

- 1.10 This assessment is largely based on Office for National Statistics (ONS) data on life expectancy, evidence drawn from survey data, and DWP modelling.
- 1.11 As part of the Call for Evidence published on 24 June 2010,<sup>3</sup> we asked:
- What evidence should the Government consider to ensure no group is disproportionately impacted by the level of the State Pension age and any change to the timing of the State Pension age increase to 66?*
- 1.12 This question was included to help ensure we considered as wide a range of evidence as possible in the Equality Impact Assessment. Many of the responses drew attention to evidence of differences in life expectancy and healthy life expectancy between different socio-economic groups. This issue is addressed in Chapter Two.
- 1.13 Specific issues raised in relation to equality impacts included:
- the potential risk of treating men less favourably than women, if men's State Pension age was increased to 66 earlier than women's;
  - different patterns of labour market attachment at older ages between men and women;
  - the potential for differential impacts on disabled people and people from certain ethnic minorities, who may be less likely to be able to work up to a higher State Pension age.
- 1.14 However, as acknowledged by the Equalities and Human Rights Commission, there is a lack of data available in some of the protected areas which 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 – clearly important in analysing the impact of the proposed change – where the only protected characteristic for which projections are published is gender.

2. 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.

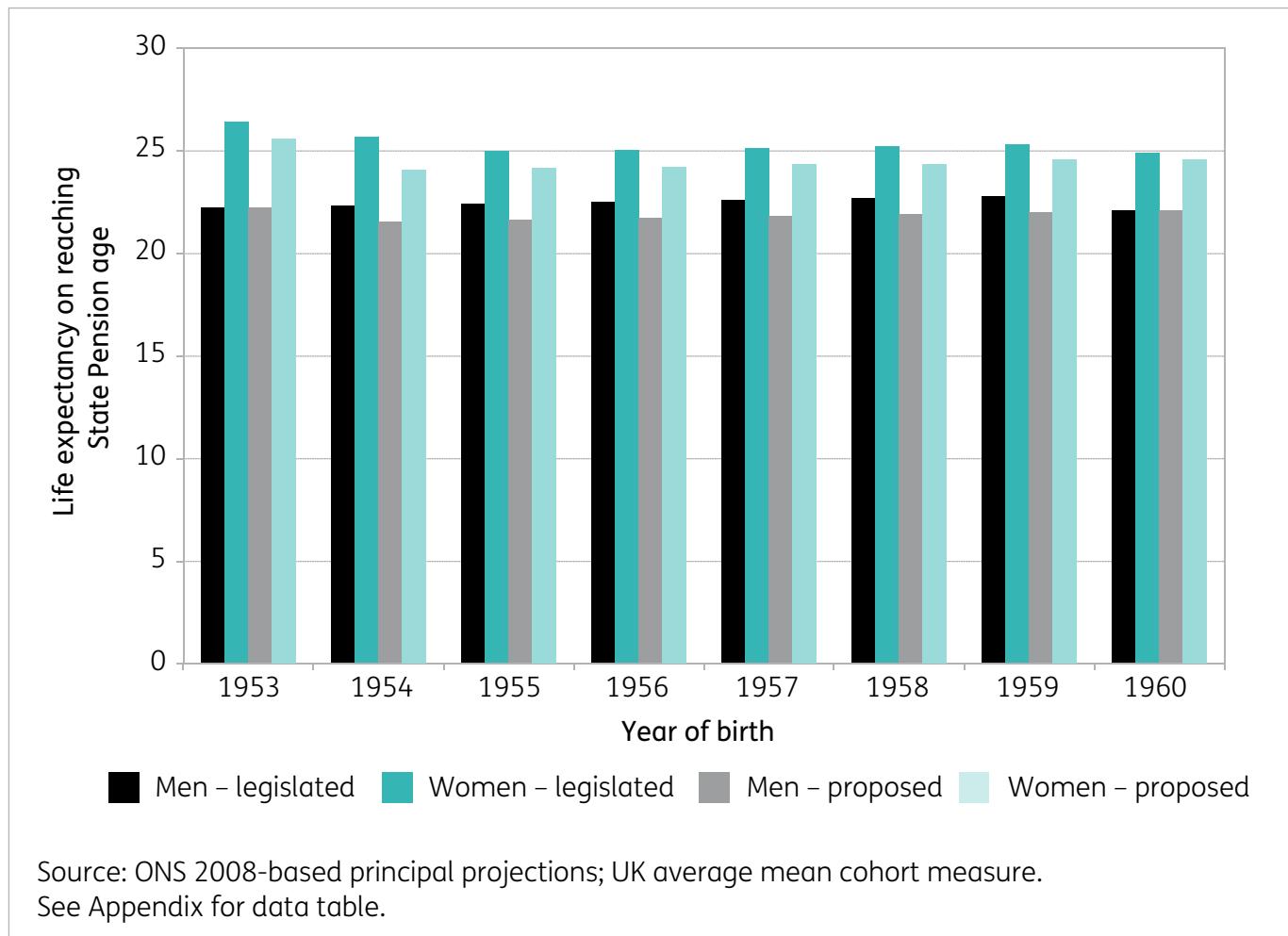
3. The Call for Evidence ran from 24 June to 6 August. The published document can be found at [www.dwp.gov.uk/spa-66-review](http://www.dwp.gov.uk/spa-66-review)

## 2. Gender impact

### Impact on time in receipt of the State Pension

- 2.1 As explained in the opening paragraph, under the legislated timetable, before April 2020 women can start receiving their State Pension at a younger age than men. The proposed change brings forward the point at which men's and women's State Pension ages are due to be equalised at 65, from April 2020 to December 2018. This means that all men and women born on or after 6 December 1953 will have the same State Pension age.
- 2.2 Bringing forward the timetable for equalisation, followed by the further rise to 66 between December 2018 and April 2020, means that, while the increase in State Pension age would never exceed a year for men, some women would have their State Pension age increased by more than a year compared to the legislated timetable. We estimate that around 330,000 women in Great Britain, born between December 1953 and October 1954, will have their State Pension age increased by 18 months or longer: in the most extreme case, women born between 6 March and 5 April 1954 would have an increase of two years. However, because women tend to live longer than men, the proposed change will still mean women will be able to draw their State Pension for longer than men, on average (see Figure 1).

**Figure 1 Average life expectancy at legislated and proposed State Pension age**



## **Impact on lifetime pension income**

- 2.3 This difference in life expectancy means that 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 (DC) scheme<sup>4</sup> from age 25;
  - if they work on to their new State Pension age, they continue to add to their private pension pot and annuitise it on reaching that age;
  - the low earners have no private saving, and build up insufficient State Pension to exceed the threshold for Pension Credit;<sup>5</sup>
  - all income groups will experience the projected cohort average life expectancy for men and women at their respective State Pension ages.
- 2.4 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.
- 2.5 Based on this model, men born between 1955 and 1959 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 5 per cent in State Pension income compared to 4 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 3 per cent and 4 per cent.<sup>6</sup>
- 2.6 For high and median earners, working on to the higher State Pension age of 66 would, based on this model, reduce the loss to around 2 per cent of lifetime pension income for both men and women. Men are able to close the gap with women mainly because they tend to earn more than their women equivalents and are therefore able to boost their retirement income by more through higher contribution rates to their private pension pot. (And, having worked on and added to their pension pot, from the point at which they retire, both men and women would have a slightly higher annual income in retirement compared to retiring at 65.) 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 accruals (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.

4. 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.
5. 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 £132.60 per week for a single person and £202.40 for a couple (rates from April 2010). 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.
6. Detailed tables are published in Annex C.

- 2.7 If we compare men and women born in 1954, the relative loss in lifetime pension income is greater for women than men in the high and median income groups because they will experience a bigger increase in State Pension age than their male counterparts. However, working on would limit the overall reduction to around 4 per cent (again assuming continuing contributions to a private pension pot). The effect of an additional 2 years' saving would be to generate an extra 5 per cent total lifetime pension income for the period from age 66 onwards for a woman on median earnings. An equivalent man on median earnings would see an increase of 3 per cent extra total lifetime pension income from age 66 onwards (the result of working and saving for an additional year).
- 2.8 Of those born in 1954, men and women on low incomes – i.e. on this model, those reliant on Pension Credit, with no private pension saving – would be most affected. As the minimum qualifying age for Pension Credit rises in line with women's State Pension age, entitlement to Pension Credit for both men and women would start up to 2 years later than under current plans. As a consequence, women would lose up to around 8 per cent of their total lifetime pension income while men would lose up to 9 per cent. If we also adjust to take account of the fact that people in the lowest income groups are likely to have lower than average life expectancy, this could equate to a loss of up to 10 per cent. It is difficult to estimate how many this could affect due to limitations on forecasting Pension Credit receipt. But a very indicative estimate, based on current patterns of receipt, suggests that around 11 per cent of women and 15 per cent of men reaching 64 in 2018 may be affected by an increase in Pension Credit qualifying age of more than a year (including men and women who are members of a couple).
- 2.9 This potential reduction needs however to be set in context. Life expectancy for all social groups, including those in the lowest socio-economic group, has improved significantly over the last decades. As an illustration, data from the ONS Longitudinal Study of life expectancy by socio-economic classes indicate that between 1992–96 and 2002–05, life expectancy at 65 for former male manual workers rose by 13.6 per cent.<sup>7</sup> Similarly, the generosity of state pensions for those on low incomes has also increased: Pension Credit for a single individual amounts to 22.1 per cent of average earnings (33.8 per cent for a couple). This compares to 18.8 per cent (29.2 per cent for a couple) of average earnings provided in 1992 by Income Support for a person aged 60–74.<sup>8</sup>
- 2.10 Because women tend to live longer than men, women would receive more State Pension income over their lifetime than a man with a comparable National Insurance (NI) contribution record. This also applies for those women whose pension age will be increased by two years compared to a man with a one-year increase.

7. Period life expectancy data by socio-economic class. 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 and technical), IIIN (skilled non-manual).

8. Source: DWP Annual Abstract of Statistics, 2009 edition, p.37 Table 2.9 <http://research.dwp.gov.uk/asd/asd1/abstract/abstract2009.pdf>

- 2.11 Women historically have weaker NI contribution records than men and consequently lower State Pension outcomes. However, women reaching State Pension age from April 2010 onwards are expected to have higher State Pension entitlements as a result of a number of changes made to the state pensions system over the last 30 years, including those introduced by the Pensions Act 2007.<sup>9</sup> As a result of these changes, by late 2018 – when State Pension ages will be equalised at 65 under this proposal, 16 months earlier than planned – around the same proportion of women as men (around 90 per cent) are expected to reach State Pension age with entitlement to a full basic State Pension.
- 2.12 Women also lag behind men in building up additional (i.e. earnings-related) State Pension. While changes made in 2002 (to boost the accrual rate for low earners and enable carers to built up rights for the first time) plus further reforms under the Pensions Act 2007 are also expected to boost women's additional State Pension accruals, they are not projected to catch up with men's until at least 2040. Equality in the amount of total State Pension received would, even under the legislated timetable, therefore not be achieved until at least two decades after State Pension age equalisation.
- 2.13 However, even though women with similar levels of State Pension entitlement to men receive more State Pension income in retirement over their lifetimes, men in the high and median income groups would still have higher overall total lifetime retirement incomes than their female equivalents, because men tend to have higher rates of private pension provision.
- 2.14 Working longer, combined with the introduction of auto-enrolment, should enable more women to save for longer in a private pension scheme. Assuming that equalising the State Pension age will result in more women working to older ages (see paragraph 2.21) this should go some way towards addressing the current imbalance in retirement incomes between men and women.

### **Likelihood of adjusting to the new State Pension age**

- 2.15 In this section we look 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 who are actively engaged in the labour market has increased in the last decade, it is still below that of the working-age population as a whole. As Table 1 shows, the employment rate 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.

9. As well as legislating to increase the State Pension age to 68, the Pensions Act 2007 included measures to improve coverage by reducing the number of NI contribution years needed for a full basic State Pension to 30 and extending the existing arrangements for recognising caring responsibilities.

## 64 Annex D Equality Impact Assessment

**Table 1 Labour market activity as a percentage of population**

	Age 50–54 %	Age 55–59 %	Age 60–64 %	Age 65–69 %	Age 70+ %
<b>All</b>					
Employed	78.4	71.3	44.2	19.3	3.3
Unemployed	4.2	3.8	2.0	0.7	*
Inactive	17.4	24.9	53.8	80.0	96.6
Total	100.0	100.0	100.0	100.0	100.0
<b>Men</b>					
Employed	81.4	76.7	54.9	23.8	4.8
Unemployed	5.8	5.3	3.2	1.2	*
Inactive	12.8	18.1	41.9	75.1	95.1
Total	100.0	100.0	100.0	100.0	100.0
<b>Women</b>					
Employed	75.4	66.1	34.1	15.1	2.2
Unemployed	2.7	2.3	0.8	*	*
Inactive	21.9	31.5	65.1	84.5	97.7
Total	100.0	100.0	100.0	100.0	100.0

Note: The unemployed rate is a proportion of the population not the International Labor Organization unemployment rate.

\* Not significant due to small sample size.

Source: Labour Force Survey, Q1 2010.

- 2.16 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 – more than double that of women.
- 2.17 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: 31.5 per cent of those aged 50–54, and 24.2 per cent of those aged 55–59, compared to, respectively, 13.4 per cent and 7 per cent of men.

**Table 2 Reason for inactivity, as a proportion of total inactive**

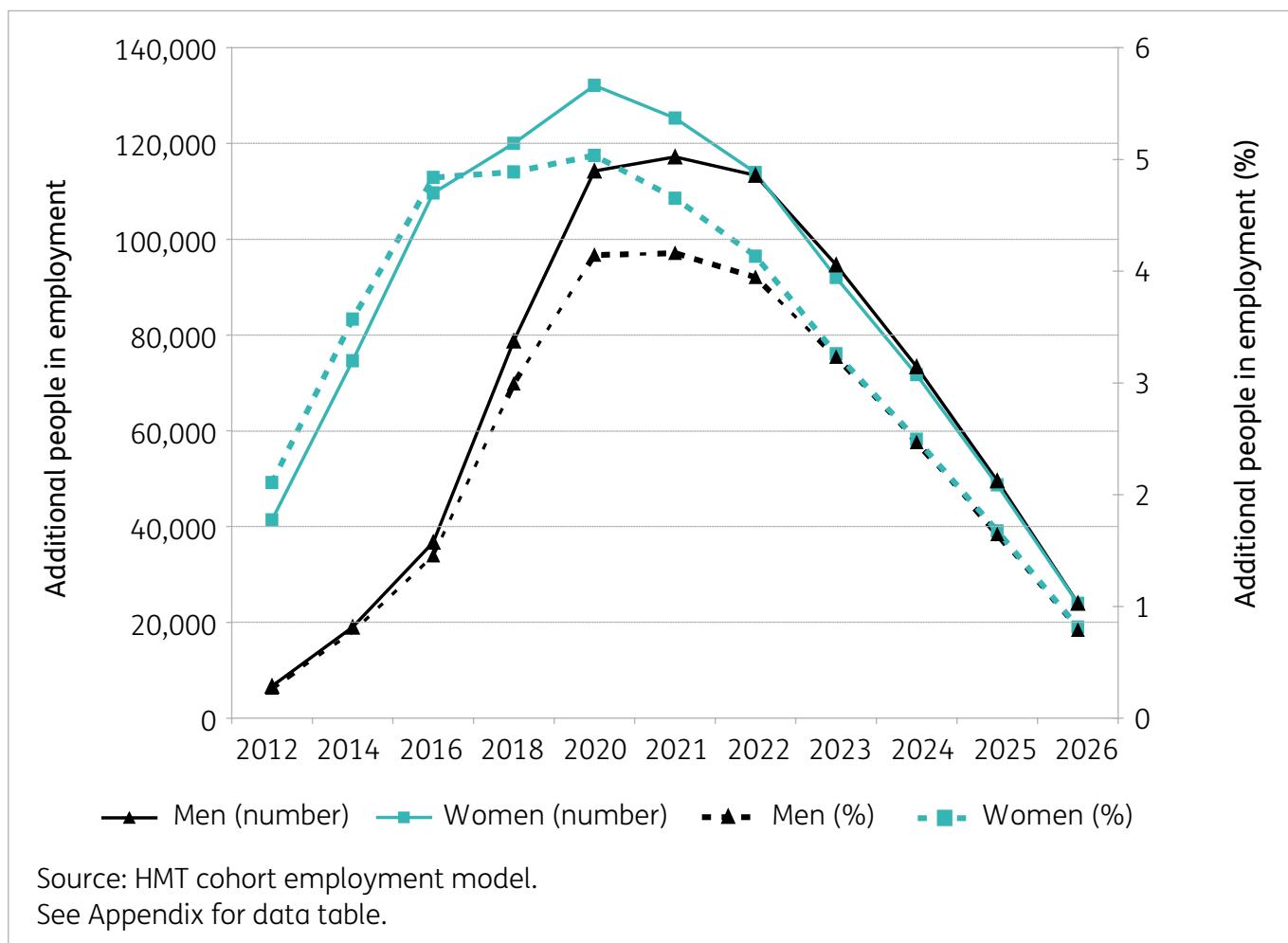
	Age 50–54 %	Age 55–59 %	Age 60–64 %	Age 65–69 %
<b>All</b>				
Sick, injured or disabled	54.2	47.9	22.8	8.4
Looking after family and home	24.9	18.1	6.2	2.4
Retired and would like work	*	*	2.2	2.8
Retired and does not want work	5.6	20.1	62.3	83.3
Does not need or want employment	5.2	6.2	2.5	1.4
Others	9.7	6.9	4.0	1.8
Total	100.0	100.0	100.0	100.0
<b>Men</b>				
Sick, injured or disabled	65.6	55.8	38.8	10.3
Looking after family and home	13.4	7.0	4.5	1.5
Retired and would like work	*	*	2.8	3.4
Retired and does not want work	5.9	22.8	44.5	81.3
Does not need or want employment	2.9	5.2	2.9	1.6
Others	11.2	7.6	6.5	2.0
Total	100.0	100.0	100.0	100.0
<b>Women</b>				
Sick, injured or disabled	47.7	43.5	13.1	6.7
Looking after family and home	31.5	24.2	7.2	3.2
Retired and would like work	*	*	1.9	2.3
Retired and does not want work	5.5	18.5	73.2	84.9
Does not need or want employment	6.6	6.8	2.2	1.3
Others	8.8	6.6	2.5	1.6
Total	100.0	100.0	100.0	100.0

- 2.18 In recent years, there has been some reduction in the proportion of people in the age 50 to State Pension age group who are out of the labour market due to ill health, although among men, the trend is more marked, with a decrease from 16.6 per cent in 1998 to 11.5 per cent in 2010.<sup>10</sup> The corresponding improvement for women is less strong, with a decrease of just over three percentage points, from 15.1 per cent to 12.0 per cent. And, as explained in Chapter Two, both healthy and disability-free life expectancy at older ages is increasing, albeit more slowly than absolute life expectancy.
- 2.19 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 11.0 per cent in the first quarter of 1998 to 7.2 per cent in the first quarter of 2010. 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.

10. Source: Labour Force Survey, Q1 data for each year.

- 2.20 Although the proportion of women aged 55 to 65 who are out of the labour market is currently 17.9 percentage points higher than the corresponding proportion of men (51.2 per cent compared to 33.3 per cent), by 2020 that gap is projected to have narrowed by ten percentage points as women's State Pension age gradually increases to 65. While speeding up the State Pension age equalisation timetable is not projected to dramatically increase the rate at which the gap shrinks, it is still expected to have a small positive effect, narrowing the gap from 10.9 per cent to 9.2 per cent in 2016 and from 7.9 per cent to 7.7 per cent in 2020.<sup>11</sup>
- 2.21 While the average age for women to leave the labour market is currently 62.4 – i.e. two years after State Pension age – this is still two years earlier than men (64.5).<sup>12</sup> Equalising the State Pension ages earlier, and bringing forward the planned increase to 66, is expected to result in an increase in the number of both men and women working at older ages, compared to the legislated increase (see Figure 2).

**Figure 2 Estimated additional increase in employment rates compared to legislated timetable: men and women aged 55 to 65**



11. Source: HMT cohort employment model, based on Labour Force Survey data.

12. ONS Pension Trends Chapter 4, December 2009 based on Labour Force Survey data April-June 2009.

- 2.22 The analysis in this section demonstrates that, although there are some positive trends, for a variety of reasons, older people are less likely to be in work than younger age groups, and older women are less likely to be employed outside the home than 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 women's State Pension age to 65 and subsequently increasing it to 66 for men and women.
- 2.23 The Government is committed to removing barriers to employment for older people through measures such as extending flexible working and phasing out the Default Retirement Age. Those unable to work to the higher State Pension age will, as now, be able to receive working-age benefits.

### **Summary – gender impact**

- 2.24 This proposal will close the current gender gap in State Pension age more quickly and thereby reduce the advantage currently enjoyed by women over men as a result of a lower State Pension age and higher life expectancy. Women will, however, still on average, receive their State Pension for longer than men. By late 2018 (when the State Pension ages will be equal under these proposals), over 90 per cent of both women and men reaching State Pension age are likely to have built up a full basic State Pension.
- 2.25 The picture in relation to the impact on lifetime pension income is more complex, in part due to the effect of earlier equalisation. 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. However, because of higher average earnings, men may be in a better position than women to offset part of this loss through higher additional contributions to a private (DC) pension scheme. In contrast, the proportionate loss of lifetime pension income for women affected by the maximum increase of two years would generally be greater than for their male contemporaries, other than those men whose entitlement to Pension Credit would also be delayed by two years.
- 2.26 Overall, we conclude that while some aspects of the change will impact women more strongly than men, the impact is not disproportionate and is a consequence of closing the gender gap in State Pension age earlier than under current plans.

## **3. Gender reassignment impact**

- 3.1 Legal recognition of a transsexual person's acquired gender can have implications for their State Pension entitlement. Currently, a transsexual woman born before 6 April 1955 will have a lower State Pension age in her acquired gender than in her birth gender; the opposite is the case for a transsexual man.
- 3.2 Under the proposed change, men and women born on or after 6 December 1953 will have the same State Pension age as a person of the opposite sex born on the same day. The proposed change will therefore bring forward the point from which the anomalies linked to unequal State Pension ages that affect transsexual people are removed.
- 3.3 More generally, we have no evidence to suggest that the proposed change would have a measurably differential impact on transsexual people compared to non-transsexual people.

## 4. Race impact

### Impact on time in receipt of the State Pension

- 4.1 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.<sup>13</sup> While these methods have limitations, they provide some evidence that life expectancy may vary according to a person's ethnic background.<sup>14</sup>
- 4.2 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.<sup>15</sup>
- 4.3 Analysis undertaken in 2007 of Labour Force Survey data 2002-05 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.<sup>16</sup>
- 4.4 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.<sup>17</sup> 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.<sup>18, 19</sup> 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.
- 4.5 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.

13. 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.

14. *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, while those from Chinese and Black African backgrounds may have higher life expectancy.

15. ONS 2004: Focus on ethnicity and identity <http://www.statistics.gov.uk/focuson/ethnicity/>

16. 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 No. 684, p.11.

17. Parliamentary Office of Science and Technology: Postnote *Ethnicity and Health*, January 2007 No. 276.

18. 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.

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

- 4.6 In particular, DWP analysis of data extracted from the ONS Longitudinal Study on life expectancy by social classes in England and Wales suggest that, had State Pension age increased to 66 in the period 2002–05 (the most recent date for which data are available), men in the lower socio-economic groups would still on average have spent no less time in receipt of State Pension than men in the same social classes reaching State Pension age at 65 in 1997–2001 (see Annex C, Table 12). If we make the same comparison over a ten-year period, the data suggest that men in all social classes retiring at 66 in 2002–05 would spend longer in receipt of State Pension than those retiring at age 65 in 1992–96.
- 4.7 If these trends continue, this suggests that the proposal to increase the State Pension age to 66 by 2020 may not reduce time spent in receipt of State Pension for men in any social group compared to those reaching State Pension age today. By extension, this may suggest that the proposed change would not have a disproportionate impact between ethnic groups in terms of time spent receiving the State Pension for men – assuming that socio-economic status is a reasonable substitute for ethnicity-based life expectancy estimates.
- 4.8 Similarly, the data suggest that if the State Pension age for women had been increased from 60 (actual State Pension age) in 1997–2001 to 61 in 2002–05, women from the manual classes who reached that age would spend, on average, no less time in receipt of State Pension had they retired in the later period than if they had retired in the earlier one.
- 4.9 A State Pension age increase of two years for women, on the other hand, would have reduced time spent in receipt for all social groups compared to those reaching State Pension age five years earlier. This reduction would, however, have been no greater for those in the least advantaged socio-economic group relative to those in the skilled manual and skilled non-manual groups. The same applies when the comparison is made over a ten-year period. This suggests that while there would be a negative impact on women in all social classes from the proposed increase in State Pension age to 66 by April 2020 (which, for some women would entail an increase of between 18 months and two years), it should not disproportionately affect women from any one ethnic group as compared to another in terms of reducing relative length of time in retirement – again, on the assumption that socio-economic status is a reasonable substitute for life expectancy differences between ethnic groups.

### **Impact on lifetime pension income**

- 4.10 Based on our modelling of how the proposed change will affect lifetime pension incomes of hypothetical single individuals (see paragraphs 2.3 to 2.8), 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.
- 4.11 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 benefits (53 per cent compared to 31 per cent from White ethnic origin).<sup>20</sup> 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.<sup>21</sup> (Note, however, that these data relate to all current pensioners and may not correspond to younger pensioners.)

20. 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, all uprated to 2008/09 prices.

21. ONS Pension Trends Chapter 13, September 2010, from Households Below Average Incomes (DWP): estimate based on three-year average 2006/07–2008/09.

- 4.12 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 proportionate loss of around 4 per cent of lifetime pension income compared to 2 per cent. We would not expect the impact of the increase to 66 under the legislated timetable to be significantly different. However, there is potentially a more marked difference in outcomes for those affected by an increase of more than a year.
- 4.13 At the extreme end, a person who would qualify for Pension Credit two years later than under the legislated timetable, could see a reduction in lifetime pension income of up to 10 per cent. (Note, however, that only those born in a single month will experience this maximum delay; those born between December 1953 and October 1954 would qualify between 18 months and two years later than under current plans). Evidence on benefit receipt is inconclusive, due to lack of robust data which does not allow us to distinguish between different ethnic groups beyond very broad categories. But the available evidence relating to employment levels and health indicates that people from Bangladeshi and Pakistani origin in particular may be more likely to be dependent on Pension Credit; this suggests that there may be a stronger impact on these ethnic groups than on others.
- 4.14 Again, however, this impact needs to be seen within the overall picture of improvements in both the generosity of state pensions (both means-tested and contributory) and the length of time people are likely to be receiving state pensions for, as a result of increased life expectancy.

#### **Likelihood of adjusting to the new State Pension age**

- 4.15 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.
- 4.16 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.<sup>22</sup>
- 4.17 Looking at labour market activity rates, in the age group 50 to State Pension age:
- people from a non-white ethnic group are less likely to be in employment;
  - people from an Asian ethnic background 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; and
  - people from a Black ethnic background are more likely to be unemployed than people from any other ethnic group.

22. Family Resources Survey and DWP modelling.

**Table 3 Breakdown of labour market status by ethnic group**

	Age 50 to State Pension age			
	White %	Asian %	Black %	Other %
Employed	71.6	59.0	68.2	68.2
Unemployed	3.6	6.2	11.7	*
Inactive	24.8	34.8	20.0	28.0
Inactive – sick or disabled	11.5	18.6	11.3	10.7
Inactive – looking after family and home	3.7	11.4	*	7.9
Inactive – retired	6.1	*	*	*
Inactive – others	3.4	*	*	*
Total	100.0	100.0	100.0	100.0

Source: Labour Force Survey Q1 2010.

\* Not significant due to small sample size.

- 4.18 There is some evidence that the gap in labour market participation may be narrowing. Data from the Labour Force Survey indicate that between the first quarter of 2002 and the first quarter of 2010 the employment rate for people of non-white ethnic origin increased by almost three times that of the white ethnic group (an increase of nearly 10 percentage points compared to 3.5), while the level of inactivity due to disability or ill-health fell by nearly 7 percentage points compared to 3.4 for the white ethnic group. These broad-brush data are of course only indicative of a positive trend, and mask significant differences in and between ethnic groups.
- 4.19 Overall, the evidence suggests that delaying the point at which the State Pension and Pension Credit become payable is likely to have a greater adverse impact on certain ethnic groups compared to others, as they are less likely to be working up to the new State Pension age. This impact is likely to be stronger for those affected by a delay in Pension Credit income of more than a year than for other groups.
- 4.20 However, this impact reflects the effect of existing labour market disadvantage, rather than the cause. The Government is committed to tackling the employment gap between ethnic minority groups and the overall working-age population. For example, the independent Ethnic Minority Advisory Group (EMAG) has been invited to look at four priority areas – covering the role of public sector procurement, encouraging entrepreneurship, female employment and education and skills – and produce recommendations. EMAG has established four task groups to take this work forward.
- 4.21 The Government has also committed to introducing new arrangements for supporting people on out-of-work benefits, and aims to have the new Work Programme in place nationally by the summer of 2011. The Work Programme will be designed to provide tailored support to a wide range of customers facing obstacles to returning to work, from the long-term unemployed to those who may previously have been receiving incapacity benefits for many years, and should assist more people, including those from ethnic minorities, to gain employment.

## Summary – race impact

- 4.22 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.

## 5. Disability impact

### Impact on time spent in receipt of the State Pension

- 5.1 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

- 5.2 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.<sup>23</sup> Furthermore, not all disabled people are eligible for these benefits.<sup>24</sup> On average, 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.
- 5.3 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 to be in receipt of Pension Credit from the earliest point that benefit is available, i.e. 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.<sup>25</sup>
- 5.4 As discussed at paragraph 4.13 and 4.14, while an increase of a year is likely to reduce overall lifetime pension income by around 4 per cent for a person reliant on Pension Credit, this impact could be doubled for those who will experience a delay in Pension Credit eligibility of up to two years. 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).

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

24. 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 current plans, the age threshold was set to increase in line with State Pension age from April 2024; that will now be brought forward to December 2018, i.e. the point at which State Pension age is higher than 65.

25. Source: Family Resources Survey 2008/09; DWP modelling of entitlement to Pension Credit.

### Likelihood of adjusting to the new State Pension age

- 5.5 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.
- 5.6 There are about 2.3 million people aged between 50 and State Pension age who have a work-limiting illness or disability, of whom only around 40 per cent are economically active (that is, employed or actively seeking work). Those without a work-limiting disability are more than twice as likely to be in work.

**Table 4 Labour market activity for persons aged 50 to State Pension age (SPa) for those with and without a work-limiting disability**

	Labour market activity for persons aged 50 to SPa with a work-limiting disability %	Labour market activity for persons aged 50 to SPa without a work-limiting disability %	Labour market activity for population aged 50 to SPa %
Employed	36.7	82.5	71.1
Unemployed	3.8	3.9	3.8
Inactive: Sick or disabled	45.5	0.6	11.7
Inactive: Family and home	4.8	3.6	3.9
Inactive: Retired	6.0	5.9	6.0
Inactive: Other	3.3	3.5	3.4
Total	100.0	100.0	100.0

Source: Labour Force Survey Q1 2010.

- 5.7 The likelihood of being in work also varies significantly depending on the type of disability: for example, in 2007 only 21 per cent of people with mental health problems or learning disabilities were in employment compared to 65 per cent of people with diabetes.<sup>26</sup>
- 5.8 Although the prevalence of disability increases with age, the difference between those aged 60 to 64 and 65 to 69 is slight (37 per cent rising to 38 per cent)<sup>27</sup> so we do not consider that the proposed increase in State Pension age of a year for the majority of those affected is likely to significantly increase the proportion of disabled people who are not in work prior to State Pension age, even if there is no improvement in the rates of employment for disabled people.
- 5.9 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 per cent overall in the first quarter of 1998 to 11.7 per cent in the first quarter of 2010. However, the gap in employment rates between disabled and non-disabled people (as shown in Table 4) remains significant.

26. Pensions Policy Institute. (2008). *The underpensioned: disabled people and people from ethnic minorities*, p.15.

27. *Ibid*, p.12.

- 5.10 Measures to address this include the launch of a new programme to provide support for severely disabled people. The new programme, Work Choice, was introduced in October. It replaces WORKSTEP and Work Preparation and sits alongside the new Work Programme (see paragraph 4.21). Work Choice will help into work disabled people who face the most complex and long-term barriers to employment and who may require high intensity support in the workplace.

### **Summary – disability impact**

- 5.11 The evidence indicates that this proposal is likely to have a stronger impact on some disabled people than non-disabled people in terms of the probability of adjusting to a higher State Pension age, due to relative labour market disadvantage. As a consequence, disabled people are more likely than non-disabled people to spend the additional period up to State Pension age on working-age benefits, although we have no evidence to indicate that the change will result in a higher proportion of disabled people claiming those benefits than are already claiming them prior to the current State Pension age. Measures to support disabled people into work may mitigate this impact.
- 5.12 As disabled people are also more likely to be reliant on Pension Credit at the minimum qualifying age than non-disabled people, there will be a proportionately greater impact for those born in 1954 whose entitlement will be delayed by more than a year, compared to the impact of a single year's increase. However, we consider this is justifiable in the wider context of the need to ensure that the state pensions system (including Pension Credit) is to be both affordable in the long-term, and provide a decent income in retirement.

## **6. Age equality impact**

- 6.1 By definition, State Pension age gives rise to different treatment according to age, because people below that age are not eligible for a State Pension. Under the current legislation, people already have different State Pension ages, depending on when they were born: for example between 2010 and 2020, all women will have a State Pension age of a year higher than a woman born a year earlier. The effect of speeding up the rate at which women's State Pension age is to be equalised with men's and then increasing it to 66 by 2020, is that for women born April 1953 to October 1954, the difference between their State Pension age and that of a women a year younger will be between 1.25 years and – for those born 6 March to 5 April 1954 – 3 years.
- 6.2 Although the Government recognises that for those most affected this is a significant differential, it also considers that raising the State Pension age to 66 by 2020 is justified, to prevent too great a gap building between the projected increases in life expectancy and the current State Pension age timetable. This in turn would result in an unfair cost being passed to younger generations.

## **7. Monitoring**

- 7.1 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. 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 data which, since they are projections, are inherently uncertain; all we can say with confidence is that to date, every new set of projections indicates an increase in longevity compared to the previous set. Therefore, while regular review of the projections will inform decisions about future changes in the State Pension age, it is unlikely to affect this proposal.

- 7.2 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.

## 8. Conclusion

- 8.1 The proposed change will bring forward the date from which the State Pension age is 66 for men and women by six years, to 6 April 2020; that is, the date which under legislated plans, the State Pension age would be equalised at 65.
- 8.2 This timetable has been chosen because the Government considers the available evidence on life expectancy demonstrates that the legislated timetable is too slow in reacting to increased longevity and, in the light of the urgent need to stabilise the public finances both in the immediate and longer term, it would be wrong to delay implementing the change to 66 until 2020.
- 8.3 Overall, we conclude that based on the available evidence, the proposed change to the legislated 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 and have provided only a very limited assessment of the impact in relation to gender reassignment).
- 8.4 We recognise, however, that bringing forward the increase to 66 to 2020 will entail an increase in State Pension age of more than a year (at the most extreme case for women born between 6 March and 5 April 1954, two years) because they would otherwise have had a lower State Pension age than men under the current timetable for equalising the pension ages. This will also affect men in the same age group who would have qualified for Pension Credit, because the minimum qualifying age is aligned to women's State Pension age. As a consequence of this increase in Pension Credit qualifying age, the proposed change will have a stronger impact than the legislated timetable on certain ethnic groups and disabled people who are more likely than those who do not share those characteristics to be unemployed prior to State Pension age and reliant on Pension Credit at the earliest point it becomes available.
- 8.5 Taken in the wider context of improvements in longevity and State Pension provision, however, we do not consider this impact, although adverse, to be disproportionate.
- 8.6 The proposal, however, contributes to gender equality, by phasing out inequality in the State Pension age more quickly than planned. While women's State Pension entitlements have historically been below men's, as a result of the changes introduced from April this year, that gap is narrowing. By November 2018, when the State Pension age will be equalised under this proposal, the proportion of women and men reaching State Pension age with a full basic State Pension will be around 90 per cent.

## Appendix – Tables

### Data for Figure 1 Life expectancy at legislated and proposed State Pension age, by year of birth

	1953	1954	1955	1956	1957	1958	1959	1960
Men – legislated	22.25	22.34	22.43	22.52	22.61	22.7	22.8	22.12
Women – legislated	26.45	25.7	24.98	25.07	25.16	25.25	25.34	24.93
Men – proposed	22.25	21.58	21.67	21.76	21.85	21.94	22.03	22.12
Women – proposed	25.62	24.06	24.15	24.2	24.3	24.4	24.5	24.6

Source: ONS 2008-based principal projections, mean cohort measure (UK).

### Data for Figure 2 Additional impact on numbers in employment, compared to baseline (legislated timetable); men and women aged 55 to 66

	Men		Women	
	Number increase	Percentage increase	Number increase	Percentage increase
2012	6,693	0.27	41,400	2.11
2014	19,023	0.77	74,624	3.57
2016	36,743	1.45	109,648	4.84
2018	78,742	2.99	120,013	4.89
2020	114,246	4.14	132,115	5.04
2021	117,217	4.16	125,305	4.65
2022	113,384	3.94	113,936	4.13
2023	94,657	3.23	91,992	3.26
2024	73,404	2.47	71,736	2.50
2025	49,556	1.64	48,713	1.67
2026	24,007	0.79	23,932	0.81

Source: HMT cohort employment model.