Technical Bulletin

24 March 2017

Review of State Pension age

The government is currently carrying out a review of the rules about State Pension age (SPa), which will consider how SPa timetables might change in the future. On 23 March 2017, the government published two reports which will help to inform its review. This bulletin summarises the results and recommendations of these reports and provides further detail about the process of the SPa review.

The reports which have been published are:

- A report by the Government Actuary which sets out the results of calculations to show how SPa might change in order that individuals are expected to spend up to a specified proportion – either 32.0% or 33.3% – of their adult life drawing a State Pension.
- A separate Independent Report by John Cridland CBE, which considers wider issues relevant to SPa and makes a number of recommendations.

The government has stated that it will consider both of these reports carefully before presenting its report to Parliament, due to be published in early May 2017. The government has restated its intention to give at least 10 years' notice of any changes to SPa, and hence this review only covers possible changes to SPa after April 2028, by which time SPa will be age 67.

Key results and recommendations

The calculations set out in the **Government Actuary's report** were based on a prescribed methodology and on a number of specified parameters and assumptions, as described later in this bulletin. The table opposite shows the results of the main calculations, specifying the two-year periods during which SPa would be required to increase in order to meet the stated requirements.

SPa changes	Current legislation	33.3% scenario	32.0% scenario
67 to 68	2044-46	2039-41	2028-30
68 to 69	n/a	2053-55	2040-42
69 to 70	n/a	n/a	2054-56

The **Independent Report** sets out a number of recommendations relating specifically to SPa, including:

- SPa should continue to be universal across the UK, increasing over time to reflect improvements in life expectancy.
- SPa should increase to age 68 between 2037 and 2039.
- SPa should not increase more than one year in any 10-year period (assuming there are no exceptional changes to the data used).

In addition, the Independent Report sets out a number of related recommendations, which include:

- The uprating of State Pension should be changed in the next Parliament from using the triple lock to use the increase in earnings.
- The main means-tested benefits for pensioners should be payable from one year below SPa (once the increase in SPa to 68 is introduced) for a defined group of people who are unable to work through ill health or because of caring responsibilities.
- People over SPa should be able to drawdown part of their State Pension, leaving the balance to benefit from deferral arrangements. There should be an option to take deferred State Pension as a lump sum.
- All employers should have policies in place to support those caring for elderly parents or relatives.
- People should be able to access a mid-life "MOT", covering issues such as work, health and retirement, facilitated by employers and the government, using online support and the National Careers Service.

It should be noted that no decisions have yet been made by the government on changes to SPa timetables or any of the recommendations set out in the Independent Report. The government will publish its own report in early May 2017. Any proposed changes to SPa timetables would need to be brought before Parliament for consideration and would require an Act of Parliament before being implemented.

Background

SPa is the earliest age at which people can start to receive their State Pension (although deferral beyond SPa is already possible). From the 1940s until April 2010, SPa was 60 for women and 65 for men. Since then, SPa has started changing. Firstly, SPa is being equalised for men and women at age 65, which is due to be completed by November 2018. SPa is then due to increase for both men and women to age 66 between December 2018 and October 2020, to age 67 between April 2026 and March 2028, and, under current legislation, to age 68 between April 2044 and March 2046.

Section 27 of the Pensions Act 2014 requires the government to carry out periodic reviews of SPa and to prepare and publish a report on the findings, the first of which must be completed by May 2017. The Act requires two reports to be commissioned to inform the review:

- A report by the Government Actuary on whether the rules about SPa mean that, on average, a person who reaches SPa can be expected to spend a specified proportion of their adult life in retirement.
- A separate independent report considering other specified factors relevant to the review.

Government Actuary's report

Parameters, assumptions and methodology

As required by legislation, the Secretary of State for Work and Pensions specified a number of parameters and assumptions for the calculations in the Government Actuary's report:

- *Proportion of adult life in retirement:* the expected percentage of adult life that someone who reaches SPa will be in receipt of their State Pension – two scenarios are considered, 33.3% and 32.0%.
- *Start of adult life:* age 20.
- *Mortality rates:* in line with the most recent (2014-based) UK principal population projections of cohort life expectancy[1] produced by the Office for National Statistics (ONS).
- *Period covered by review:* from April 2028 to April 2064.

The methodology for the calculations was also prescribed. This included the provision that SPa should complete any increase in the year in which the proportion of adult life in retirement at the existing SPa would have been reached had there been no increase, and stated that changes to SPa should be assumed to take place on a phased basis over two-year periods.

Sensitivity analysis

The table on the first page of this bulletin shows the results of the main calculations set out in the Government Actuary's report, specifying the two-year periods in which SPa would be required to increase, based on the specified parameters, assumptions and methodology outlined above.

The calculated SPa timetables are highly sensitive to the assumptions about future life expectancies, and even relatively small changes in the mortality assumptions can have a significant effect on the calculations. The Government Actuary's report includes further analysis to highlight this sensitivity.

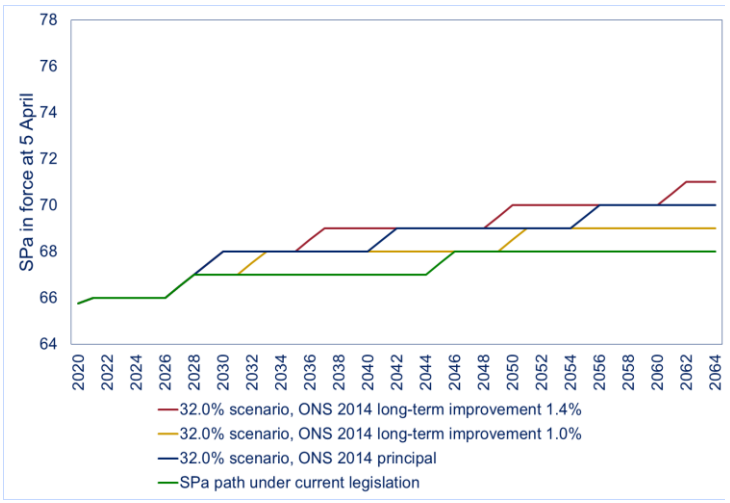
This graph illustrates how the calculations work in practice (for the 33.3% scenario), showing how SPa is changed just in time so that the proportion of adult life in retirement never exceeds the relevant specified proportion, with the transition to the new SPa starting two years before the specified proportion would have been expected to be exceeded.

For example:

- If the long-term mortality improvement rate assumed by ONS, currently 1.2% pa at most ages, was changed by 0.2% pa in either direction, the calculated timetable for SPa increases over the projection period could move by up to 10 years.
- If the ONS 2010-based or 2012-based principal population projections had been used instead of the 2014-based projections, the calculated timetable for SPa increases over the projection period could move by up to 8 years.

[1] Life expectancies on a cohort basis use age-specific mortality rates allowing for projected future changes in mortality rates

Under the prescribed methodology of using the most recent ONS principal population projections, this could lead to large variations in the calculated SPa timetables when the next SPa review is carried out, due by 2023. By this time, up to three new sets of ONS population projections will have been published (these are updated every two years). This highlights the challenges associated with setting future SPa increases too far into the future, such that they might not reflect successive, more contemporary, ONS population projections.



This graph shows how the calculated SPa timetables for the 32.0% scenario would change if the long-term mortality improvement rate assumed by the ONS, which is 1.2% pa under the principal projections, was changed by 0.2% pa in either direction.

These uncertainties were recognised in the Independent Report, with the recommended SPa timetable set out in that report taking a mid-position between the ONS 2012-based and 2014-based principal projections, and being based on a proportion of adult life in retirement in line with the projected average expected rate for those who have reached SPa over the last 10 years.

Further details of the sensitivity analysis and a commentary on trends in life expectancy data can be found in the Government Actuary's report.

Number of people reaching SPa

Under both scenarios considered in the Government Actuary's report, the rate of growth of the old age dependency ratio – which measures the proportion of people above SPa compared to the number of people of working age – will decrease to some extent, but the ratio itself is still expected to increase significantly from its current levels over the projection period.

Whilst the calculations are based on the percentage of adult life that someone who reaches SPa is expected to be in receipt of their State Pension, some people will die before reaching SPa. The calculations show that the probability of individuals surviving from the start of adult life to SPa is gradually expected to increase over time, from a level of around 88% in 2020 to somewhere above 90% by the end of the projection period in 2064, under either scenario, despite the increases to SPa projected to occur during this period. This reflects the assumed continuing future improvements in longevity rates over the projection period.

Impact on public sector pension schemes

The majority of public sector pension schemes now have a Normal Pension Age which is linked to SPa, which means that changes to SPa will be reflected in those schemes. The Independent Report stated that the impact on public sector pension schemes should not be a driving factor behind SPa recommendations. HM Treasury has previously announced that it will review the link between SPa and public sector pension schemes after the government has completed each SPa review. If SPa changes, HM Treasury would then be expected to consult on the impact on Normal Pension Age for such schemes.

Outcome of SPa review

As noted above, the government is expected to publish its final report in early May 2017. It has not committed to follow either of the scenarios set out in the Government Actuary's report, nor any of the recommendations set out in the Independent Report. The final decision on any changes to SPa timetables may therefore be different from any of the scenarios in the Government Actuary's report or the Independent Report, and may allow for other considerations.

If you would like to discuss any of these issues in more detail or have any questions please get in touch with your usual GAD contact.

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