

Technical Bulletin

19 July 2017

State Pension age review - update

The Secretary of State for Work and Pensions has published his [report](#) on the government's first periodic review of State Pension age (SPa). This bulletin summarises the report's main conclusions. Our March 2017 [bulletin](#) provides further information about the government's review and two reports published to help inform it.

Key proposals

The government intends to follow the recommendation made in John Cridland's [Independent Report](#) to increase the universal SPa from age 67 to 68 between 2037 and 2039. This brings forward the increase to age 68 by seven years, from its current legislated date of 2044-46. Those born on or before 5 April 1970 will see no change to their SPa compared to current legislation.

The government will, however, wait to carry out another SPa review before legislating for this change, to enable consideration of the latest life expectancy projections and to allow evaluation of the current rises in SPa. The government does not intend to formalise policy beyond 2037-39 at this stage. Under the [Pensions Act 2014](#) the report from each subsequent review must be published within 6 years of the previous report.

In the long-run the government is minded to commit to 'up to 32%' as being the right proportion of adult life to spend in receipt of State Pension. The timetable resulting from a 32% scenario is consistent with the average proportion experienced by people reaching age 65 (male SPa) over the last 25 years. Based on the latest mortality assumptions used in the review, the proposal to bring forward the increase to 68 to 2037-39 does not go far enough to achieve this long-run 32% target at that stage. The government does not, however, consider it desirable to have a rise to 68 immediately after the rise to 67 (currently legislated for 2026-28), as would be required to meet the 32% scenario at the earliest opportunity.

Life expectancy and other factors

The Pensions Act 2014 requires that the government's periodic reviews of SPa must have 'regard to life expectancy and other factors that the Secretary of State considers relevant'. The government has considered two other factors in this first review:

- Fairness between the generations – future generations should spend on average broadly the same proportion of their adult life with entitlement to the State Pension as pensioners living now.
- How the pace and notice of change can best provide a firm foundation for planning and saving in light of the uncertainty of future life expectancy.

The government has decided that following John Cridland's recommendation on the timing of the increase in SPa to 68 strikes the best balance between these factors. The government's report states there is a case for earlier action on grounds of affordability and the evidence on the proportion of adult life spent in retirement, but that this must be balanced against the pace of change.

Sensitivity and uncertainty

The [Government Actuary's report](#) illustrated how the calculated SPa timetables are highly sensitive to the assumptions about future life expectancies. Even relatively small changes in the mortality assumptions can have a significant effect on the calculations. Further details of the sensitivity analysis and a commentary on trends in life expectancy data can be found in the Government Actuary's report.

The government's decision not to legislate or to formalise long-run policy at this stage reflects the associated uncertainties. At least three more SPa reviews are expected before the transition to age 68 begins and ONS publishes new life expectancy projections every two years, with [2016-based projections](#) expected in autumn 2017.

The report recognises the need for a system resilient to these uncertainties which must be set against the desire for clarity and certainty for individuals to be able to plan their finances for later life, knowing what the State Pension will provide and when. The government does not, however, support John Cridland's proposal to commit to only one year's rise in SPa every ten years, stating that this would limit its ability to respond to future changes in life expectancy and that this goes too far in removing the link between SPa and the proportion of adult life in receipt of State Pension.

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.