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# Considerations on State Pension Age in the UK



# State Pension Age Working Party

## Remit

To

- Consider the purpose of the SPA
- Consider what factors should be taken into account when setting SPA
- Identify areas where the IFoA could/should be involved in the future

During our study

- Government announced details of plans to link SPA to projected longevity

## The Working Party members

*Steven Baxter*

*Rob Hammond*

*Sonel Mehta*

*Richard Bramley*

*Arti Kakkad*

*Mark Sadler*

# Agenda

- The need for change
- The DWP formula
- The role of the Panel
- Alternative designs
- The role of the IFoA



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# The need for change

Background to the changes now coming through

26 November 2015

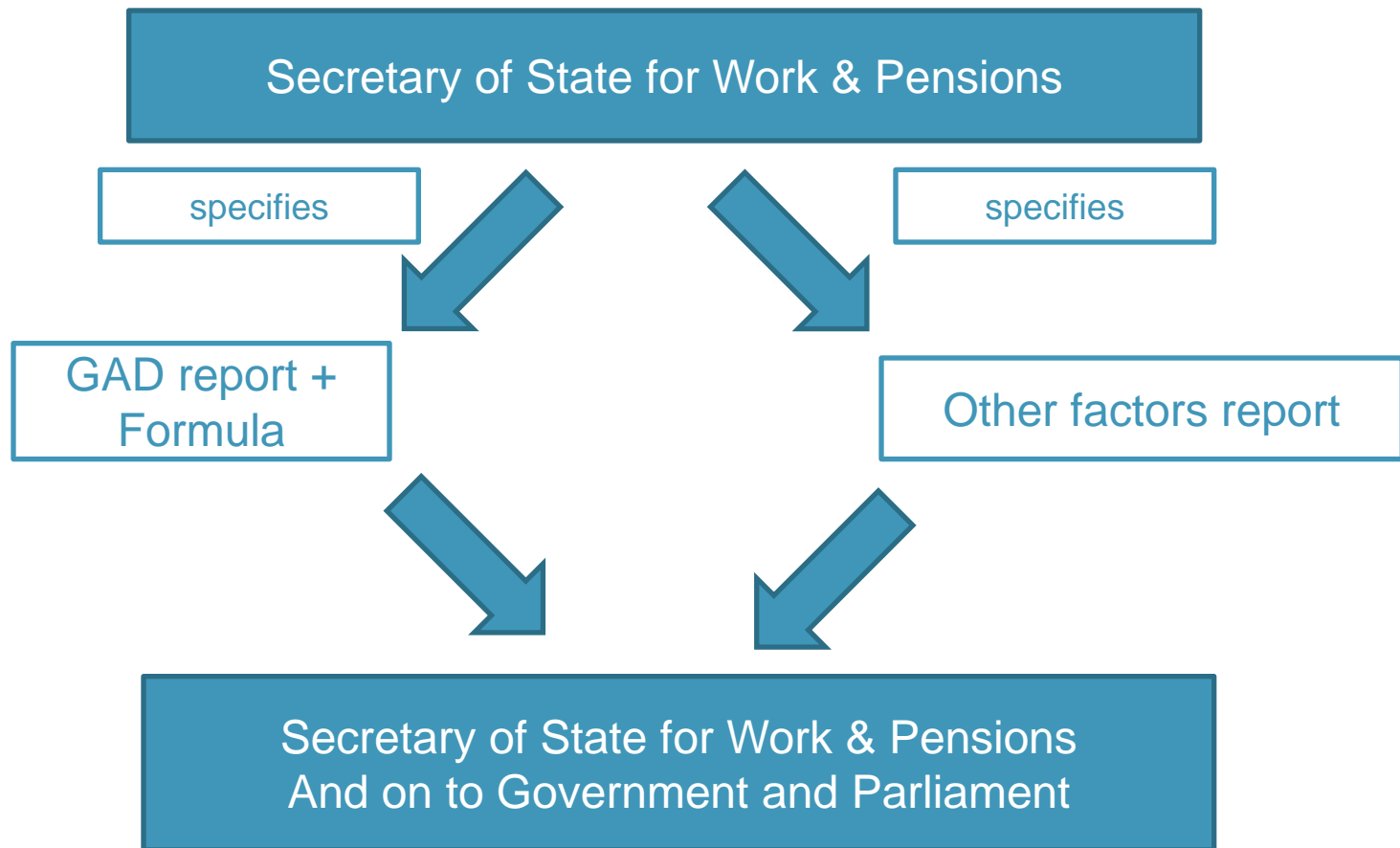


# Revised State pension regime - Why?



# Pensions Act 2014

## How SPA will be set in future





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# The DWP formula

What is it? And how sensitive is it?



# DWP formula

- Formula:

Proportion of adult life spent in receipt of State Pension =

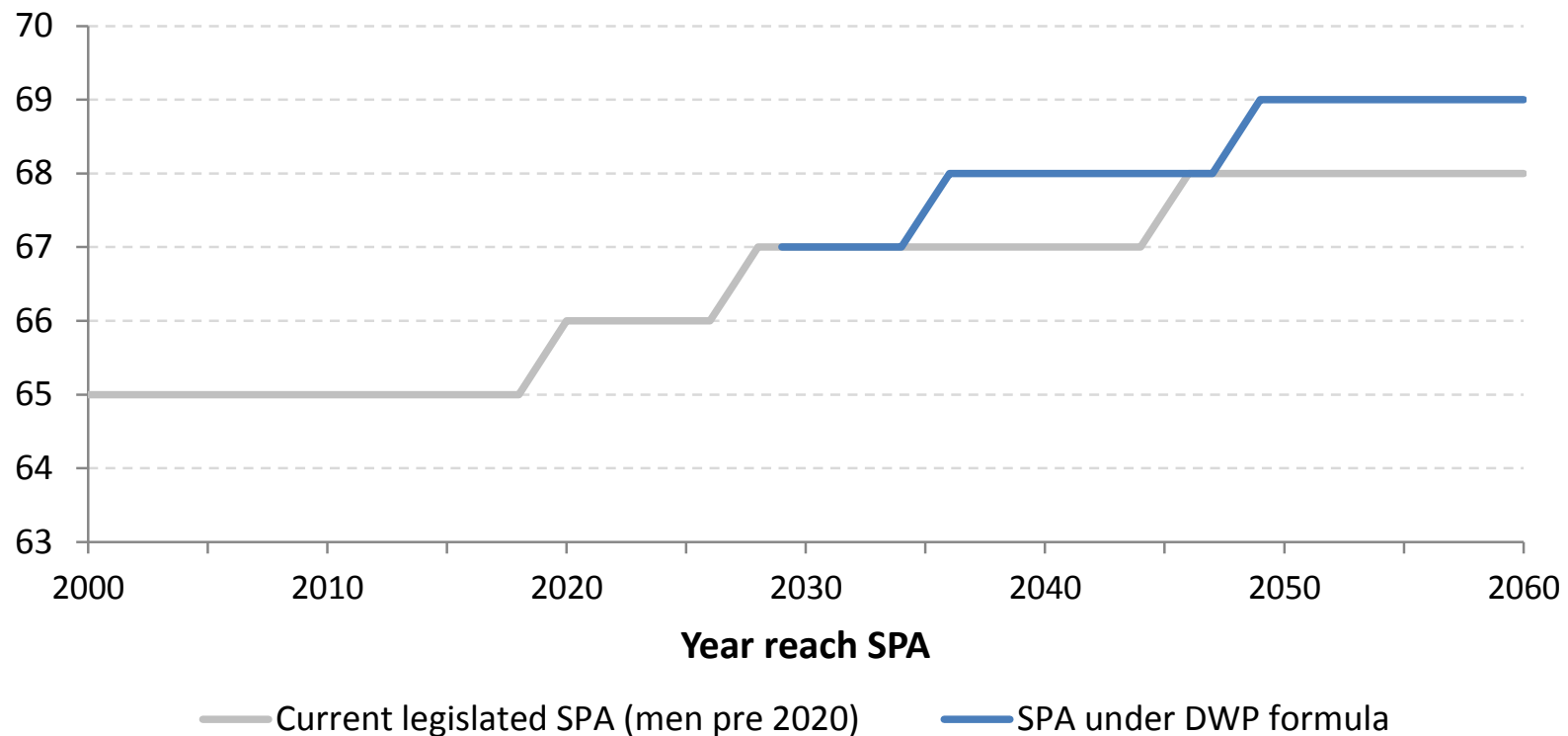
$$\frac{(\text{Life expectancy at SPA})}{(\text{Life expectancy at SPA}) + \text{SPA} - (\text{adult life starting age})}$$

- Target proportion is 33.3%
- Adult life starts at 20
- Unisex life expectancy
- Any changes phased in over 2 years
- 10 years notice of changes



# Projection: DWP formula vs current legislation

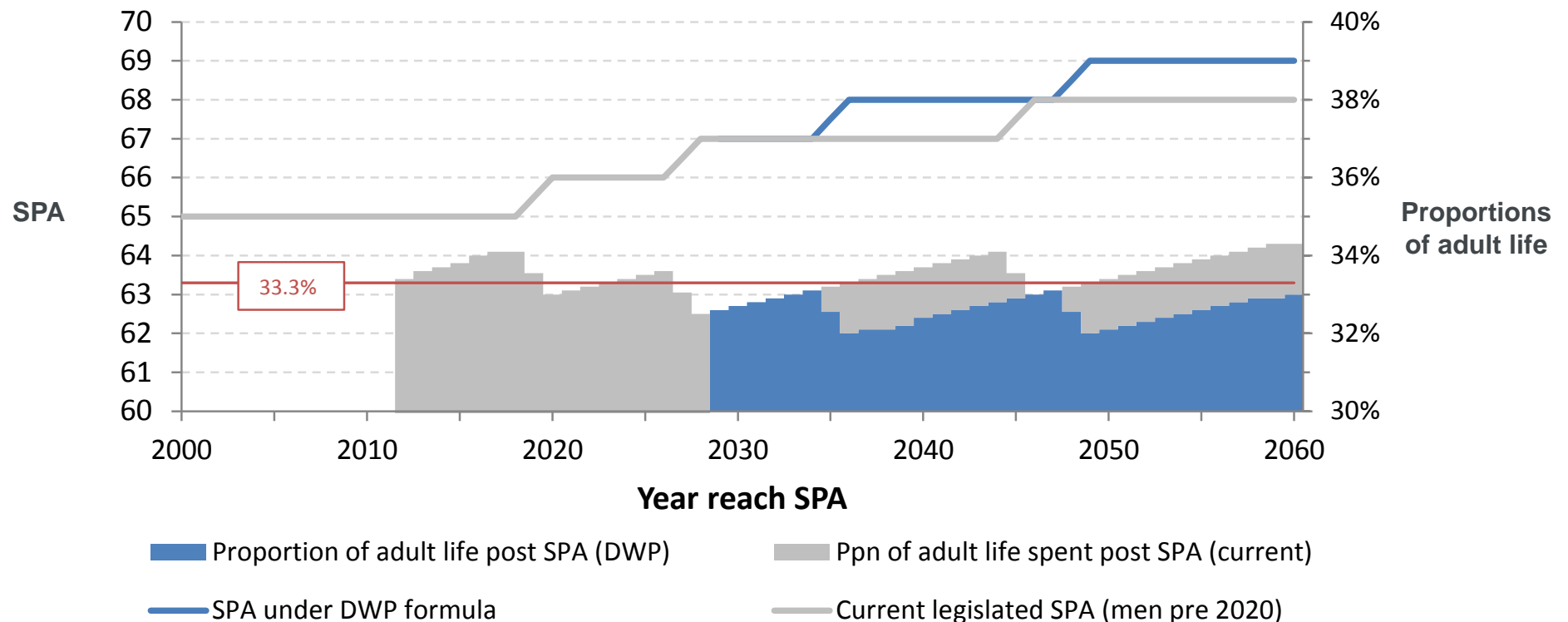
**SPA under current legislation and the DWP formula**



Source: Own calculations using ONS 2012 principal projections (UK)

# Projection: % of adult life spent post SPA

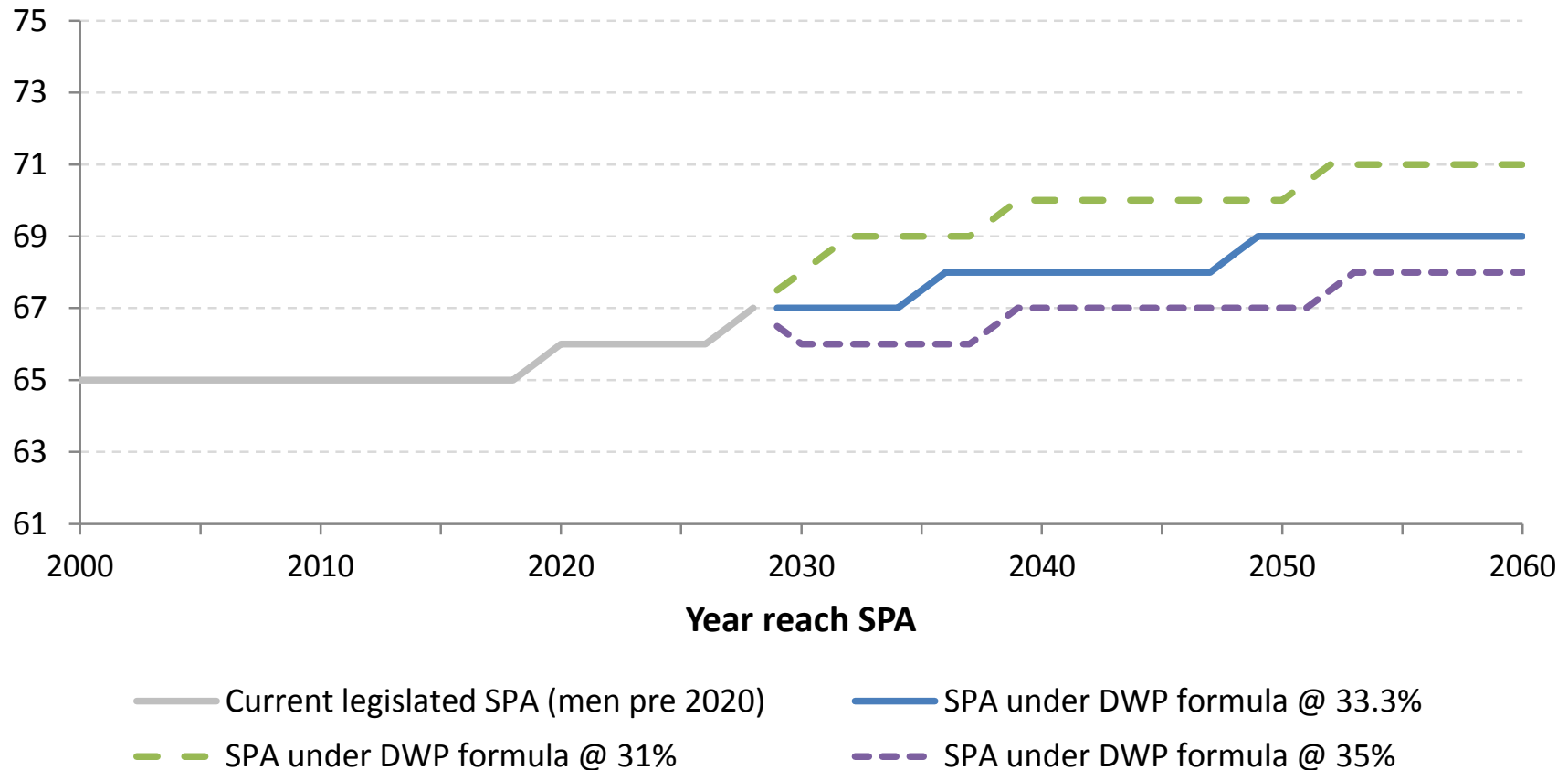
## SPA and proportion of adult life spent post SPA



Source: Own calculations using ONS 2012 principal projections (UK)

# Sensitivity: target proportion

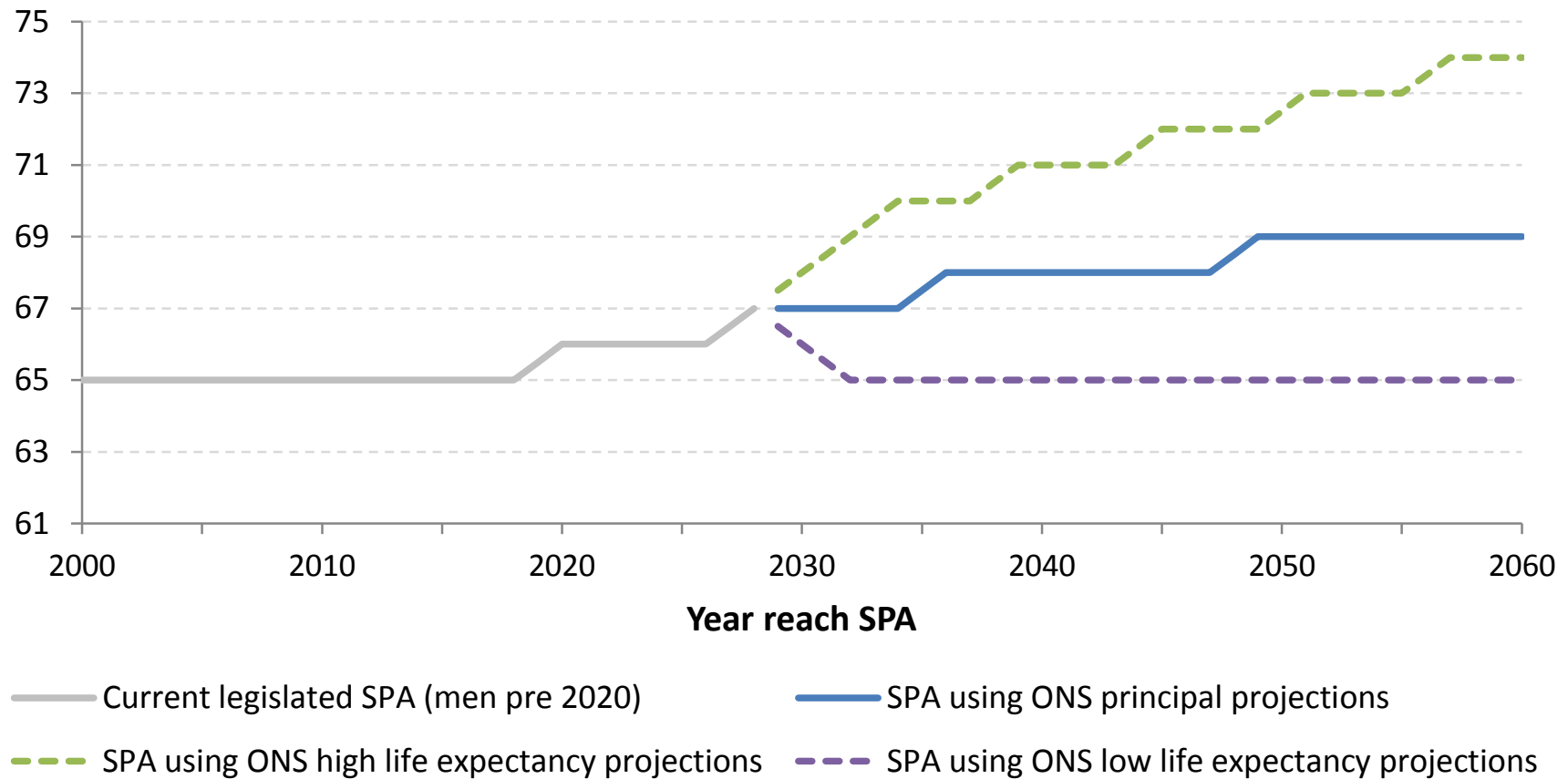
## DWP formula SPA for different target proportions



Source: Own calculations using ONS 2012 principal projections (UK)

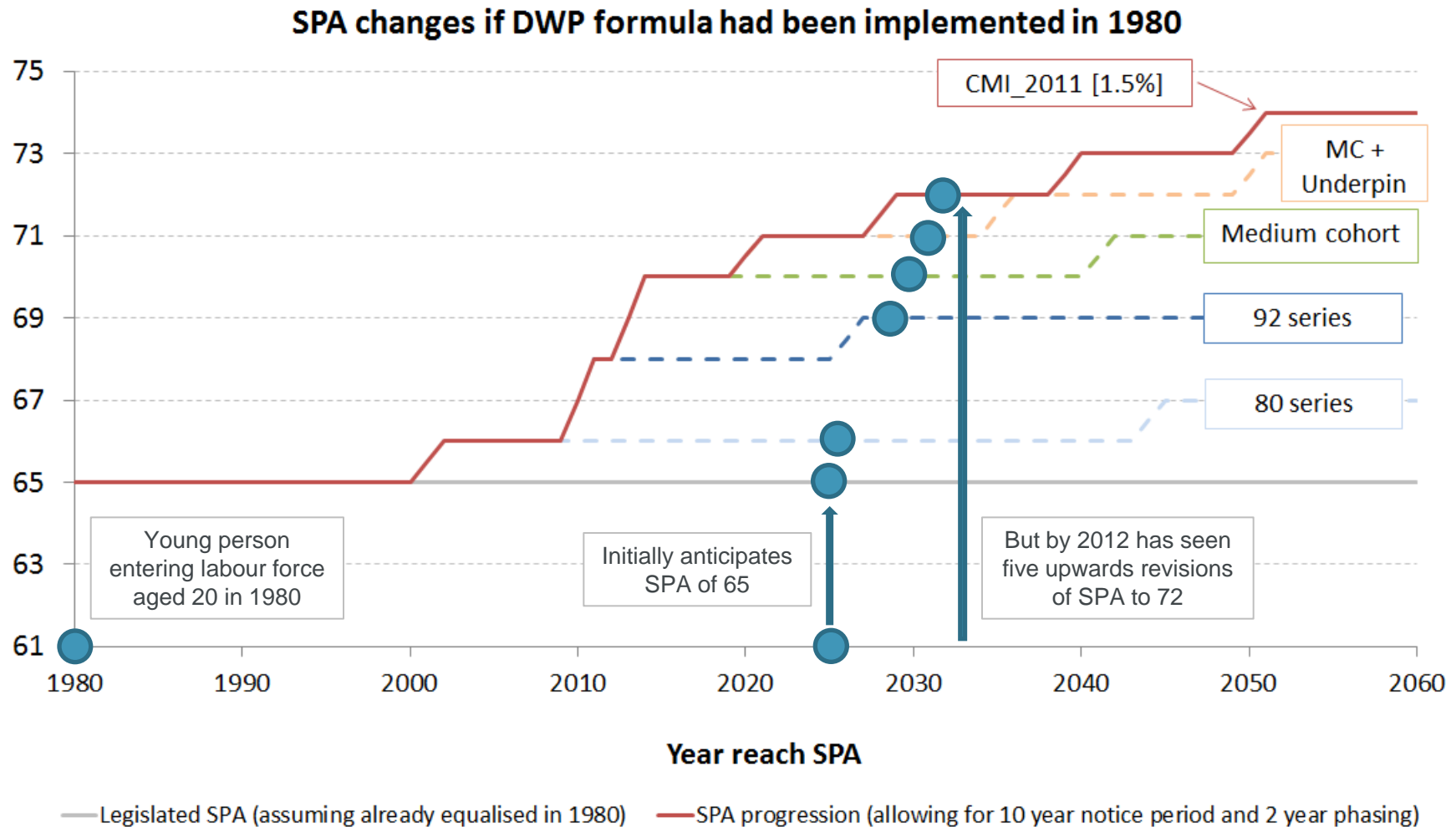
# Sensitivity: life expectancy projection

## DWP formula SPA for different longevity projections



Source: Own calculations using ONS 2012 principal projections (UK)

# If the formula had been introduced in 1980



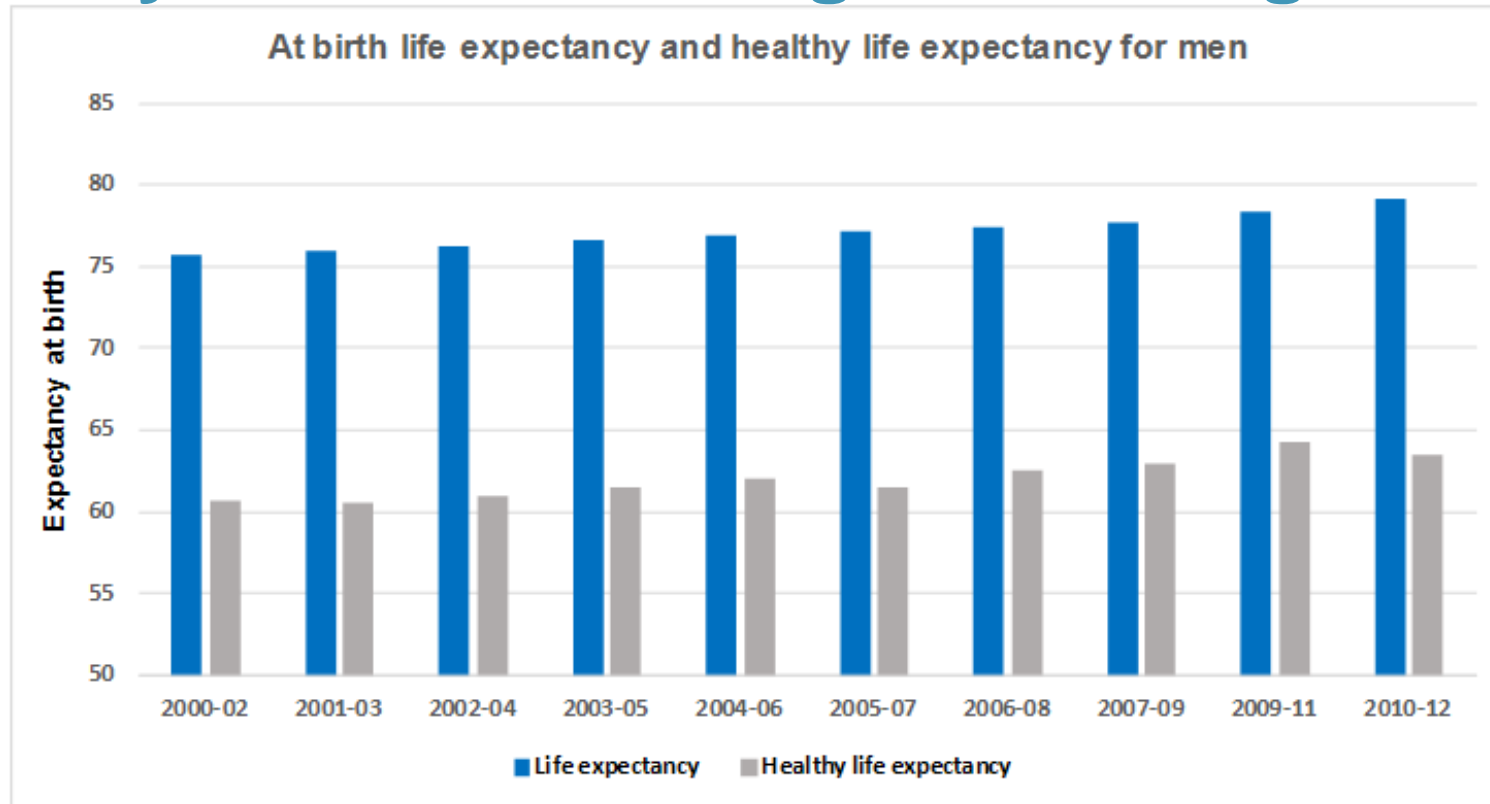


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# The role of the Panel

What factors could the Panel take into account?

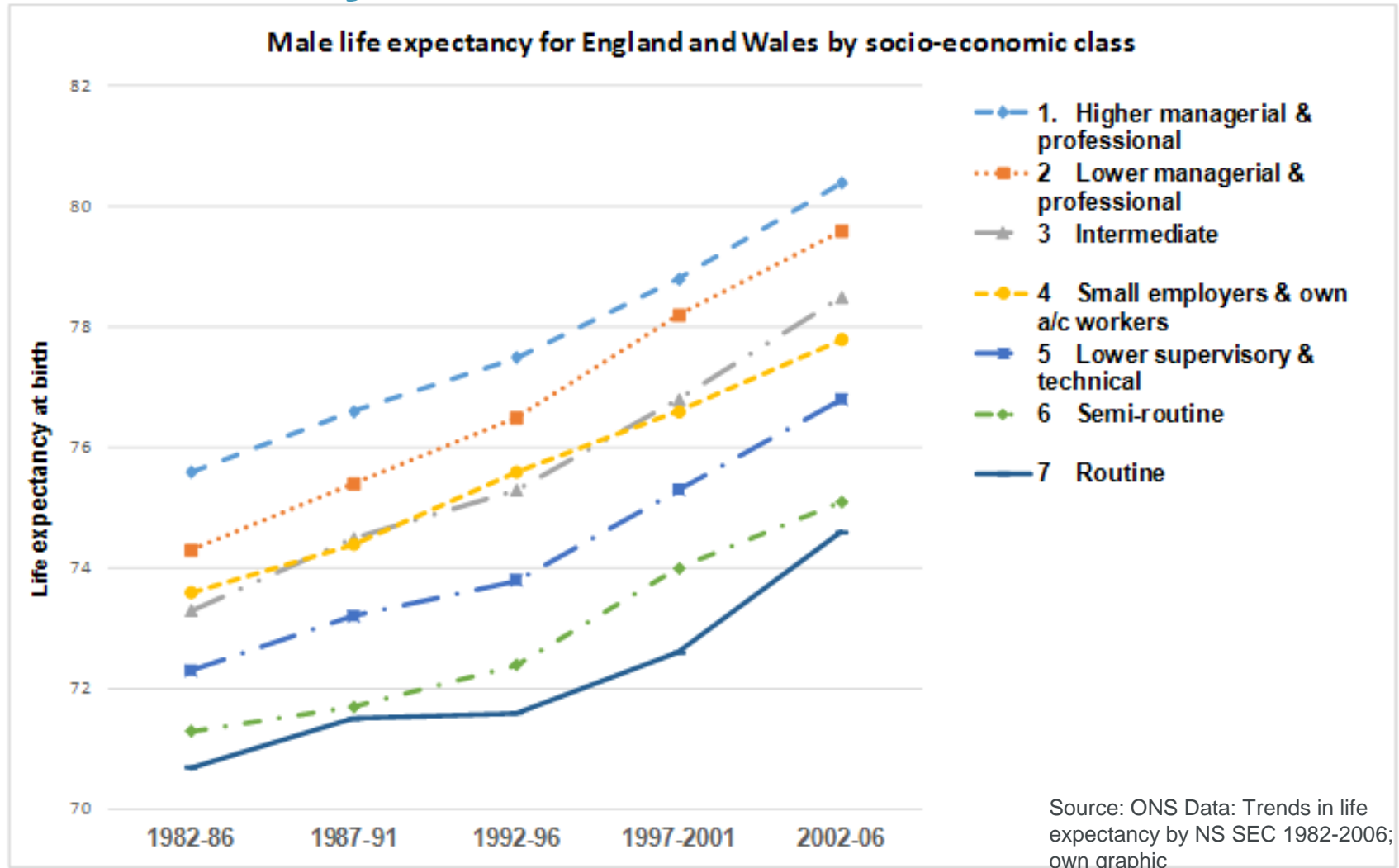
# Healthy life and working at older ages



- Does increased longevity equate to ability to work later in life?
- Do jobs exist for older workers?
- How will voluntary/unpaid work, e.g. caring for family members, be affected?

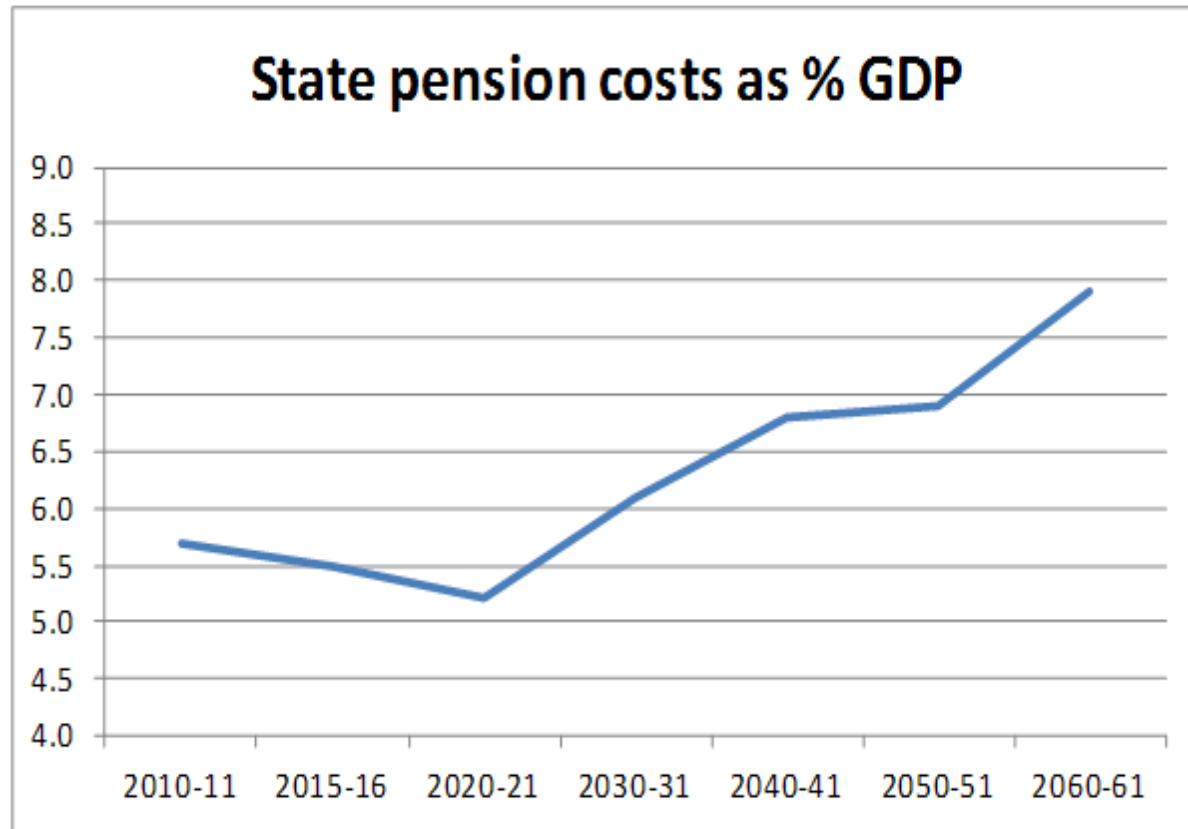
Data source: ONS data; UK Life expectancy and healthy life expectancy at birth by age and sex, own graphic

# Variations by socio-economic class



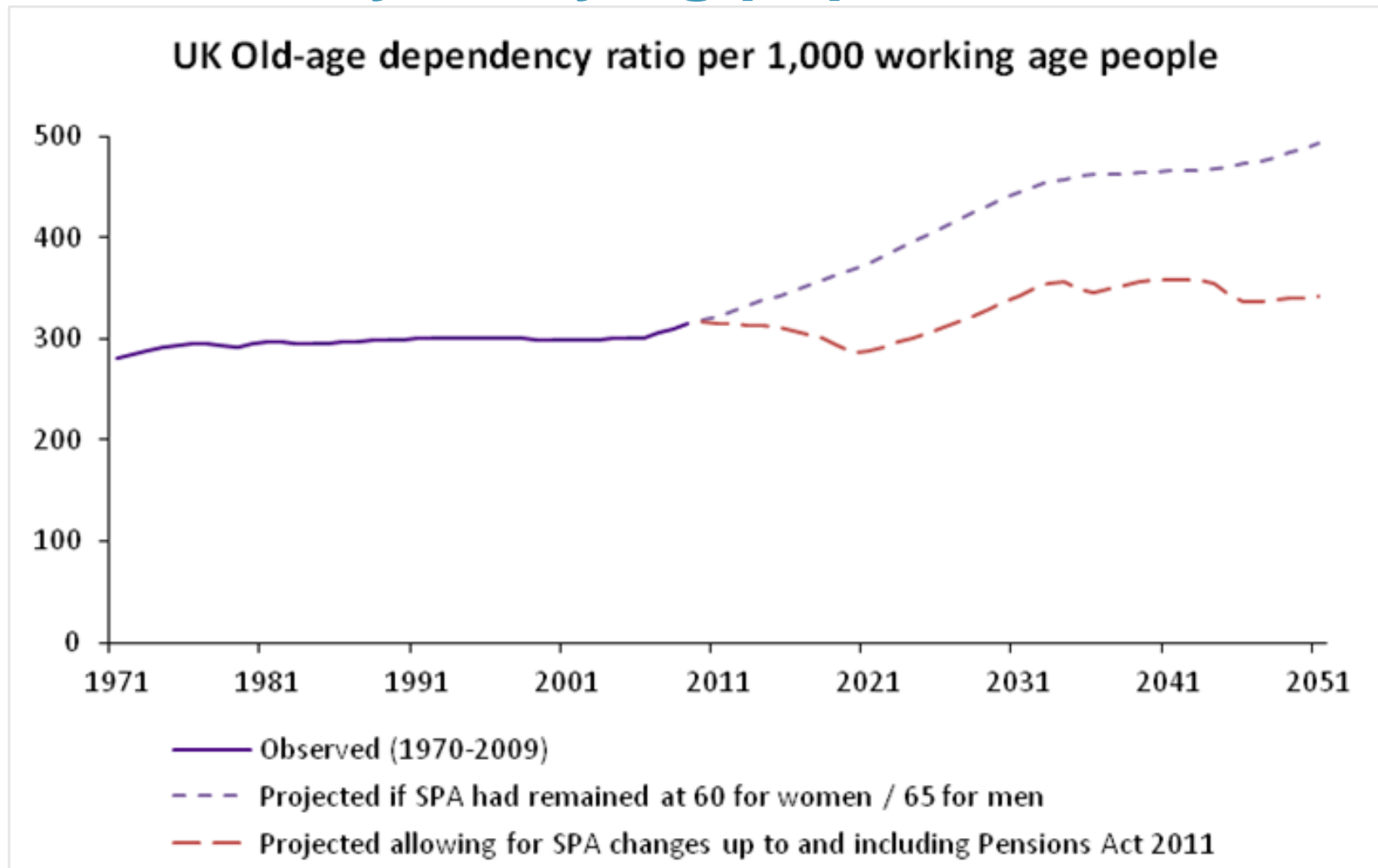


# Affordability: Rising cost as % of GDP



Source: OBR (2011)

# Sustainability: Greying population



Projections based on ONS 2010-based principal projections. Working age taken to be aged 16 and over.

# What might the Panel conclude

- One size might not fit all
- Projections vary and DWP formula highly sensitive
- Consider costs: affordability and sustainability
- What is fairest for all?
- If SPA increases:
  - Will people **be able** to work longer?
  - Will people **want** to work longer?
  - If so, will employers want to employ them?



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# Alternative designs

What alternatives could be considered in future?

# A few alternatives to consider

- Vary SPA (or pension?) by region/occupation/earnings/other?
- Allow more flexibility – SPA window?
- Target the needy – means testing?
- Reduce reliance on State - Make auto-enrolment compulsory?
- Increase tax/NI (from pensioners?) to fund higher costs?
- Throw out the rulebook and start again?



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# Role of the IFoA

What role should actuaries be playing?

# What should the IFoA do?

The IFoA should influence...

- The **Secretary of State** when specifying:
  - Assumptions for use in the Government Actuary's report
  - Other factors for the Panel to consider
- The **Government Actuary** when projecting life expectancy
- The **Panel** when producing its report

# What else could the IFoA do?

- Verify or critique GAD's results from using the DWP formula?
- Critique the underlying longevity assumptions?
- Lobby Secretary of State on factors for the Panel to consider?
- Seek representation on the Panel?
- Issue press release on expected impact of changes in SPA on:
  - Insurance markets/products/providers
  - Occupational pension schemes
  - General public
- Undertake (more of) its own research?