



Institute
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Pensions Conference 2015

24 – 26 June
Hilton Hotel, Glasgow

09 June 2015



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Considerations on State Pension Age in the UK

Arti Kakkad, Richard Bramley

26 June 2015



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

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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

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Revised State pension regime - Why?

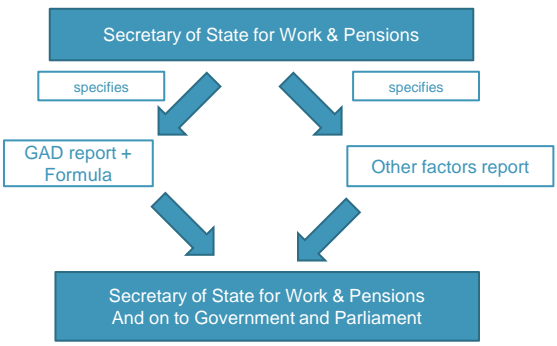


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Pensions Act 2014

How SPA will be set in future



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The DWP formula

What is it? And how sensitive is it?



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DWP formula

- Formula:

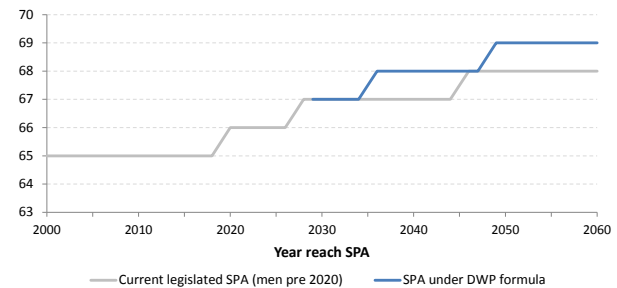
Proportion of adult life spent in receipt of State Pension =

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

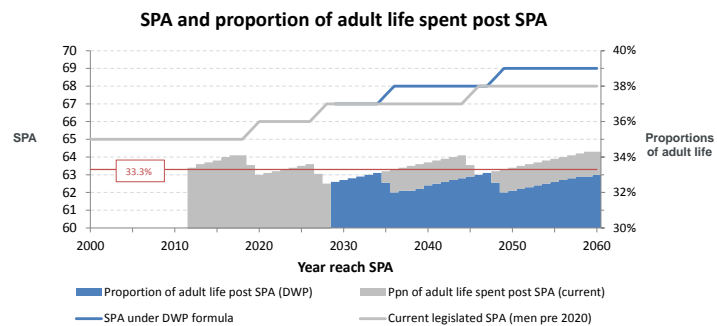
- Target proportion is 33.3%
- Adult life starts at 20
- Unisex life expectancy
- Any changes phased in over 2 years
- 10 years notice of changes

Projection: DWP formula vs current legislation

SPA under current legislation and the DWP formula



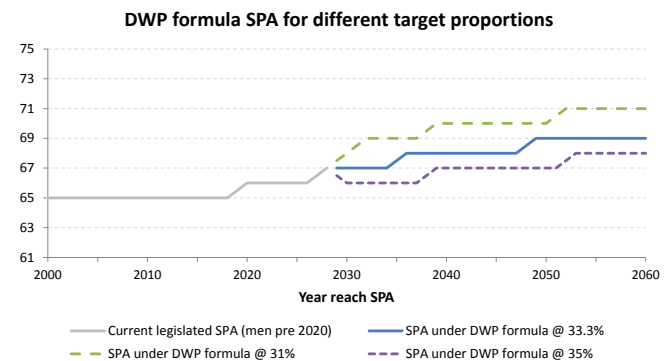
Projection: % of adult life spent post SPA



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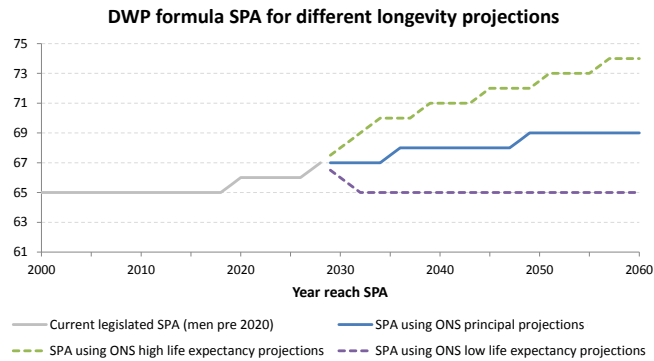
Sensitivity: target proportion



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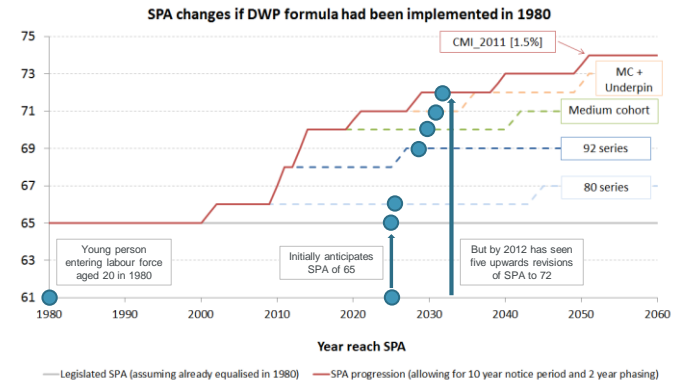
Sensitivity: life expectancy projection



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If the formula had been introduced in 1980



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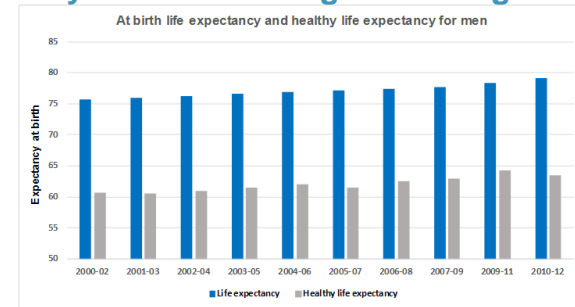
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The role of the Panel

What factors could the Panel take into account?

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Healthy life and working at older ages

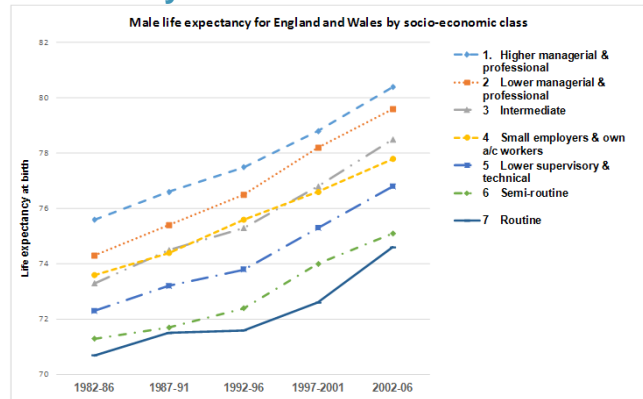


- Does increased longevity equate to ability to work later in life?
- Do jobs exist for older workers?
- How will voluntary/unpaid work, e.g. caring for family members, be affected?

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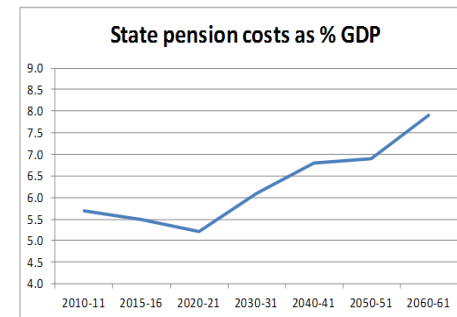
Variations by socio-economic class



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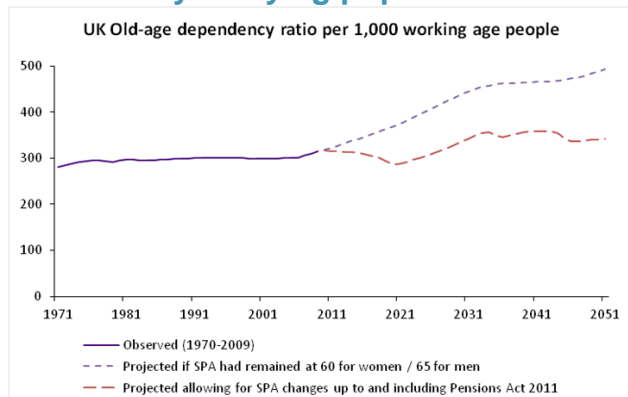
Affordability: Rising cost as % of GDP



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Sustainability: Greying population



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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?

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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?

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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

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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?