

**The Actuarial Profession**  
making financial sense of the future

Current Issues in Pensions  
Sarah Mathieson, Institute and Faculty of Actuaries

**The implications of  
Government policies to  
extend working lives**

Research by the PPI

1 November 2012, Leeds

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## The implications of Government policies to extend working lives

- Research carried out by the Pensions Policy Institute



- Funded by sponsorship from:



## **The implications of Government policies to extend working lives - Background**

- Research undertaken by Pensions Policy Institute as part of a wider study looking at retirement income and assets
- Considered current Government policies to extend working lives
- Looked at trends and barriers to working longer
- Modelled how much longer individuals might need to work and save to meet target levels of retirement income

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## **The implications of Government policies to extend working lives**

- Government's policy agenda to extend working lives
- Current trends in work and retirement
- Barriers to working longer
- How much longer might people need to work and save to meet target retirement incomes?

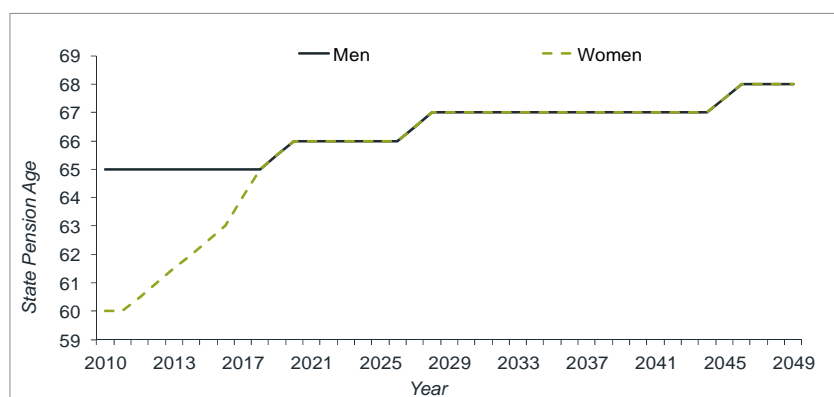
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## Government Policies to Extend Working Lives

- Increasing longevity poses challenges for pension provision
- Pensions Commission choices: higher taxes/save more/work longer/pensioners get poorer
- Government abolished Default Retirement Age
- Government increasing State Pension Age

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## Men and women's State Pension Ages are rising to 67 by 2028 and 68 by 2046



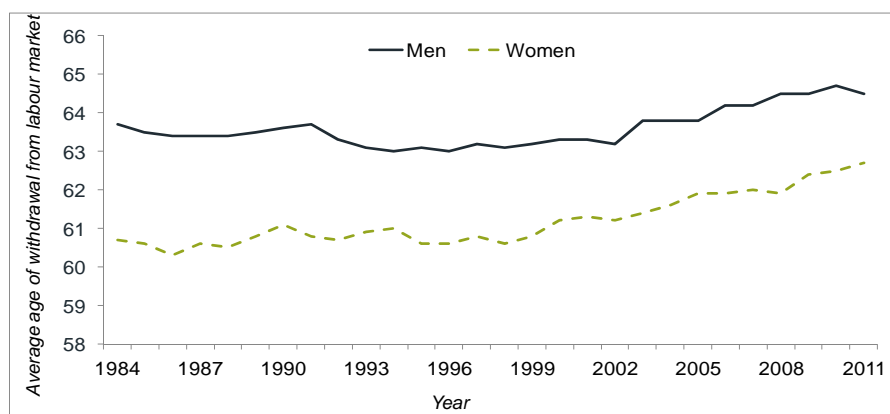
Increases in State Pension Ages for men and women under current legislation (April 2012) Source: PPI

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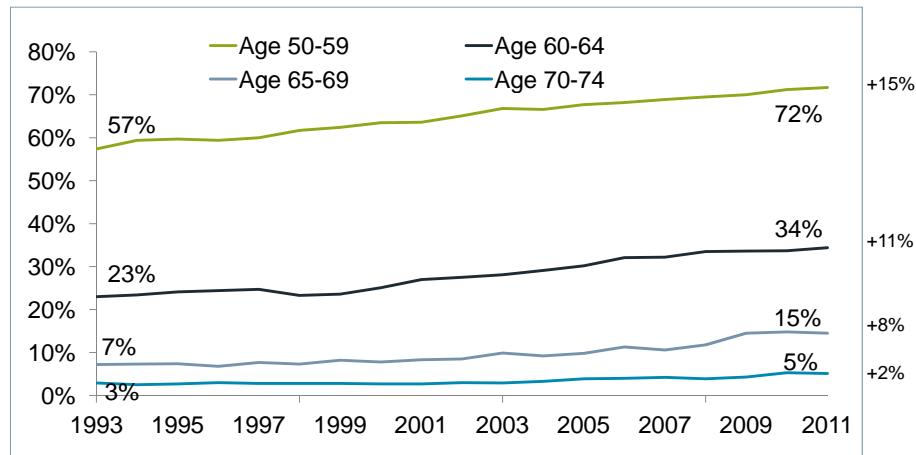
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## The average age of labour market exit is increasing



Average age of withdrawal from the labour market in the UK by gender, 1984 to 2011 Source: ONS

## Employment of women at older ages has been increasing



Percentage of older women in employment in the UK by age group 1993 – 2011 Source: PPI Analysis of LFS data

## The implications of Government policies to extend working lives

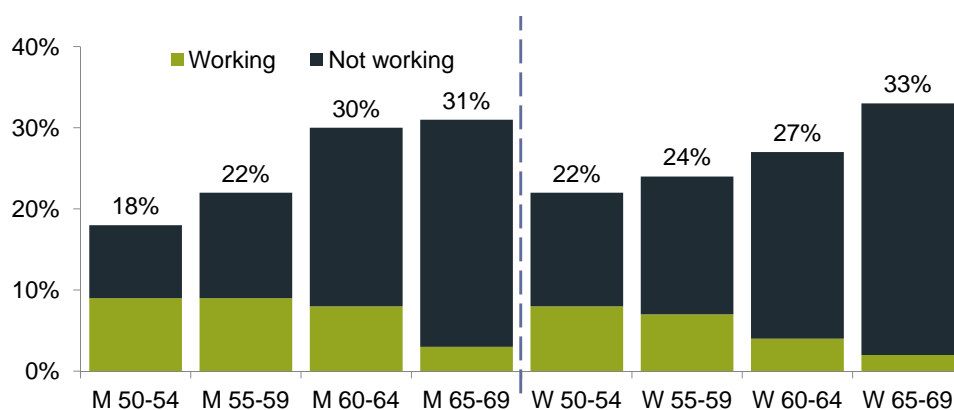
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## Barriers to longer working

- Not everyone will be able to work longer
- Ill-Health and disability may mean it isn't possible for some people to work longer
- In particular, manual workers/those in physical jobs may not be able to continue in same role
- Caring responsibilities may limit people's ability to work longer

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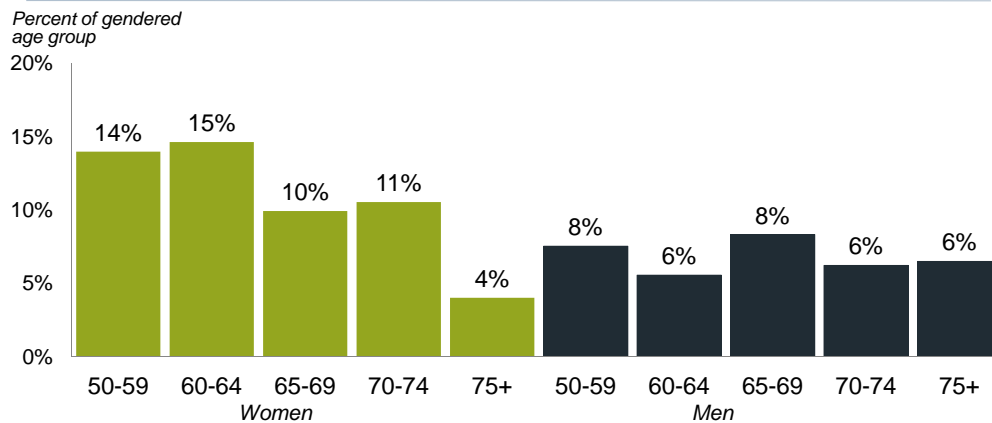
## Around 30% of men and women aged 60-64 have a disability that impacts their ability to work



Percentage of people in England with a disability that impacts their ability to work by age and gender in 2008 -09

Source: Crawford, Tetlow (2010) in Banks et. al. (2010) Financial circumstances, health and well-being of the older population in England: the 2008 English Longitudinal Study of Ageing, WAVE 4

## Many older people, especially women, provide care at older ages



Percentage of people in England aged 50 and over 'providing care in last week' by age and gender (2008-09)

Source: PPI analysis of English Longitudinal Study of Ageing (ELSA) WAVE 4 data

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## PPI Modelling - methodology

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- Considered individuals aged 50 – SPA in England who are still in work
- Projected future earnings and savings, based on current behaviour:
  - Individuals in work remain in work
  - Individuals currently saving, continue to do so at the same rate
  - Individuals not currently saving are auto-enrolled if eligible

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## PPI Modelling – income adequacy testing

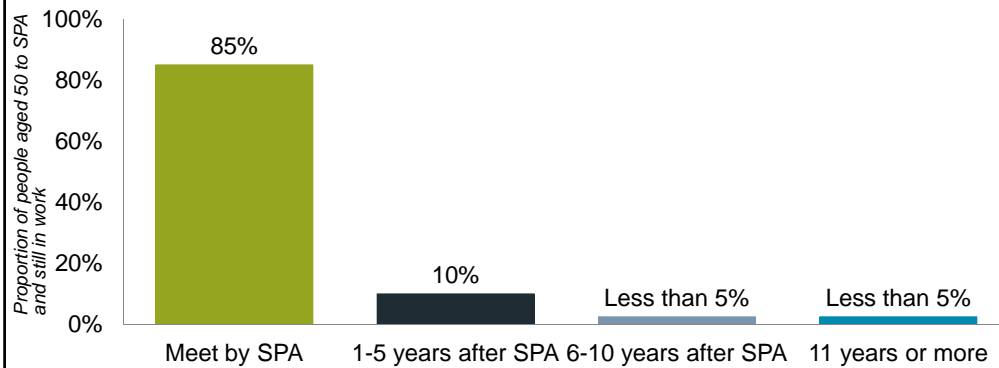
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- Retirement incomes tested against:
  - Minimum income standard
  - Target replacement rates
- Record the age at which 'adequacy' achieved
- Results are not intended to be a forecast

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### Around 85% of people aged between 50 and SPA could meet the Minimum Income Standard by their SPA

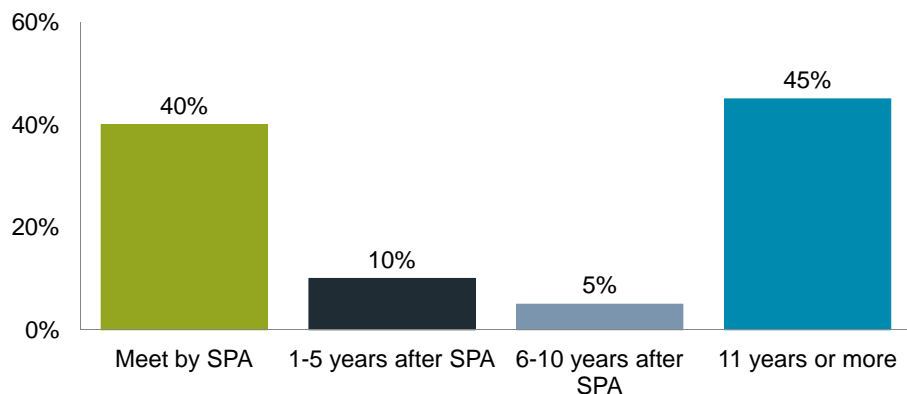


Number of people aged between 50 and SPA in 2011 and still in work who could meet the Minimum Income Standard by their SPA or afterwards (assuming that all those entitled to Pension Credit claim it)

Source: PPI

### Around 40% of people aged between 50 and SPA could meet a target replacement rate by SPA

*Proportion of people aged 50 to SPA still in work*

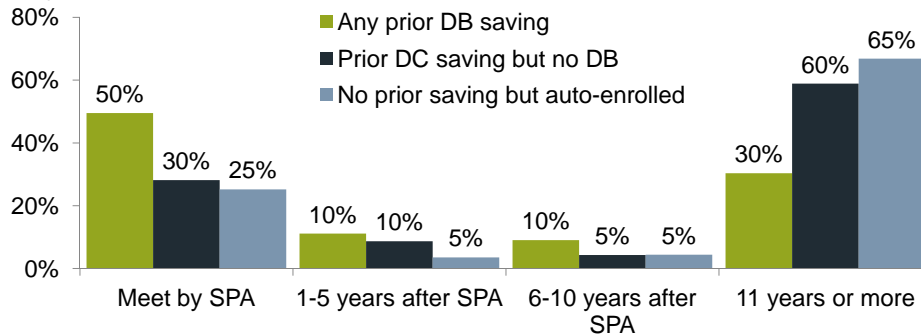


Number of people aged between 50 and SPA in 2011 and still in work who could meet a target working life replacement rate by SPA or afterwards

Source: PPI

## People with DB pensions are more likely to meet a target replacement rate by SPA

*Proportion with certain characteristics who could meet their target replacement rate*



Proportion of people in England aged between 50 and SPA in 2011 and still in work who could meet a target working life replacement rate by SPA or afterwards Source: PPI

## Conclusions (1)

- Government policies could encourage some people to work longer and take their state and private pension later, and could boost income in retirement.
- For those who are unable to work longer, rises to the State Pension Age may result in lower incomes in retirement.

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## Conclusions (2)

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If people over age 50 in England in 2011 continue to work and save:

- Around 85% could reach the Minimum Income Standard by their SPA;
- Around 40% could meet a target replacement rate by SPA, and 10% could meet it by working between 1 and 5 years beyond their SPA;
- However, 50% may need to continue to work and save for at least 6 years or longer to meet their target replacement rate – these people need to start to save more today if they want adequate retirement incomes.

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## Further information

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Full report available to download from the PPI's website

[www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

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## Questions or comments?

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Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

