

The Actuarial Profession
making financial sense of the future

Current Issues in Pensions
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The implications of Government policies to extend working lives

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On the threshold of a new era?

In an era of workforce ageing and increasing life expectancy working longer may be presented as an:

‘unavoidable obligation’ (Reday-Mulvey 2005: 195)

‘a fiscal and social imperative’ (PWC, 2010)

Or simply:

live longer work longer (OECD, 2006)

The dependency ratio problem:

- Less people of working age, paying taxes to support services for the young and older
- People spend more years in retirement and hence draw state pensions for longer and the older old need more health and social care increasing state expenditure
- Need for care services increases as population ages but less people in prime age category to provide it
- Increasing longevity poses challenges for pension provision
- Pension Commission choices: higher taxes/save more/ work longer/pensioners get poorer



'If only we could print more taxpayers'

Banx FT 26.3.09

The implications of Government policies to extend working lives

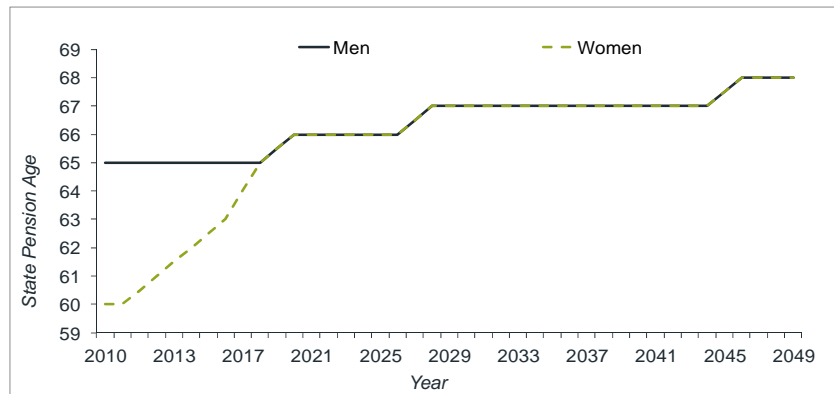
- Government's policy agenda to extend working lives
- Current trends in work and retirement
- Barriers to working longer
- How much longer might people need to work and save to meet target retirement incomes?

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The Government role in extending working life

- Equalities Legislation
- Default retirement age phased out from 2011
- State pension ages rising
- NEST (national employment savings trust) auto enrolment
- Reducing incentives in benefit and pension regimes to retire early or take ill-health or disability pathways out of work
- Active supply side labour market policies, e.g. encouraging or subsidising people back into work, making work pay through tax regimes, training measures

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

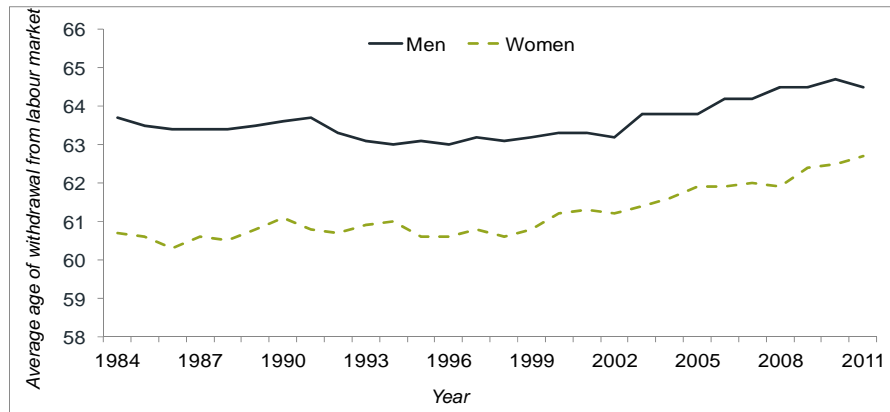


Increases in State Pension Ages for men and women under current legislation (April 2012) Source: PPI

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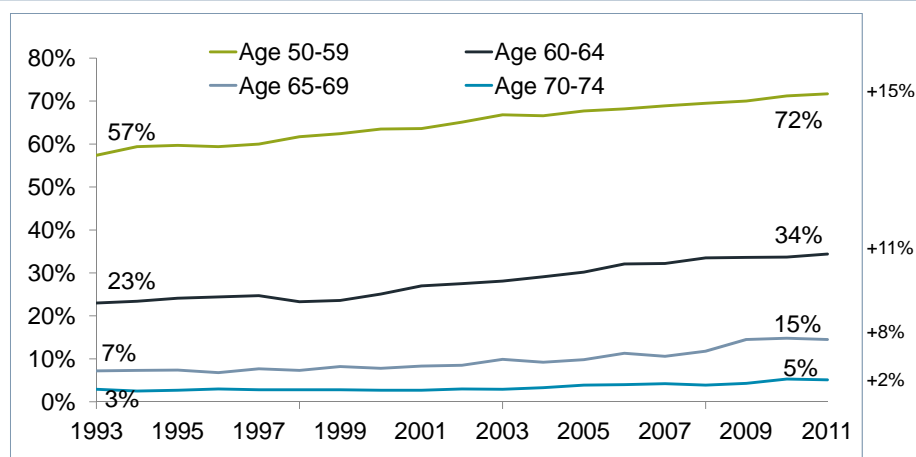
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The average age of labour market exit is increasing



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

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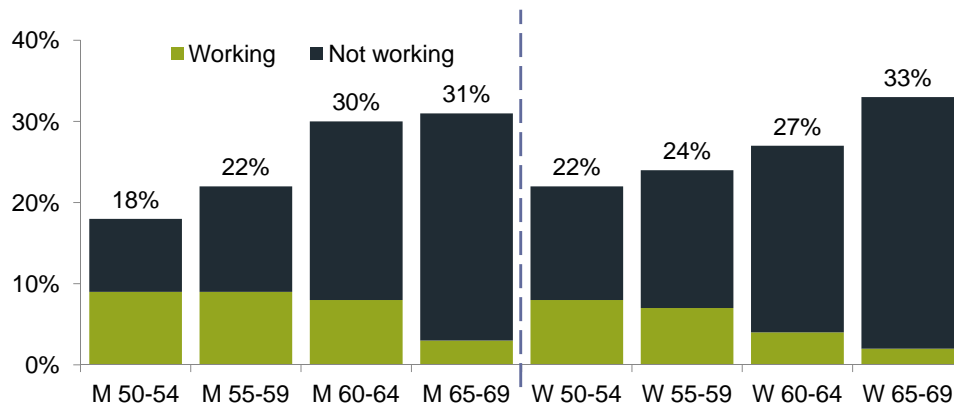
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Barriers to longer working

- 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

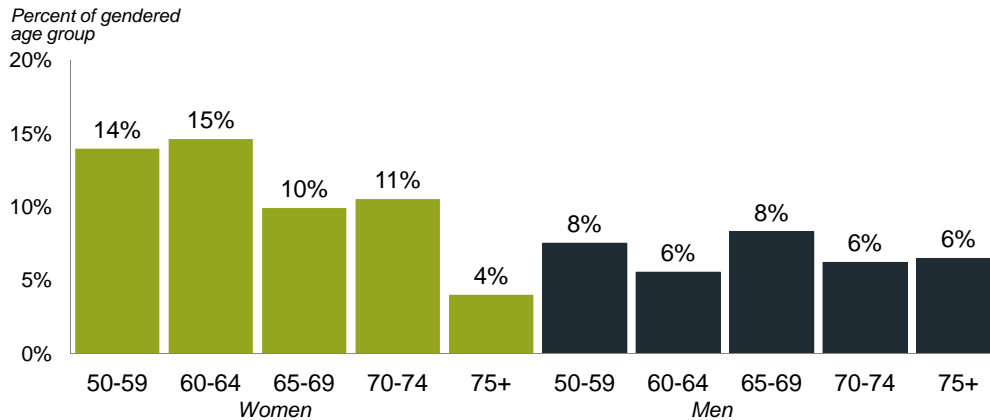
Source: Crawford, Tetlow (2010) in Banks et. al. (2010) Financial circumstances, health and well-being of the older population in England: the 2008 English Longitudinal Study of Ageing, WAVE 4

Health pessimism

- People understand that we are living longer but concerns over future health may reinforce traditional 'cliff-edge' retirement:

So from our point of view, we just want to enjoy it [retirement] while we've both got health to do it. Because there's so many people work right to the end of their retirement, you know, whether they're 60 or 65, and never get a good retirement, you know, for health reasons, and, well, we feel we're fortunate we can do it now and enjoy it. (EFemale)

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

Do people want to work for longer?

- There is a conundrum in existing research on what older workers want
- In a range of surveys, those 50 + are found to hold positive views about work, and many express a willingness to consider extending their working lives or continuing to work after they have 'retired'
- Qualitative interview or focus group-based research on the same theme reveals a much more qualified picture

The gender contract



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Retirement Income and Assets

- Research undertaken by Pensions Policy Institute as part of a wider study looking a retirement income and assets
- Modeled how much longer individuals might need to work and save to meet target levels of retirement income
- Full Report available to download from the PPI's website:

www.pensionspolicyinstitute.org.uk

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PPI Modelling - methodology

- 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

- 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

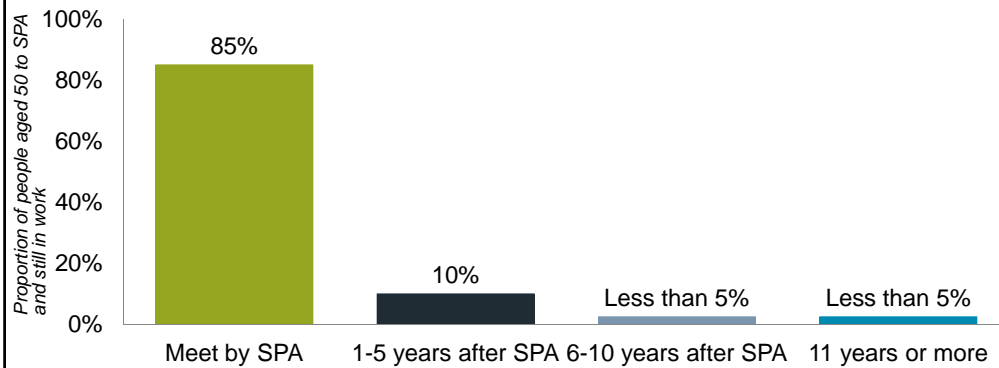
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PPI Modelling – 2 measures of retirement income

- **Minimum income standard:** defined by pensioners themselves as the absolute minimum income that pensioners need to have a minimum acceptable standard of living. It is defined as an annual income of just under £11,000 per annum before housing costs for a single pensioner and is just under £16,000 a year for a pensioner couple (2011 figures) Source: Joseph Rowntree Foundation
- **Target replacement rates:** calculate how much income an individual pensioner might need in order to achieve a similar standard of living to the one they had in working life. Replacement rates are typically in the range of 50% to 80% of people's gross working life income. For example, a median earning man might need an income of around £17,000 per annum to meet a 67% replacement rate. Source: Pensions Commission

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

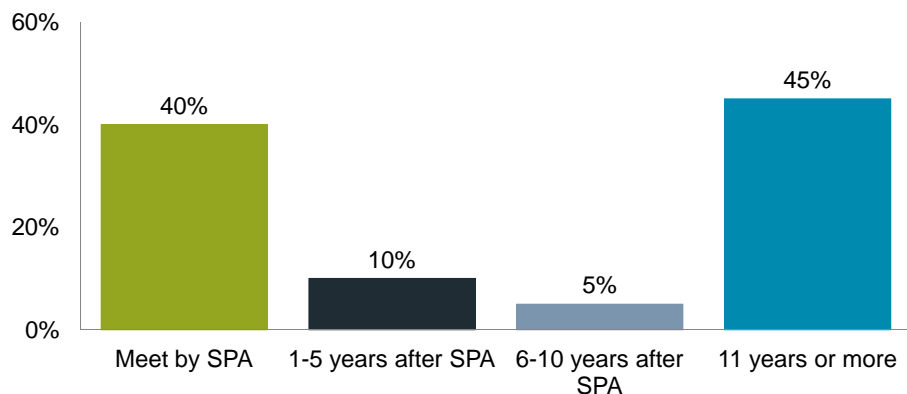


Number of people aged between 50 and SPA in 2011 and still in work who could meet the Minimum Income Standard by their SPA or afterwards (assuming that all those entitled to Pension Credit claim it)

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

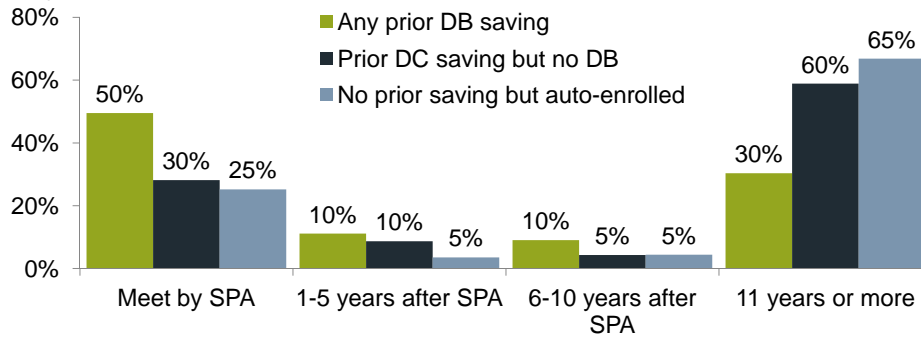


Number of people aged between 50 and SPA in 2011 and still in work who could meet a target working life replacement rate by SPA or afterwards

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.

Conclusions (2)

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

Full report available to download from the PPI's website

www.pensionspolicyinstitute.org.uk

OECD (2006) *Live Longer, Work Longer*, Paris: OECD.

PricewaterhouseCoopers (2010) *Working Longer, living Better: A Fiscal and Social Imperative* PricewaterhouseCoopers.

Reday-Mulvey, G. (2005) *Working Beyond 60*, Basingstoke: Palgrave Macmillan.

S. Vickerstaff, W. Loretto, J. Billings, P. Brown, L. Mitton, T. Parkin and P. White (2008) *Encouraging labour market activity among 60-64 year olds* DWP RR531, London: HMSO

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Questions or comments?

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