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RETIREMENT AGE AND EQUALIZATION OF PENSION BENEFITS

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1. INTRODUCTION

In the past three decades there have been many efforts at removing discrimination between people on grounds of sex, both in legislation and in practice. It has come to be accepted that, apart from certain excluded areas, men and women should have equal opportunities and equal rights in equivalent circumstances. This 'principle of equal treatment' of the sexes means, amongst other things, that there must be equal rewards for the same work.

Legal effect to these concepts was given by the Equal Pay Act 1970 and the Sex Discrimination Act 1975, both of which excluded from their ambit provision in respect of death or retirement and statutory instruments then in force (e.g. the Social Security Acts, which enshrine unequal State pensionable ages).

In 1986, Helen Marshall successfully won her case before the European Court, that she should have the right to the same contractual retirement age as her male colleagues. As a result, the Sex Discrimination Act 1986 modified the 'death or retirement' exclusions of the 1975 Act to provide that one sex cannot be compulsorily retired before the other but retained the exception that permits one sex to have an earlier normal pension age.

However, since the passage of the 1986 Act, there has been significant alteration in the provisions of a large number of occupational pension schemes in the private sector, in an effort to tailor pension practice better to the needs of the company involved, and the results of a survey of this are discussed in Section 5.

A man and woman belonging to the same scheme who retire at the same age after the same length of service and having enjoyed the same earnings rates will often do so with a very different pension. Recently, an Industrial Tribunal (Clarke *v.* Cray Precision Engineering Ltd.) has rejected the validity of such treatment but its judgement has now been referred to the European Court.

As regards State pensionable age, the EOC found in a survey carried out of preferences for equal pension ages that amongst both men and women more than four out of five people were in favour of equalization(1). An intermediate age, 63 for both men and women, was proposed by the House of Commons Select Committee on Social Services in 1982(2) but by the time of the White Paper on Reform of Social Security in 1985(3) these ideas were being quietly dropped. It was noted that none of the responses to the request in the Green Paper(4) for views on introducing more flexibility into the State Pension scheme had suggested a way which would not involve substantial initial costs.

More recently, in 1989 both the House of Commons Employment Committee[5] and the House of Lords European Communities Committee[6] have issued reports that give support to the principles of a 'Decade of Retirement' allowing men and women to retire from 60 to 70.

In this paper we aim to show that equalization and flexibility can be provided without excessive initial costs and that the Government may safely proceed to rationalize State pensionable age.

The Minister of State for Social Security said in October 1988 "There can be no doubting this Government's commitment to . . . the elimination of discrimination on the grounds of sex or marriage. On the question of pension age equalization, it is not a question of whether—but rather how and when."

2. RETIREMENT IN THE E.E.C. AND OTHER COUNTRIES

The countries of the European Community exhibit substantial variation in their pension systems and the extent to which they are discriminatory between men and women.

In Southern Europe the State system of Social Security is dominant, with little or no occupational provision. In Germany, Denmark and the British Isles, substantial sums are paid out in pensions funded by the firm or industry for which one works.

The notion of what is equitable in the allocation of benefits in relation to contributions paid in the state schemes of different countries varies considerably. There is commonly a redistributive purpose to favour the poorer contributors who receive more per unit of contribution than those with higher earnings. The relative benefits allocated to single and married people, men and women, unemployed and sick, is subject to wide diversity.

When it comes to the pension age of the Social Security systems of the E.E.C. countries, there is much variation both in the age itself and in whether there is equalization for men and women. At the present time (December 1988) the following are the State pension ages in the twelve countries of the European Community:

	Equal?	*Men*	*Women*
Belgium	No	65 67	60
Denmark	Yes	67	67
Federal Republic	No	65	65
France	Yes	60	60
Greece	No	65	60
Ireland	Yes	65	65
Italy	No	60	55
Luxembourg	No	65	65
Netherlands	Yes	65	65
Portugal	No	65	62
Spain	Yes	65	65
United Kingdom	No	65	60

A woman in Denmark would need to work twelve years longer than a woman in Italy for a full Retirement Pension or—more starkly—expect only about half as long a retirement period as her Italian counterpart. The ages should be treated with caution, however. The Federal Republic of Germany appears to have equal pension ages but women may draw an early pension at 60 whereas men must wait until 63. Different conditions apply to credits for childbearing or numbers of children, leading to better conditions for some in a country which appears to be worse on the basic age.

2.1 *EEC Countries*

Belgium

The Belgian Social Security regime follows the British fairly well. Men may retire at age 65 and women at age 60, with men requiring 45 years of contributions for the full pension (60% of a career average earnings) and women only 40 at the earlier age.

In contrast to the U.K., however, early retirement is permissible up to five years before the normal age. A discount of 5% per annum is normally applied but is waived when the retirement releases a job for an unemployed person to take up.

An attempt to harmonize the age at 65 a few years ago foundered on opposition from the National Labour Council. However, the early retirement option for women was removed, limiting pension age to 60.

There is now a new proposal from the Minister for Pensions, who proposes that instead of the discount on early retirement, both men and women will, from September 1991, be able to choose when to retire between 60 and 65 and have pensions based on the 40 year scale, with the amount of pension depending solely on the number of years of contributions at the chosen retirement age.

Survivors' pensions do not discriminate between men and women, but are restricted to those aged at least 45 or caring for children.

Denmark

The Danish system determines entitlements to benefits not on contributions paid as in most of the E.E.C. but on the basis of residence in Denmark. The Danish pension ages were 67 for men and 62 for women until 1 January 1984, when they were harmonized upwards to 67. Other aspects of social security follow the principles of equal treatment proposed by the European Commission.

Flexibility is provided by the notable partial pension arrangements, introduced in 1987 and modelled on experience gained in Sweden, in line with E.E.C. recommendations. From 60 to 67 a partial pension may be paid to persons who reduce working hours to a particular extent. The benefit can be as high as 90% of earnings lost by reducing working hours, although this is reduced after two and a half years.

There are also an early retirement scheme and a bridging pension scheme for those who give up employment altogether between ages 60 and 67. Their administration is by the unemployment insurance funds and the scale of benefit is that of unemployment benefit, again reducing after two and a half years.

An Earnings Rule applies from ages 67 to 70, to reduce the level of pension for those who continue to work. Deferment is not available to increase the level of pension at a later age.

Federal Republic of Germany

The state pension age is 65 for both men and women. However, after 35 years' contributions a man can retire at age 63 on an undiscounted pension whereas a woman can retire at age 60 with only 20 years' contributions. The unemployed can claim a pension from age 60 if they have been unemployed for over a year. The accrual rate is the same (1·5%) at any age of retirement.

Early retirements suffer under an Earnings Rule but late retirement up to the age of 67 attracts 4·8% per annum increases. It is intended that equalization will be achieved at age 65 for both sexes with a lower pension also being available to both sexes at age 60. Since 1986, spouses' pensions have been paid equally to both sexes.

France

Entitlement to a full pension (at 50% of the revalued average of the previous ten years' earnings) is satisfied for both sexes at age 60 or, if later, as soon as 37·5 years of contributions have been paid. This dates from April 1983 when a long-standing aim of French trade unions was realized by the Mitterand government lowering the normal pension age from 65. Previously, retirement at age 60 was possible but on so discounted a pension (effectively 25% of average earnings) that few could afford to retire so early. Women with at least three children receive an enhancement up to the 37·5 years required.

Survivors' benefits are not identical between the sexes. Whilst widowers' pensions are available, a widower must be over 55 to qualify whereas a younger widow with children may qualify. More importantly, an attempt is made to target benefits at those with children and to give allowance for contributions to those who have brought up children so as not to discriminate against them in retirement age. Women receive a credit of two years' service for each child raised.

Those who have three or more children receive a 10% increase to the level of their retirement pension but this may not merely be related to need but might also be influenced by the pro-natalist policies followed in France, faced with a strongly declining birth rate.

Greece

The Greek normal pension ages are 65 for men and 60 for women, with an extensive series of requirements for earlier retirement. With 10,000 days of contributions, men may retire at 62, women at 57. After 10,500 days, men may retire at 58.

Earlier retirement is permissible in cases of ill-health or arduous employment and normal early retirement can take place from 60 for men or 55 for women if 4,050 days of contributions have been paid or at age 56 with 10,500 days. In these cases the pension is discounted at 6% per annum.

Women with dependent children are allowed to draw their pensions at the age of 50 if they have no other income but they are reduced by 6% for each year below the age of 55.

Survivors' benefits are only available to widowers if they are disabled or can prove dependence.

Ireland

The State of Ireland was founded before the introduction of the inequity into British pension ages and so it inherited the pre-1940 British system, with equal State pensionable ages. It also has no provision for earlier retirement, in the same way as the British scheme. Only about 90% of occupational schemes are equalized so that the question of equalization remains a problem, albeit of a lesser nature than in the U.K.

Widowers' pensions are only paid if the deceased wife received an adult dependant's allowance or if the widower is disabled.

Italy

Italy finds itself with exceptionally low pension ages. Pension provision is heavily centralized in most Latin countries. Apart from severance payments which companies have to meet, the majority of the benefits at retirement are provided by the INPS (equivalent of the DSS) or similarly approved funds.

Retirement is at 60 for men or 55 for women, or earlier if a person has a full contribution record for 35 years. This is a very costly system with total employee and employer contributions exceeding 53%.

Aware that in 50 years' time half the population will be retired unless the system is changed, they are now studying a proposal both to raise the averaging period for determination of benefits from 5 to 10 years and to raise the pension age gradually over 20 years to 63 for both men and women. Survivors' benefits are already paid equally to men and women.

Luxembourg

State pensionable age is 65 for both sexes but women have the right to early retirement with a satisfactory contribution record from age 55, subject to an actuarial reduction. From 1988 spouses' benefits became payable equally for men and women.

Netherlands

A full pension on Social Security requires 50 years' contributions, more than in any other State in the E.E.C. The State system is as inflexible as regards early retirement as is the U.K. system. No pension can be taken before the age of 65. There is therefore a large number of early retirement schemes in operation, which provide pensions to bridge the gap for those who retire earlier.

The state pension age is equal for men and women in Holland and survivors' pensions are made available to widowers as well as widows. There is also the suggestion that these should be replaced by even more general partners' pensions to direct such benefits to those who are in need rather than simply married to the deceased with no proven dependency.

Portugal

Portuguese pension ages are 65 for men and 62 for women, with spouses' pensions only available to women. Although the difference in age is not substantial, early retirement for men at age 62 is not possible. The requirement for termination indemnities discourages enforced retirement. Widowers must be over 65 or disabled to receive a spouse's pension.

Spain

The Spanish system provides one of the most generous benefits of all, with pension income at 100% of the average earnings over the last two years before retirement. In 1985, to reduce the cost of such a large benefit scale, the averaging period was extended to eight years, with only partial revaluation of earnings over those eight years.

The pension age is 65 for both sexes, with the protection of retirement being available from age 60 for those who were contributing before 1967. Survivors' pensions, at 45% of the spouse's earnings or pension as applicable, are paid to widows of any age and a widower who is either disabled or can prove dependence.

2.2 *Other Countries*

United States of America

In the U.S.A. equalization of national pension ages was achieved in 1961, at which time full-rate pensions were available at age 65 for both sexes with a reduced pension option at age 62 (introduced for women only in 1956). Legislation now in force will raise this pension age gradually to age 67, beginning in 2003 and reaching 67 in 2027, but the possible option of a reduced pension for both sexes at age 62 will continue to be available—with a somewhat greater reduction operating by 2023. Spouses' pensions do not discriminate between widows and widowers.

Australia

It is interesting to note how Social Security has evolved from earlier British models. Australia might be thought of as having a development of the 1908 British system in which benefits were flat rate and subject to means tests. The State scheme has not equalized, with pension payable at the same ages as in Britain, namely 65 and 60, subject to a means test on both income and assets.

Israel

Israel inherited the British system after 1940 and therefore already had the unequal state pension ages of 65 for men and 60 for women. Israel has a low basic state pension with an important occupational pension system. Equalization for occupational schemes, administered by the Histradrut, is developing, with a common pension age of 65 for both sexes. This leaves the inequality of the British model of *state* pension ages as an outstanding problem.

Japan

Retirement in Japan is less clear cut than we are accustomed to in Europe. Many of Japan's elderly continue at work; 46% of men over 65 are still employed even though the pension age is 60.

Nevertheless, the Japanese elderly form a smaller proportion of the population than in most countries in Europe and the demographic changes are going to be more severe, so much so that the ratio of Japanese pensioners to the working population is expected to rise from 15% to 63% between now and 2025.

The Japanese government has therefore taken the immediate step of raising pension age from the level of 55 for women, so that equality at age 60 can be reached by 2000. The following timescale has been adopted:

	Pension Age	
Year	*Men*	*Women*
1986	60	55
1988	60	56
1991	*60*	*57*
1994	*60*	*58*
1997	*60*	*59*
2000	*60*	*60*

Proposals further to reduce the generosity of pension provision in the next century are now in doubt, with the slump in popularity of the party that has ruled Japan since the war. Potentially unpopular proposals on pensions may be dropped in an attempt to retain electoral support.

As with a number of countries in Europe widows will continue to receive more favourable treatment than widowers.

3. E.E.C. LEGISLATION AND THE PROPOSED DIRECTIVE

Retirement Age is very much a matter of choice, both for the individual and for the society of which that person is a member. This choice is not merely a matter of when to provide pension benefit but how the wealth and resources of the society are to be shared between the pensioners and the workers.

The breadth of the range of pension provision set out in Section 2 has kept the Commission shy of any desire (as yet!) to harmonize social security schemes across the E.E.C. but the Commission has a general aim under an Article of the

Treaty of Rome to promote closer co-operation between member states in matters of Social Security.

In this respect the Council of Ministers adopted a recommendation in 1982 (82/857/EEC) laying down principles of a Community policy on retirement age. There are four policies encouraged: flexible retirement, partial or phased retirement, provision for post-retirement employment and retirement preparation. No specific intentions or guidelines as to specific ages have been adopted.

Within the E.E.C., the choice has until now been left to the individual state as to whatever ages it may choose, notwithstanding that this gives rise to disparity between costs of employment in the various countries of the E.E.C. To set up a factory and employ British workers involves a far lower social security cost than to do the same in Italy, with the consequent distortion that this (at least in theory) places on investment within the Community. Similarly, if benefits being provided are different for men and women then there may be advantages to employers who mainly employ men rather than women, since their costs are much lower.

3.1 *E.E.C. legislation*

E.E.C. Legislation is based on the Treaty of Rome supplemented by Directives and Regulations proposed by the Commission and adopted by the Council of Ministers in accordance with the provisions of the Treaty.

The Treaty (provided it is precise and complete) and Regulations confer rights directly on the citizens of the Community (described as of 'vertical effect'), whereas the Directives are binding on the Member States, leaving them to choose the method of implementation into national legislation (described as being of 'horizontal effect').

The Treaty:

In the development of Equal Treatment, Article 119 is of primary importance: "Each Member State shall ensure and subsequently maintain the application of the principle that men and women shall receive equal pay for equal work."

The other Article bearing on the equalization of social security is the more general Article 118, which gives the European Commission "the task of promoting close co-operation between Member States in the social field, particularly in matters relating to: ... social security; ... To this end, the Commission shall act in close contact with Member States by making studies, delivering opinions and arranging consultations both on problems arising at national level and on those of concern to international organizations." As it is more general, this Article has no direct effect on persons' rights unlike Article 119.

Directives:

Four significant directives have been issued so far by the Council of Ministers.

1. Equal Pay Directive (75/117/E.E.C.)—10 February 1975. This re-emphasized the provisions of Article 119 and had already been dealt with by the U.K.'s Equal Pay Act 1970.

2. Equal Treatment Directive (76/207/E.E.C.)—9 February 1976. This covered discrimination in the workplace, whether in training, promotion or dismissal, and was cited by Helen Marshall against her employer (a health authority, i.e. an organ of the State and therefore directly bound by the Directive), to be allowed to work until male retirement age. The Sex Discrimination Act 1986 subsequently gave the same rights to all employees. Section 5 examines the effects of the Act on pension practice.

3. Social Security Directive (79/7/E.E.C.)—19 December 1978. This Directive applied to matters of Social Security, but specifically excluded pensionable ages and survivors benefits. The effect of this was therefore relatively limited.

4. Occupational Social Security Directive (86/378/E.E.C.)—24 July 1986. This was issued "on the implementation of the principle of equal treatment for men and women in occupational social security schemes" but as with the previous one it excluded the application of equal pensionable ages and survivors' benefits *until* the time when these were achieved in state Social Security or required by a further Directive.

This was given effect by the Social Security Act 1989, to be implemented with effect from 1 January 1993, which, as it took full advantage of the Directive's exclusion of pension ages and survivors' benefits, is going to be of limited scope.

Discrimination as to age or length of service required for membership was outlawed by the Social Security Act 1973. One consequence of the latest Act is that it will no longer be possible to set a maximum age for admission which varies between sexes, even if pension ages are different.

The Social Security Act 1989 prevents discrimination in any conditions for eligibility for membership, both direct and indirect, so that schemes will need to consider whether their conditions might be indirectly discriminating on grounds which cannot otherwise be justified. An example of this may be the problem of part-timers.

Except where actuarially justified to make benefits more nearly equal, contribution rates from employees, and from employers in defined contribution schemes, will be required to be identical for both sexes as will scales of benefits, whether pension or lump sum, on retirement or death, with the exception of survivors' benefits. Optional benefits such as early retirement or commutation *terms* are not affected so long as they are accessible to both sexes equally.

The Act also requires that membership and accrual of benefit continues during paid absence due to pregnancy or confinement, whether or not there is pay additional to Statutory Maternity Pay.

Most seriously, the requirement for identical benefit scales means that from 1993 it will become illegal for schemes to compensate men for the discrimination practised by the State, by providing bridge pensions unless they are also paid to women of the same age!

3.2 *Proposed Directive*

On 23 October 1987 the Commission issued (COM (87) 494) its proposals for a directive "completing the implementation of the principle of equal treatment for men and women in statutory and occupational social security schemes". This Directive extends the requirements of the earlier Directives to include pensionable age and survivors' benefits within their ambit, thus concluding the "progressive implementation of the principle of equal treatment in matters of social security" of Article 2 of the 1976 Directive.

The Directive is proposed to apply equally to both statutory and occupational schemes and covers all those areas which were excluded by the earlier Directives. The principal Articles are Article 9 (pensionable age), Article 11 (benefits derived from spouses), Article 4 (survivors' benefits) and Article 10 (derived entitlements and allowances in respect of bringing up children).

The draft is particularly interesting in its putting forward proposals for new methods of addressing the equalization of these benefits. Article 9 simply requires a pensionable age (if any) to be the same whether the person concerned is a man or a woman. However, it goes on to suggest that schemes might prefer instead of simply fixing an age of retirement to adopt a system of flexible retirement, based on the completion of a term of contribution, as has been adopted in a number of States in the EEC, such as in France where retirement is after $37\frac{1}{2}$ years.

Article 11 introduces the notion that instead of a system of derived rights (where entitlement to a widow's pension arises, for example, from having been married to a man for six months) benefits for spouses can be based on individual rights, so that a person can establish a personal entitlement in the event of being widowed, just as there is a personal entitlement to sickness benefit.

Article 4 requires surviving spouses to have the same benefit whether male or female, either by giving widowers the same entitlements as widows or else replacing these derived rights by the individual rights to survivors' benefits. Articles 5 and 6 extend this to orphans or other survivors, whilst Articles 7 and 8 relate to benefits for children or dependent adults. The intention is to allow parents to choose to whom a child benefit is actually paid.

Article 10 prevents any discrimination regarding the advantages granted to those who have brought up children or credits for benefit entitlements lost due to the bringing up of children. Moreover, it specifically prohibits the acquisition of benefit entitlements by virtue of the contributions of a spouse. A married woman would no longer be able to qualify for pension on her husband's contributions.

Transitional protection is to be given to those rights acquired before the Directive is adopted. If fixing identical pensionable ages is to worsen the position of those of a given sex, then the proposals may be gradually implemented. Clearly, it would not be reasonable overnight to alter the terms of retirement of those who are now close to pension age.

Discussions are still at an early stage and the DSS has the intention to issue a consultation document before the U.K. government agrees to the adoption of this Directive.

The House of Lords European Communities Committee gave its opinion on the draft in May 1989[6]. It rejected the proposed abolition of derived rights, preferring to extend them to men, and specifically sought the inclusion of a derogation allowing bridge pensions to continue until State pensionable age equality.

4. SOCIAL SECURITY IN THE UNITED KINGDOM

The provision of social benefits may be considered to have two forms. One is Social Welfare, which takes as the justification for payment of benefit the need of the recipient. Alternatively, Social Insurance provides benefits when certain contribution conditions are met, rather like any contract of insurance.

Social Insurance differs from what is marketed as insurance by commercial insurers, however, most notably in the allocation of credits in lieu of contributions to those who have reason to be unable to pay contributions, for example in maternity, unemployment or sickness. National Insurance also has a redistributive effect in allocating proportionately larger benefits to those on lower incomes.

The recent development of Social Security Pensions in the U.K., as indeed in many other countries, has been on the basis of Social Insurance, through National Insurance benefits related to numbers of contributions paid or credited. Those whose contribution record is in some way deficient can expect reduced benefits.

Pensioners on low incomes may also qualify for means-tested benefits such as Income Support and Housing Benefit which form part of the general provisions of Social Welfare, where the benefits are not dependent on contributions. After age 80, there is also a non means tested non-contributory benefit of a pension of approximately 60% of the Basic Pension regardless of contribution history.

4.1 *Basic pension*

A man must wait until age 65 for Retirement Pension but a woman is entitled at age 60 to the full level of the Basic State Pension, provided sufficient contributions in at least 90% of the working lifetime have been paid or credited. For smaller numbers of qualifying years, a reduced proportion applies. Although men and women differ in pensionable ages, contribution rates are the same, with the full single person's pension being identical for both, except for married women paying reduced rate contributions, on which no benefit is earned (now being phased out).

The years which are included in the working life are from the year in which age 16 is reached until the end of the last tax year before State pensionable age. To achieve contributions in at least 90% of this period therefore requires 44 years out of 49 for men or 39 years out of 44 for women. Thus, a man must contribute for a period five years more than a woman to become entitled to a basic pension payable from the State five years later than hers. This inequity of contribution and benefit is the most glaring injustice in the State Pension scheme.

Credits are granted during maternity, unemployment and sickness, to men retired between ages 60 and 65 and to those in school after age 16 but not to those in institutions of higher education over age 18.

Home Responsibilities Protection makes allowance for those who care for children or sick relatives, which lessens the requirement for them to have an unbroken career to qualify for the full pension on their own account.

4.2 *Earnings-related Pension*

Graduated pension

The Graduated Pension was an earnings-related State benefit which accrued during the period from January 1961 to April 1975 at the rate of a shilling pension per week for a number of units of contributions paid. An attempt was made to charge more for women than for men since benefit for women became payable five years sooner. So a female required 18 units of contributions but a male only 15 for the same pension. Female contributions would be paid over a shorter period, accruing that much smaller benefit again. This system also provides widows and widowers with 50% reversionary pensions.

Additional pension (SERPS)

However the Additional Pension (generally known as SERPS), the earnings-related pension accruing since 6 April 1978, completely reversed this trend. Not only would women pay *identical* contributions but the benefits would still be paid five years *earlier* and the accrual would therefore be *enhanced* so that the same target pension at age 60 might be provided as for a man with a longer working lifetime. Survivors were to inherit the entirety of their spouses' SERPS Pension, subject to a ceiling of the maximum individual entitlement.

At its commencement, the rate of 'accrual' of earnings (actually the average of the best 20 years' earnings) below the Upper Earnings Limit (UEL) for SERPS Pension was set at 25/N% for each of N tax years from 6 April 1978 to 5 April prior to State pensionable age, with N having a minimum value of 20. The scale has now been cut back for those retiring in the 21st century, but originally the rate was 1·25% or 1/80 for retirements up until 1999, then reducing each year to 1/84, 1/88, etc, as far as 1/196 for the youngest men. (For women it would only be 1/176.)

For any year before 2023 the scale is identical for men and women reaching pension age at the same time. However, if we consider men and women by year of birth, the picture is different as is shown in Figure 1.

Harmonization of the accrual rates as well as reductions for those who retire early under a system of flexible retirement provides a method of reducing the costs of paying State Pensions at an earlier age than now. The accrual rate for all who retire before 6 April 1999 will be 1/80th, so that there are in theory ten years available for modification of the accrual rate as part of any proposal for equalization, although a lengthy transition would be desirable.

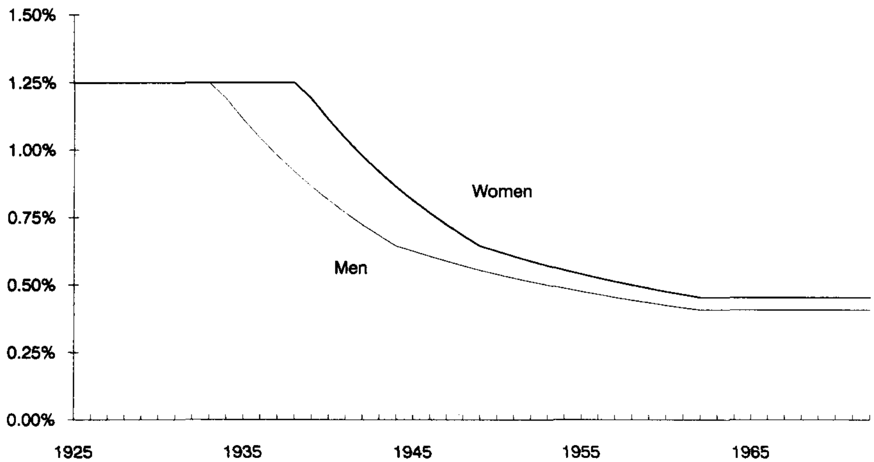

Figure 1. *SERPS as percentage of annual earnings by year of birth.*

4.3 *Married Women*

A married woman who pays full contributions is entitled to the better of two scales of basic benefit, namely the standard scale described above or, if it is better, a pension based on her husband's contributions, which would amount to about 60% of the Basic State Pension. However, to qualify on her husband's contributions, he must be retired and in receipt of the State Pension. There is no equivalent protection for a man to qualify on his wife's contributions, except as a widower when he may call on his deceased wife's contributions to make good deficiencies in his own—when he reaches pension age.

4.4 *Survivors Pensions*

There are two principal benefits, a Widow's Pension which is payable to widows over 55 at a full rate and to widows over age 45 at a reduced rate, and a Widowed Mothers Allowance payable to any widow if she has children for whom she is in receipt of Child Benefit. The widow now inherits the whole of her husband's SERPS Pension but from 2000 this is being reduced to one-half.

Widowers do not receive identical benefits to those of a widow. A lump sum benefit of £1,000 is payable to a spouse only on the death of a male contributor. However, there are provisions for widowers to make use of equivalent benefits in certain circumstances. For example, if a woman leaves a widower, both of them being over the State pensionable age, then he may inherit her SERPS Pension on top of his own and count her contributions towards his Retirement Pension, although this is unlikely to be necessary as 99% of men earn a full Basic Pension anyway on their own account.

Similarly, if a widower is in receipt of Child Benefit, then he is entitled to inherit his late wife's SERPS Pension. If his wife was a member of a contracted-out occupational scheme, then for GMPs accruing from 6 April 1988, the scheme has to provide a widower's pension of one-half of her GMP at death, where a SERPS Pension is payable from the State.

On the basis of the principal projection of the latest OPCS Population Projections(7), the numbers of widows and widowers are expected to be fairly stable over the next 40 years, although this will depend on trends in marriage rates, divorce and remarriage.

To extend to widowers the same benefits as are available to widows would cost no more than about £150 million. Although apparently cheap and fulfilling the equality requirement, widowers' pensions would be poorly targeted. The Social Security Act 1986 reduction in the ages at which childless widows are eligible for benefit reflects political attempts to target survivors' benefits better. More importantly, the numbers of single and divorced people are expected to rise substantially, with their need for pension benefit only able to be fully satisfied through individual entitlements.

5. THE IMPACT OF THE SEX DISCRIMINATION ACT 1986 ON PENSIONS

From May to August 1988 a survey of occupational pension schemes was undertaken in order to establish the degree to which equalization was now present within pension schemes and the extent that this might have changed since the Sex Discrimination Act 1986 made common retirement ages compulsory. It is a time of rapid change and the developments disclosed below are not necessarily complete.

The sample was weighted towards larger schemes. From a total of 254 questionnaires issued, 138 (54%) were returned. The total employed membership of these schemes was in excess of 2·2 million.

5.1 *Normal Retirement Age*

The schemes were asked about the contractual retirement ages applicable in their companies. A total of 68% of respondents reported that they did not discriminate between men and women. It is surprising that this was not even higher, since the 1986 Act prevents compulsory retirement of women at an earlier age than men. The remaining employers presumably rely on the law entitling women to exercise an option to continue at work if they wish.

Of those replying, 46% stated that they had altered their retirement age over the past two years, all in order to make it equal for men and women. In other words, there has been an increase from 22 to 68% in the proportion with equal contractual ages.

In a similar survey carried out in January 1988(8), the CBI found that the proportion of employers who operated equal retirement ages in the contract of employment was up from 19% before the passage of the 1986 Act to 60% afterwards. Our figures suggest that the trend towards formal compliance with the Act is continuing.

Of those employers who operate common retirement ages, the following ages have been chosen:

60	61	62	63	64	65
23%	—	5%	9%	—	63%

However, for the 46% who have changed their retirement ages in the past two years in order to provide equalization, few have chosen age 60 and a large majority have chosen age 65:

60	61	62	63	64	65
8%	—	6%	11%	—	74%

There seem to be three choices being made for a common age: 65; 60 (both choices being traditional ages for retirement); and a 'compromise' intermediate age, 62 or 63. The intermediate age is a new development. Only two of the schemes reported having had any such compromise common age two years ago (one at 62 and one at 63).

5.2 *Normal Pension Age*

Although the trend towards common pension ages has not been so pronounced as retirement age, almost 30% of respondents reported having changed their normal pension age in the last two years, all but two of them with the intention of equalizing ages.

Pension schemes until the passage of the Sex Discrimination Act had felt they should adopt the 'wait and see' approach rather than make a move towards equalization before the Government played its hand. It seems that many have now been prepared to make their decision, which may be seen by the Government as a key to its own moves.

A total of 43% of schemes showed no discrimination on the basis of sex, with the following pension ages:

Schemes with no discrimination

55	60	61	62	63	64	65
2%	45%	—	7%	10%	—	36%

More schemes had adopted a common age of 60 than had adopted 65. However, those which do discriminate between men and women were still in the majority and almost all (93%) set a male pension age of 65 and a female pension age of 60, as the State scheme does.

As with retirement age, it may have more significance for the future to observe the trends amongst those who have recently changed their conditions. Again, the move has been upwards, with over half equalizing at 65 and more choosing a compromise age than age 60.

Schemes newly equalized

60	61	62	63	64	65
21%	—	9%	15%	—	55%

If the schemes with unequal pension ages were to follow suit in their equalization, then approximately half of all schemes would have equalized at 65 but only about a third at age 60. If they were to match contractual retirement policies, then the proportion at 65 would be even higher. When asked whether they had any plans to equalize pension ages, 10% of those surveyed said that they did.

In the NAPF 1988 survey(9) conducted during May 1988, similar distributions of pension ages to those shown above were found amongst those with pension ages newly equalized, 21% at age 60, 18% at age 62, 6% at age 63 and 55% at age 65.

Pension managers were asked about the numbers of women who now continue working past normal female pension age but the replies were too few to disclose significant trends. Of those who did respond, an average of about 10% of women are continuing in work. On the more general question of whether the numbers of women wishing to work past normal pension age had increased since the passing of the Sex Discrimination Act 1986, nearly half said that they had.

5.3 *Entry Ages*

The Social Security Act 1989, as described in Section 3, will require entry ages to be non-discriminatory. In 41% of responses, the maximum age at entry had been set within 5 years of differing Normal Pension Ages. Such discrimination must be removed within the next few years and may be a spur towards more pension age equalization.

5.4 *Bridge Pensions*

Many schemes are trying to provide a full level of retirement income for their members from the time they retire even if it is before the State Pension becomes available. A total of 30% of the replies said that a bridge pension was available for men who retire younger than 65. The range of benefit provision is extensive, from the separately defined formula, based on the State Pension or Lower Earnings Limit (LEL), to the deferral of any State Pension offset until age 65.

One-half of those providing bridge pensions operated normal pension ages of

65 for men and 60 for women, implying a greater degree of lowering of pension age and provision for integration with the State Pension than the position on pension age would suggest.

After 1993, as a result of the wording of the Social Security Act 1989, these bridge pensions will cease to accrue, making it even more difficult for schemes to introduce workable common pension ages.

5.5 *Survivors Benefits*

As the survey was of large schemes, the majority of whose members were contracted-out of SERPS, nearly all provided both widows' and widowers' pensions as of right. There were 96% of schemes with guaranteed widows' pensions and 93% with guaranteed widowers' pensions. Almost 80% had completely guaranteed benefits, with no discretion as to spouses or dependants and only 15% withdrew a widow's pension on subsequent remarriage or cohabitation.

6. SOCIAL FACTORS

6.1 *Different Retirement Ages*

There is some resistance to equalization on the grounds that the privilege of an earlier State pensionable age is justified by the otherwise unpaid work some women do in caring for children, the elderly and disabled, the so-called 'double burden'.

The State pensionable age for women was lowered to 60 in 1940 at a time when women were being drafted into the munitions industries and the armed forces. The call for a lower age for women was perhaps in part a chivalrous gesture on the part of men, and was also designed to improve the working conditions of spinsters, which was a particular concern of the TUC[(10)].

However, if pension age and amounts of pensions were to depend on years of contributions, which were the same for both men and women, then provided there were adequate compensation in terms of credited years as for Home Responsibilities Protection, both towards pension and earlier retirement, whether the carer is a man or a woman, the chivalrous purposes of a lower age can be met without discrimination.

Although women tend to receive smaller benefits as a consequence of having lower earnings and fewer years of contributions to accrue entitlements, the continuing inequality in pension ages is an insensitive way to compensate women for such disadvantages, since higher paid women with no children gain most from it.

A more specific cause of the difference in retirement ages is that before 1940 the contributory old age pension was not paid to married women until they were 65, regardless of how old their husbands were. The average age of a wife was rather lower than that of her husband, so that men and women could not draw pensions from the same age.

Instead of providing flexibility for both, the coalition Government of 1940 decided to wield a broad brush and allow a generous five-year reduction for women, which would encompass most wives of 65-year-old men. Those women whose *husbands* were five years younger received no such help. Instead, their husbands had now to wait ten years after their wives to retire instead of five.

The 'solution' of 1940 was ironically rendered redundant in 1948 when under the National Insurance Act 1946 a male pensioner could claim an increase in pension in respect of a dependent wife who was not in receipt of a pension, even if she was under State pensionable age. Since a married woman of pensionable age can claim a pension based on his contributions at the same level as this increase, this is now only of use where a wife is younger than 60.

6.2 *Simultaneous Retirement*

One of the reasons set out for the different pension ages is that women are in general younger than their husbands, by two or three years.

The average age gap between married people decreases with time since marriage, since older husbands experience heavier mortality. It has also been observed that men with much younger wives experience particularly heavy mortality[(11)]. The average excess today of 2·2 years at marriage can be expected to fall by the time today's newly-weds become pensioners.

In our survey of pension schemes, the desire to retire at the same time as one's partner was mentioned as one of the significant reasons for early retirement. It may be reasonable for couples to plan to retire when the older of the two reaches an acceptable retirement age or when the higher-paid (which today is less certain to be the man) reaches a suitable retirement age.

Age distribution of husbands for wives aged 60 to 65[(12)]

Women, unless they have been paying the reduced rate contributions formerly available to married women, are able to draw their pensions at age 60, whatever the age of their husbands. As can be seen from Figure 2, only about a quarter of husbands of women aged 60 are over 65 and nearly a third of the husbands of wives aged 64 are not yet able to draw a pension.

The different retirement ages thus fail to provide flexibility for many of the time at which they might jointly wish to retire, forcing people either to put off retirement or to have to live off savings until they become entitled to the State Pension.

To allow a couple who can afford it to retire when they have together reached what they believe to be a suitable age, the State Pension could be made available at reduced rates during a flexible period of retirement, as the European Commission is keen to promote. This has been done successfully by schemes in some countries, and occupational schemes have done much in recent years to enable people to plan their retirement along these lines. Its implementation by

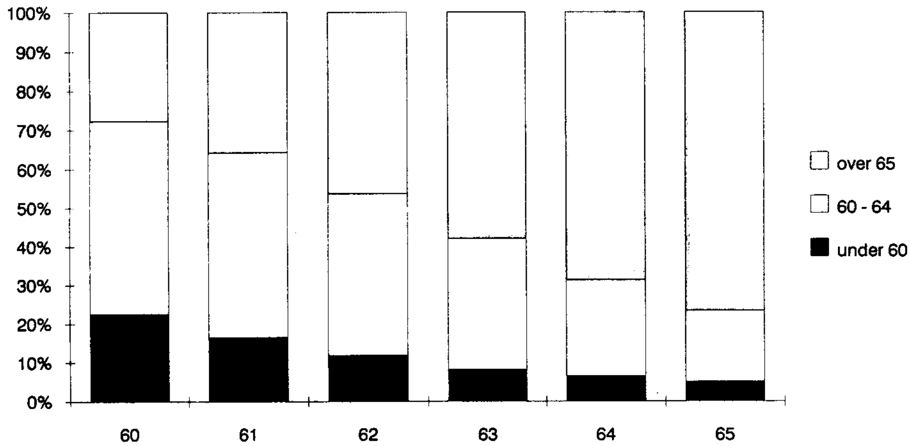

Figure 2. *Age distribution of husbands for wives aged 60–65.*

1993 would do much to lessen the problems posed by the abolition of bridge pensions.

6.3 *Employment Trends*

The Department of Employment has given the following figures for the percentages of economically-active people[13]:

Men	Actual						Projected	
	1976	*1978*	*1980*	*1982*	*1984*	*1986*	*1988*	*1990*
Age								
55–59	92·4	91·3	90·1	86·8	82·1	80·3	80·1	80·1
60–64	80·4	75·8	71·2	64·3	56·7	53·4	52·6	51·4
65–69	23·9	19·4	16·6	14·8	13·6	12·5	11·1	9·9
70+	8·0	6·8	6·3	5·9	5·5	4·7	4·3	3·8

Women	Actual						Projected	
	1976	*1978*	*1980*	*1982*	*1984*	*1986*	*1988*	*1990*
Age								
55–59	54·3	55·0	53·6	52·0	51·1	51·7	51·7	51·7
60–64	26·9	23·3	22·4	21·9	21·3	18·8	18·2	17·7
65+	4·7	3·9	3·6	3·5	3·0	2·7	2·6	2·5

There has been a dramatic fall in activity rates at older ages for men and, to a lesser degree, women. Whereas ten years ago there was a near full activity of men at ages 55–59 (by comparison the rate was 96% for those between 25 and 55) this has declined to 80%, implying a significant number of men taking retirement before they are 60. In the age range 60–64, the proportion of men economically active has dropped to little over one-half. The number actually employed (unemployment amongst this age group was about 9% in 1986) was only 49·6%, the first time it had ever fallen below one-half. Above age 65, only about 8% of men defer drawing their State Pension, a proportion which has been falling for some years.

The relatively smaller decrease in female activity rates is in part due to the general rise in female employment during the period examined. There has been a strong growth in the numbers of part-time employees, with 57% of employed married women now in part-time jobs (as against only 29% of single women).

Traditional industries have steadily reduced their demand for manual work, with difficulties for older men in acquiring work or new skills which will only be used for a short time. Those forced to rely on Income Support with no pension available from 60 to 65 are deprived of the status and dignity of being pensioners.

In many countries, pensions are available at early ages in industries where working conditions are arduous. If granting State Pensions at 60 allowed the retirement of men from more unpleasant jobs this could have some beneficial effect on youth unemployment. However French experience in 1983 was disappointing, when lowering the State Pension age to 60 did little to check the rise in unemployment.

At a time of economic growth it may be more reasonable to expect replacement recruitment. Notwithstanding historically high levels of unemployment in the U.K., there are now labour shortages in some areas, particularly those of specialist skills, as numbers of children finishing education fall sharply as a result of lower birth rates of the late 1960s and 1970s. Earlier retirement of valuable trained staff might not be attractive to an employer if there would be difficulty in recruiting replacements. More flexible retirement patterns would therefore be beneficial in this regard.

6.4 *Families*

SERPS envisaged a pattern of full-time employment for women which was interrupted by child-rearing and resumed when children were older. Full benefits were on the basis of the best 20 years' earnings, with periods when a parent receives Home Responsibilities Protection (because of caring for children or other dependants) removed from the averaging period. For the Basic State Pension, contributions are not so much credited towards the total required as debited from it and the target number of years reduces in size.

If retirement conditions were replaced by the need for 44 years' contributions in order to retire between 60 and 65, as we suggest could be feasible, then an allocation of specific credit towards this total on the lines of Home Responsibilities Protection could help to protect the expectations of women who suspended their careers in order to bring up children.

7. FLEXIBLE RETIREMENT

In a sense, State Pensions in Britain are already flexible, though this flexibility is not emphasized as it might be. State pensionable age is 65 for a man and 60 for a woman, but in either case the retirement may be deferred by up to five years. Provided this deferment lasts at least seven weeks, there is then an increase of $\frac{1}{7}$% for each week of deferral. After five years this builds up to an increase of over 37%, plus the increases that have been granted to State Pensions in the interim. Thus a woman retiring at 65 in April 1989 would receive a Basic Pension of £59.80, but her male contemporary £43.60 at the same age.

The rate of $\frac{1}{7}$% per week is a fair compromise between men and women to the theoretically correct rate on the basis of the latest Population mortality figures(7).

Deferral (years)	*1*	*2*	*3*	*4*	*5*
Male Factor	1·079	1·169	1·272	1·390	1·526
Female Factor	1·049	1·103	1·161	1·226	1·297
$\frac{1}{7}$% *per week*	1·075	1·149	1·224	1·298	1·373

Whatever age is chosen as the State pensionable age, it is necessary to consider the appropriate factors for early and late retirement, where this is allowed.

There is no reason why the enhancements (or equivalent reductions) must be strictly actuarial factors of the benefits that are available at a normal age, if the State Pension is both based on an insurance principle and attempting to perform a social redistributive role to ensure that people are not too impoverished.

One policy is to have factors for enhanced or reduced pension from a normal pension age, or within a band of ages, which attempt to encourage or discourage employment before or beyond that age. The French had an approach for many years where, although pension was available at age 60, the conditions heavily discouraged retirement so early (the discount was 50% at 60) and the normal age was 65, at which just under half of pensioners (both men and women) retired. As a result of changes to the terms in 1983, retirement at 60 is now a realistic and popular option.

The difficulty of a stringent reduction may be that on the one hand it discourages retirement at 60, but on the other it may so reduce the pension for those who do retire at 60 that they are forced to rely on Income Support. Those who were already on Income Support would be no worse off if they retired but those who retired on inadequate pension might place extra costs on other social security benefits which would negate the intention of the heavy discount.

7.1 *Guaranteed Minimum Pensions*

A GMP must be paid by a scheme at State pensionable age and so if someone is retiring early from an occupational scheme, even if the full pension is paid immediately, the pension at State pensionable age must at least equal the GMP revalued for the period from leaving service until State pensionable age.

An occupational scheme with a pension age below that of the State is also involved in securing the contracted-out benefits of those retiring in the manner adopted for dealing with the GMPs of leavers. If 5% per annum revaluation has been chosen, a Limited Revaluation Premium (LRP) is paid, even if the person concerned is only a couple of years from receiving his State benefit.

In many cases, a member may wish to commute for the maximum tax-free lump sum that is available and this might leave only the GMP. The scheme then either retains a deferred pension for a short period, with the member not able to opt for a smaller immediate pension or, alternatively, the scheme may pay the pension immediately, in which case it runs the risk of being more generous than it may wish if the pension is not then larger than the GMP at State pensionable age.

Payment of the GMP by the scheme from an earlier age ought to be possible if the occupational scheme is in any case providing the pensioner with an adequate income in retirement. The DSS could presumably calculate the Net Additional Component at State pensionable age and provide increases from that date without placing any extra requirement on a scheme other than the need for the pension at early retirement to be at least as large as some actuarially reduced GMP.

The earnings-related pension has been building up now for more than ten years. A possible rule which could be used to introduce flexibility into State provision would be to permit actuarial reductions for men earlier than age 65 with the requirement that the total State Pension, including the notional Additional Component, had to be at least equal to the level of the full Basic Pension at age 65, thus removing one of the fears that early retirement would put too many people on to Income Support. The big drawback of such a proposal is that it may be seen as 'retirement for the rich' although this is already a feature of pension provision today, when those with little other means have to wait until 65 or rely on Income Support if out of work before then.

Personal pensions

In this respect one should note that with the recent reforms of Social Security it is no longer necessary for all contracted-out schemes to provide the traditional GMP. With the introduction of money-purchase contracting-out, the DSS has accepted that there is no need for the member to receive this exact shortfall of State benefit from the scheme but now merely restricts the Protected Rights, namely the funds from the investment of rebates of National Insurance contributions which have to be used to buy the same quality of benefit as the GMP.

Unfortunately, the link was not broken with the age at which these Protected Rights may be available, which remains 65 for men and 60 for women; apart from this a Personal Pension may be drawn at age 50. Since there is no constraint placed on the amount of benefit that must be paid, it would not be difficult to allow the freedom to choose whether to have the whole pension paid early.

GMP/SERPS early retirement factors

Flexibility is agreed by all to be a prerequisite of any change, and there is discussion on whether the emphasis should be put on a fixed normal age, with increases and decreases either side of that (as for late retirement now), or alternatively a band of ages, within which one could choose one's retirement date (the 'Decade of Retirement'). For occupational schemes, there is still the need for a Normal Retirement Age for Inland Revenue purposes.

Appropriate reduction factors would be required for the conversion of the accrued GMP due at State pensionable age into an immediate pension. Provided the early retirement factors of the scheme in question were more generous than a set of statutory minimum factors, there would be no difficulty in granting such pensions immediately.

There is a dichotomy of approaches applicable to early retirement from the State Scheme. On the one hand, the State Scheme is based on the principle of Pay As You Go, so that the National Insurance Fund should aim for a balance of income and outgo from year to year. The actuarial approach of calculating early retirement factors on the basis of a rate of return on investments could be inappropriate where there are no investments to back the liability.

On the other hand, occupational schemes meet pensions from their investments, and an assumption of investment returns and pension growth is required in order to assess theoretical factors to be applied in determining a reduced pension. On an assumption of 8·5% per annum investment returns, earnings growth for Section 21 Orders 1·5% lower, and PA(90) Pensioners Mortality, we have the following early retirement factors to be applied to Accrued Rights Factors for men retiring between ages 60 and 65, for pensions accrued before and after 6 April 1988:

	Age					
	60	*61*	*62*	*63*	*64*	*65*
Annual Increases						
Nil	0·75	0·80	0·84	0·89	0·94	1·00
3%	0·73	0·78	0·83	0·88	0·93	1·00

If, however, we were to anticipate the provision of flexibility for State Pensions, it may be acceptable to derive factors which do not include allowance for investment returns, especially if the reduced GMP determines that part of State pension not provided by the State.

The SERPS Pension is increased in line with prices unlike the GMP from the occupational scheme. Using the latest population tables[7] and price increases at 5·5% per annum, the figures below show factors for the SERPS Pension, taking allowance for the 'saving' in not having to provide Section 21 Orders increases to GMPs right up until age 65, and factors for the Basic Pension:

	Age					
	60	*61*	*62*	*63*	*64*	*65*
SERPS Pension	0·77	0·81	0·85	0·89	0·94	1·00
Basic Pension	0·72	0·76	0·81	0·87	0·93	1·00

An appropriate change in the rules which could be instituted fairly quickly, *without* compromising equalization choices, would be to adopt a scale of reductions for GMPs based on the above SERPS Pension factors, which a scheme could apply for contracted-out employees, so that they could avoid a partially deferred pension, with all the extra administration that currently entails.

7.2 *State Increments and Reductions*

It would be difficult to justify a system which sought to discourage continued working by providing miserly enhancements. This will be particularly true in 40 or 50 years' time, when the numbers of people available for employment will be much reduced from today and it may be desirable to maintain the size of the workforce.

The following table shows the theoretical actuarial factors for late retirement from the age of 65 for men and women on the same population tables as above. Compared with the current enhancement factor of $\frac{1}{7}$% per week, an enhancement of 6·5% per annum, or $\frac{1}{8}$% per week might be appropriate from age 60 to age 70. This would be rather less than actuarial equivalence for those deferring by more than about five years or for those retiring at 60. If equalization is being addressed, the factors derived should be the same for both sexes.

						Age					
	60	*61*	*62*	*63*	*64*	*65*	*66*	*67*	*68*	*69*	*70*
Actuarial Factors											
Male	0·716	0·761	0·811	0·867	0·930	1·000	1·079	1·169	1·272	1·390	1·526
Female	0·771	0·809	0·850	0·895	0·945	1·000	1·060	1·127	1·202	1·286	1·380
6·5% Factor	0·675	0·740	0·805	·870	·935	1·000	1·065	1·130	1·195	1·260	1·325

These factors would need revision for improving mortality, which, in the Principal Population Projection employed in our costings, drops by a quarter over the next 40 years, leading to a fall in the appropriate enhancement from about 6·5 to about 4·5%.

7.3 *Stepped Pensions*

Another possible approach to allowing earlier pensions but guarding against some of the dangers of placing too many people on Income Support would be to introduce a pension with steps at higher ages. For example, the Basic State Pension might increase at age 70 and again at age 80, as it does at present. The increase at age 80 is only 25 pence per week, a figure unchanged in two decades. This particular increment should in any case be re-examined, as an increase of that size now seems absurd to those who receive it.

The SERPS Pension has only been accruing since 1978 and despite the increase of pensions in line only with prices, the total incomes of pensioners have risen by 2·7% per annum in real terms in the last ten years. However, those who retired in the 1970s or before have minor earnings-related pension from the State and have lower incomes in general than recently retired pensioners.

A lower State pension, or even an actuarially reduced pension, might be provided for retirement before age 65 (or 70 perhaps), with a subsequent increase at 65 or 70 to the full level of pension, and a further increase at a later age such as 80 at present. Although not a typical feature of occupational schemes, there are arrangements made occasionally for someone to accept a reduced early retirement pension which returns to its full level at an age such as 80.

The introduction of a system of pension steps can be regarded as a first approximation to actuarial reality. Earlier retirement implies lower pensions; larger pensions are possible at a later age.

Making a Basic State Pension available below its current level between ages 60 and 65 for both sexes has a number of attractions:

(i) Women have been promised a pension between ages 60 and 65 whereas men have not. An intermediate benefit for all could be an acceptable compromise.

(ii) Personal savings are larger and there are more opportunities for part-time work for those about to retire than for the more elderly. A small pension may therefore be useful to younger people.

(iii) The thought of an increased pension available later could lessen worries about the possibility of high inflation in future years and the onset of infirmity reducing possibilities of part-time work. A larger step as an increase at 75 or 80 equal to the reduction for the 60–65 year olds might be introduced.

(iv) A stepped scale of benefit could substantially reduce the initial costs of achieving equalization. A Basic State Pension 10–20% less than normal would not increase the numbers on Income Support by much but would provide a saving of some of the cost of allowing full Basic State Pensions to men from age 60.

(v) As mentioned earlier a smaller than normal pension available to both sexes at age 60 could be particularly useful to couples wishing to retire at the same time.

(vi) Steps in the State Pension can parallel the operation of Income Support which pays Premiums at different ages. A Pension Premium of £10.65 per week for a single person is given over the age of 60. There is a step of £2.50 at age 75, above which people have earned no Additional Pension because that was only introduced ten years ago. At age 80 there is already a step of £2.50. The combination will serve as a rough compensation for the lack of a good earnings-related State Pension covering their careers.

(vii) The tax system makes some small recognition of the greater need of the extremely elderly, with personal allowances in 1989/90 from age 65 being £625 higher than before that age and at 75 increasing by a further £140.

Stepped pensions have been put forward as a means of introducing transitional arrangements during implementation of a common pension age. In a paper in 1977, Noble Lowndes[14] suggested a reduction of the pension payable to women from 60 to 65 from 100 to 50% over a ten year transition, with a step at age 65. The cost of administration and the awkwardness of such a change could possibly militate against it.

7.4 *Part-time Work and Phased Retirement*

Phased retirement has not been introduced in this country to anything like the extent which it has in Scandinavia. The E.E.C. has a policy[15] to encourage phased retirement, flexible retirement and post-retirement work. To that extent, the pursuit of greater flexibility whilst at the same time seeking equalization accords well with the wishes of Brussels.

Recent years have seen a tremendous growth in part-time working, with part-timers (often female) usually being low-paid and often poorly provided with pensions. Our survey results confirm what other recent surveys have shown, namely that there is now a greater recognition of the need to provide pensions for part-timers. Only 20% of those responding to the questionnaire categorically excluded part-timers. However, the State scheme (where there are no benefits if earnings are less than the LEL and earnings-related benefits accrue only on the earnings above that level) and final salary occupational pension schemes can be poorly equipped to provide a decent benefit for part-timers.

The 1986 E.E.C. Directive and the Social Security Act 1989 seek to prevent indirect discrimination, without precisely specifying what that is. Even if part-timers are admitted on the same terms as full-time members they may have claims against schemes which cannot adequately justify their deductions from salary in determining benefits, where these hit part-timers more harshly than full-time workers. As an example, the method of integration with the State scheme is often extremely rough and ready and may need to be reconsidered.

Phase retirement has all the hallmarks of the difficulties with part-timers. In an occupational pension system based largely on final salary schemes, those who might gradually reduce their level of work would require a benefit suitably related to an equivalent final salary had they still been full-time.

8. THE COSTS OF EQUALIZATION—OCCUPATIONAL SCHEMES

A man who draws a pension from an occupational scheme before he is 65 is not able to receive anything from the State scheme and will therefore have to suffer a shortfall in income in the period up until age 65 unless the scheme is prepared to provide a bridge pension for that period.

We have considered the costs of equalizing the pension ages for men and women, as well as providing equivalent survivors' benefits, for a contracted-out final salary occupational scheme.

For this purpose, we have considered four theoretical schemes:

(w) Normal Pension Ages 65 for men and 60 for women (accrual 1/60)
(x) Normal Pension Ages 60 for both men and women (accrual 1/60)
(y) Normal Pension Ages 60 for both men and women (accrual 2/105)
(z) Normal Pension Ages 65 for both men and women (accrual 1/60)

As well as a pension on retirement with the accrual shown above, there is a 50% widow's or widower's pension on death after retirement and a pension equal to 50% of the prospective retirement pension on death in service. On death in service a lump sum of four times salary is also payable.

Pensions are guaranteed for five years, with increases in line with prices. Any options at retirement to commute part of the pension, or surrender for spouse's pension, have been assumed to be at actuarially neutral values and have therefore not been costed.

The membership we have presumed is based on the weights used by the Government Actuary for members of defined benefit schemes in his review of the Contracting Out Terms from 1988 to 1983[16]. We have considered a scheme with the earnings distributed according to the New Earnings Survey for 1987[17]. It is assumed that members' past service is half of the period since they were 18.

We have assumed investment returns of 8·5% per annum, with general salary growth 1·5% per annum below this, together with a further salary scale amounting to 1% per annum and pension increases 3% per annum less than the investment returns. The mortality assumed has been A67/70 in service with three years deducted for women, and PA(90) in retirement. No allowance has been made for withdrawals.

We have also looked at the sensitivity of the contribution rates brought out to changes in the assumptions regarding salary growth, pension increases and pensioners' mortality.

The scheme has been assumed to be fully funded in case (w), with the liability for increased or reduced past service costs funded evenly over the remaining working lifetimes of members in cases (x) to (z).

The following contribution rates as a percentage of the salaries of the members have been derived on the Projected Unit method:

Scheme	(w)	(x)	(y)	(z)
Retirement Benefits	17·7	21·3	24·4	16·9
Death Benefits	4·1	2·9	3·2	4·2
Past Service Balance	—	1·8	3·4	−0·4
Total	21·8	26·0	31·0	20·7
Salary growth				
1% p.a. less	17·9	22·4	27·1	16·9
Pension increase				
1% p.a. less	19·8	23·4	28·0	19·0
Mortality PA(90) − 1	22·3	26·7	32·0	21·4

On the basic assumptions, there is an increase from 21·8 to 26·0% in the cost of providing the same accrual to age 60 for both men and women as would be provided to ages 65 and 60. In other words, a common age of 60 would cost approximately one-fifth more. This ignores any attempt that might be made to provide a bridge pension until the State Pension is available, which might cost about 2% more. With a more conservative assumption of lower salary growth, the extra cost imposed by switching to the standard accrual at age 60 would be 4·5% of salary, reducing to a long-term rate of 2·4%.

As with the projections of the cost for the State benefits, the cost neutral age for this scheme is around 64, although none of the schemes which we sampled had in fact adopted this.

If the company wished to provide the same level of benefit in total, then scheme (y) gives the accrual rate required to provide the man who joins at age 25 the same scale of benefit at 60 as would have been possible at 65. The immediate cost of this, 31·0%, is half as much again as the cost of benefits in (z) to both sexes at 65.

The substantial past service surpluses built up by funds in recent years have provided the means to lower the pension age without heavy initial costs or serious harm to the solvency of the scheme, but if the pensioner is to have the same ultimate benefits at 60 (option (y)), then an extra contribution will still be required in the long term of around $5\frac{1}{2}$%.

An occupational scheme could set its Normal Pension Age to be that at which the member shall have completed a certain number of years' service, and this method is suggested in the proposed E.E.C. Directive. For example, retirement as soon after age 60 as 25 years' service has been completed, or 65 if sooner, would allow those who join a firm after age 35 to be retained longer than if they had retired at 60, whilst permitting the long-service employee to retire at 60 on an undiscounted pension. The costs of such an arrangement would be intermediate between those for schemes (x) and (z) depending on the exact service patterns of the membership.

The costs of extending survivors' benefits to widowers as well as widows would be about 0·5% out of the contribution rates shown, so that the question is one of whether or not need is really being met rather than one of cost.

Benefits may be better targeted if paid at discretion to dependants so that the pension scheme can try to ensure that beneficiaries are in need of pensions, although managing a discretionary benefit may be difficult for very large schemes.

9. THE COSTS OF EQUALIZATION—THE STATE SCHEME

9.1 *Assumptions*

In making any calculations and projections of the future costs of benefits it is necessary to make certain assumptions, based on experience of the financial factors affecting expenditure in the past. We have adopted the assumptions set out by the Government Actuary in his review of the Social Security Bill 1986[18] However, we diverge from them on the indexation of Earnings Limits.

9.2 *Earnings Limits*

Until 1979 State Pensions (and indirectly the Earnings Limits which were linked to pensions) were increased in line with earnings or prices, whichever was the higher. This was usually earnings, and the Earnings Limits were implicitly linked to earnings. Now, however, pensions in payment are only increased in line with prices, but the amounts of SERPS Pension accrued on earnings between the Earnings Limits from year to year are increased in the period until State pensionable age in line with increases in National Average Earnings, as specified in 'Section 21 Orders'.

Surprisingly, although the amounts between which SERPS Pension is determined are described as Earnings Limits, they have not been related to earnings at all. Instead, the LEL is set at approximately the level of the Basic State Pension. The UEL is about seven and a half times this amount, so that the band has not itself kept pace with rises in earnings. It is surprising that the future of Earnings Limits was not addressed as part of the Review of Social Security that took place in 1985[3],[4].

The calculation of benefits is even more inconsistent. Earnings up to the UEL are increased in line with earnings increases, with the LEL at pensionable age being deducted from the result. In other words, the deduction increases less than revaluation of the total.

For those on earnings above the UEL, for example, the net effect has been that the pension accrued in 1978/79 has been increased by a factor of 2·89 whilst the earnings on which the State Benefit is determined have only risen by 2·54 so that a smaller pension now accrues. Similar inconsistencies arise for lower earnings, but precise figures depend on actual earnings growth.

	Increases to National Average Earnings	*Increases to Upper Earnings Limit*	*Ratio*
1978/88	2·812	2·542	0·90
1979/88	2·481	2·259	0·91
1980/88	2·073	1·848	0·89
1981/88	1·736	1·525	0·88
1982/88	1·577	1·386	0·88
1983/88	1·464	1·298	0·89
1984/88	1·356	1·220	0·90
1985/88	1·272	1·151	0·90
1986/88	1·168	1·070	0·92
1987/88	1·087	1·034	0·95

If earnings rise as strongly as they have in the past few years, the level of average earnings will exceed the UEL by the end of the century!

Prices indexation

Recently Retirement Pensions and Earnings Limits have been increased in line with prices but it is doubtful for how long this can continue to be the case with such fast earnings increases. It is, nevertheless, the way DSS Retirement Pension Forecasts are made. One consequence has been repeated cutbacks to the income of the National Insurance Fund in recent years to avoid paying greater amounts in pensions.

Earnings indexation

The easiest indexation to apply and the only one which has been costed in the reviews of Social Security, namely to link both Lower and Upper Earnings Limits to rises in earnings, would increase the benefits arising. It would also reduce the burden of contributions on low earners, which commence not on the marginal income above the LEL but on the full extent of income, once it is above that point.

However, in order to qualify for the Basic State Pension, contributions have to be paid on the level of the LEL in any given year. Above that level, contributions earn entitlement to pension in excess of the basic, so that there is a degree of correspondence between earnings and the element of pension being provided. With the limit so low, few full-time employees accrue no pension entitlements and even amongst part-timers most earn enough to pay contributions.

Earnings indexation of the Upper Earnings Limit only

A more consistent policy might be to retain the link of LEL and Basic Pension to prices and to link only the UEL to earnings. Two purposes would be achieved by such a change. The earnings-related pension would be provided on a more stable share of total income than is the case with uprating according to price increases, and the contribution income would rise faster as earnings increased.

Removal of Upper Earnings Limit

A further possibility, namely the removal of the UEL altogether, could be considered, although this runs counter to the wish of the Government to avoid high levels of marginal taxation. The provision of benefits without ceiling would be an unusual course for social security systems, although a ceiling could be retained for benefit calculation. Integration with cuts in tax bands might be needed. The removal of the Upper Earnings Limit for contributions could be accompanied by the removal of higher rate tax.

Reviews carried out by the Government Actuary have assumed that the Earnings Limits would be increased in line with earnings even where pensions were assumed to rise in line with prices. It is nearly ten years since the earnings link of the Basic Pension was broken and this assumption seems unjustified in the absence of any change. It ought to be carefully questioned in future official projections if there has been no move to change the current treatment.

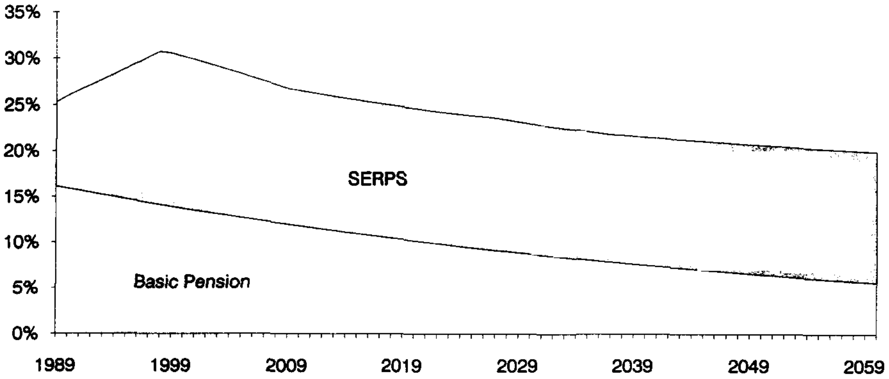

Figure 3. *State pensions as a percentage of earnings for a man on National Average Earnings throughout life.*

We have assumed that the UEL will be increased in line with Section 21 Orders but that the LEL will remain linked to the Basic Pension and prices. Under this arrangement, as earnings increase the proportion which the Basic State Pension bears to average earnings will reduce but the SERPS Pension will form a greater part of a person's total benefit at retirement as the size of the earnings band widens. Part of the shortfall in the Basic Pension will be taken up in increased SERPS Pension. Figure 3 shows the level of pension on this basis related to earnings for a man who earns at the level of National Average Earnings for his whole life.

The following projection compares contribution rates required over the next 60 years for existing benefits on the basis of the various uprating methods outlined. The rates would be slightly lower on our assumption than with prices uprating, providing greater scope for benefit improvements and the introduction of equality.

Contribution Rates (%)	*87/88*	*97/98*	*07/08*	*17/18*	*27/28*	*37/38*	*47/48*
Prices Uprating	18·4	17·3	17·5	18·5	19·5	18·8	16·2
UEL Earnings Uprating	18·4	17·1	17·1	18·0	18·8	18·1	15·6
Earnings Uprating	18·4	19·5	21·5	24·7	28·4	29·8	27·5

9.3 *Contributions v Pensions*

The choice of an age of retirement is a matter of balancing levels of earnings, contributions and pension. On the individual level, this choice is exercised by deciding when one wishes to retire and how much income one is prepared to forgo in order to provide for an income at the chosen age. Each decision affects the other. For example, provided flexibility is available, the date of retirement may be postponed if the income available is not yet sufficient.

The level of contributions to the State scheme cannot be chosen by the individual and so the only flexibility is choice of the age at which to draw the pension. As explained earlier, late retirement is the only flexibility now allowed and this is limited to 65 for women and 70 for men. To turn the problem on its head, the State's problem in providing for equalization and flexibility is to determine what will be an acceptable level of National Insurance contribution and what should be the equivalent early retirement reduction to the late retirement factors now used.

As the current system provides more valuable pensions to women per unit contribution than to men, it follows that an equalization will leave women poorer and men better off overall than if the present benefit structure in relation to contributions is maintained. However, women in general continue to expect greater longevity and thereby receive more pension per unit contribution.

9.4 *Pension Age*

If pension age were raised to 65 for both sexes, then although the total system would be less costly, women would be suffering a substantial reduction in the value of their benefits and, possibly more unwelcome, no availability of pension before age 65. If pension age were to be set at 60, this would require either higher levels of National Insurance Contributions or else lower levels of benefit for women than they receive at this age now.

The cost to the State of a lower age for claiming the State Retirement Pension is not merely the extra cost that will be imposed as a result of higher amounts of pension in payment, but also the revenue foregone from any who would otherwise be working and paying National Insurance contributions. There would be some savings in Sickness Benefit and Unemployment Benefit, as well as in Income Support which would be lessened if the State Pension were available earlier.

The prospect of large numbers of people becoming dependent on Income Support has been one of the reasons that governments have been unwilling to allow payment of a reduced pension before the current State pensionable ages, lest it prove inadequate to many of those who take it, especially in extreme old age. In this regard, for those of little means who retire early with a small occupational pension and minimal savings, Income Support may well already be acting in lieu of an earlier pension before State pensionable age.

Indeed, if an occupational scheme is granting increases to pensions, any increase given to such a pensioner may effectively go straight to the State in reducing the required Income Support. The member may well be better off by relying on Income Support and taking a deferred rather than an immediate pension so that there is no loss of the benefits provided before State pensionable age.

9.5 *Immediate Costs*

The calculations made for the report of the House of Commons Select Committee on Social Services in 1982[2] assumed that relatively few men would continue in employment beyond a reduced pension age of 60. Although only about 8% of men currently put off their retirement at age 65, there would be many more who deferred pension at age 60, as savings and other income would be much less.

Even with the State Pension available, the latest Labour Force Survey figures[19] show that a fifth of women aged between 60 and 65 are still at work. Our survey and statistics on the deferral of pensions by women show that many women choose to remain at work after 60 and earn higher pensions, from the State or their occupational scheme. It would be surprising if many more men did not remain in employment after age 60.

We assumed that if the State Pension were to become available at 60, one-half of men would continue at work beyond that age, with retirement between then and age 70 on the following scale:

Age	*60*	*61*	*62*	*63*	*64*	*65*	*66*	*67*	*68*	*69*	*70*
Retired %	50	59	67	73	78	90	92	94	95	96	100

Our assumption implies that 30% of men between ages 60 and 65 are employed, which is consistent with a general male economic activity rate of half as much again as the female rate.

Where we are raising the pension age to 65 for women, we have assumed that the proportions of women retired from work would be:

Age	*60*	*61*	*62*	*63*	*64*	*65*	*66*	*67*	*68*	*69*	*70*
Retired %	60	68	74	79	84	92	94	96	97	98	100

Replacement rates

It is difficult to accurately judge the replacement rate, namely the extent to which an extra retirement in old age will be replaced by an unemployed person of younger age. The central assumption of $\frac{2}{3}$ of jobs being replaced, of which 75% are from the unemployment register, used for the 1982 enquiry[2], has been repeated here. In any case, with an assumption that many more men continue at work than the 1982 enquiry supposed, the importance of the replacement rate is significantly diminished. The following table shows our estimates (for the year 1989–90) of the total costs to public funds of setting the State pensionable age from 60 to 65 without any reduction to the full pension: (£M)

Full accrued pension	*60*	*61*	*62*	*63*	*64*	*65*
Men—Retirement Pension	4460	3560	2680	1780	900	—
Lost Revenue (Tax and N.I.)	600	440	300	160	80	—
Savings on Other Benefits	−1200	−920	−660	−400	−180	—
Total	3860	3080	2320	1540	800	—

Women—Retirement Pension	—	−260	−570	−900	−1300	−1650
Gained Revenue (Tax and N.I.)	—	−60	−100	−150	−190	−220
Costs for Other Benefits	—	100	220	330	450	570
Total		−220	−450	−720	−1040	−1300
Total Net Cost in 1989–90	3860	2860	1770	820	−240	−1300

The above figures are set out on the assumption that an *immediate* change was effected, allowing all people over the new age to retire. They also assume that a stable pattern of retirement and deferment had been reached, with those who deferred retirement receiving enhanced pensions at a later date. In this respect, the figures are a good approximation to the eventual costs of the various pension ages.

The initial costs would be less substantial, as not all men between the ages of 60 and 65 would retire as soon as pension age was lowered to 60. (Nor would women have their pension immediately withdrawn if they were below a new pension age!)

The table also assumes that not only would the Basic Pension be paid without discount but that the earnings-related pensions would not be reduced for earlier payment. If both were reduced actuarially, then the only additional cost in the long term would be the loss of contribution and tax income arising as a result. There would still be short-term costs, as men were allowed to receive benefit sooner.

If the pension (initially for men alone) were reduced in the manner described in Section 7, namely $\frac{1}{8}$% per week, then the immediate costings would become as follows:

Pensions Reduced For Early Payment	*60*	*61*	*62*	*63*	*64*	*65*
Men—Retirement Pension	3010	2410	1800	1200	600	—
Lost Revenue (Tax and N.I.)	600	440	300	160	80	—
Savings on Other Benefits	−1000	−760	−540	−340	−160	—
Total	2610	2090	1560	1020	520	—

This ignores any alteration to female accrual rates to bring them into line with male accrual as a result of the adoption of a common pension age. Such a change, which is discussed later in relation to long-term rates, would need to be phased-in over a long period of time, having regard to benefits secured to date.

It also assumes that those entitled to retire before age 65 would retire in the pattern set out above. In practice, there would be a gradual increase in the numbers retiring earlier than 65, as the new retirement conditions become incorporated into individual retirement decisions.

If only 50% of men between the ages of 60 and 65 retired on State pensions as soon as the flexibility of a reduced pension from the age of 60 became available, the cost in the first year would be £1900 million and if the reduction were not immediately to 60 but to 64 and subsequently in gradual steps, the first-year cost might be contained within £400 million.

One further saving in the costs associated with a lower State pensionable age might be the reintroduction of contributions payable until whatever age of retirement was chosen. This would offset the ironical contrast between women over 60 and under 65, who may, now that the Earnings Rule has been abolished, draw pension whilst carrying on at work, and men of the same ages who cannot even claim a reduced pension yet have to pay National Insurance contributions which have ceased for women at the age of 60.

As time went on, these costs would, of course, fall and there would be further savings as the accrual *rate* for SERPS for women was reduced for the future to that of men, and actuarially reduced before age 65 as for men.

In relation to this level of possible expenditure in the first year one should remember that the income of the National Insurance Fund has been reduced quite substantially by the removal of the Treasury Supplement, the introduction of Personal Pensions, the contribution cutbacks in the 1989 budget and the abolition of the Earnings Rule, a cost of over £6,000 million for 1989/90 and over £13,000 million compared with ten years earlier.

The removal of the earnings link of the Basic Pension in 1979 has also reduced the costs of the National Insurance Fund by approximately £4,600 million in 1989/90, compared with what would have been paid if earnings increases had applied.

If it were decided to implement a reduction in age along the lines of that set out, the change could itself be phased in over a reasonably lengthy period. There are many possibilities for gradual change but the period of 20 years seems to have become customary for such implementation, as with the introduction of Additional Pension in 1978, to reach maturity in 1998, or the Social Security Act 1986 phasing in reductions from 1989 to 2009. For example, the following transition to a minimum pension age of 60 for men could be adopted:

Age at Commencement	*Retirement Age*
below 40	60
40–65	Between 60 and 65 depending on date of birth
above 65	65

An equivalent phasing-in period could reduce SERPS Pensions, so that women below 40 would accrue on the scale for men.

With these changes, the cost would increase over twenty years but, if the Basic Pension remains linked to prices, its contribution rate would decline as earnings rose. The Basic Pension has risen 22% less than earnings since 1979; after 20 years, the Basic Pension may have fallen by a further 30% relative to earnings, so that the cost of flat-rate benefits would become less at age 60 than it now is at age 65.

A similar approach could be adopted if it were decided to increase the normal pension age for women, if the Basic Pension were to be increased to take account of improvements in earnings. However, there may be little practical difference from flexibility on a reduced pension other than emphasis.

9.6 *Long-term projections*

We have costed the levels of contributions required to fund benefits over the next 60 years, following the principal assumptions of the Government Actuary in his reviews, both of the Social Security Bill 1986[18] and his assessment of the Contracting-Out Terms for 1988–1993[16]. We have made the following changes:

(i) the population is based on the latest Principal Projection of the Office of Population, Censuses and Surveys[7];
(ii) the earnings distribution of the New Earnings Survey April 1987[17] has been used for pension and contribution income;
(iii) the calculations have been made on the basis of April 1987 prices and earnings for the year 6 April 1987 to 5 April 1988;
(iv) the LEL is assumed to rise in line with the Basic Pension, which rises in line with prices, but the UEL in line with earnings, at a rate of increase 1·5% per annum greater than prices;
(v) where people continue to accrue benefits beyond the minimum pension age, contributions are paid by employer and employee;
(vi) where appropriate, we have assumed that early and late retirement factors do not affect the total outlay of the Fund.

The figures show the percentage contribution rates for flat-rate and earnings-related benefits including flat-rate Retirement Pensions, Invalidity Pensions, Widows' Benefits and Unemployment Benefit. These latter include Additional Pension and Graduated Pension, whether payable to Pensioners or Widows. The actual full contribution rate in 1989/90 is 17·5% (9·5% employer, 8·0% employee), the remaining Contributions being allocated to the National Health Service.

The following benefit scales are shown:

(a) the pension ages remain unchanged;
(b) pension age is reduced to 60 for both sexes:
    (i) the female earnings-related benefit scale is reduced for those retiring from 1998 to 2008 to the male benefit scale thereafter, with accrued rights preserved but no actuarial reduction applied at age 60;
    (ii) male and female earnings-related benefits as in (i) are actuarially reduced for payment earlier than age 65;
(c) pension age is increased to 65 for both sexes with the accrual rate for women reduced to that for men after 2008;
(d) pension age depends on 44 years of qualifying contributions, the accrual rate for SERPS at retirement being that for men under the current arrangement. Contribution histories are derived from contribution patterns in unpublished DSS tables[20].

The figures presume that the changes had been implemented at the date shown, although there would obviously need to be a lengthy phasing-in period. The 1987/88 figures are shown for comparison, as if the pension ages had been as shown for that year.

Contribution Rates for Basic and Earnings-Related Benefits

	(a)	(b) (i)	(b) (ii)	(c)	(d)
1987/88	17·9	19·3	19·3	16·1	17·4
	·5	·7	·5	·5	·5
	18·4	20·0	19·8	16·6	17·9
1997/98	14·8	15·8	15·8	13·6	14·3
	2·3	3·2	2·3	2·2	2·2
	17·1	19·0	18·1	15·8	16·5
2007/08	12·6	13·8	13·8	11·2	12·2
	4·5	5·3	4·1	4·0	4·3
	17·1	19·1	17·9	15·2	16·5
2017/18	11·9	12·9	12·9	10·9	11·6
	6·0	6·7	5·5	5·4	5·8
	17·9	19·6	18·4	16·3	17·4
2027/28	11·9	13·2	13·2	10·6	11·6
	6·9	7·8	6·4	6·2	6·6
	18·8	21·0	19·6	16·8	18·2
2037/38	10·8	11·4	11·4	10·2	10·4
	7·3	7·8	6·5	6·6	6·9
	18·1	19·2	17·9	16·8	17·3
2047/48	8·5	9·0	9·0	7·9	8·2
	7·1	7·5	6·2	6·6	6·8
	15·6	16·5	15·2	14·5	15·0

As the basic pension is assumed to rise in line with prices, the cost of providing it falls gradually to less than half of the cost in 1987, whereas the earnings-related costs gradually build up to maturity in the second quarter of the 21st century, thereafter reflecting general demographic changes. The later figures should be viewed as subject to the substantial uncertainties of the demographic assumptions.

Option (b)(ii), with the earnings-related pensions reduced actuarially for early payment, reduces the expense of retirement at 60, eventually below that which would apply with no change in benefits (15·2% *v.* 15·6%). The principal reason for this is that the saving produced in cutting the ultimate female accrual rate (from 1/220 to 1/245) and then reducing the female benefit actuarially more than exceeds the extra cost of paying men the full price-related Basic Pension at 60.

In the Appendix we show the equivalent figures to those overleaf, reworked on the assumption that both the flat-rate benefits and the LEL increase in line with earnings at 1·5% per annum. If the same comparison is made on these assumptions, there is a slightly larger contribution required under option (b)(ii) (28·0% *v.* 27·5%).

The suggestion of basing the age of retirement on the number of years of contribution (option (d)), so that a person who began his working career at the age of 16 will have the ability to retire at the age of 60 and someone who began work at age 21 must wait until 65, has the merit of fairness in matching contribution in the wider sense to reward. This does not impose very different costs from the current rules. There would need to be safeguards for men or women who rear children, as there are in Home Responsibilities Protection, and special conditions to apply to immigrants or emigrants.

The system of basing retirement conditions on completion of a period of employment is widely used throughout the E.E.C., although the number of years and the allocation of credits vary considerably. When addressing the question of introducing equalization, this method has the advantage that *the number of years to be chosen can be assessed in the light of what can be afforded.*

If pension costs are to be contained at a steady percentage of earnings, then the normal 'full' pension age or term would rise steadily during the first third of the 21st century before declining(21) and an adjustment to the necessary contribution term could be a simple means of effecting such changes.

These results bring out the costs to the National Insurance Fund, ignoring the gains from lower payments in Income Support or losses of taxation as a result of earlier retirement. Whatever the immediate consequence of a lowering of the minimum pension age, the long-term costs are twofold, firstly the change in the contribution rate, which can be seen as a tax on those in work, and secondly the change in the eventual pension income to be derived at retirement.

Apart from the costs inherent in paying pensions early, one of the problems of early retirement, even on an undiscounted pension, is that it would be necessary to build up a higher pension elsewhere if pensioners were to enjoy the same standard of living.

Occupational schemes are easily able to alter their pension ages to suit changing circumstances. State schemes, based on the notion of 'solidarity' between generations, must of their nature take a much more long-term view and it would be difficult to introduce a reduction to State pensionable age and then have to reverse that process and reduce the expectations that had been created.

Nevertheless, the implementation of flexibility by the State need not be expensive if it is undertaken gradually and individual choice is provided between a lower retirement age or a higher retirement benefit.

10. CONCLUSION

Equalization of pension benefits is one of the few remaining statutory discriminations between men and women. At the individual level there is no justification for a man to have to wait five years longer than a woman for a pension or to presume that it is the woman who is necessarily the dependant of the man.

As society becomes wealthier, it becomes possible to provide a basic level of replacement pension income from an earlier age, whilst offering choice and flexibility in reduction of earnings-related benefits if paid sooner.

Implementation of equal pension ages could take many years, since previous expectations will need to be maintained for people closer to pension age. Public consultations should be initiated at an early stage to provoke adequate discussion prior to the necessary legislation and agreement on the E.E.C. draft Directive.

11. ACKNOWLEDGEMENTS

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11. APPENDIX

Required contribution rates on the assumption that the basic pension and the LEL will increase in line with earnings, that is at 1·5% per annum above price increases.

	(a)	(b)		(c)	(d)
		(i)	(ii)		
1987/88	17·9	19·3	19·3	16·1	17·4
	0·5	0·7	0·5	0·5	0·5
	18·4	20·0	19·8	16·6	17·9
1997/98	17·3	18·4	18·4	15·9	16·7
	2·2	3·1	2·2	2·2	2·2
	19·5	21·5	20·6	18·1	18·9
2007/08	17·1	18·8	18·8	15·3	16·6
	4·4	5·2	4·1	3·9	4·2
	21·5	24·0	22·9	19·2	20·8

2017/18	19·0	20·5	20·5	17·3	18·4
	5·7	6·4	5·2	5·1	5·5
	24·7	26·9	25·7	22·4	23·9
2027/28	22·0	24·3	24·3	19·6	21·4
	6·4	7·2	6·0	5·8	6·1
	28·4	31·5	30·3	25·4	27·5
2037/38	23·1	24·4	24·4	21·7	22·3
	6·6	7·2	5·9	6·0	6·3
	29·7	31·6	30·3	27·7	28·6
2047/48	21·1	22·4	22·4	19·6	20·3
	6·4	6·8	5·6	5·9	6·2
	27·5	29·2	28·0	25·5	26·5

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