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and Faculty
of Actuaries

Independent Review of the State Pension Age Interim Report

IFoA response to Department for Work and
Pensions

9 January 2017

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Institute and Faculty of Actuaries

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9 January 2017

Dear John

IFoA response to Independent Review of the State Pension Age Interim Report

The IFoA welcomes the opportunity to respond to this review. Our State Pension Age Working Party and our Pensions Board have contributed significantly to this response. We are encouraged by the breadth of the Review as we agree that the SPa cannot be looked at in isolation from macroeconomic considerations, other pension policies, or social policy more broadly.

Summary thoughts

Given the sensitivity of life expectancy projections, consideration should be given to the range of likely outcomes and the relevance of the important projection parameters. As a result, it may be appropriate to suggest a range of SPa for younger generations, with a mechanism for providing increasing certainty as each cohort nears retirement.

There are questions as to whether a range of factors, including an individual's gender, health status, ethnicity and region where they live, should mean that there is a range of SPas. There are social policy reasons for welfare benefits to be, to a degree, age dependant. Lower benefits for those below SPa may suggest individuals should work where possible, but higher benefits for those over SPa acknowledge society's expectation that people should not have to continue in paid work above a certain age.

Some individuals below SPa are less able to work than many who are over Spa for a number of reasons. Consequently the benefit system should address this fairly to ensure those who are unable to work receive the necessary National Insurance Credits to claim State Pension when they reach SPa. We do not believe that the appropriate response is to add complexity to the Spa, as attempts to remedy any factors will always introduce some element of perceived "unfairness" when looking at ultimate outcomes.

Whilst formal reviews of SPa are required no less than every six years, we would encourage ongoing monitoring to identify whether an early formal review is advisable.

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IFoA response to specific questions posed by the Review

Q1. Is our interpretation of the policy intent for the State Pension correct?

The interpretation of the policy intent for the State Pension appears to be consistent with the proposals in the DWP's 2013 publication setting out reform of the State Pension.¹ The interim report notes simplicity, sustainability, a safety net against poverty and a foundation for private saving as policy intents. However, it is not necessarily clear what each means or, when taken together they result in a coherent strategy. This perhaps explains your need to ask whether one interpretation of the policy intent is correct. After the SPa review is complete, there may be merit if DWP were to publish a clear statement of the then current policy. That may help individuals understand how the State Pension might contribute to their retirement income and understand what steps they need to take to target sufficient income in later life.

Q2. How successful are other international policies? Are there any other policies that we could consider? How should the UK policy on State Pension age take these examples into account?

It is important to emphasise that other countries may have different policy intents and priorities, as well as differing financial and demographic circumstances. Consequently, care should be exercised in making comparisons as the experiences of those jurisdictions may be of reduced relevance to the UK.

Nevertheless, international policies can be a source of useful insight and we note that many other countries are taking similar actions to the UK for similar reasons. The OECD reported that in the decade up to 2013, most of the 24 OECD countries had passed legislation modifying State Pension provision (either to raise SPa or eligibility for full entitlement).² Given these changes have only occurred recently, it will be several years before it is possible to judge whether these actions achieve their objectives. Even then, analysis will be confounded with other economic and demographic experiences. However, it may be possible to gain more insight from those countries where reforms were introduced earliest (for example Scandinavian countries and Singapore) and so most likely to have emerging evidence on their success to date, assuming that success was defined.

We also reference specific policies in our responses to subsequent questions.

Q3. Considering the main drivers of State Pension expenditure, which ones are more important to the policy intent, if they were presented as a trade-off? Maintaining early access, a generous increase annually or making the full State Pension amount accessible to most people? Which of these delivers fairer outcomes?

We consider that the provision of an old age income to most eligible individuals, at a level that avoids means testing (on the assumption that means tested benefits are set at a level that maintains basic living standards, particularly relative to those of working age), might be considered fair on many grounds.

When weighing up alternatives it is important to consider all cost drivers of the SPa:

- the level of State Pension;
- the accessibility criteria for full (or partial) State Pension;

¹ Department for Work and Pensions (2013) *The single-tier pension: a simple foundation for saving* [Available online: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181229/single-tier-pension.pdf]

² OECD (2013) *Pensions at a Glance 2013* [Available online: http://www.oecd-ilibrary.org/finance-and-investment/pensions-at-a-glance-2013_pension_glance-2013-en]

- the age at which individuals can access State Pension (including possible early access for some); and,
- the level of increases.

In order to determine which drivers of State Pension income and expenditure deliver fairer outcomes, it would be beneficial to have a clear definition of what constitutes ‘fairness’. Our previous submission to the Review noted that there can be many interpretations of fairness. For example, it could relate to fairness between the benefits received by sub-groups of the population, fairness in contributions paid, or fairness between generations.³ It could also relate to fairness as a form of social insurance to provide a safety net against pensioner poverty, or as a means of redistribution.

It is unclear which definition of fairness should prevail to influence the best course of action and deliver ‘fairer outcomes’. The policy intent presented in the report (“individuals take responsibility for adequacy of income in retirement to suit their own needs and aspirations, with the Government providing a basis that intends to protect most from poverty”) does not necessarily help here, since it is couched in terms of poverty prevention and individual responsibility. This is not an ideal that can easily be interpreted as ‘fair’, for example because some individuals are better able to support themselves than others, due only to happenstance rather than their own endeavours. Inevitably, different parties will have different views on what fairness means to them. Whatever approach is adopted, there will be some who consider the system ‘unfair’.

We also note that the question focuses on pension expenditure and no consideration is given to funding. The ‘fairest’ outcome may increase costs, so the answer should also take into account what is deemed affordable (which in itself is a term subject to interpretation), and how the level of what is affordable has been set. One interpretation could be that a higher cost is fair, if it has arisen as a consequence of people living longer, healthier lives and so a lower expenditure of GDP is spent on healthcare.

On balance, we consider that the provision of an old age income to most eligible individuals, at a level that avoids means testing (on the assumption that means tested benefits are set at a level that maintains basic living standards, particularly relative to those of working age), might be considered fair on many grounds. It may also be preferable to scenarios that could result in the policy intent not being met, for example because:

- retirement age benefits are not kept at a level proportionate to working age benefits;
- some, or all, recipients accepting lower benefits due to receiving the pension earlier and subsequently having to rely on means tested benefits; and,
- individuals not accessing means tested benefits owing to the “stigma” associated with means testing.

It may also be appropriate to reconsider whether alternative forms of means testing should apply.

Finally, assuming the policy intent is for the State Pension to act as a safety net and also assuming budget limitations, we believe Government should consider removing some aspects of the triple lock (e.g. perhaps returning to a link to higher of earnings and inflation, although that would retain some of

³ IFoA (2016) IFoA response to the Work and Pensions Select Committee Intergenerational Fairness Inquiry [Available online: <https://www.actuaries.org.uk/documents/02-19-ifo-a-response-work-and-pension-select-committee-intergenerational-fairness>]

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the existing challenges) . It may also be appropriate to reconsider how tax and National Insurance should be applied to pensioner incomes.

Q4. Is the Pensions Commission's assessment of the proportion of GDP expenditure on pensioner benefits, over time, still valid, when considering State Pension age affordability post-2028? Is State Pension age the best tool to maintain a steady GDP proportion for pensioner benefits?

We do not believe SPa can be a tool for maintenance of the proportion of GDP experienced as State Pension cost in the short term. We consider that it is reasonable for successive Governments to monitor State Pension costs as a percentage of GDP and to have a broad sense of what level of GDP, on average, is affordable. However, the Pension Commission's work was undertaken many years ago and more recent work by the OBR should also be used to inform thinking on affordability.

The factors that affect GDP are not necessarily the same as those that affect the cost of the State Pension, and SPa is not the only determinant of state pension cost. Over relatively short timescales GDP, or projections of GDP, can materially change. Such changes should not, of themselves, necessarily lead to rapid changes in SPa. We believe it reasonable and necessary to provide several years' notice of changes in future SPa. Thus, SPa cannot be a tool for maintenance of the proportion of GDP experienced as State Pension cost in the short term.

Q5. Are there any other issues around opportunity to achieve adequacy for future generations that we need to consider? How can we best take into account wider economic impacts, for example, the likelihood of low interest rates in pension outcomes or the changes in housing costs and overall wealth distribution?

The whole question of (overall) intergenerational fairness is immensely complicated and must consider a very wide range of factors of which State Pension amounts, access and National Insurance contributions incurred are only a few. Others might include access to free higher education, levels of support for occupational pensions by employers and costs of housing.

We are uncertain of the intent of the wording "adequacy for future generations". This could refer to:

- adequacy of their own future pensions;
- their ability to bear the costs of earlier generations' pensions; or,
- the period over which they will receive pensions.

We are however encouraged that the review is considering wider economic factors. One way to do this is through scenario analysis or through simulations of the broader macroeconomic environment to capture the interplay between GDP, low interest rates, State Pension expenditure and the level of private pension incomes. This would help move the debate away from averages to understanding the range of outcomes (for example pension incomes for future generations) and the potential responses needed to maintain the State Pension policy intent. Tools to do this exist and understanding the range of outcomes is important and therefore should be considered.

Q6. Are there any other factors that may impact the value of the State Pension for each generation?

We believe that the value of the State Pension to different generations is significantly dependent on individuals' working lifetimes, the other sources of income they have in later life and the costs they expect those incomes to meet. Generations are likely to perceive fairness, or value, by:

- the overall tax or National Insurance levels they are required to shoulder;
- the levels of income they expect to receive from personal and occupational pension savings; and,
- what costs they are expected to bear, such as expected care in later life.

These issues will be affected by the availability, or otherwise, of employment whilst of working age, and of additional welfare benefits whilst in retirement.

When looking at the impact for each generation, it is very important to recognise the different sources of private pension income. Current recipients of State Pension derive, on average, about a third of their pension income from private pension savings, largely via Defined Benefit (DB) arrangements.⁴ Future generations will have much greater reliance on the ultimate income from Defined Contribution (DC) arrangements, which may be taken in a form which does not provide a guaranteed income.

It would be helpful if analysis, such as that produced in Figure 8 of the Interim Report, could capture this uncertainty. It would be beneficial to show the 10th and 90th percentile outcomes which we expect will depend largely on DC asset performance, as well as the median outcome. This would highlight the sensitivity of conclusions on intergenerational fairness to the assumed level of investment returns.

It is also worth noting that for future generations DC pension incomes may be lowest when there is limited growth in GDP (and probably limited investment income from DC pension pots). In such circumstances, reliance on State Pension is likely to increase at the very time when expenditure on State Pension may appear least affordable.

As previously noted, the value of the State Pension for each generation may also depend on:

- taxation policy (if for example pension incomes were subject to National Insurance contributions);
- the relationship between State Pension and National Insurance contributions paid; and
- the future policy on the 'triple lock'.

Q7. Are replacement rates linked to pre-retirement income a good measure of adequacy for the future? What would be the most relevant alternatives?

Whilst replacement rates remain useful for policymakers, we consider that, at an individual level, an outcomes based approach may better enable individuals to understand their savings needs and make good decisions in advance of, and into, retirement.⁵ Individuals will need to have an idea of what financial support they can expect from the State, and from what age, to determine their saving requirements.

Replacement rates provide a useful broad brush for policymakers to analyse the effects of policy changes on levels of saving and to assess in aggregate whether people are saving adequately for retirement. It is worth considering different ways of calculating them (for example, based on pay close to retirement, or based on career average earnings), since these provide different information.

However, current and future retirees have increasingly greater responsibility for securing an adequate income in retirement owing to the transition from DB to DC arrangements and the introduction of the pension freedoms. In addition, individuals will have more information on their own circumstances than

⁴ Department for Work and Pensions and National Statistics (2015) *The Pensioners' Incomes Series: An analysis of trends in pensioner Incomes 1979 – 2013/14, United Kingdom* [Available online: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/522351/pensioners-incomes-series-2013-14-report.pdf]

⁵ IFoA (2016) Assessing adequacy of retirement income: a bottom up approach [Available online: <https://www.actuaries.org.uk/documents/assessing-adequacy-retirement-income-bottom-approach>]

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policy makers, both in terms of income needs and the sources from which they can derive post-retirement income (capital, property, non-pension income).

Q8. What evidence is there to suggest “burnout” is a feature of certain professions and what are the alternatives for workers in those roles? How can FWL strategy support best the transition required, if that is the case?

There are a number of professions that may be more challenging for older workers, for example those involving manual labour. Limitations on physical capability may be a better term than burnout. Extending working lives is good for individuals, companies and the economy. One practical example is the Mid-Life Career Review Project, which encourages people around the age of 50 to consider the next 15 plus years of their working lives. We consider as well as being useful for retraining and retaining older workers, it also provides an opportunity for discussion of an individual's preparation for retirement.

Q9. To what extent can a delay in State Pension age act as a direct mechanism to enable Fuller Working Lives? What factors would increase the likelihood that people remain in gainful employment during any such delay?

We recently conducted a survey (as yet unpublished) and 18 percent of our respondents did not plan to retire. Of those respondents who did plan to retire, 57 percent of them planned to retire in stages. This suggests that flexibility in working hours is important to many older workers.

Q10. How can we best take into account the sensitivity of the life expectancy projections when considering an appropriate State Pension age for the future?

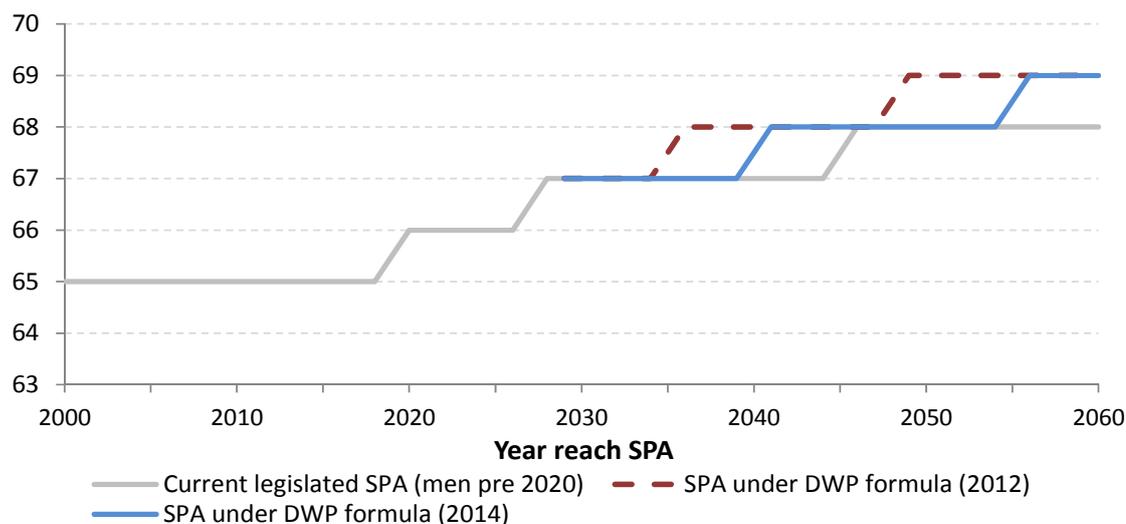
Projections of life expectancy are subject to regular updating as successive cohorts of mortality data become available and as the understanding of the impacts of advances in medical treatments become clearer. They are also subject to natural statistical variations in the data which can become smoothed if averaged over time.

We propose that regular monitoring of the effects of each successive new set of projections should be undertaken with some analysis of the principal reasons for any material changes in projections seen. To follow new projections without monitoring the effects of new data risks considerable variability in SPa, possibly undermining the credibility of the pensions system.

Two examples of this are:

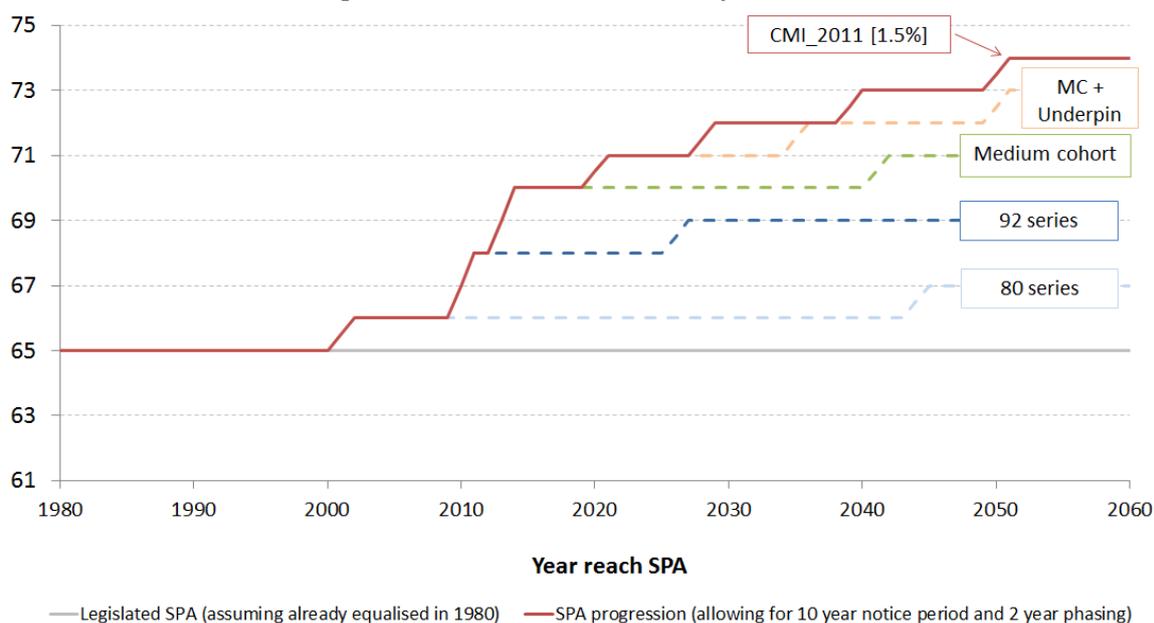
- The impact of moving from the 2012 to 2014-based ONS projections within the DWP formula for linking SPa to projections of cohort life expectancy: as the figure below illustrates, 2 years of new information suggested that increases to SPa could be delayed 5 years. However, opinion is currently divided as to whether recent experience is genuinely the start of a sustained period of slower improvements in longevity, or simply a shorter term ‘lull’ in the pace of improvement.

SPA under current legislation and the DWP formula



- The impact that revisions to life expectancy projections would have had on younger cohorts if a formulaic link been introduced: the figure below highlights how those born in the 1970s may have seen five upwards revisions of SPA from age 65 to 73.⁶

SPA changes if DWP formula had been implemented in 1980



Consideration should be given to the range of likely outcomes for the projections and the relevance for each projection of some of the more important projection parameters. We are encouraged by the

⁶ IFoA (2015) Considerations on State Pension age in the UK [Available online: <https://www.actuaries.org.uk/documents/sessional-paper-considerations-state-pensions-age-uk>]

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remit given to the Government Actuary's Department to present the sensitivity to a range of projections and other key parameters.

Given the uncertainty in projections, there should be great care in the communication of SPa to younger generations. It may be appropriate to suggest a likely range of SPa for younger generations, with a promise to provide increasing certainty as each generation ages and as the affordable level of SPa becomes more apparent.

Furthermore, given the importance of healthy life expectancy, projections of healthy life expectancy should be developed and monitored. Life expectancy may be projected to increase rapidly, but this may not translate to better health outcomes.

Finally, we also note that although formal reviews of SPa are required no less frequently than every 6 years, earlier reviews are possible. Some form of ongoing monitoring is desirable, to identify whether an early formal review is advisable. We do not believe a formal structure for such ongoing monitoring has yet been proposed but we would encourage the Government to consider it.

Q11. Do you think that regional factors have an impact on Life Expectancy and how? How should the Government factor in the combination of regional and socio-economic factors?

There are undoubtedly regional variations in life expectancy. Our previous submission identified (for each gender) a variation of almost 6 years in (period) life expectancy from age 65 in Upper Tier Local Authorities in England. However, what is less clear is the extent to which it is the regional (e.g. access to health care, or established local cultures), or individual circumstances (income, housing, lifestyle) which is the causal driver of these differences.

That is, regional differences in mortality experience may well be associated with the economic conditions found in the various regions, emphasising the link between differing occupations and relative wealth between regions.

More fundamentally, whether it is appropriate to reflect socio-economic factors in SPa decisions is liable to depend on the probable persistency of these differences in the future. For example, health policies can be, and in case of the Spearhead Local Authorities have been, targeted towards areas experiencing poorer health outcomes in order to improve those outcomes. Past regional variations will not necessarily prove to be a reliable long-term guide to future differences. In contrast, SPa changes, which must be announced many years in advance, are unlikely to vary in a volatile manner if set on a regional basis. This, coupled with the risk of individuals moving in later life to 'game' the SPa system, means that allowing for regional economic differences is ill suited as a mechanism by which to vary SPa.

We would also note that even within a group of 65 year olds that are homogeneous in socio-economic circumstance, the range within which 75 percent of them will die spans almost 25 years, and so any attempts to factor in regional and socio-economic differences will always involve some element of perceived "unfairness" when looking at ultimate outcomes.

Q12. Are Healthy Life Expectancy and Life Expectancy improving sufficiently for the majority of the population? Are there specific aspects of Healthy Life Expectancy that would directly interact with State Pension age and how?

Ideally, and as far as possible, we would hope healthy life expectancy increases faster than life expectancy. The desired outcome would be improved quality of life at older ages and a reduction in long term care costs.

For SPa review purposes, we consider that the relevance would be to consider the proportions of the population who might be expected to spend a high proportion of their lifetime in poor health. It is these individuals who are liable to experience the biggest impacts of any change in SPa as they are most likely to be reliant on State benefits, and so whether they are entitled to unemployment benefits or pensioner benefits will affect their income and the allocation of Government spending.

In order to do this it is important to monitor healthy life expectancy. However, a clear definition and good quality data on healthy life expectancy is limited – relying on relatively small samples of the UK population and a self-reported health measure. In order for healthy life expectancy to be monitored and inform important policy and spending decisions, the review could call for improved collection of data to enable more regular and reliable calculations of healthy life expectancy than is currently possible.

Q13. The Pensions Commission suggested that lower Life Expectancy should be tackled through improvements to health and occupational health. Do you agree? How should we take into account the Life Expectancy and Healthy Life Expectancy information when considering State Pension age?

We agree that it is desirable for those individuals with lower life expectancies to be given opportunities to improve their health outcomes. However, poor life choices are often correlated with lack of opportunity and low incomes: if these limitations cannot be addressed then change might need significant incentives or government interventions (e.g. further restrictions on cigarettes/tobacco, sugary drinks, salt in food, diesel pollutants).

As with our response to question 11, attempts to factor in the consequences of socio-economic factors will be complex and will always involve some element of perceived “unfairness” when looking at ultimate outcomes. Differences in healthy life expectancy should be a focus of government policy, but we would question whether it should be used as a determinant of the SPa.

Q14. How can we best take into account the impact of caring responsibilities in later life and specifically within the decade prior to State Pension age?

We do not believe that considerations for carers should be a prime determinant of SPa. However, in determining SPa and the differing costs of alternative SPas, we do believe the impact of caring responsibilities should be taken into account. With an ageing population, it seems likely that a substantial, and increasing, proportion of those approaching SPa will have caring responsibilities.

Those undertaking caring responsibilities may be forced to leave the conventional workforce. As such, continuation of the Carers’ Credit is important to help avoid those with caring responsibilities from losing out on accrual of State Pension rights. However, we note that the DWP estimates that up to 200,000 eligible people are not claiming Carers’ Credit. Promoting its availability could help mitigate the impact of caring responsibilities.

It may also be appropriate to consider more broadly whether the eligibility conditions for Carers’ Credit (i.e. more than 20 hours per week of caring for an individual claiming specific benefits) are excluding people providing socially valuable informal care for individuals with care needs, but who do not qualify for (or are not claiming) the requisite benefits to enable the carer to claim State Pension credits.

Increasing SPa faster than healthy life expectancy increases may increase the need to care and so the burden on family members. Hence it may be necessary to factor in alternative welfare costs when

assessing affordability. Actions to improve healthy life expectancy, if successful, may help to reduce the caring burden further, supporting our suggestion to place more emphasis on healthy life expectancy in Government policy.

Q15. How can we best take into account the impact of poor health and disability in later life and specifically within the decade prior to State Pension age?

We note that at present those in poor health, or disability, prior to SPa are supported by welfare benefits other than State Pension. We think this should remain the principal means of additional State support for these people.

Q16. How would any State Pension age changes affect the self-employed in the future? How can we take into account the very diverse profiles in this group?

The IFoA has no data that would indicate the impact on the self-employed, or those who have a different employment status at different stages of their working lives. However, as more people engage in self-employment and self-employment itself changes to include people who would not, in the past, have been treated as self-employed, we would support additional work that identified the impact on the self-employed of changes to pension provision, at all levels.

Q17. Does ethnicity affect pension outcomes? Are educational outcomes improving for ethnic minority groups and how is this likely to translate into both improved employment rates, earnings, and ultimately retirement income? Are there any other data or consideration that you can contribute that might be significant in our consideration of ethnic minority impacts from a change in State Pension age?

As with other factors such as region and healthy life expectancy, we suggest that where specific segments of the population are identified as being particularly at risk of poorer outcomes, Government policy should seek to address this earlier in life. Adding further complexity to the SPa will not address these issues. In addition, if working-age benefits are not deemed sufficient, it seems that Government should address that, rather than by adding complexity to the SPa. Presumably, early access to the State Pension would result in a lower weekly amount being paid to the individual, and this too could be problematic for those most reliant on the safety net offered by State benefits.

Q18. What is the best way to take into account the lower pension outcomes for women in our recommendations?

Again, we would highlight that the issue should be addressed earlier than at SPa. The gender pay gap remains, many more women than men take time out of employment or reduce the hours they work to raise a family and to take care of relatives. These should all be a focus for the Government, for example by encouraging employers to allow more equal division of maternity and paternity leave. Including gender as a consideration for the SPa will add complexity and as we have responded previously, complexities such as gender will always involve some element of perceived “unfairness” when looking at ultimate outcomes.

Q19. For older workers in particular, the adequacy of income in retirement may be best considered at a household level. However, when planning future changes to the pension system, how reliable is this assessment now and how reliable will it be for future generations?

Income at a household level is important to understand, particularly where one member stakes their financial future on another, but we do not see why this is particularly the case for older workers. Bereavement could have a detrimental financial impact on the surviving partner, who may have to rely

on State provision. Consequently, the use of household income should be considered carefully as a measure of adequacy.

Q20. Is it appropriate for this Review to include in its considerations the entry point for all the welfare policies that are linked to State Pension age? Which ones should be excluded and why?

Given how the welfare system uses SPa as a staging point between in work and the relatively more generous in retirement range of benefits, it seems entirely appropriate to consider the impact on other welfare benefits that change or cease at SPa under current legislation. This ensures the impact of SPa changes on individuals and state affordability are considered in totality and may encourage more consistent integration of welfare and pension benefits. However, where changing SPa will be problematic in terms of these other welfare benefits then it may be reasonable to consider why that is, and whether it is appropriate for SPa to be used to produce such a cliff edge affect. Consequently, whilst the review should acknowledge the impacts of any changes on these other benefits, we do not believe that they should dictate how SPa changes.

We note that in the past, welfare benefits have been changed at shorter notice than is considered suitable for changes in SPa. In our view, this supports the contention that changes in SPa should lead to changes in access to welfare benefits rather than the other way round.

Q21. How far should this Review take into account impacts on occupational scheme rules? What are the most significant challenges for those pension schemes if State Pension age is changed?

We believe that the review should acknowledge any impacts on occupational schemes, particularly those schemes where SPa is hard coded into the governing documentation.

For those working in the public sector, the age at which they can receive their full occupational pension scheme benefits has been linked to SPa since 1 April 2015 (2014 for the LGPS). SPa reviews therefore directly impact when public sector employees can access both their State Pension and their full employment based defined benefit (DB) pension scheme.

Within the private sector, the growth of DC schemes and the time horizon of feasible changes to SPa means that only a small number of affected individuals are likely to have material DB pensions. For these individuals (and their employers), changes to SPa may affect when they can receive (or the cost of providing) benefits (if the rules refer to SPa), or their level of benefits (for example if a 'bridging pension' is payable prior to SPa with the aim of providing continuity of total pension income pre and post SPa).

Although, by now, most schemes will be familiar with the actions they would need to take for any change in SPa, in some cases it is onerous, or not possible, to change rules to address the changes. Some measures might need to be put in place to permit employers, for example, to amend schemes to continue to achieve the outcomes originally intended (e.g. integration with the state pension). Although we do not believe that the review would need to be materially affected by the considerations of (private sector) occupational schemes, their position could be made easier by legislation that would enable changes to be made to scheme rules. In particular, where SPa has been defined as a specific age (such as 65) to enable this to be brought into line with the legislated SPa applicable at the relevant point in time (currently, to the extent this was applied to benefits already accrued, this is liable to breach section 67 of the Pensions Act 1995).

Q22. What are the alternatives to a universal State Pension age? How can they be designed and implemented so that both the principles of Affordability and Fairness are retained?

It is important to remember that people already have the ability to defer taking their State Pension and, to that extent, SPa, as a point at which State Pension comes into payment, is not universal.

The alternatives to one universal SPa could take a variety of forms. Their design and implementation would depend on the reasons why the move from universality was deemed desirable. For example, a fairly straightforward variant might be the frequently suggested and existing "SPa window", whereby people (all, or possibly only those meeting certain conditions) may be allowed to request that their State Pension starts at an age of their choice between lower and upper bounds. This may meet affordability criteria (in the long term) if the pension amount is adjusted for the earlier, or later, start. There are drawbacks in that the Exchequer will have less certainty over when pensions will start. If there is a significant reduction for early payment, more people may end up claiming additional welfare benefits, thereby increasing overall costs. It also seems likely that the earliest age will tend to become the normal age for a majority of the relevant people.

Other variants include:

- Moving away from a universal SPa to an SPa which varies by some particular factor (geographic region, occupation, career earnings or some other factor); and,
- Retaining universality, but in terms of the number of credited years which are required to draw State Pension (i.e. proxying socio-economic circumstance by point of entry to the labour market).

Whilst varying SPa between groups according to a particular factor (geographic region, occupation or some other factor) could be possible, introducing more flexibility than currently exists does not seem necessarily desirable. For example, we have concerns that in many of these circumstances there would be a possibility for individuals to manipulate the circumstances to obtain greater, or earlier, benefit. There would almost certainly be markedly increased complexity and uncertainty regarding an individual's pension start date and possibly pension amounts, meaning in some cases outcomes will not meet the policy intent. Any chosen system would need to be robust for individuals moving between groups, employment breaks etc. Consequently, we believe there could be material difficulties with many of the suggested methods of using varied SPAs.

Q23. What other factors and trends are increasingly relevant and will be prevalent in the future when considering an appropriate retirement age for individuals? [following section on work, caring etc]

It is likely that the most relevant factors for the future are:

- net migration (possibly subdivided by age bands);
- trends in proportions of the population working at ages shortly before and after SPa;
- trends in proportion of the population (unsuccessfully) seeking employment at ages shortly before and after SPa; and
- (trends in) other State incentives to employ older workers and the effectiveness of those.

Q24. Is there any evidence that these Government policies have any impact on the decision to work longer? What other policies can Government adopt alongside the Fuller Working Lives strategy to strengthen Fuller Working Lives outcomes, for example supporting profession transitions and incentives to work longer for low earners?

As noted previously, any assistance which government can provide to older workers to transition into different roles at later ages would be helpful. We would again note the Mid-Life Career Review, which

could also form an important 'touch point' to encourage individuals to consider their retirement planning.

Q25. What approach is more appropriate in your view, if we were to protect impacted groups? Should we consider ways to remove any barriers to building their own private retirement income or to support them through the welfare system or is there another approach altogether? Why?

There should be as few barriers as possible for people saving for their own retirement income. However, we recognise that there will be many people who, at various stages of their lives, may not be in a position to make sufficient savings.

For this reason, it will continue to be necessary to provide some levels of support through the welfare system (subject to means, or circumstance, testing) to those who have been unable to save. There may be instances where people who could have saved have chosen not to; therefore it is important that saving is incentivised to encourage early saving.

We also appreciate that there are social policy reasons for welfare benefits to be, to a degree, age-dependant. Lower benefits for those below SPa signal to individuals that they are expected to work where possible: higher benefits for those over SPa acknowledges that there is an age above which society's expectation is that people should not have to continue in paid work. However, SPa is not a magic threshold. Some individuals below SPa are less able to work than many who are over SPa, and the benefit system needs to address this fairly, including ensuring that those who are unable to work get the necessary national insurance credits to be able to claim State Pension when they reach SPa.

Q26. How can the Government and others communicate any future changes on State Pension age? How important is stakeholder involvement in ensuring that the right messages reach the right people in good time?

We consider that good communication is essential to avoid the sorts of problems that we have recently seen regarding the increase in female SPa to 65, then 66. The communication would need to be repeated regularly throughout life to remind people of their expected Spa and that State Pension is a safety net only.

The broad and general communication routes could be tailored to the different groups' preferred communication vehicle. For example, when targeting younger generations, it may be desirable to focus a greater weight of effort in social media and "apps", whilst baby boomers and older "generation x" may place a marginally greater weight in slightly more "conventional" media may be appropriate. However, it is important to recognise that there are differences within generations as well as between, so a variety of approaches will need to be followed.

Individual communication and reminders could result from including "currently" expected SPa in the Pensions Dashboard, on each regular occupational pension statement and on annual defined contribution projections.

We consider that improved individual savings could be encouraged by a form of pension projections that encourage individuals to think about what level of income they may need in retirement, and relate that back to the levels of savings that might require at their current age. Again, the Pensions Dashboard could play an important role here in allowing individuals to assess their level of saving against a savings target.

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Should you wish to discuss our response further please contact Philip Doggart, Policy Manager (philip.doggart@actuaries.org.uk / 01312401319) in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to be 'FM', followed by a long horizontal line extending to the right.

Fiona Morrison
Immediate Past President, Institute and Faculty of Actuaries