Considerations on State Pension Age in the UK
State Pension Age Working Party

Remit

To
• Consider the purpose of the SPA
• Consider what factors should be taken into account when setting SPA
• Identify areas where the IFoA could/should be involved in the future

During our study
• Government announced details of plans to link SPA to projected longevity

The Working Party members

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26 November 2015
Agenda

• The need for change
• The DWP formula
• The role of the Panel
• Alternative designs
• The role of the IFoA
The need for change

Background to the changes now coming through

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Revised State pension regime - Why?

Executive Summary: overall conclusions and outline recommendations

This Executive Summary sets out our key findings and recommendations in 12 sections:

1. Present situation and trends: deepening and amending the First Report analysis

2. Objectives and key elements of required reform

3. A National Pension Savings Scheme: two-dimensional and cost-efficiency

4. The unavoidable long-term trade-off: public expenditure and State Pension Age

5. Key recommendations: overall principles and details

6. Implementations of reforms for women and careers

7. Fostering later working and preventing the position of economic groups

8. The contracted out rebalance

9. Long-term sustainability and consensus

10. Forms challenges and trade-offs: a new Vision for pensions

11. Additional recommendations

A New Pension Settlement for the Twenty-First Century
The Second Report of the Pensions Commission

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Pensions Act 2014
How SPA will be set in future

Secretary of State for Work & Pensions
specifies
GAD report + Formula
specifies
Other factors report
specifies
Secretary of State for Work & Pensions
And on to Government and Parliament
The DWP formula
What is it? And how sensitive is it?
DWP formula

• Formula:

Proportion of adult life spent in receipt of State Pension =

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

– Target proportion is 33.3%
– Adult life starts at 20
– Unisex life expectancy
– Any changes phased in over 2 years
– 10 years notice of changes
Projection: DWP formula vs current legislation

SPA under current legislation and the DWP formula

Source: Own calculations using ONS 2012 principal projections (UK)
Projection: % of adult life spent post SPA

SPA and proportion of adult life spent post SPA

Source: Own calculations using ONS 2012 principal projections (UK)
Sensitivity: target proportion

DWP formula SPA for different target proportions

Source: Own calculations using ONS 2012 principal projections (UK)
DWP formula SPA for different longevity projections

Source: Own calculations using ONS 2012 principal projections (UK)

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If the formula had been introduced in 1980

SPA changes if DWP formula had been implemented in 1980

- Young person entering labour force aged 20 in 1980
- Initially anticipates SPA of 65
- But by 2012 has seen five upwards revisions of SPA to 72

Legislated SPA (assuming already equalised in 1980) - SPA progression (allowing for 10 year notice period and 2 year phasing)

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The role of the Panel

What factors could the Panel take into account?
Healthy life and working at older ages

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

Data source: ONS data; UK Life expectancy and healthy life expectancy at birth by age and sex, own graphic

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Variations by socio-economic class

Source: ONS Data: Trends in life expectancy by NS SEC 1982-2006; own graphic
Affordability: Rising cost as % of GDP

State pension costs as % GDP

Source: OBR (2011)
Sustainability: Greying population

Projections based on ONS 2010-based principal projections. Working age taken to be aged 16 and over.
What might the Panel conclude

• One size might not fit all
• Projections vary and DWP formula highly sensitive
• Consider costs: affordability and sustainability
• What is fairest for all?
• If SPA increases:
  – Will people be able to work longer?
  – Will people want to work longer?
  – If so, will employers want to employ them?
Alternative designs
What alternatives could be considered in future?
A few alternatives to consider

- Vary SPA (or pension?) by region/occupation/earnings/other?
- Allow more flexibility – SPA window?
- Target the needy – means testing?
- Reduce reliance on State - Make auto-enrolment compulsory?
- Increase tax/NI (from pensioners?) to fund higher costs?
- Throw out the rulebook and start again?
Role of the IFoA
What role should actuaries be playing?
What should the IFoA do?

The IFoA should influence…

• The **Secretary of State** when specifying:
  – Assumptions for use in the Government Actuary’s report
  – Other factors for the Panel to consider

• The **Government Actuary** when projecting life expectancy

• The **Panel** when producing its report
What else could the IFoA do?

• Verify or critique GAD’s results from using the DWP formula?
• Critique the underlying longevity assumptions?
• Lobby Secretary of State on factors for the Panel to consider?
• Seek representation on the Panel?
• Issue press release on expected impact of changes in SPA on:
  – Insurance markets/products/providers
  – Occupational pension schemes
  – General public
• Undertake (more of) its own research?

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