State Pension Age Independent Review – a submission from Independent Age

December 2016

About Independent Age

Whatever happens as we get older, we all want to remain independent and live life on our own terms. That's why, as well as offering regular friendly contact and a strong campaigning voice, Independent Age can provide you and your family with clear, free and impartial advice on the issues that matter: care and support, money and benefits, health and mobility. A charity founded over 150 years ago, we're independent so you can be.

Website

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We give free, confidential advice over the telephone for older people, their families and carers on issues such as getting help at home, adaptations, care assessments, paying for care, staying in touch with other people and welfare benefits.

Call our team of experts on 0800 319 6789, Monday to Friday, 8am-8pm, and Saturday to Sunday, 9am-5pm, or email your query to advice@independentage.org

Registered charity number 210729

1. Introduction

1.1 We welcome the publication of the State Pension Age Independent Review Interim Report. The Report sets out useful evidence on future spending, generational impacts and international comparisons. We particularly welcome the consideration of the disproportionate impact on certain groups, such as carers and disabled people.

1.2 We are pleased the review respects the existing legislative timetable which means State Pension Age (SPA) will rise on an equal basis for men and women to age 67 by 2028. Like this review, we hope future independent reviews of SPA continue to respect the statutory arrangements already in place. This means addressing the long-term affordability and fairness of SPA over decades without compromising a planned timetable already in place to increase SPA in the medium-term.

1.3 Taking into account the evidence presented in this Interim Report, we don't believe there is a strong enough case for accelerating an increase in the planned rise in State Pension Age to age 68 before the planned dates of 2044-46.

1.4 While projections of life expectancy have changed since the State Pension Age legislation was passed, the Interim Report acknowledges that there is uncertainty surrounding these, and in fact the most recent projections show slower increases in life expectancy than the 2012 projections. Given the uncertainty, we don't believe that the projections should form a hard and fast rule about raising the SPA in line with longevity. It is important that other considerations are taken into account.

1.5 In our response, we provide our general view on two of the Review's 'three pillars' for informing its decision: fairness and affordability. We also discuss alternatives to a universal State Pension Age and important aspects to take into account around communicating change to future pensioners. First, however, we deal directly with question (4) which seems to us the most fundamental issue.

2. Questions

Question (4) Is State Pension age the best tool to maintain a steady GDP proportion for pensioner benefits?

2.1 The SPA is still the most effective policy lever to help ensure a steady proportion of GDP is spent on pensions and pensioner benefits. We note the points contained in the Interim Report that the level of the state pension and the measure put in place for uprating it represents another tool to help manage the proportion of GDP that gets spent on pensioner benefits. We also note a number of commentators continue to point to the Triple Lock as one measure that could be changed to help maintain a steady overall amount of expenditure on pensions in the coming decades.

2.2 However, the government has accepted this will remain in place until at least 2020 and in our view any future changes to the Triple Lock must only ever occur if the government has put in place the necessary support to protect the poorest pensioners, for whom the Triple Lock can make the greatest difference. We expand on this in section 4 further below on affordability.

2.3 Whilst we fully accept SPA needs to continue rising in line with increased longevity, we do not see any need for changes to the planned timetable, which plans for a rise in SPA to 68 for both men and women from 2044.

2.4 We welcome the Interim Report's emphasis on other factors that ensure the State Pension can remain affordable over time. We would encourage the review to make robust points about future dependency ratios and the extent to which higher levels of migration can help steady the ratio of older people to working age adults with more people contributing to the economy through paying National Insurance.

2.5 It will be important for the Review to consider future spending on pensions in the broadest possible context and whilst there are many different views on the subject, it is difficult to deny that total levels of working age migration are certainly an important factor in steadying pension spending as a proportion of GDP.

3. Fairness

Questions (14), (15), (18)

Caring, poor health & disability, women

3.1 We were interested to see that the evidence in the Interim Report on intergenerational fairness doesn't appear to suggest more negative pension outcomes for future generations compared to the current generation of retirees. This is because the State Pension for younger generations will be on average higher and private pension coverage will be more widespread following the introduction of auto-enrolment.

3.2 Raising the State Pension Age to address questions of fairness between generations opens up the question of fairness within generations. As the report notes, there is inequality in life expectancy based on geography, deprivation and socio-economic status. There is also inequality in terms of life experiences and opportunities, with people approaching retirement in very different circumstances in terms of financial resources and work capacity.

3.3 We have significant concerns about the groups identified in the interim report who will be impacted as a result of any new increases to the State Pension Age. Broadly, we conclude there are two categories who would be negatively affected:

- People who are wholly or largely reliant on the State Pension as their source of retirement income because they haven't built up sufficient other pension savings. This will include low earners, carers and others with breaks in their career. Having to wait longer to receive their State Pension will have more of an impact on them than someone who can draw on pension income from other sources.

- People who don’t manage to continue in paid work in the run-up to State Pension Age. This might be for a number of reasons, including poor health and disability, caring responsibilities, or a depressed job market. The State Pension they receive is very likely to be higher than the welfare benefits they will be reliant on until then, so they will need to wait longer on lower incomes, with possible knock-on effects on their health and wellbeing. They may also end up spending down savings.

3.4 There is likely to be some overlap between these two groups. It is also likely that people in these groups will tend to have a lower life expectancy than the average.

3.5 The interim report provides helpful illustrations of the possible loss of income resulting from a delay in State Pension Age for people not in paid work. It shows that some people will lose several thousands of pounds over the additional year they would need to wait before claiming their State Pension (based on today’s benefit system and rates).

Question (20) Wider links to the welfare system

3.6 This impact analysis doesn’t always take into account the additional ‘passport’ benefits that would be available to people receiving Pension Credit (such as help with hospital travel costs and mortgage interest payments), or other universal pensioner benefits (such as the Winter Fuel Payment and concessionary bus travel), so the impact on loss of income would in fact be greater.

3.7 In thinking about the impact of raising the State Pension Age on disadvantaged groups, we believe it is important to also keep under review the different pensioner benefits that are linked to SPA. There is a strong case for carrying out a separate review and analysis of all these benefits in order to understand the impact on some groups of a delay in receiving them. For simplicity of understanding for pensioners and administration, it may continue to be appropriate to link them to the State Pension Age, but it is very important to include them in the overall picture of financial loss caused by delaying SPA. For example, an approach that simply delays the age at which older adults can access concessionary bus passes just to tie age of entitlement to future increases in SPA doesn’t seem necessarily the fairest or indeed most evidenced way forward for how we administer the benefit, or indeed other pensioner benefits like it. A fuller, more thorough review would be required.

3.8 We believe there is a case for treating Attendance Allowance separately from other pensioner benefits in terms of age of eligibility and maintaining this at 65. The replacement of Disability Living Allowance with Personal Independence Payment has made it harder for under 65s to receive financial support towards the costs of their disability. As disabled people approach State Pension Age, a further delay in their ability to claim Attendance Allowance may have a significant additional negative impact on their finances. Research has shown that disability benefits play a significant role in keeping older people out of poverty,[1] so delaying the opportunity to claim AA is very likely to increase poverty levels for this group.

Question (23) Other factors becoming increasingly prevalent

3.9 Our *Overlooked over-75s* report from earlier in 2016 highlights how nearly three quarters of a million over 75s have no source of income other than the State Pension and benefits. It goes on to consider how nearly a quarter of single women aged 75 or over (400,000 women) are completely reliant on state financial support[2].

3.10 As the interim report highlights, higher levels of total pension provision through auto-enrolment should mean we don't see quite such high proportions of pensioners – including women – completely reliant on state financial support in the future. However, there are other trends the report identifies, including future patterns of family and unpaid care which could grow dramatically in the coming decades. If local authority-funded support for pensioners continues to decline at the current rate, we could yet see more working age adults taking up unpaid care roles with women in particular at risk of interrupted careers with all the consequent impacts on their private pension savings that implies. Future reviews of SPA should pay particular attention to any future changes in the proportion of working age adults leaving the labour market or retiring early as they start to provide unpaid care.

3.11 Finally, we would like to draw attention to a trend which is likely to be important when considering the outcomes for future groups of retirees. Renting is increasing among younger and middle aged groups, and with the significant decline in the availability of social housing, it is very likely that much of this renting will be in the private rented sector.[3] It is estimated that home ownership levels among pensioners have peaked.[4] We are therefore likely to be looking in 20 years' time at a group who are in very different financial circumstances from the current cohort of retirees. They may have had reduced opportunity to save during their working life and higher financial outgoings as they come up to retirement. By 2040, the 'disadvantaged group' who will be negatively impacted by a delay in SPA could therefore be larger than current patterns suggests.

Question (25) Support through the welfare system

3.12 As the State Pension Age increases, we feel it would be valuable for the Review to look further at the suggestion of 65+ 'age premiums' on working age benefits, which would help to address some of the inequalities in life expectancy and life circumstances discussed. From an equalisation perspective, it would

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[1] See for example Price et al (2016) How important are state transfers for reducing poverty rates in later life? Ageing & Society, Vol 36, part 9.

[2] The overlooked over-75s: Poverty among the 'Silent Generation' who lived through the Second World War (Independent Age), 2016.

[3] The Centre for Housing Policy, York University, estimates that a third of 60 year olds will be renting by 2040. UK Housing Review 2015

[4] Modelling in 2011 by Oxford Economics projected that the proportion of the older population owning their own homes will fall from a peak in 2001 of 72% to 64% in 2021

probably be necessary to make any age premium equal for women and men, although we recognise that the accelerated process for women has had an unequal negative impact.

4. Affordability

4.1 As described in the Interim Report, the projected spending by the OBR on State Pension and pensioner benefits would be within the 7.5-8% level recommended by The Pensions Commission if State Pension Age is adjusted to 2012 Life Expectancy projections. In order to fully understand projected spending, it would be useful to see figure 6 include pensioner benefits and illustrate a number of other uprating scenarios, for example one that is based on legislated State Pension Age rises and without the Triple Lock. This would help identify the different impact on spending of each element, as well as allow comparison with the Pensions Commission range of 7.5-8%.

4.2 Given that expenditure on the State Pension is significantly affected by the amount it is uprated, the Interim Report draws attention to the impact of the Triple Lock on future spending. While linked, we don't believe the Triple Lock vs SPA should be offered to pensioners as a 'trade-off', our view is that each policy should be considered on its own merit.

4.3 The government has not committed to the Triple Lock beyond 2020, and in light of concerns about escalating expenditure, there is a reasonable likelihood that the Triple Lock will be not be continued in the next Parliament. If this were to happen, we believe there is a strong case for introducing a 'double lock' (the higher of average earnings or inflation) rather than a single link to earnings. Instead of adjusting the State Pension Age now, we believe it would be better to wait until the next State Pension Age Review, once decisions have been taken about Triple Lock.

4.4 The other aspect of affordability is the dependency ratio. We believe it is worthwhile to consider two different dependency ratios when thinking about what is affordable – one which looks at the ratio of working-age/pension age, and the other looking at the ratio of working/non-working population. This approach was adopted in the recent book 'The 100-year Life'.[5] In their calculations, the latter ratio suggests a much less dramatic decline in the dependency ratio as the Baby Boomers enter pension age.

4.5 Linked to this, it is also important to recognise that people who are over the State Pension Age are contributing large amounts to the economy, both in paid and unpaid work (even though this unpaid work is not measured as part of GDP). Enabling a move out of full time paid work through payment of the State Pension may well enable people to take up part time work, volunteering or caring roles. Our view is that this wider definition of work should be taken into account when thinking about the role of the State Pension in enabling fuller working lives.

[5] Scott and Gratton (2016) The 100-Year Life: Living and Working in an Age of Longevity

5. Alternatives to a universal State Pension Age

Question (22) Alternative options

5.1 In our view, introducing different State Pension Ages linked to different average life expectancies (e.g. by geography) would be too complex and may introduce additional unfairness. It would certainly introduce confusion among retirees.

5.2 We do however think there is a case to look further into allowing people who have worked for a minimum number of years (or have NI credits) to claim their State Pension early if they choose. We believe that 50 years is too high to make this available to more than a very small number, and would suggest looking at 48 years as an alternative. This would allow someone to retire early at the age of 64 or 65, rather than 67 and would recognise their financial input into the system during their lifetime.

5.3 We are not convinced that it will be of benefit to allow people early access to a reduced State Pension. This is because we believe that people who are most likely to need early access are also the most likely to be reliant on the state pension for all or most of their income. Paying them a lower State Pension could therefore result in an increase in income inequality.

6. Communication

Question (26) Government communications

6.1 We agree that it is important that people have at least 10 years notice of their State Pension Age, with follow-up letters at regular intervals. As well as informing people about the age when they will be able to claim their State Pension, it is essential that these letters also help people to prepare for decisions about their retirement and how to fund it.

6.2 Clear and straightforward communication is required which draws attention to the following and offers an opportunity for telephone advice if needed, for example from the DWP or the Money Advice Service.

- Explaining an individual's State Pension Age, including the rules about mixed aged couples
- Providing information about working age entitlements and benefits
- Providing an offer of support for extended working
- Linking to an online pensions calculator
- Setting out options for deferring the State Pension

6.3 To restate, we welcome that this Review is not looking at retirement ages any earlier than 2028. We are concerned that the regular reviews of the State Pension Age (one in every Parliament) should not result in a new change every 5 years. This causes concern and confusion among people as their State Pension Age continues to shift forward. Previous changes caused significant levels of shock and stress for a cohort of women born in the 1950s. A pause and a consolidation, rather than further acceleration in the planned rise of SPA to age 68, at this stage would be helpful and welcome.

Further information

To follow up on any of the information in this submission, please contact
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