Department for Work & Pensions

State Pension age review

July 2017

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Foreword by the Secretary of State for Work and Pensions

Since the early 2000s it has been widely recognised that we face big questions as a society around how we ensure economic security for people in retirement, whilst maintaining fairness between generations. The Pensions Commission in 2005 found that a State Pension age fixed at 65 was no longer sustainable or affordable. Between 2007 and 2014 three separate Acts of Parliament were introduced, each one responding to changes in life expectancy by changing the State Pension age.

In light of these changes, and projected continued increases in life expectancy, the Government recognised the need for a structured framework to provide clarity for future pensioners on what State Pension they could expect from the State and when, and assurance that the State Pension would remain affordable without forcing future taxpayers to shoulder a much greater burden than their predecessors. These elements were delivered through the Pensions Act 2014. This Act introduced the simpler new State Pension, so everyone knows what they will get from the State, and a framework for regular reviews of the State Pension age – in light of changes in life expectancy.

Providing people with dignity and security in retirement

I want Britain to be the best country in the world in which to grow old, where everyone enjoys the dignity and security they deserve in retirement. To achieve this, I believe we need to respond positively to rising longevity so we can deliver our objective of enabling people who have worked hard all their lives to have the retirement they aspire to.

This report details our policy on one of the key building blocks in meeting that objective: setting the future State Pension age.

As our society ages the costs of caring for older generations – pensions, pensioner benefits, health and social care – rise. The State Pension is paid for by working people through their National Insurance contributions. As the relative number of younger people is falling these costs increase, not just in total but also for individuals. So if we are to give older people the dignity they deserve and younger people the opportunities they deserve, we need to respond to these changes.

Providing fairness across the generations

We need to balance the costs of an ageing society across the generations. No grandparent wants to see their grandchildren worse off than they were.

In 1948, when the modern State Pension was introduced, a 65-year-old could expect to live for a further 13½ years, or 23% of their adult life, assuming adult life starts at 20. In 1995, when the first changes were enacted to equalise State Pension age, a 65-year-old could expect to live for 18½ years, or 29% of their adult life. This had risen to around 21 years by 2007, or 32% of their adult life, when further legislation was introduced to increase State Pension age. Increased longevity is a triumph of improved health and better living standards. But an ageing population also presents us with some profound challenges.

It means that if we are to be fair to our children and ensure our society continues to be able to care properly for older people, we need to ensure that people spend on average the same proportion of time over State Pension age. This is important – if we do this successfully the prize is ensuring prosperity and wellbeing for all in later life, and delivering sustainable public services that support this.

This first Government review links the State Pension age to increasing life expectancy. In this way, current and future generations can expect to spend broadly the same proportion of their lives entitled to State Pension. This enduring link is fair and transparent. It is a notice of intent across the generations which will ensure the system remains affordable and sustainable.

What we will do to ensure dignity and security in retirement

The Government intends to follow the recommendation John Cridland made in his independent review **to increase the State Pension age from 67 to 68 in 2037–39**, bringing it forward by seven years from its current legislated date of 2044–46. This is the fair thing to do.

It is also the responsible course of action. As John Cridland pointed out, between now and 2036/37, annual State Pension spending is set to rise by an extra 1% of GDP, from 5.2% to 6.2%. If that same rise in spending was faced today, this would be equivalent to a rise in taxation of £725 per household per year. While an ageing population means State Pension spending will rise under any of the possible timetables we have considered, the action we are taking reduces this rise by 0.4% of GDP in 2039/40, the equivalent to a saving of around £400 per household based on the number of households today. It will save £74 billion to 2045/46 when compared to current plans, and more than £250 billion to 2045/46 when compared with capping the rise in State Pension age at 66 in 2020.

The alternatives for controlling costs of this magnitude would be to pay lower State Pensions, with an inevitable impact on pensioner poverty, or to ask the working generation to pay an ever larger share of their income to support pensioners.

Our timetable achieves the right balance. Because life expectancy is increasing, people affected by this rise will be spending longer on average in receipt of the State Pension than people have spent over the age of 65 over the last 25 years, and on average will receive more in State Pension over their retirement than previous generations.

In order to keep the State Pension sustainable and maintain fairness between generations in the future, the Government will aim for 'up to 32%' in the long run as the right proportion of adult life to spend in receipt of State Pension. A 32% timetable is consistent with the average proportion of adult life spent above State Pension age experienced by people over the last 25 years.[1]

To give people certainty so that they can plan for old age

The Government is determined to achieve this change. In doing so it will ensure that people who are enjoying growing life expectancy have certainty about what State Pension they can expect from the State in retirement, when they can expect it, and the fact that the new State Pension provides a firm foundation on which to base decisions around saving for retirement.

But this is a big decision with significant consequences. We will ensure that we have made the right choice by carrying out a further review before bringing forward the rise in State Pension age to 68, to enable consideration of the latest life expectancy projections and to allow us to evaluate the effects of current rises in State Pension age.

[1] Under a 32% scenario, the average proportion of adult life that people reaching State Pension age between 2028 and 2060 would be expected to spend above State Pension age would be 31.3%. This is similar to the average proportion of adult life that people reaching age 65 (male State Pension age) over the last 25 years (between 1992 and 2016) were expected to spend above age 65.

The Government recognises the need to provide certainty and transparency for future pensioners and this review provides a clear signal that the State Pension age will change. We will build on our communication strategies, making the most of digital technologies, to ensure we have a clear plan for communicating future changes to State Pension age, and to assist with wider financial and later life employment planning. We will also seek to provide a minimum of ten years' notice for individuals affected by changes to their State Pension age.

The wider picture

Our policy on setting State Pension age is part of a broad programme of action designed to deliver security for older people. The Government has already made significant progress in improving outcomes for pensioners since 2010 by:

- introducing the triple lock;
- helping people save enough for retirement through Automatic Enrolment, so people can have the retirement they would like to achieve;
- reducing the complexity of the State Pension so that people can make informed decisions about whether, when and how much to save;
- maintaining the value of the contributory State Pension, by setting the full rate of the new State Pension above the basic level that can be received via the means test; and
- supporting people to enjoy the benefits of fuller working lives, including the abolition of the statutory Default Retirement Age to ensure that people cannot be required to leave their jobs purely on grounds of age.

The Government agrees with John Cridland that increases to the State Pension age timetable must form part of a wider system that enables older people to have fulfilling employment or self-employment, while also supporting those whose work prospects are limited or curtailed by disability, health conditions, or caring responsibilities.

We will assess the possibilities for building on the current system of welfare support as we evaluate the operation and effects of both Universal Credit and the new State Pension, and the effects of future State Pension age increases already legislated for. In this context, we will also take account of the Government's recent consultation on health and work. In respect of John Cridland's specific recommendations, these, alongside other evidence, will form the basis of future consideration on how we manage the effects of rises in State Pension age.

These policies mean that most people now have the opportunity to build a retirement income that suits their aspirations for later life. This is vitally important. More and more of us will reach State Pension age and will live on average up to a decade longer than our grandparents with every likelihood that our children and grandchildren will live longer than us. This creates a meaningful "third age" where people can live well because of the income they have built up over a lifetime.

Our policy on State Pension age set out in this report is centred on the principle of fairness between the generations. But our overall objectives are rooted in a series of practical measures that encourages people to plan for their retirement, enables them to work for longer where they can, and supports those people who cannot work. This Government believes that everyone deserves dignity and security in retirement. I am confident our pensions strategy – the new State Pension, the State Pension age review framework, action on workplace pensions, and action in support of fuller working lives – will strengthen and sustain the UK's pensions system for many decades to come.

Executive summary

This is the Secretary of State for Work and Pension's report on the first Government review of State Pension age, as required under the Pensions Act 2014.[2]

The review is forward looking and focusses on the period after 2028.

Rising life expectancy is a cause for celebration. The Government is determined to make sure that people can continue to enjoy growing life expectancy with certainty about what they can expect from the State in retirement, and with the assurance that a full new State Pension will provide a firm foundation on which to base decisions around saving for retirement. If current assumptions prove broadly right, after 2028 we will see:

- a higher proportion of the population surviving to State Pension age;[3] and
- people receiving more State Pension over their lifetime than generations before them.[4]

A fair and sustainable State Pension system

It is vitally important for the future of the State Pension system that we take account of increasing life expectancy. In 1948, when the modern State Pension was introduced, a 65-year-old could expect to spend 13½ years, or 23%, of their adult life in receipt of the State Pension, assuming adult life starts at 20.[5,6] In 1995, when the first changes were enacted to increase State Pension age, a 65-year-old could expect to live for 18½ years, or 29% of their adult life. This had risen to 21 years by 2007, or 32% of their adult life, when further legislation was introduced to increase State Pension age. This trend looks set to continue in the future.

In addition, the significant increase in the population after the Second World War, which is the generation often referred to as the 'baby boomers' (born between 1945 and 1965), is now feeding through to an increase in the pensioner population. This will have a significant impact over the next 25 years because the number of people over State Pension age in the UK is expected to grow by one third, from 12.4 million to 16.9 million,[7] whilst the proportion of the population which consists of working age people who support them will start to decrease. The old age dependency ratio, which shows the number of pensioners per thousand working age individuals, is projected to increase from 301 pensioners for every 1,000 people of working age in 2017, to 375 pensioners for every 1,000 people of working age by 2042.[8]

It is important to respond to these significant demographic changes because the National Insurance contributions of today's working-age population provide for today's State Pensions on a 'pay as you go' basis. The costs they face are set to rise: John Cridland's independent report, which was commissioned

[2] DWP (2014) *Pensions Act 2014*. Available at: http://www.legislation.gov.uk/ukpga/2014/19/contents/enacted
[3] Government Actuary (2017) *State Pension age periodic review: report by the Government Actuary*. Available at: https://www.gov.uk/government/publications/state-pension-age-periodic-review-report-by-the-government-actuary
[4] From DWP modelling based on future State Pension entitlements and life expectancy projections from ONS
[5] ONS (2016) *2014-based England and Wales cohort life expectancies at birth, 1841 to 2064*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/adhocs/0059922014basedenglandandwalescohortlifeexpectanciesatbirth1841to2064
[6] Life expectancy figure is an average for men and women. Throughout this report, unless otherwise specified, life expectancy figures represent the combined average for men and women. Life expectancy figures at age 65 (equal to male State Pension age) are used in this report to allow meaningful comparisons over past time periods.
[7] ONS (2015) *2014-based National population projections*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/compendium/nationalpopulationprojections/2015-10-29
[8] ONS (2015). *2014-based National Population Projections, table A1-1*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2015-10-29/relateddata

to inform this State Pension age review, sets out that by 2036/37 spending on the State Pension will increase by 1% of GDP,[9] equivalent to £20bn in today's terms. If the same rise in spending was faced today, this would be equivalent to a rise in taxation of £725 per household. So if we are to give older people the dignity we owe them and younger people the opportunities they deserve, we face some difficult decisions.

The Government is committed to providing a fair and resilient State Pension system, which can withstand demographic fluctuations and which gives people security in retirement. To this end, in 2013 the Government proposed increasing the State Pension age to reflect changes in life expectancy,[10] and the State Pension age review mechanism in the Pensions Act 2014 was introduced, requiring the Government to conduct periodic reviews of State Pension age arrangements. The Government set out the following principles underpinning the review:

- future changes to State Pension age will ensure that people can expect to spend on average "up to one third" of their adult life in receipt of the State Pension to reflect the experience of recent generations; and
- the Government will seek to provide a minimum of 10 years' notice for individuals affected by new changes to their State Pension age.

While the costs of the State Pension and of ageing more broadly will continue to rise, this review process will help to ensure the system becomes more sustainable in a way that is fair across generations of pensioners and taxpayers.

Recent changes to the pensions system

The State Pension age review is part of a series of measures that Government has introduced since 2010 to improve outcomes for pensioners and place the UK pension system on a simpler and more sustainable footing:

- To ensure pensioner incomes are maintained, the triple lock increases for the basic and new State Pensions were introduced.
- The new State Pension is designed to provide a clearer foundation upon which individuals can save for a private pension. By 2030 over 80% of individuals reaching State Pension age will be receiving the full rate of the new State Pension.[11]
- The Government has also taken action to address some of the most pressing issues facing the pensions system, including: supporting older people to work for longer by abolishing the Default Retirement Age and introducing the right to request flexible working; and tackling under-saving for retirement by introducing Automatic Enrolment.

We have witnessed gradual increases in life expectancy of the population at age 65 for over a century.[12] The Government has already taken decisive action to improve the sustainability of the State Pension system for the period up to 2028, recognising the imperative to act quickly in the light of strong evidence that a changing demography and future life expectancy projections put increasing pressure on the system. We:

- accelerated the equalisation of women and men's State Pension age by up to 18 months;

[9] State Pension age independent review (2017) *State Pension age independent review final report*. Available at: https://www.gov.uk/government/publications/state-pension-age-independent-review-final-report

[10] DWP (2013) *The single-tier pension: a simple foundation for saving.* Available at: https://www.gov.uk/government/publications/the-single-tier-pension-a-simple-foundation-for-saving

[11] DWP (2016) *New State Pension: impact on an individual's pension entitlement – longer term effects*. Available at: https://www.gov.uk/government/publications/new-state-pension-impact-on-an-individuals-pension-entitlement-longer-term-effects

[12] ONS (2016) *2014-based England and Wales cohort life expectancies at birth, 1841 to 2064*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/adhocs/0059922014basedenglandandwalescohortlifeexpectanciesatbirth1841to2064

- brought forward the increase from age 65 to age 66 by five and a half years (so it is completed by 2020); and
- brought forward the increase in State Pension age from 66 to age 67 by eight years (now 2026 to 2028).

In the past, the UK has been slow to fully take account of these increases, with the State Pension age remaining fixed at 65 for men and 60 for women until 2010. This meant that the period someone spent in work, as a proportion of their adult life, slowly decreased; at the same time, the proportion of adult life spent in receipt of the State Pension grew. As a result, in the last 10 years there have been changes to the State Pension age in three separate Acts of Parliament.

Thanks to the action we have taken, the UK's State Pension is now on a firmer footing, and the State Pension age review framework should maintain that position, through its greater responsiveness to changing life expectancy projections. It is evident that to ensure a more stable State Pension system in the future, there will need to be further changes to State Pension age, as life expectancy is projected to continue to rise. In twenty years' time, life expectancy at age 65 is projected to have increased by a further two years for both men and women.[13]

The evidence base

The Pensions Act 2014 requires the Government to commission two independent reports to inform the State Pension age review:

- analysis by the Government Actuary of future possible State Pension age timetables, calculated from the latest life expectancy projections and based on specified proportions of adult life that individuals in the future could expect to spend in receipt of State Pension; and
- a report on wider factors relevant to the pensionable age as specified by the Government, such as variations in life expectancy. For the 2017 Review, this report was written by John Cridland CBE.

The two reports were published on 23 March 2017.[14] The Government is grateful for the analysis produced by the Government Actuary and John Cridland.

The Government Actuary's Report

The Government Actuary's report shows how State Pension age could change in order that individuals spend on average up to either 32.0% or 33.3% of their adult life in receipt of State Pension. Both timetables would bring the increase from age 67 to age 68 forward compared to current legislation. The report also highlights the considerable uncertainty in future life expectancy projections. The timetables are shown below.

Calculated timetables under specified parameters and assumptions for State Pension age changes

State Pension Age Changes	Current Legislation	33.3% Scenario	32.0% Scenario
67 to 68	2044–46	2039–41	2028–30
68 to 69	n/a	2053–55	2040–42
69 to 70	n/a	n/a	2054–56

[13] ONS (2015) *Life tables, 2014-based principal projection, United Kingdom*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/datasets/lifetablesprincipalprojectionunitedkingdom

[14] Government Actuary (2017) *State Pension age periodic review: report by the Government Actuary*. Available at: https://www.gov.uk/government/publications/state-pension-age-periodic-review-report-by-the-government-actuary; State Pension age independent review (2017) *State Pension age independent review final report*. Available at: https://www.gov.uk/government/publications/state-pension-age-independent-review-final-report

John Cridland's Report

John Cridland made a number of recommendations relating specifically to State Pension age, including that:

- The State Pension age should continue to be universal across the UK, increasing over time to reflect improvements in life expectancy.
- The State Pension age should increase to age 68 between 2037 and 2039, at which point the proportion of adult life in receipt of State Pension would have reached roughly the average over the last decade.
- The pace of change should be steady and evenly spread across generations and on this basis State Pension age should not increase by more than one year in any 10-year period (assuming there are no exceptional changes to the data used).
- Individuals should get 10 years' notice of any new changes to State Pension age to provide certainty for individuals and allow for 'windows of stability' where the impact of each change can be monitored and mitigations introduced if appropriate.

The Government agrees with the strategy underpinning John Cridland's timetable: to have a clear baseline and managed pace of change that will ensure adequate notice.

The Government's conclusions

People are living longer. This is a good thing but we should not ignore the consequences. We need to respond to the realities of an ageing society, giving people security in old age, whilst making sure we are fair to younger generations. This Government will ensure that State Pension age reflects increases in life expectancy, while protecting each generation fairly. And increasing State Pension age will help to manage the fiscal challenge associated with an increasingly ageing society – a one year increase in State Pension age saves around 0.3% of GDP per year in State Pension expenditure,[15] and the expectation is that increasing State Pension age would also lead to increased employment rates. If everyone worked for one year longer, it would add 1% to GDP.[16]

The Pensions Act 2014 provides that the State Pension age review must have "regard to life expectancy and other factors that the Secretary of State considers relevant". For this review, the other factors we have considered are:

- **Fairness between the generations:** future generations of pensioners should spend on average broadly the same proportion of their adult life with entitlement to the State Pension as pensioners living now This ensures the State Pension remains above the basic level of the means test to give people security in their retirement whilst remaining affordable for the taxpayers of the future, in light of demographic changes and the costs of an ageing society.
- **How the pace and notice of change can best provide a firm foundation for planning and saving in light of the uncertainty of future life expectancy:** we are committed to supporting individuals to plan and save for the retirement that they want and to reduce the likelihood that back to back State Pension age rises will be needed in the future.

We need to reconcile these factors. We have weighed them carefully and decided that this review can best balance them by following John Cridland's recommendation and **increasing the State Pension age from 67 to 68 in 2037–39**, seven years earlier than its currently legislated date of 2044–46. There is a good case for earlier action on grounds of affordability and the evidence on the proportion of adult life spent in retirement. However, this needs to be balanced against John Cridland's recommendations on

[15] OBR (2017) *Fiscal sustainability report charts and tables – January 2017*. Available at: http://budgetresponsibility.org.uk/download/fiscal-sustainability-report-charts-tables-january-2017/

[16] Barrell, R., Kirby, S. and Orazgani, A. (2013) *The macroeconomic impact from extending working lives*, DWP Working Paper No 95. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214392/WP95.pdf

the pace of change. The Government agrees with John Cridland that future increases should be appropriately spaced; and does not therefore consider that a rise to 68 immediately after a rise to 67 is desirable, as would be required, for example, under the 32% timetable outlined in the Government Actuary's report. An increase to 68 in 2037–39 would save £74bn by 2045/46 compared to the currently legislated State Pension age timetable.[17]

We will carry out a further review before legislating to bring forward the rise in State Pension age to 68, to enable consideration of the latest life expectancy projections and to allow us to evaluate the current rises in State Pension age. This is in line with John Cridland's principles as he took account of both the 2012-based and 2014-based ONS life expectancy projections when making his recommendation on the timing of the increase to 68, in order to reflect these uncertainties. New life expectancy projections are published every two years and it makes sense to base the rise to age 68 on the most recent data, whilst allowing time for adequate notice. But under the 2037–39 timetable, everyone born on or before 5th April 1970 will see no change to their State Pension age.

Maintaining fairness in the longer term

As has been shown in recent decades, life expectancy projections are uncertain, and more so over longer projection periods. Given this uncertainty, and the fact that there will be at least three further State Pension age reviews before the transition to age 68 begins, we do not intend to formalise policy beyond 2037–39 at this stage. However, in the long run, the Government is minded to commit to 'up to 32%' as the right proportion of adult life to spend in receipt of State Pension. This is because:

- The State Pension age timetable resulting from a 32% scenario is consistent with the average proportion of adult life spent above State Pension age experienced by people reaching State Pension age over the last 25 years;[18] and
- It will provide a firm foundation for planning and saving, by maintaining the value of the State Pension at a level that provides people with security in retirement but ensures that it remains affordable for future taxpayers.

Under a 32% scenario, as people live longer, the average amount of time they spend in retirement will increase.

We should be clear that the next rise will not bring us to our preferred proportion. But if we are to ensure that the State Pension remains affordable for taxpayers of the future, subsequent reviews will need to consider carefully when it can be reached. Demographic change is a key long-term pressure on the public finances and it is important that we are realistic when setting the longer term timetable, so that we can give future pensioners the reassurance that the State Pension will remain above the basic level of the means test.

Support in later life

The Government is clear that rises in the State Pension age must be part of a wider package that encourages people to plan for their retirement, enables people to work for longer where they can, and supports people who cannot work.

The Government recognises the need to provide certainty and transparency for future pensioners. In addition to seeking to provide adequate notice for individuals affected by new changes to their State Pension age, we agree with John Cridland that the Government must have a clear strategy for communicating future changes to State Pension age, and to assist with wider financial and later life employment planning.

[17] See Annex for details.

[18] Under a 32% scenario, the average proportion of adult life that people reaching State Pension age between 2028 and 2060 would be expected to spend above State Pension age would be 31.3%. This is similar to the average proportion of adult life that people reaching age 65 (male State Pension age) over the last 25 years (between 1992 and 2016) were expected to spend above age 65.

The Government believes a communications strategy could:

- deliver messages about changes in State Pension age through a range of communication mechanisms, taking advantage of emerging technologies in the coming years;
- encourage individuals to find out and review regularly their own personalised State Pension position – for instance by using the online Check your State Pension service;
- encourage greater engagement in pensions and financial planning for later life by supporting new developments such as the Pensions Dashboard, wider digital delivery and the creation of a single financial guidance body; and
- make extensive use of stakeholders' communications channels, plus wider digital and conventional media, to raise and ensure continuing awareness of any changes in State Pension age.

The Government agrees with John Cridland that increases to the State Pension age timetable must form part of a wider system that supports people in employment or self-employment, while also supporting those whose work prospects are limited or curtailed by disability, health conditions, or caring responsibilities. We are reviewing long term carers' ability to take leave and will set out our plans in due course.

We will assess the other possibilities for building on the current system of welfare support as we evaluate the operation and effects of both Universal Credit and the new State Pension, and the effects of future State Pension age increases already legislated for. In this context, we will also take account of the Government's recent consultation on health and work. In respect of John Cridland's specific recommendations, these, alongside other evidence, will form the basis of future consideration on how we manage the effects of rises in State Pension age.

Conclusion

This report explains that the Government has decided to raise State Pension age on a regular, planned basis in the future, because we are all living longer and we need to keep the State Pension sustainable whilst maintaining it above the basic level of the means test. We plan to do this by maintaining a given proportion of time in receipt of State Pension as life expectancy increases in line with experience over the last 20 to 30 years. Carrying through the plan for State Pension age outlined above means:

- we will have a resilient system that is sensitive to changes in life expectancy while maintaining the value of the State Pension at a level above the basic level of the means test;
- we will have clarity and certainty, and people can plan their finances in later life on the solid basis of knowing, some way from State Pension age, what they will get and when they will get it; and
- based on current projections, a greater number of people are predicted to reach State Pension age in the future than today, and they will receive more State Pension over their lifetime than previous generations before them.

1. Setting the context

1.1 Introduction

All pension systems need entitlement rules – how contributions count and cost; who is covered and who is excluded; how much pension income people build; and, for state pensions, where the National Insurance contributions of today's working-age population provide for today's State Pension on a 'pay as you go' basis, what is the long-term strategic objective. Pension systems by their nature also need a minimum qualifying age. In terms of the State Pension, which in different forms has been in existence for over a century, almost all of the policy focus has been on the other entitlement rules and hardly any on State Pension age.

So while we now have a State Pension with a very clear objective – to provide an effective foundation for private saving – policies on State Pension age have until recently been indistinct. The link to increasing life expectancy means State Pension age policy now has a clear rationale. It gives certainty to those who fund the State Pension today that broadly the same State Pension deal will be in place for them as is in place for current pensioners. The main alternative would be to disregard increases in life expectancy and leave State Pension age unchanged but reduce the value of the new State Pension. All other things being equal this would increase pensioner poverty and mean that people could see their hard earned savings caught up in the basic Pension Credit means test. This is the opposite of where we need to be.

This chapter explains how the Government's approach to State Pension age has evolved since the modern State Pension was first created in the 1940s. It also covers how the link to longevity as a measure and the review framework set out in the Pensions Act 2014 provide a delivery mechanism for what is now a long-term strategy for State Pension age policy; the impact of other factors, such as demographic change, on sustainability; and summarises the Government's overall pension strategy.

1.2 Legislative and historical context

The starting point is the considerable recent improvements in life expectancy.

In the fifty years between 1940 and 1990 average life expectancy at age 65 had improved by five years for women and by almost four years for men.[19] Alongside these increases in life expectancy there has been a significant change in the demographic make-up of the UK population. Increasing life expectancy and the 'baby boomer' generation reaching retirement means that more people will be entitled to their State Pension for a longer period. The 'pay as you go' system for financing the State Pension means that these structural demographic changes have to be taken into account.

Despite these increases in life expectancy, the policy on State Pension age remained unchanged between 1940 (when women's pension age in the pre-1948 system was reduced to age 60 from 65) and the Pensions Act 1995. The changes introduced by this Act addressed the inequality between men's and women's State Pension ages. The 1995 Act specified how women's State Pension age would be increased to age 65 between 2010 and 2020.

[19] ONS (2016) *2014-based England and Wales cohort life expectancies at birth, 1841 to 2064*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/adhocs/0059922014basedenglandandwalescohortlifeexpectanciesatbirth1841to2064

Further changes were recommended by the Pensions Commission in 2005 as it became clear that a State Pension age fixed at age 65 was not affordable or sustainable. They recommended that in the future State Pension age should increase in line with life expectancy and also recommended the introduction of a State Pension age timetable that reflected this.[20]

Following those recommendations, the Pensions Act 2007 introduced an increase in State Pension age to ages 66, 67 and 68, starting from 2024, 2034 and 2044 respectively.

In light of substantial improvements in life expectancy in the 1990s and 2000s, the then Government identified the need to accelerate increases in State Pension age further in the Pensions Act 2011 and 2014. These changes set the current timetable:

- Equalisation at 65 being achieved by November 2018 (brought forward in the Pensions Act 2011 by 18 months, compared to the previous timetable).
- Increase to age 66 from December 2018 – October 2020 (brought forward in the Pensions Act 2011 by five and a half years, compared to the previous timetable).
- Increase to age 67 from April 2026 – April 2028 (brought forward in the Pensions Act 2014 by eight years, compared to the previous timetable).
- Increase to age 68 from April 2044 – April 2046 (remains as set out in the Pensions Act 2007).

Setting aside the need to equalise State Pension age for men and women it will have taken until December 2018, over 70 years since the modern State Pension system was introduced, to take the first step in changing State Pension age to reflect increases in life expectancy. In contrast, over the last decade three Pensions Acts were introduced in quick succession, which deal with record increases in life expectancy for men and women.

The original timetable set out in the Pensions Act 2007, where the increase to age 66 was due to take effect between 2024 and 2026, could no longer ensure that the costs of the State Pension system remained manageable in light of continuing rises in life expectancy.

The Coalition Government therefore took immediate action to accelerate the increase in State Pension age to age 66 by 2020, in the Pensions Act 2011, and to age 67 by 2028, in the Pensions Act 2014, to offset the impact of increasing life expectancy that had built up over several decades. This approach, where the changing demographics of the UK were not acted on for many years and then a rapid response was needed to remedy this, has led to people spending very significant proportions of their adult lives over State Pension age – for example, in 2009, women with a State Pension age of 60 were projected to spend an additional 27.6 years above this, equating to 41% of their adult lives.[21]

In light of this and the continuing increases in life expectancy, Government recognised the need for a structured framework to lock State Pension age into a coherent strategy for the whole of the pensions system. This was delivered through the Pensions Act 2014. This introduced a framework for regular reviews of State Pension age.

The 2014 Act requires the Government to conduct periodic reviews of State Pension age. This document is the report of the first Government State Pension age review.

[20] The Pensions Commission (2005) *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission.* Available at: http://webarchive.nationalarchives.gov.uk/+/http:/www.dwp.gov.uk/publications/dwp/2005/pensions commreport/main-report.pdf

[21] DWP calculation based on life expectancy data from ONS

1.3 Purpose of the State Pension age review

The periodic review provides the Government with an opportunity to consider whether the rules relating to State Pension age are appropriate in light of changes in life expectancy. This includes considering whether the rules on State Pension age mean that, on average, a person who reaches that age can expect to spend a specified proportion of their adult life in receipt of the State Pension.

The purpose of the review is to consider the evidence on whether the State Pension age rules are appropriate. If this is not the case, the review can put forward ways in which the rules can be changed to attain that result.

Prior to the Pensions Act 2014, elements of the approach the Government has adopted for this review were outlined in the White Paper '*The single-tier pension: a simple foundation for saving*',[22] published in January 2013, which set out the framework for considering changes to State Pension age in the future, as follows:

- it should be based on maintaining a given proportion of adult life in receipt of State Pension;[23]
- it should take into account the latest demographic data available and be informed by wider factors that could be taken into account when setting State Pension age; and
- it should seek to provide a minimum of 10 years' notice for individuals affected by changes to State Pension age.

The White Paper said that "A more structured framework will help to ensure the costs of increasing longevity are shared fairly between the generations, and provide greater clarity around how State Pension age will change in future".

The scope of the review was further clarified by the Government in the Autumn Statement 2013 by introducing a guiding principle that people should expect to spend, on average, "up to one third" of their adult life in receipt of the State Pension.[24]

The State Pension age review framework will take account of the impact of increasing life expectancy on those contributing to the State Pension and those receiving it. The objective is a stable and transparent State Pension age policy that is underpinned by a longevity link[25] that is fair and sustainable in the long term.

Further changes to the State Pension age require primary legislation and as such would be subject to full scrutiny by Parliament.

[22] DWP (2013) *The single-tier pension: a simple foundation for saving*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181229/single-tier-pension.pdf
[23] This approach to future State Pension age changes was first recommended by the Pension Commission in 2005.
[24] DWP (2013) *The core principle underpinning future State Pension age rises: DWP background note*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263660/spa-background-note-051213_tpf_final.pdf
[25] The longevity link is where State Pension age is adjusted to reflect changes in life expectancy.

1.4 Supporting evidence

To inform the Government review and ensure that it is based on the most recent data, the Pensions Act 2014 requires the Government to commission both a report by the Government Actuary and a report by an Independent Reviewer.

The Government Actuary's report provides indicative timetables on when State Pension age should rise to take account of projected increases in life expectancy. For this review the Government commissioned two timetables (for further details see section 2.2), both reflecting the principle that an individual should spend on average "up to one third" of their adult life over State Pension age. The period of time covered by the timetables is 2028 to 2064.

John Cridland, Chair of the Board of Transport for the North and former Director General of the Confederation of British Industry, was appointed as the Independent Reviewer and commissioned to produce the Independent Report on wider factors relevant to the pensionable age, taking account of fairness, affordability and fuller working lives. The Government specified that the report should be forward looking, focussing on the period beyond 2028.

The Government Actuary's report and the Independent Report were published on 23 March 2017. Both reports were laid before Parliament and have been carefully considered as part of the present report.

1.5 Demographic change and impact on sustainability

Life expectancy at birth has been increasing since records began in the 1840s,[26] and we have witnessed gradual increases in the life expectancy of the population at age 65 for over a century. With the State Pension age remaining stable at 65 for men and 60 for women until 2010, these increases meant that the period someone spent in work, as a proportion of their adult life, slowly decreased; at the same time, the proportion of adult life spent in receipt of the State Pension grew. Without further changes to State Pension age, this trend will continue in the future as life expectancy is projected to continue to rise. In twenty years' time, life expectancy at age 65 is projected to have increased by a further two years for both men and women. Box 1.1 below summarises some key figures on life expectancy, and figure 1.1 shows how life expectancy at age 65 has increased over time and how it is expected to continue to increase in the future.

[26] ONS (2016) *2014-based England and Wales cohort life expectancies at birth, 1841 to 2064*. Available at: https://www.ons.gov.uk/people populationandcommunity/birthsdeathsandmarriages/lifeexpectancies/adhocs/0059922014basedenglandandwalescohortlifeexpectanciesatbirth1841to2064

Box 1.1: Life expectancy and an ageing population

Life expectancy is increasing – at birth and at older ages:

- A girl born in 1951 was expected to live to 82.4 and a boy to 77.8. By 2017 these figures had increased by over 11 years for newly born girls and by almost 13 years for boys, to 93.6 and 90.8. By 2064 the figures are expected to rise by more than 6 years for both genders, an increase of a little over one year every 8 years.*
- Life expectancy at older ages is also increasing. In 2017 a 65-year-old woman is expected to live for a further 23.8 years, whilst a man of the same age can expect to live for a further 21.6 years. These figures are 8 years higher than in 1951 for women and 9 years higher for men. Future years are projected to see improvements of a little over one year each decade for both genders.*

… which is leading to a growing older population:

- The number of people over State Pension age in the UK is expected to grow by one third over a 25 year period from 2017 to 2042, from 12.4 million to 16.9 million.**
- The old age dependency ratio is projected to increase substantially over the coming decades – from 301 pensioners for every 1,000 people of working age in 2017, to 375 pensioners for every 1,000 people of working age by 2042.**

… and this is particularly noticeable at the 'oldest' ages:

- In 2015 almost 6,000 people in the UK turned 100, compared to 3,000 people in 2002*** when the Office for National Statistics began collecting information on centenarians. By 2032 there will be three times as many people aged 100 and over as there are now.****

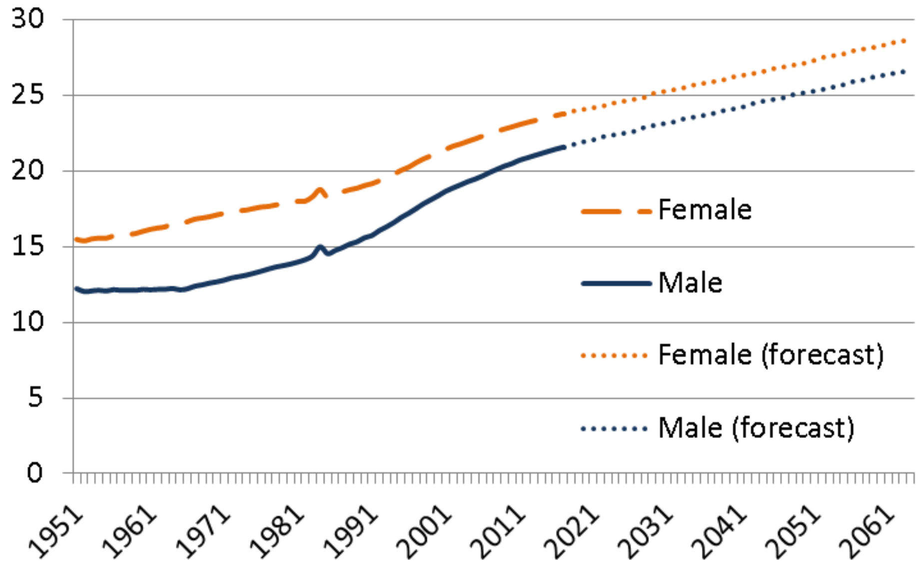
* ONS (2015) *Life tables, 2014-based principal projection, United Kingdom*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/datasets/lifetablesprincipalprojectionunitedkingdom

** ONS (2015) *2014-based National population projections, table A1-1*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/compendium/nationalpopulationprojections/2015-10-29

*** ONS (2016) *Estimates of the very old (including centenarians), UK: 2002 to 2015*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/bulletins/estimatesoftheveryoldincludingcentenarians/2002to2015

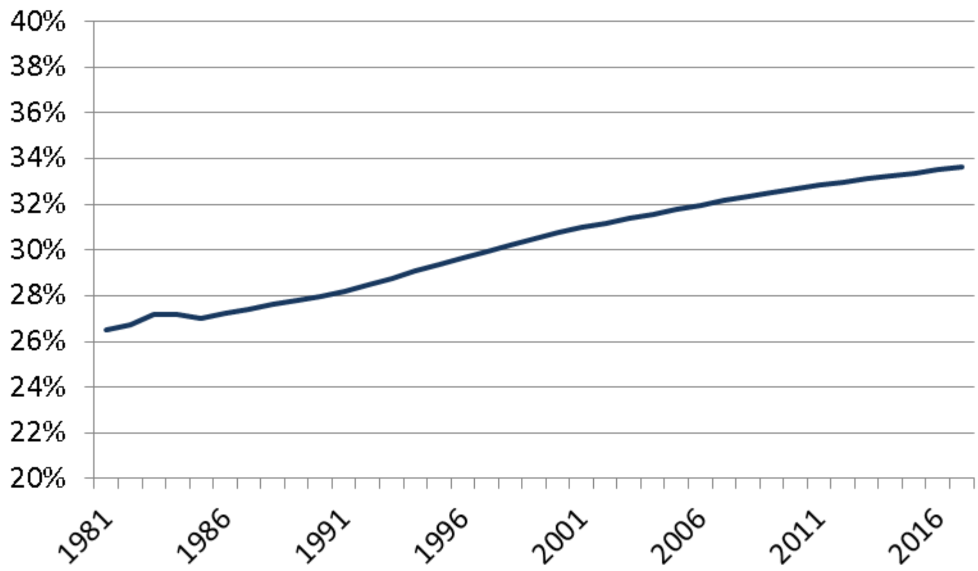
**** ONS (2015) *2014-based National population projections, table A2-1*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/compendium/nationalpopulationprojections/2015-10-29

Figure 1.1: Cohort life expectancy at age 65, in years, UK, 1951–2064[27]



The life expectancy increases described above have meant that over the last thirty years, the proportion of adult life people are expected to spend over age 65 has steadily increased, as shown in Figure 1.2.

Figure 1.2: Proportion of adult life over 65, UK, 1981–2017[28]



In addition to increases in life expectancy, which are contributing to an ageing population, other demographic characteristics are at play in determining the future number of pensioners as a proportion of the overall population.

The old age dependency ratio illustrates the number of pensioners per thousand working age individuals. Changes in the old age dependency ratio over time can give an indication of any significant changes in

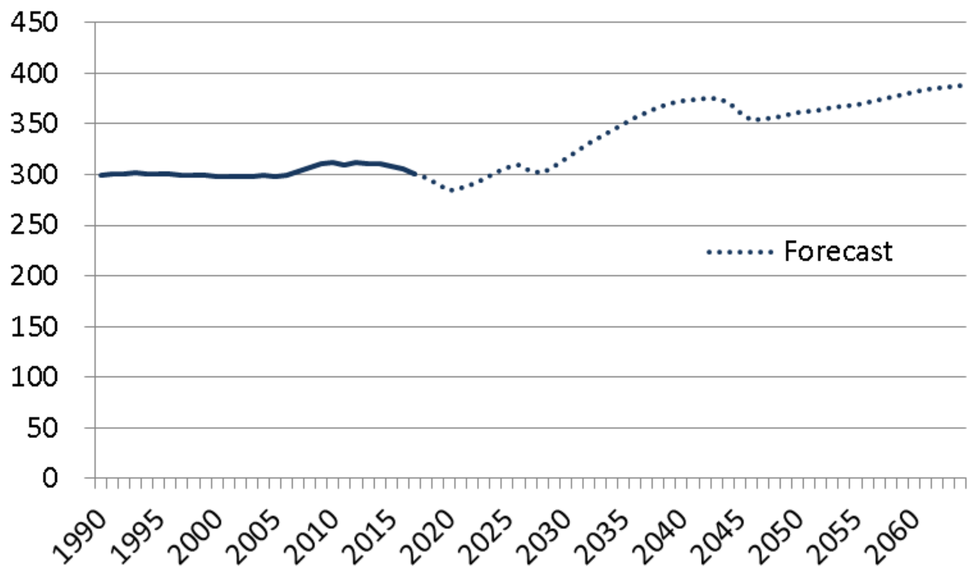
27 Based on ONS (2015) *Life tables, principal projection, United Kingdom*. Available at: https://www.ons.gov.uk/peoplepopulationand community/birthsdeathsandmarriages/lifeexpectancies/datasets/lifetablesprincipalprojectionunitedkingdom

28 DWP analysis based on 2014-based life expectancy and National Population projections data from ONS

the structure of the population in terms of the ratio of numbers of people over State Pension age, who will be receiving State Pension, to those under State Pension age, who will be supporting them.

Figure 1.3 shows how previous increases in the State Pension age have helped to keep the State Pension system on a more sustainable footing in terms of the old age dependency ratio. Increasing the female State Pension age to age 65 between 2010 and 2018, and increasing the State Pension age for both genders to age 66 by 2020 and age 67 by 2028, will result in the old age dependency ratio being around the same in 2028 as it was in 1990. However, beyond 2030 the old age dependency ratio rises considerably to levels never seen before, driven by the large cohorts born in the 1960s reaching State Pension age, and not being replaced by similarly large cohorts entering the working age population from childhood. By 2042, there will be 375 pensioners for every thousand working age people, an increase in pensioners of one quarter compared to the figure of 301 today.

Figure 1.3: Old Age Dependency Ratio, UK, 1990–2064[29]



The demographic shift described above means that we will need to spend more on the State Pension in decades to come. John Cridland pointed out that, the latest Office for Budget Responsibility (OBR) principal spending projections show that, between now and 2036/37 alone, annual State Pension spending is set to rise by an extra 1% of GDP, which is approximately £20bn in today's terms, and if the same rise in spending was faced today, it would be equivalent to a rise in taxation of £725 per household.[30]

The natural population increase as the 'baby boomers' reach State Pension age alongside increasing life expectancy for those reaching State Pension age are the main contributing factors to increasing expenditure in the coming decades. Costs are also projected to increase as the value of the State Pension rises faster than earnings.

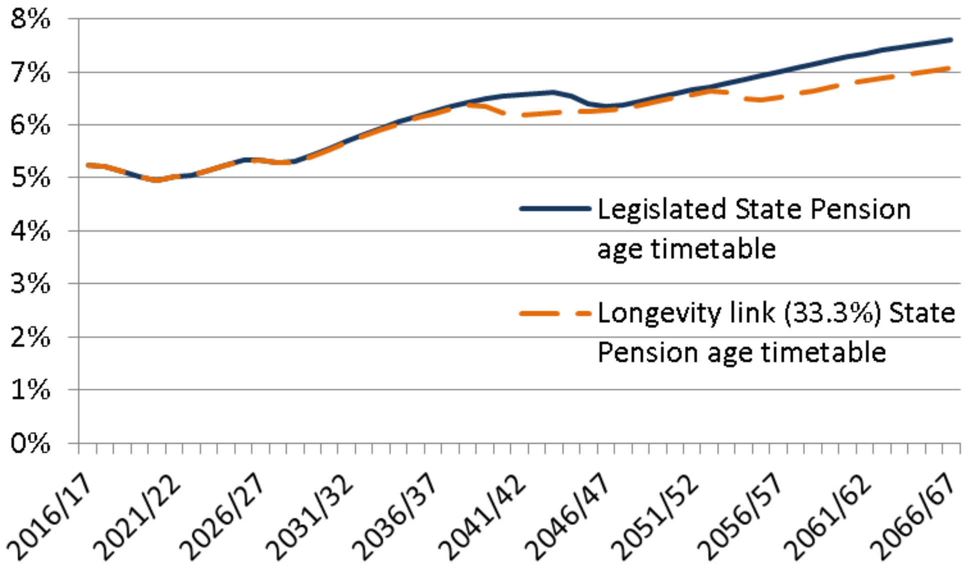
The combined effect of these pressures are shown in Figure 1.4, which shows how spending on the State Pension is projected to grow over the next 50 years, even assuming that the State Pension age is linked to longevity. Expenditure on State Pension is projected to increase from 5.2% of GDP in 2016/17

29 Data from 2014 from ONS (2015) *2014-based National Population Projections, table A1-1*. Available at: https://www.ons.gov.uk/people populationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2015-10-29/relateddata Data for earlier years from ONS (2015) *Freedom of Information request: UK old age dependency ratios projections, 1990-2112*. Available at: http://www.ons.gov.uk/ons/about-ons/business-transparency/freedom-of-information/what-can-i-request/published-ad-hoc-data/pop/november-2015/underlying-old-age-dependency-ratio-data-from-the-national-population-projections-accuracy-report.xls

30 State Pension age independent review (2017) *State Pension age independent review final report*. Available at: https://www.gov.uk/government/publications/state-pension-age-independent-review-final-report

to 7.6% of GDP by 2066/67 under the currently legislated State Pension age timetable, or to 7.1% of GDP under the 33.3% longevity link assumed in the latest Fiscal Sustainability Report from the Office for Budget Responsibility.[31]

Figure 1.4: State Pension expenditure as % GDP, UK, 2016/17–2066/67[32]



However, it is also important to note that these societal changes do not only affect the affordability of the pension system. An ageing population also has a considerable impact on the wider demand for public services and social security, in particular health and social care.

In their latest Fiscal Sustainability Report the Office for Budget Responsibility project that total age related expenditure, if left unaddressed, will increase by 7.9% of GDP between 2021/22 and 2066/67. This is driven by a 5.7% of GDP increase in health spending, combined with a 0.9% of GDP increase in long-term care spending, and a 2.1% of GDP increase in State Pension spending. These spending pressures will present difficult decisions, if the country is to maintain sustainable public finances and prevent a rising burden of debt being passed onto future generations.

1.6 The Government's pension strategy

The State Pension age review is part of a strategy that the Government has introduced since 2010 to improve outcomes for pensioners and place the UK pension system on a simpler and more sustainable footing:

- **Supporting people to enjoy the benefits of fuller working lives** by abolishing the statutory Default Retirement Age to ensure that people cannot be required to leave their jobs purely on grounds of age; introducing the right to request flexible working so that people can combine paid work with caring responsibilities, adjust to health conditions, or ease into retirement without facing a cliff edge; introducing pension flexibilities to help people plan for a graduated retirement; and embarking on a Fuller Working Lives Strategy in partnership with employers to promote retention, retraining and recruitment of older workers.

[31] OBR (2017) *Fiscal sustainability report charts and tables – January 2017*. Available at: http://budgetresponsibility.org.uk/download/fiscal-sustainability-report-charts-tables-january-2017/

[32] OBR (2017) *Fiscal sustainability report charts and tables – January 2017*. Available at: http://budgetresponsibility.org.uk/download/fiscal-sustainability-report-charts-tables-january-2017/

- **Highlighting the benefits of longer work.** For those who can work longer, doing so brings benefits both for individuals and the economy. For individuals, the right work can boost health and wellbeing in later life as well as increasing subsequent retirement income. There are also significant advantages for the overall economy. As an example, GDP could be 1% higher per year if everyone worked one year longer (which is equivalent to £20bn today). There is evidence that State Pension age increases are having a direct and positive impact on employment rates: employment rates for women aged 60 and 61 increased by 6.3 percentage points when the State Pension age was increased from age 60 to 62 as part of the equalisation of women's State Pension age.[33]
- **Helping people save enough for retirement**, so people can have the retirement they would like to achieve. The introduction of Automatic Enrolment from October 2012 extends to millions the opportunity of workplace pension saving – with the National Employment Savings Trust (NEST) playing a key role in ensuring that employers have access to a good quality, low-cost scheme. It is estimated that around 10 million people will be newly saving or saving more by the end of its staged roll out in 2018. It has already reversed the decline in private pension saving seen in the decade prior to its introduction and it is estimated that it will result in an additional £17bn private pension saving per year by 2019/20.[34] The Department is undertaking a review of Automatic Enrolment. This review is focused on how to ensure that Automatic Enrolment continues to meet the needs of individuals saving for their retirement in the future. As part of the review we are looking at those not already benefitting from Automatic Enrolment. This includes how the growing and diverse group of self-employed people can be supported to save for a more secure retirement.
- **Reducing complexity**, so that people can make informed decisions about whether, when and how much to save. April 2016 saw the introduction of the new State Pension, which replaced the complex two tiered system that had been in place in different forms since the 1960s. The new State Pension gives younger people a clear idea of what their State Pension will be worth when they retire (the full rate is around £8,300 a year in 2017–18), to ensure that people of working age have a solid foundation for saving.
- **Maintaining the value of the State Pension,** by setting the full rate of the new State Pension above the basic level of the means test. By 2030 over 80% of those reaching State Pension age will be entitled to at least the full rate of the new State Pension.

We are confident that the new State Pension, the State Pension age review framework, workplace pensions through Automatic Enrolment, and development of policies and action in support of fuller working lives, will provide for a coherent strategy that will strengthen the UK's pensions' system for many decades to come. This report is an important part of that strategy.

In the next chapter we set out more detail about the findings of the review, and how it will contribute to achieving our aims of:

- fairness between generations of pensioners and taxpayers; and
- providing a firm foundation for planning and saving in light of uncertainty over future life expectancy.

[33] DWP (2017) *Fuller Working Lives: evidence base 2017*. Available at: https://www.gov.uk/government/publications/fuller-working-lives-evidence-base-2017

[34] DWP (2016) *Workplace pensions: Update of analysis on Automatic Enrolment 2016*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

2. What we will do and why

2.1 What we will do and why

Rising life expectancy is a cause for celebration. The challenge for Government is delivering a sustainable State Pension which underpins private savings so that people can enjoy a longer life in retirement on an income that suits their aspirations. If current assumptions prove broadly right, this review should ensure that, from 2028 we will see:

- a higher proportion of the population surviving to the State Pension age; and
- people receiving more State Pension over their lifetime than generations before them.

In this chapter we reflect on the findings of the Government Actuary and John Cridland; and we set out how we propose to balance our key considerations of fairness between the generations and how the pace and notice of change can best provide a firm foundation for planning and saving in light of the uncertainty of future life expectancy.

2.2 The evidence base

At the Autumn Statement 2013, the Government specified that people should spend, on average, “up to one third” of their adult life over State Pension age. This principle will ensure that the State Pension system remains sustainable and fair across the generations. The Government Actuary’s and John Cridland’s reports set out a range of choices as to how that principle might be reflected in future State Pension age timetables.

2.2.1 Supporting evidence

The Government commissioned the Government Actuary to model two State Pension age timetables[35] with average proportions of adult life spent over State Pension age of up to 32.0% and up to 33.3%, with adult life beginning at age 20. Both scenarios satisfy the “up to one third” principle, thereby factoring in intergenerational experiences:

- 32.0% reflects the average proportion of adult life people reaching the age of 65 over the last 20 years (1997 – 2016) were expected to spend in receipt of the State Pension; and
- 33.3% is the maximum proportion possible under the “up to one third” principle (and recent Office for Budget Responsibility forecasts have assumed a timetable consistent with this scenario).

The Government Actuary’s report produced the following timetables in relation to the two scenarios.

Figure 2.1: Calculated State Pension age timetables

State Pension Age Changes	Current Legislation	33.3% Scenario	32.0% Scenario
67 to 68	2044–46	2039–41	2028–30
68 to 69	n/a	2053–55	2040–42
69 to 70	n/a	n/a	2054–56

35 Government Actuary (2016) *Report by the Government Actuary: Terms of Reference*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/569641/state-pension-age-review-government-actuary-report-terms-of-reference.pdf

John Cridland's report considered what a fair and affordable State Pension age is and recommended the following timetable:

- State Pension age should increase to age 68 over the two year period 2037–39, at which point the proportion of adult life in receipt of State Pension would have reached roughly the average over the last decade;[36] and
- that any changes beyond age 68 should not be implemented for at least a decade after the rise to age 68 has started; and that there should be at least a decade between all subsequent increases.

John Cridland recognised the economic and social imperative to further increase the State Pension age in the medium and long term future and the rationale for his timetable is contained in Box 2.1.

Box 2.1 Rationale for John Cridland's Proposal

Setting State Pension age is a balance between three principles:

- The **proportion of adult life** spent with entitlement to State Pension.
- **Notice of change** – ten years' notice allows for greater certainty for individuals and allows for "windows of stability" where the impact of each change can be monitored and mitigations introduced if appropriate.
- **The pace of change** – the pace of change should be steady to maintain balance. An increase in State Pension age of one year in every ten is appropriate based on current estimates of life expectancy. This approach creates a gap of 11 years between the completion of age 67 to age 68 and 10 years between age 68 and age 69.

2.3 The Government's conclusion

Both the Independent Review and the Government Actuary's reports show that unless the State Pension age rises to take account of increases in life expectancy, the proportion of adult life spent in receipt of the State Pension will continue to increase. The Government agrees that increasing State Pension age is necessary, as people are living longer and if left unaddressed, State Pension spending will become unsustainable. In reaching its conclusions on the timing of the rise, the Government has carefully considered the broader factors outlined in the independent reports and has concluded that it must take account of the following key considerations:

- **Fairness between the generations:** future generations of pensioners should spend on average broadly the same proportion of their adult life with entitlement to the State Pension as pensioners living now. This ensures the State Pension remains above the basic level of the means test to give people security in their retirement whilst remaining affordable for the taxpayers of the future, in light of demographic changes and the costs of an ageing society.
- **How the pace and notice of change can best provide a firm foundation for planning and saving in light of the uncertainty of future life expectancy:** we are committed to supporting individuals to plan and save for the retirement that they want and to reducing the likelihood that back to back rises are needed in the future.

This Government will ensure that State Pension age reflects increases in life expectancy, while protecting each generation fairly. If we are to control State Pension spend, the alternative is to pay lower pensions, but we have discounted this option as it would increase pensioner poverty. By increasing State Pension age in line with life expectancy we can protect each generation fairly and provide a State Pension that remains sustainable in the long term. A one year increase in State Pension age saves

[36] The proportion of adult life equal to the average over the last decade is reached in 2037, at the start of the proposed two year period to increase the State Pension age. This is slightly different to the mechanism used in the Government Actuary's report, in which the State Pension age will be changed over a two year period before the specified proportion would have been reached.

around 0.3% of GDP per year, and increases in State Pension age should also lead to increased employment rates. If everyone worked for one year longer, it would add 1% to GDP.

These factors are sometimes in tension, but we have weighed them carefully and given the speed of rises in recent years we have decided that they are best balanced by following John Cridland's recommendation and **increasing the State Pension age to age 68 over the period 2037–2039**.

We will carry out a further review before legislating to bring forward the rise in State Pension age to 68, to enable consideration of the latest life expectancy projections. This is because recent decades have shown that life expectancy projections are uncertain, and more so over longer projection periods. John Cridland took account of both the 2012-based and 2014-based ONS life expectancy projections when making his recommendation on the timing of the increase to 68, in order to reflect these uncertainties. New life expectancy projections are published every two years and it makes sense to base the rise to age 68 on the most recent data, whilst allowing time for adequate notice.

The rest of this section describes the key factors that the Government has considered in reaching this conclusion in more detail.

2.3.1 Fairness between the generations

Ensuring the system is more sustainable for the taxpayers of the future whilst ensuring dignity and security in retirement

John Cridland's independent report clearly demonstrates how moving slowly on State Pension age increases might further accentuate fiscal pressures brought about by the increased costs of an ageing society, which extend beyond the State Pension – described in chapter 1.

State Pension age expenditure will increase under all the potential timetables we have considered, but to different degrees. While an ageing population means State Pension spending will rise under any of the possible timetables we have considered, the action we are taking reduces this rise by 0.4% of GDP in 2039/40, the equivalent to a saving of around £400 per household based on the number of households today.[37]

The Government's recommended timetable for the increase in State Pension age to 68 would save £74bn by 2045/46 compared to the currently legislated timetable (see Annex) – but overall this still involves a substantial rise in spending on the State Pension. The overall evidence available to this review on costs suggests that after the rise to 68 the proportion of adult life in retirement should stabilise at 'up to 32%' to ensure the system is more sustainable for the future, especially given the Government's determination to keep the new State Pension above the level of the basic means test. We will carry out a further review before legislating to bring forward the rise in State Pension age to 68, to enable consideration of the latest life expectancy projections and to allow us to evaluate the effects of current rises in State Pension age.

Spreading the rises across the generations

The Government agrees with John Cridland that it is important to take account of the pace of change, by ensuring that changes to State Pension age are appropriately spaced. The increase to age 67 will complete between 2026–2028; and if the change to age 68 were to come immediately after that, as would be required, for example, under the 32.0% timetable outlined in the Government Actuary's report, it would place the burden of a further State Pension age rise on the same later cohorts of 'baby boomers', who have already seen their State Pension age rise three times in quick succession. This timetable will allow for evaluation of the increases in State Pension age to 66 and 67, which will inform support mechanisms required for future increases. Under the 2037–39 timetable, everyone born on or before 5th April 1970 will see no change to their State Pension age.

[37] This figure is based on dividing the modelled £11 billion difference between the two timetables in 2039/40 (as shown in the Annex) by the latest estimate of the number of UK households from the Office for National Statistics.

2.3.2 Providing a firm foundation for planning and saving in light of uncertainty

The Government agrees with John Cridland that individuals should have sufficient warning of State Pension age changes, to facilitate effective retirement planning. In the past, the UK has been slow in taking action to address the issue of life expectancy increases, thus leading to frequent State Pension age increases in the last few years.

We want to prevent this from happening again in the future but recognise how sensitive State Pension age decisions are to changes in life expectancy. For example, in his report the Government Actuary states that using the 2012-based Office for National Statistics (ONS) population projections rather than the 2014-based projections would have the effect of bringing the increase in State Pension age to age 68 forward by 5 years based on a timetable where people spend on average up to 33.3% of adult life in retirement.

Setting a State Pension age change which gives people the required amount of notice for sensible financial planning and saving means that life expectancy projections could change over the course of that notice. This creates a risk that taxpayers will have to pick up the costs if life expectancy increases faster than expected or that State Pension age would need to change again with less notice. As mentioned above, we do not intend to legislate for the increase in State Pension age to 68 until a further State Pension age review has taken place, to enable consideration of future life expectancy projections and to allow us to evaluate the current rises in State Pension age.

In addition to suitable notice, we also believe our proposed timetable allows us to retain the State Pension at a level above the basic means test. This is vital to the overall strategy of ensuring people have confidence in the value of private pension saving.

2.4 Maintaining fairness in the longer term

Aiming for comparable experiences across the generations

The core principle set out at Autumn Statement 2013 is that the State Pension age should increase with life expectancy so that people spend “up to one third” of their adult lives above State Pension age. Underlying this principle is the desire to provide a similar experience to those reaching State Pension age in the future as to those in the past, so that everyone gets a similar deal. It seeks to avoid a situation where a generation fortunate enough to experience particularly significant increases in life expectancy spends a much larger proportion of their lives over State Pension age than others.

To best achieve this, this review has in view a 32% scenario for the longer term, as a longevity link based on the 32% principle is consistent with the average proportion of adult life spent above State Pension age experienced by people reaching State Pension age over the last 25 years;[38] and 20–30 years is the classic view of a ‘generation’. Under a 32% scenario, as people live longer, the average amount of time they spend in retirement will increase. Using the 32% proportion of adult life over State Pension age as our longer term bench mark also balances the need to maintain an affordable State Pension against the need to give people clarity about what they can expect from the State, security in retirement, and confidence in the value of private pension saving. For this reason, we do not support John Cridland’s proposal to commit to only one year’s rise every ten years as this would limit the Government’s ability to respond to future changes in life expectancy; and goes too far in removing the link between when we change State Pension age and the proportion of life people can expect to spend in receipt of State Pension.

[38] Under a 32% scenario, the average proportion of adult life that people reaching State Pension age between 2028 and 2060 would be expected to spend above State Pension age would be 31.3%. This is similar to the average proportion of adult life that people reaching age 65 (male State Pension age) over the last 25 years (between 1992 and 2016) were expected to spend above age 65.

We should be clear that the next rise will not bring us to 32%. But if we are to ensure that the State Pension remains affordable for taxpayers of the future, subsequent reviews will need to consider carefully when it can be reached.

2.5 Conclusion

In summary this change more fairly balances the need to help maintain the affordability of the State Pension and the proportion of adult life spent in retirement across the generations on the one hand, with the need to minimise the number of rises one generation experiences in quick succession on the other. The key considerations are as follows:

- **Fairness between generations of pensioners and taxpayers.**
    - The principles set by John Cridland regarding the pace of change, as the increases in State Pension age to 67 and 68 are spread out, and it creates a 'window of stability' providing time to evaluate the increase in State Pension age to 66.
    - By controlling the increases in pension expenditure driven by increasing life expectancy and the demographic make-up of the UK, this proposal improves the sustainability of the State Pension, reducing the total expenditure by over £70bn by 2046.
    - In the longer term the average proportion of adult life that new pensioners would be expected to spend over State Pension age would be broadly equivalent to the average experience of those reaching State Pension age over the past 25 years.[39]
- **The need to provide a firm foundation for planning and saving in light of uncertainty.** It will be possible to give adequate notice to people affected that they will retire on a new State Pension set above the basic level of the means test.

As has been shown in recent decades, life expectancy projections are uncertain, and particularly over longer projection horizons. Given this uncertainty, the Government agrees with John Cridland that it is too early to set a formal timetable beyond age 68 at this stage. The Pensions Act 2014 provides a mechanism to ensure regular reviews of State Pension age so that changes are smooth, predictable and well-flagged in advance. The next review, which will conclude by 2023, will consider whether rises beyond 68 are needed and when. However, the Government believes that setting some parameters for the future is important for individuals and for Government planning. In the long run, the Government is minded to commit to 'up to 32%' as the right proportion of adult life spent in receipt of State Pension. Given what we already know about the costs of an ageing population, this seems the option which best enables the Government to plan future State Pension age rises with sufficient assurance that they should be deliverable in line with the principles of clarity and certainty we have committed ourselves to. We will carry out a further review before legislating to bring forward the rise in State Pension age to 68, to enable consideration of the latest life expectancy projections and to allow us to evaluate the current rises in State Pension age.

[39] Under a 32% scenario, the average proportion of adult life that people reaching State Pension age between 2028 and 2060 would be expected to spend above State Pension age would be 31.3%. This is similar to the average proportion of adult life that people reaching age 65 (male State Pension age) over the last 25 years (between 1992 and 2016) were expected to spend above age 65.

3. Support in Later Life

3.1 A universal State Pension age

The State Pension age is the earliest point at which individuals can access their State Pension, and a universal State Pension age creates a simple system around which people can plan. The purpose of the rules on State Pension age is to clearly define who is entitled to receive State Pension and under which conditions.

In recent years, the universality of the State Pension age has been repeatedly called into question (and some people have called for a more flexible State Pension age to take into account various different socio-economic factors, such as the fact that some people work and contribute longer than others or that certain groups have a lower life expectancy). As a result, when John Cridland was asked to complete an independent report as part of the State Pension age review, he was asked to consider the issue in some depth.

John Cridland's conclusions are clear. As he has pointed out, some groups of people already fare less well than others – due to eligibility and life expectancy factors – and as such might be more vulnerable to future State Pension age changes. However, the strengths of maintaining a universal State Pension age are the simplicity and clarity a single State Pension age provides both for individual and public planning purposes. We know the consequences of complexity in the State Pension from our experience of the pre-2016 system. People struggle to plan and therefore many fail to make adequate provision for their retirement. That is not a world we can afford to go back to.

Furthermore, the information available to us shows life expectancy has increased across all socio-economic groups.[40] Even with State Pension age rises, the available data suggests that, in future a higher proportion of the population will reach their State Pension age and survive to draw their State Pension than do now. This helps show why the arguments for a universal State Pension age continue to outweigh arguments for change; therefore the Government strongly endorses John Cridland's independent report's findings on this issue.

As John Cridland pointed out, there is greater variation in life expectancy within countries of the UK than between them, and there is greater variation in life expectancy within local areas of those countries than between local areas – and trying to account for this when setting a State Pension age would be complex.

On the subject of those with lower life expectancies being disadvantaged, John Cridland referred to analysis from the Pensions Policy Institute, which "suggests that, even accounting for lower life expectancy amongst socioeconomically disadvantaged groups, on average people reaching State Pension age can expect to draw significantly more State Pension than they have contributed. This remains true for the lowest income and the highest income quintiles, although unsurprisingly the proportion contributed increases as income increases."[41]

See box 3.1 below for a summary of John Cridland's conclusions on a universal State Pension age.

[40] ONS (2015) *Trend in life expectancy at birth and at age 65 by socio-economic position based on the National Statistics Socio-economic Classification, England and Wales: 1982—1986 to 2007—2011*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/datasets/onslongitudinalstudylsbasedestimatesoflifeexpectancylebythenationalstatisticssocioeconomicclassificationnssecenglandandwales

[41] State Pension age independent review (2017) *State Pension age independent review final report*. Available at: https://www.gov.uk/government/publications/state-pension-age-independent-review-final-report

Box 3.1: Independent Report – John Cridland's conclusions on a universal State Pension age

- The Independent Report identified the groups most likely to be disadvantaged by an increase to State Pension age; and considered early access options as alternatives to a universal State Pension age.
- But John Cridland concluded that disadvantaged groups should be assisted through the working age benefit system rather than through changes to the State Pension age, as
  - Using State Pension to cover gaps in working age provision would be a completely new element of social insurance. The dependency ratio is increasing and, as a nation, we will be asking a progressively smaller amount of people to pay for an increasing number of pensioners. It seems likely that extending the scope and costs of State Pension in this way will erode some of the goodwill between generations that is intrinsic in a pay as you go system;
  - There are no practical or workable ways to factor in variations in life expectancy and there is no evidence of regional options being any fairer or more targeted at disadvantaged groups; and
  - Allowing early access to the State Pension on a reduced basis would risk leaving people with an inadequate pension.
- Consequently the review considers that the spirit behind these ideas, of targeting help on the most disadvantaged, can be tackled through support through the benefit system rather than through variations to the State Pension Age.
- For these reasons, we believe that the principle of having a State Pension age that is the same for everybody has a fundamental place in the UK's model of social insurance. It has the merit of simplicity and clarity, and provides an important trigger moment for planning purposes.
- His report also referenced analysis from the Pensions Policy Institute which shows that on average people reaching State Pension age can expect to draw significantly more State Pension than they have contributed in National Insurance.

3.2 Notice period and communications

This Government believes that rises in the State Pension age must be part of a wider package that encourages people to plan for their retirement, enables people to work for longer where they can, and supports people who cannot work.

3.2.1 Notice

Providing certainty and transparency to allow planning by both individuals and future Governments is important. There is no legislative requirement for the Government to provide notice of changes to State Pension age within a specified period. However, in practical terms individuals need time to prepare for a new change in State Pension age. We will also seek to provide a minimum of ten years' notice for individuals affected by changes to their State Pension age.

3.2.2 Communications

John Cridland recognised that good communication will be at the heart of any successful State Pension age strategy. He recommended that the Government communicates directly with each of those affected by new changes to the State Pension age; and that the Government should seek to use partnerships with stakeholders to reach a wide range of people.

The Government believes a communications strategy could:

- deliver messages about changes in State Pension age through a range of communications, taking advantage of emerging technologies in the coming years;
- encourage individuals to find out and review regularly their own personalised State Pension position – for instance by using the online Check your State Pension service;
- look to build greater engagement in pensions and financial planning for later life and encourage this by supporting new developments such as the Pensions Dashboard, wider digital delivery and the creation of a new single financial guidance body; and
- make extensive use of stakeholders' communications channels, plus wider digital and conventional media, to raise awareness and promote greater regular engagement with government digital services to ensure continuing awareness of any changes in State Pension age.

3.3 Supporting people to save and work

The Government is actively supporting strategies that will help people save for retirement and to enjoy the benefits of fuller working lives, as referenced in Box 3.2 below.

Box 3.2 Helping people save enough for retirement

Encouraging workplace pensions through Automatic Enrolment has seen over 8.1 million people automatically enrolled into a workplace pension by more than 640,000 employers by the end of June 2017.[*] This has reversed the decline in private pension saving seen in the decade prior to its introduction.

When the roll out of the programme is complete in February 2018, we expect that around 10 million people will be newly saving or saving more as a result of Automatic Enrolment, generating around £17billion a year more in workplace pension saving by 2019/20.[**]

A report by the Institute of Fiscal Studies published in November 2016[***] found that Automatic Enrolment increased participation across all groups of eligible employees, but increases have been larger amongst those who started with lower levels of participation, in particular those aged 22 to 29 and those in the lowest earnings quartile, narrowing the gap in workplace pension provision.

Additionally, we have seen positive progress for other under-represented groups in pension saving,[****] such as women, for whom we have seen an increase in participation since its introduction. The decision to freeze the earnings trigger at £10,000 for the 2017/18 tax year is also estimated to bring in an additional 70,000 savers, 75% of whom are women.[*****]

* The Pensions Regulator (2017) *Automatic Enrolment Declaration of compliance monthly report*. Available at: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf

** DWP (2016) *Workplace pensions: Update of analysis on Automatic Enrolment 2016*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

*** Jonathan Cribb, Carl Emmerson (2016) *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK*. Available at: https://www.ifs.org.uk/uploads/publications/wps/wp1619.pdf

**** DWP (2016) *Automatic Enrolment evaluation report 2016*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/576227/automatic-enrolment-evaluation-report-2016.pdf

***** DWP (2016) *Review of the Automatic Enrolment earnings trigger and qualifying earnings band for 2017/18: supporting analysis*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/576423/review-of-ae-earnings-trigger-2017-2018.pdf

A DWP review of the policy and operation of Automatic Enrolment is currently underway to ensure that it continues to meet the needs of individual savers over the longer term. We will look at the existing coverage of the policy and consider the needs of those not currently benefiting from Automatic Enrolment, for example employees with low paid multiple jobs who do not meet the criteria for Automatic Enrolment in any of their jobs. We will also use the Automatic Enrolment review to consider how the growing group of self-employed people can be helped to save for their retirement. We are also using this review to develop a stronger evidence base to inform future contributions, and to examine how individual savers' engagement with workplace pensions can be strengthened. This review is due to report by the end of 2017.

Box 3.3: Supporting People to enjoy the benefits of fuller working lives

In February this year the Government published “Fuller Working Lives – A Partnership Approach”, which sets out an ambition to increase the **retention, retraining** and **recruitment** of older workers – by bringing about a change in the perceptions and attitudes of employers, and to challenge views of working in later life and retirement amongst individuals.

The Strategy adopts a new approach – it is **led by employers** who rightly see themselves as the ones who understand the business case and can drive change. It sets out why Fuller Working Lives is important to employers, individuals and the economy and the action Government is taking to support older workers to remain in the labour market.

In parallel we published our evidence base which clearly outlines the business case for taking action. This has to be a key priority for business, the economy, and also individuals, so they can plan and enjoy a secure later life. The Government does not underestimate the challenges older workers face. These include the difficulty of combining work and informal caring; keeping skills up to date and relevant in a rapidly changing labour market; transitions when physical jobs become too demanding and the unconscious bias that can work against those over 50 looking for work.

The Government has also committed to monitor Fuller Working Lives. The measures identified below will allow individuals, employers, stakeholders and Government to track our progress:

- employment rate of 50 year olds and over, by five-year age bands and gender;
- average age of exit from the labour market; and
- employment rate gap between 50–64 year olds and 35–49 year olds.

Increasing numbers of employers are recognising the need to address the issues that come with an ageing workforce and are looking to make their places of work more age-friendly. Polices in this area will be for the next Review to consider.

3.4 Supporting people who can’t work

The Government agrees with John Cridland that increases to the State Pension age timetable must form part of a wider system that supports people in employment or self-employment, while also supporting those whose work prospects are limited or curtailed by disability, health conditions, or caring responsibilities. We are reviewing long term carers’ ability to take carers leave and will set out our plans in due course.

The welfare system already provides protection for those who fall out of the labour market for these reasons. Current spending on benefits to support disabled people and people with health conditions is around £50 billion a year which equates to over 6% of all government spending.[42]

The Government will have the opportunity to evaluate the impact of increases in State Pension age to 66 and 67 before the rise to 68 comes into effect.

[42] DWP (2017) *Benefit expenditure and caseload tables*. Available at: https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2017

3.5 The next State Pension age review

The legislation provides for the next State Pension age review to be conducted by July 2023, which will confirm when State Pension age will increase to 68, and will allow for consideration of more recent life expectancy projections whilst ensuring adequate notice. In the interim period the Government will analyse the impact of changes to State Pension age already in train – i.e. the equalisation of men's and women's State Pension ages to 65 and the rise from age 65 to age 66 – which will provide additional evidence to help the Government to assess the best course of action.

The Government has registered the importance John Cridland placed on understanding and acting on the effects of changing State Pension age on individuals and on disadvantaged groups. In respect of his specific recommendations, these, alongside other evidence, will form the basis of future consideration on how we manage the effects of rises in State Pension age.

3.6 Conclusion

This review is the first exercise of its kind, and takes place as the new State Pension arrangements are in their second year of operation. The Government intends to continue to monitor the effects of State Pension age rises alongside the reforms to the state and private pension systems, the welfare system, and the labour market. In this context, it is important to emphasise that:

- The timing of our recommended increase in State Pension age to age 68 is designed to ensure that the State Pension can be relied on in future, as it has been in the past, as a crucial part of most people's retirement planning and eventual income. That is something the Government is determined to safeguard.
- State Pension age needs to rise because people are living longer, but future generations will still, on average, receive more over their lifetime from the State through their State Pension than those reaching State Pension age at any point before them.
- Even with these rises, the proportion of the population reaching State Pension age will continue to increase.

Annex – Costs of proposed State Pension age timetable for the rise to 68 only

Table A.1 below shows the State Pension age timetables and expenditure on pensioner benefits for the currently legislated State Pension age timetable and the timetable proposed by the Government for the increase in State Pension age to 68 only.[43] Figures shown are for the UK and for the period 2037/38 to 2045/46.

Table A.1: State Pension age timetables and expenditure on pensioner benefits for the rise to 68 only

Year	2037/2038	2038/2039	2039/2040	2040/2041	2041/2042	2042/2043	2043/2044	2044/2045	2045/2046	Total 2037/38 to 2045/46
State Pension age										
Legislated timetable	67	67	67	67	67	67	67	Transition to age 68		
Proposed timetable	Transition to age 68		68	68	68	68	68	68	68	
Expenditure on pensioner benefits (UK, £ billions, 2017/18 prices)										
Legislated timetable	£197	£205	£212	£218	£224	£230	£236	£240	£240	£2,003
Proposed timetable	£195	£196	£201	£208	£214	£220	£226	£232	£238	£1,929
Difference	-£3	-£8	-£11	-£11	-£10	-£10	-£10	-£8	-£3	-£74

Figures may not sum to totals due to rounding

Notes:

Figures include expenditure on State Pensions and other pensioner benefits (including Pension Credit) but exclude housing and disability benefits.

Forecasts are consistent with the economic assumptions used for the long-term projections in the January 2017 FSR, though the FSR assumed a different State Pension age timetable.[44] The forecasts use OBR long-term uprating assumptions for pensioner benefits.

An increase to State Pension age would also be expected to result in additional expenditure on Working Age benefits, as well as additional income tax and National Insurance receipts, though these impacts would be expected to be considerably smaller than the State Pension expenditure savings. Estimates of these have not been produced at this time. These will be produced for an impact assessment accompanying legislation at the appropriate time.

[43] Cost estimates from a version of DWP's long-term pensioner benefits forecasting model, adapted for use for this review. The proposed timetable costs only take account of the proposed increase in State Pension age to age 68 in 2037-39, and do not make any assumptions about further State Pension age increases.

[44] The central forecast published in the January 2017 FSR assumed that State Pension age would rise according to a 33.3% longevity link from 2028/29 onwards.

This publication can be accessed online at:
www.gov.uk/government/publications

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