Retiring just two years after State Pension Age and continuing to save in that time can enhance private pension income by 20%. Thus it seems obvious that in order to make the State pension more affordable, and to boost people's private pension provision, retirement ages should be increased...

CALL FOR LATER RETIREMENT AGES EXPLORED IN PAPER HIGHLIGHTING ISSUES FOR GOVERNMENT AND EMPLOYERS

23 October 2013 – Whatever the Government does it will be extremely difficult to come up with a mechanism for increasing retirement ages that is fair for everyone, with one of the biggest challenges being the discrepancy in people's health, and their ability to work for longer, among the different socio-economic groups, says Catherine Love Soper in her editorial introduction to the latest issue of *Placard*, the periodic discussion paper of the Association of Consulting Actuaries (ACA) .

In this issue of *Placard*, **Will Rice** (Associate, Barnett Waddingham) explains the Government's proposals for future changes to the State Pension Age after the move to age 67 in 2028. He discusses the step-by-step approach to vary the State Pension Age, set out in the *2013 Pensions Bill*, and its desired outcome to ensure the proportion of adult life spent receiving a State pension is kept at around one-third.

Rice poses the question 'is a third the right number?' He says that this is perhaps unanswerable, as it comes back, inevitably, to affordability and how the Government chooses to divide up its spend on benefits (of which State pensions currently account for nearly half) alongside other priorities such as schools and hospitals. If difficult economic times continue might the incumbent Pensions Minister in 2017 consider a proportion lower than one third as being more appropriate?

Rice adds the results of the Government Actuary's calculations will be accompanied by an independent review. The make-up of the review panel is as yet uncertain, although Steve Webb explains that the body will consider a range of views across the political landscape. Rice expects healthy life expectancy to feature near the top of this list. He says this is a crucially important factor, and arguably more important than longevity itself. Rice asks 'is not the period over which we are "unhealthy" (or living with disability) in old age a better yardstick for how long we should receive a pension than how long we live in total?'

However, he concludes by arguing that fixing the proportion of life in receipt of a pension seems a sensible starting point as it shares the cost of the extra years' pension between the pensioner and the taxpayer.

Ross Matthews (Senior Consultant, Punter Southall) explores the reasons *why* people retire and the key issues surrounding extending working lives.

He notes that large differences in both healthy and total life expectancy within the population persist. Latest figures from the ONS show that men living in East Dorset can expect to live 9 years longer than their counterparts living in Manchester. Furthermore, ONS figures also show that between 2007 and 2010 the most-deprived fifth of the male population had a healthy life expectancy of only 55 years, which is around 15 years lower than the most affluent fifth, and this gap has been widening over recent years. Matthews explains that most of the differences result from the differing socio-economic circumstances of individuals.

Matthews concludes that 'as a result, setting an appropriate retirement age is not straightforward and increasing retirement ages is only part of the solution. Consideration needs to be given to flexibility in any system to address the large inequalities within the population. Government policies should focus on encouraging employers, and society as a whole, to extend the working lives of older people'.

David Fairs (Partner, KPMG) proposes an alternative 'fixed term' solution for private pension schemes, which not only considerably reduces the burden of longevity risk for employers but also provides workers in lower socio-economic groups with more flexibility surrounding their retirement.

With the current average DC pot being less than £30,000, the weekly net income provided after a traditional annuity purchase is quite modest. By contrast, allowing the DC pot to buy an annuity certain over a much shorter period might make a significant difference to the quality of retirement. Retirees might well have an initial phase of retirement that is very active and requires an initially higher level of income.

'Perhaps now the time has come when we should challenge whether pension annuities should be for life or whether greater flexibility should be extended to those with more modest retirement arrangements,' argues Fairs.

The views expressed in *Placard* are those of individual authors and are not necessarily the views of their employers or the Association.

For a copy of *Placard 'State and private retirement ages: Getting a nation working longer',* published on 23 October 2013, go to www.aca.org.uk (see 'Publications' page).

For further details:	Steve Leake	01483 540300
	Catherine Love Soper	020 3327 5297
	David Robertson	020 3102 6761
		(M: 07919 911380)

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1,750 members working in around 80 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the world.

Issued by:

Association of Consulting Actuaries
First Floor
Regis House
45 King William Street
London EC4R 9AN
Tel: 020 3102 6761
Fax: 020 3102 6766
Email: acahelp@aca.org.uk
Web: www.aca.org.uk