



St Clement's House, 27-28 Clement's Lane, London EC4N 7AE  
Tel: +44 (0)20 3207 9380 Fax: +44 (0)20 3207 9134 EMail: [acahelp@aca.org.uk](mailto:acahelp@aca.org.uk)  
Web: [www.aca.org.uk](http://www.aca.org.uk)

6th August 2010

State Pension Age Review Team  
State Pensions Division  
Floor 5, Section B  
Caxton House  
Tothill Street  
London SW1H 9NA

Dear Sir/ Madam

### **When should the State Pension Age increase to 66? – A Call for Evidence**

Please find a response to the call for evidence document: "When should the state pension age increase to 66" on behalf of the Association of Consulting Actuaries (ACA). The Association is the representative body for UK consulting actuaries and has close to 1750 members working in around 75 firms. Our response has been drafted and reviewed by a committee of members from the ACA with representation from a number of actuarial consultancies.

Thank you for giving us the opportunity to respond to this call for evidence. We have set out below some general comments before addressing the specific areas raised in the appendix to this letter.

### **General Comments**

The ACA is broadly supportive of the timing of the increase in the male State Pension Age (SPA) to 66 being brought forward from 2026 to 2016. There is clearly evidence to suggest that projected life expectancies have improved since the original timetable for increasing the state pension age was determined. As such, we agree that the current plans to increase state pension ages under the terms of the Pensions Act 2007 are unsustainable.

The DWP's stated objectives for bringing forward the increase to an SPA of age 66 are to make State pension provision sustainable and to encourage longer working. Whilst it is clear that this proposal will reduce the net cost of State pensions we feel it is less obvious that it will encourage longer working for all groups of society. In any case, this change should only be implemented once the default retirement age has either been removed completely, as proposed by the consultation issued on 30 July 2010, or at the very least

increased to correspond with the increases in the SPA, otherwise the objective of encouraging longer working will be invalidated.

We would expect the proposed change (and indeed the original timing of increases to age 68) to have very little impact on the retirement plans of higher income individuals. Many of these people will retire long before reaching their SPA as they are likely to have significant private pension provision and additional savings and will hence be the least reliant on State benefits. On the other hand, we would expect increasing the SPA to have a much greater impact on lower income groups, where a greater reliance on State pension provision will more or less compel them to work until they reach their SPA (assuming always that work is available). At the same time, people in this group are more likely to have shorter life spans and as such are being hit at both ends, being likely to both retire later than their higher income counterparts and die before them. As such, we would expect that increasing the SPA will have a disproportionate effect on the poorer in society.

The call for evidence cites a number of state pension arrangements from overseas. We note with interest some of the arrangements where the state benefit is directly linked to future expected longevity in some way. The purpose of this call for evidence is not to initiate a fundamental review of our State pension system and as such we do not intend to comment at length on this matter. We would however, welcome further discussion on formulaically linking SPA to life expectancy (which we expect to continue improving) rather than reactively increasing the SPA during a financial crisis. Given those at the poorer end of the spectrum are much more dependent on State provision, it would make sense for any such formula to be based broadly on life expectancy for those in low incomes rather than for the population as a whole.

We support the Government's stated intention not to increase the SPA for women to 66 ahead of the currently planned increase to age 65 in 2020. We are also supportive of the idea of increasing male and female pension ages together once they have been equalised. We comment on notice periods in our response to Question 2.

Finally, we would point out that at whatever stage SPAs are increased, the retirement age assumed under the Reference Scheme Test should be adjusted to match the increases in the SPA.

We hope that you find our comments of assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Everett', with a stylized, cursive script.

David Everett  
Deputy Chairman, Pension Schemes Committee

Enc: Appendix

**1. What evidence concerning changes in life expectancy and the changed economic context should be taken into account when bringing forward the increase in state pension to age 66?**

The more recent projected life expectancies shown in Table 1 of the consultation paper are based on the ONS 2008-based principal population projections. These projections assume a long-term rate of improvement of 1% per annum for most individuals, which may understate future improvements in longevity (for example, age-standardised mortality rates in 2009 were 4.1% lower for males and 5.5% lower for females compared to 2008). We would suggest that the DWP also consider the other projections carried out by the ONS (i.e. the high variant and medium-high variant projections).

The life expectancies given in Table 1 of the consultation paper are a UK average and Table 2 shows variations in projected life expectancies by region. In fact, there is much variation even within regions, reflecting variation in socio-economic factors (such as wealth, lifestyle, etc) that can vary even on a street by street, or postcode basis. The ONS local authority mortality studies show significant variation in longevity by local authority. Clearly however, we would not expect different State Pension Ages for different socio-economic groups or different regions. However, the DWP may wish to consider projected life expectancies from postcode mortality studies, or at least regional mortality studies in its financial projections rather than national averages.

Point 11 in the consultation paper recognises that those in professional occupations can expect to live, on average, 4 years longer than those in unskilled manual employment. As stated in the general comments above, since those with lower incomes are those most dependent on the State pension it may follow that future increases in the SPA should be linked in some formulaic way to the expected increases in longevity for this demographic. It is not immediately apparent how this could operate and it may require the ONS to carry out further work to investigate mechanisms that could accomplish this in a satisfactory way.

In the economic context we presume that the DWP has considered projections of economic growth and factored expected economic recovery and growth into their cost projections.

We would assume that the DWP's analysis of future costs makes, or will make, allowance for the recent announcement of the "triple guarantee" on annual increases to the Basic State Pension that take effect from 6 April 2011. Whilst we welcome the triple guarantee, this will clearly increase the cost of providing the Basic State Pension

In addition, has the DWP's cost/benefit analysis (of bringing forward the increase to the SPA) considered the financial impact that the cessation of contracting-out on a Protected Rights basis from 6 April 2012 might have? If those currently contracted-out choose to contract back in from 2012, there will be an immediate increase in revenue via NI contributions but a future increase in State Second Pension (S2P) payments.

Point 13 of the consultation paper states that, "labour market withdrawal is closely linked to the current state pension age". We would expect this to be true for lower income individuals where State provision will make up the majority of any pension savings. However, we would not necessarily expect there to be a strong link between the SPA and the retirement ages of higher earners, especially where for example they are members of occupational pension schemes with normal retirement ages as low as 60. Since higher

earners pay proportionally more (per capita) in taxation and National Insurance, we would hope that the DWP's cost projections make allowance for the fall in revenue if higher earners retire before reaching SPA.

**2. What evidence should the Government consider in deciding the notice periods for individuals affected by a change to the timing of the state pension age increase to 66?**

The call for evidence states that a very significant notice period was given for the original timetable of increases to 2046 and also for the equalisation of male and female SPAs over the period between 2010 and 2020 and that this was not based on any empirical evidence regarding the amount of time people need to adjust their retirement plans.

Having given a long notice period prior to previous changes, the Government may have set an expectation that any such future changes will also be preceded by a similarly long period of notice. However, we are not aware of any evidence on which such a long lead-in time would be based and we believe that there is a wider public awareness of the need for longer working lives than existed when the Pensions Act 2007 changes were being laid.

Although it is difficult to think of sources of empirical evidence, it is worth considering financial arrangements that have already been entered into that terminate upon a person reaching State Pension Age. For example, many occupational pension schemes have bridging pensions or level income options that terminate when members reach SPA. Depending on the rules of these arrangements, accelerating the increase in the SPA to 66 will either result in an unexpected increase in the arrangement's costs or result in a gap in the beneficiaries' total pension income. Generally, given the impact of changes in the SPA on particularly lower income groups, it would probably not be appropriate to make changes without giving a notice period of at least five years (along with measures to encourage employers to retain older workers) in order to give this group at least some opportunity to make up for the lost payments from the State.

**3. What evidence should the Government consider to ensure no group is disproportionately impacted by the level of the state pension age and any change to the timing of the state pension age increase to 66?**

As outlined in the general comments above, simply increasing the State Pension Age will have a much more significant negative impact on those in lower paid employment (and the unemployed) than it does on those on higher incomes.

Poorer people have heavier reliance on the State pension and are also those more likely to die at an earlier age. The impact on wealthier people is likely to be much less significant as they are more likely to have other sources of income.

The following simplified example may illustrate the inequality (where in both cases the individual's retirement from his private arrangements is assumed unchanged at age 65):

- Person A, a high income individual with significant private pension provision expects to live 88 years, has a total pension of £25,000 p.a. including State pension of £5,000 p.a. Simplistically, moving SPA from 65 to 66 removes 20% of his total

pension for 1 year out of a total of 23 years or approximately a 1% reduction in total pension payments.

- Person B, a lower income worker with little private pension provision expects to live 82 years, total pension of £8,000 p.a. including State pension of £5,000 p.a. Moving SPA from 65 to 66 removes 62.5% of his total pension for 1 year out of a total of 17 years, or roughly a 3.7% reduction in total pension payments.

The change should have regard to the need to limit any implied discrimination between men and women.

Where possible, the change when implemented should avoid a cliff edge, or “birthday lottery”, where people born on one day have a much different SPA than those born a day later. Although an overnight change would save more money we would prefer to see a gradual phasing in of the increase to 66 (using a similar mechanism as set out in the Pensions Act 2007 for increasing the male SPA from 65 to 66 over the two year period from 2024 to 2026).

**Produced by:**

Association of Consulting Actuaries  
St Clement's House  
27-28 Clement's Lane  
London EC4N 7AE  
Tel: 020 3207 9380  
Fax: 020 3207 9134

6 August 2010