



Examining the state of the UK State Pension

A review of the State Pension Age will analyse costs and consider the rules around pensionable ages but what are the implications of any changes?





Part 1: Increasing the State Pension Age

On 14 December 2021, the government launched a second review of the State Pension Age (SPA).

This is because the Pensions Act 2014 requires the government to review the SPA every six years, and the findings of the review must be published by 7 May 2023.

The aim of this second review is two-fold.

Firstly, it will analyse whether the cost of operating the State Pension is fair to taxpayers and pensioners.

Secondly, it will consider whether the rules around pensionable age are appropriate, based on the latest available life expectancy projections, and supporting evidence.

Currently, the SPA is 66 for both men and women. Legislation already allows for a gradual rise in the SPA to age 67 for those born in or after April 1960, followed by a gradual rise to age 68 between 2044 and 2046 for those born in or after April 1977.

As part of the second review, the Department for Work and Pensions (DWP) will consider whether it should bring forward the increase in the SPA to age 68, to 2037-39.

The Secretary of State for Work and Pensions, Therese Coffey, said that the number of people over SPA was increasing, because of a growing population, and people - on average - living longer.

Decisions made by the DWP on how to manage the costs of the State Pension must therefore provide fairness to both taxpayers and pensioners, as well as continuing to provide a foundation for retirement planning and financial security.

The government has also commissioned two independent reports to contribute to the evidence-base that will inform the SPA review.

One will be carried out by the Government Actuary, which will analyse the latest life expectancy projections.

The other will be carried out by Baroness Neville-Rolfe, and will consider recent trends in life expectancy and the range of metrics the government could use when setting the SPA.

What are the latest life expectancy and population projections?

The Office for National Statistics (ONS) published its 2020-based interim population projections on 12 January 2022.

These projections provide an indication of how the population size and age structure of the UK and its constituent countries may develop in the future.

It is important, however, not to view these projections as predictions or forecasts, but more as an indication of the future, if past demographic trends continue.



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What are the interim population projection results?

- a population increase — the UK population is projected to increase from an estimated 67.1 million in mid-2020 to 69.2 million in mid-2030 and 71.0 million by mid-2045;
- an ageing population — the number of people aged 85 years and over is projected to increase in the next 25 years, from 1.7 million in 2020 to 3.1 million by 2045;
- an increased old-age-dependency ratio — for every 1,000 people of working age, there will be 341 people of pensionable age by mid-2045, which is up from 280 in mid-2020; and
- a slower population growth — with 1.8 million fewer people in the UK population by mid-2045 (71.0 million), compared to the previous 2018-based projection of 72.8 million.



What about life expectancy?

Life expectancies are still projected to increase over time, but less quickly than in the 2018-based projections.

This is a consequence of the slower increases in life expectancy in recent years, and the projected impact of the Covid-19 pandemic.

The overall effect is that, compared to the 2018-based projections, “cohort life expectancies” - which allow for future mortality improvements - are lower, as the following table illustrates:

Cohort life expectancies in 2022	2020-based projections	2018-based projections	Difference
At birth			
Males	87.6 years	88.1 years	- 0.5 years
Females	90.4 years	90.7 years	- 0.3 years
At age 65			
Males	19.9 years	20.2 years	- 0.3 years
Females	22.2 years	22.4 years	- 0.2 years


Should the increase in the SPA be brought forward?

The publication of the latest ONS figures, shortly after the announcement of the second SPA review, has prompted a range of views and opinions about the future direction of the SPA.

Should it be increased at all? If so, should the increase be postponed to a later date, rather than brought forward? Conversely, should it increase more quickly than the dates proposed? And should people have access to their State Pension before their ‘official’ SPA?

Former Pensions Minister, Sir Steve Webb, is of the view that the ONS data reinforces the argument for a fundamental rethink of the timetable for increasing the SPA.

As well as projected life expectancies now shorter than previously thought, the full impact of Covid-19 is not yet known;



“Such a dramatic shift in such a short space of time calls for... [the DWP] to speed up its current review, as the case for rapid increases is simply not justified by the evidence”.

With regards to the debate around whether early access to the State Pension should be permitted, Webb states that would be “inconceivable” because of the cost implications for the government, although believes that more could be done to support older people in poor health;

“Just because I don’t think SPA should be flexed down doesn’t mean nothing should be done. There clearly are people who can’t work to 67 or 68, but...the benefit system should pick them up. I would have, for example, within five years of [SPA] a more generous ill-health benefit.”

Conversely, the International Longevity Centre (ILC) warns that the government’s State Pension bill, which currently amounts to £100bn per year, would grow significantly unless the minimum age is increased quicker than currently proposed.

The think tank warns that it should increase to 70 by 2040, to ensure that it is both fair and fiscally sustainable.

Stating that the cost of providing the State Pension has tripled since 2000, the think tank argues that raising the SPA faster would help to "... ensure fiscal sustainability, support intergenerational fairness and keep up with increases in life expectancy".

The ILC utilised four different methods of setting the SPA between now and 2045 to see how much it should increase by - and when. All except one of the scenarios found that the government's plans were not quick enough.

Les Mayhew, head of global research at ILC, stated that, "...The decisions made in the latest review will impact on the incomes of everybody, whether that be via pension benefits or taxes. We're probably going to have to increase SPA further between 2030 and 2045. It's not a question of 'if' but 'when' and 'by how much'."

Echoing the views of Sir Steve Webb, however, he added, "...the government will need to assure that any plans for increases do not unduly exacerbate existing income inequalities, without some form of remediation. Those who are unable to work for health reasons may well need additional help."

The outcome of the second review of the SPA will be addressed in a future Briefing Note.



Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

✉ James.Jones-Tinsley@Barnett-Waddingham.co.uk

☎ 0333 11 11 222

www.barnett-waddingham.co.uk

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