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Sixty second summary

Government to bring forward rise to State Pension Age

The Department for Work and Pensions (DWP) has published a report confirming that it intends to increase the State Pension Age (SPA) to 68 between 2037 and 2039, seven years earlier than currently scheduled.[1] This Summary explores the change, including comments on the LGPS impact.

Background

The DWP is required to review and report upon its SPA rules at least six-yearly and the first such report was due by 7 May 2017. Reports to help inform the Government were published by John Cridland and the Government Actuary in March 2017. However, the Government's report was delayed due to the unexpected general election.

Cridland's independent report included recommendations that the SPA is increased to 68 between 2037 and 2039, that future increases should not begin until 2047 and that an increase of one year in every decade would be an appropriate pace of change.[2]

The Government Actuary's report examined SPAs during the period from 2028 to 2064. He was asked to conduct analyses on two bases: with the expectation that those reaching SPA during that period can be expected to spend 33.3 per cent of their adult lives in retirement; and with the expectation that they will spend 32 per cent of their adult lives in retirement.[3] Using the assumptions that he was instructed to make, he calculated that SPA would have to rise to age 69 by 2055 in the 33.3 per cent scenario, and to 70 by 2056 under the 32 per cent version.

Government's 2017 SPA review

The Government is to adopt Cridland's recommendation that the SPA increase to 68 seven years ahead of schedule, so that the increase takes place between 2037 and 2039. The change will affect those born on or after 5 April 1970.

The Government feels that the timetable achieves the right balance between maintaining the affordability of the State Pension and the proportion of adult life spent in retirement across the generations with the need to minimise the number of rises any one generation experiences in quick succession.

The long term aim of the Government is that people should spend '*up to 32 per cent'* of their adult life in receipt of the State Pension. The acceleration of the increase in SPA to 68 will not be enough to achieve the 32 per cent target, but the Government agrees with the recommendation in the Cridland report that increases should be appropriately spaced. It therefore does not '*consider it desirable to have a rise to 68 immediately after the rise to 67 (currently legislated for 2026-28), as would be required to meet the 32% scenario at the earliest opportunity*'. However, future rises seem inevitable.

The recommendation that there should only be one year's rise in SPA every decade was not supported by the Government. It feels this would constrict its ability to respond adequately to future changes in life expectancy.

[1] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/630065/state-pension-age-review-final-report.pdf>.
[2] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/611460/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf>.
[3] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/603136/periodic-review-of-rules-about-state-pension-age-gad-report.pdf>.

The Government is in agreement with Cridland that increases to the SPA timetable must be part of a wider system that supports people in employment while also supporting those in ill-health or with caring responsibilities. It is to review long-term carers' ability to take leave and will assess other possibilities for building on the current system of welfare support. The Cridland recommendations will form the basis of future consideration on how the Government manages the effects of rises in SPA.

Next steps and timings

The Government has said that the next review of the SPA, due to be concluded in July 2023, will confirm the exact date of the increase so that the latest life expectancy projections can be taken into account. Legislation implementing the change will, therefore, not be laid before Parliament until after the next general election (currently scheduled for 2022). In the interim period, the Government will assess the effect of changes to the SPA already due to take effect (the equalisation of male and female SPA to age 65 and the rise of SPA from 65 to 66) to help the Government determine the best course of action.

Impact on the Local Government Pension Scheme (LGPS)

The LGPS now has service linked to SPA (on benefits accrued since 1 April 2014 in England and Wales, or since 1 April 2015 in Scotland, subject to protections for certain members). If the SPA increases, there should be a corresponding reduction to LGPS costs. We have analysed membership data from a 'typical' LGPS fund which suggests that the proposed change to SPA:

- affects around 20% of active members (and a much smaller percentage of deferred and pensioner members);
- reduces the cost of future service benefits by less than 0.1% of pay; and
- reduces past service liabilities by around 0.1%.

Whilst the financial impact on the LGPS is clearly small, the impact on benefits for affected members is more significant, and LGPS funds should carefully consider how they intend to communicate the Government's intended SPA rise to members.

Our closing thoughts

The Government's decision to bring the increase in SPA forward should be welcomed, particularly in the context of fairness to future generations. Despite recent slowdowns, life expectancy has risen considerably and at a pace higher than current legislation allows for.

Analysis by our Club Vita colleagues, in collaboration with the PLSA, has found that while longevity improvements have been slowing for the average UK citizen this masks the detail of what has been happening. For men considered 'affluent', life expectancy has continued to increase, however, the same cannot be said for the less well off. It seems fair to say the effects of an increase to SPA will not be felt equally by all.

The increase to SPA could also have a knock on effect on the earliest age from which pension savings can be accessed without incurring penal tax charges (known as the 'normal minimum pension age' or 'NMPA'). The NMPA is currently age 55. However, as part of the 'freedom and choice' paper published in 2014, the Treasury stated the intention that the NMPA should rise in line with the SPA so it remained ten years earlier than SPA.[4] Although legislation creating the link was not put in place, it seems possible that the current or future Governments could implement such a provision. Given the number of people currently accessing their benefits under freedom and choice, any increase in the NMPA could have significant implications for scheme members. A higher NMPA could also have a knock-on impact on other areas, such as early retirement strain costs, employer restructuring exercises and LGPS bond amounts.

[4] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/294795/freedom_and_choice_in_pensions_web_210314.pdf>.