

A decade of cross-party increases in the state pension age

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Executive summary

This briefing note describes the state pension age increases that have been legislated by various governments in recent decades, and discusses how they relate to improvements in life expectancies and how spending on state pensions is projected to evolve as a result.

Key findings

Recent governments of different political colours have legislated increases to the state pension age. In 1995, the Conservative government legislated to increase the female SPA to 65 in order to equalise it with the SPA for men. In 2007, the Labour government legislated for further increases in the SPA to 66, 67 and 68. In 2011 and 2014, the timetables for various of these increases were brought forwards by the coalition. The current government intends the SPA to increase beyond 68 in future.

Increases in the SPA are a coherent response to increases in life expectancy at older ages. The planned increases beyond age 66 would keep the proportion of adult life spent above the SPA broadly constant. The proportion of individuals expected to reach their SPA is still projected to be rising slightly over time.

The government should be sensitive to the large cliff edge in benefit generosity that occurs at the SPA. Increases in the SPA may be more keenly felt by those unable to work, or to find work, at older ages because of the rapidly increasing cliff edge between the income floor provided to pensioners and that provided to those of working age.

The proportion of the population aged above the SPA will start to increase from next year, having been falling for a decade due to the increases in the SPA. Between 2020 and 2026 – when the SPA starts to increase from 66 to 67 – the proportion of the population of pensionable age is projected to increase from 18% to 19%. By 2040, the proportion is projected to reach 21%, despite a further increase in the SPA to 68.

The financial sustainability of the state pension system is improved by the increases in the SPA. Over the next decade, state pension spending as a share of national income is projected to be relatively flat. However, between 2027 and 2037, annual state pension spending is projected to increase by around 0.9% of national income (£20 billion in today's terms). A further 1% of national income is projected over the following two decades, despite the two further increases in the SPA.

Around half of the increase in state pension spending projected over the long term is driven by the 'triple lock' indexation policy. This should be ended. If the government wishes to protect pensioners from any year-to-year real-terms fall in the value of the state pension – while also increasing it in line with average earnings in the long run – then it should introduce a 'smoothed earnings link'.

Governments of different political persuasions have legislated increases the state pension age in recent decades

When the state pension was introduced in its modern guise in 1948, the age from which individuals could start receiving it was set at 65 for men and 60 for women. In 1995, the Conservative government legislated to equalise these ages: the state pension age (SPA) for women was planned to increase for women born after March 1950, gradually reaching age 65 for those born after March 1955 (illustrated by the light pink line in panel A of Figure 1). These increases started coming into effect from April 2010.

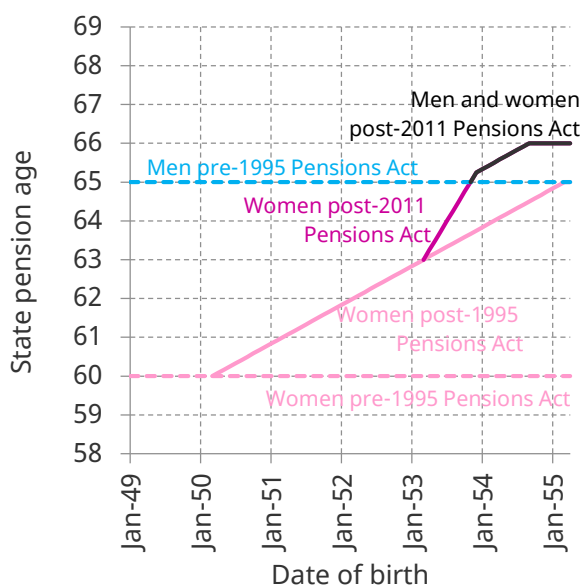
In 2007, the then Labour government legislated for further increases in the SPA: gradually rising to 66 for those born between April 1957 and March 1958, and then subsequently to 67 and then to 68 for those born more recently (shown by the grey line in panel B).

In 2011, the coalition government accelerated the increase in the female SPA to 65, and brought forward the increase in the male and female SPA to 66 (in breach of its own coalition agreement). This resulted in a particularly rapid increase in the SPA for some women – for example, someone born in March 1953 had a SPA of 63, while someone born a year later had a SPA of 65½.

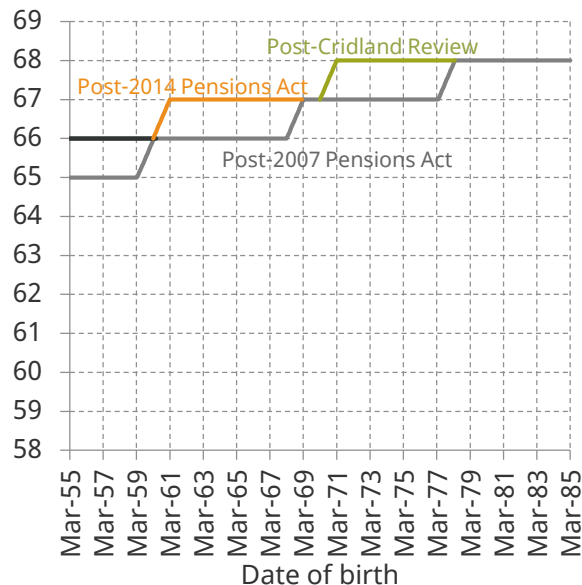
In 2014, the government legislated to bring forward the increase in the SPA to 67 by eight years. It also announced an intention to increase the SPA in line with life expectancies in future – such that people should expect to spend, on average, up to one-third of adult life drawing a state pension – with each increase being phased in over two years and with affected individuals given at least ten years’ notice.ⁱ It committed to an independent review of the SPA, at least once every five years, on which to base future SPA decisions. The first of these reviews – the ‘Cridland Review’ – published its recommendations in March 2017.ⁱⁱ The government announced in July 2017 that it plans to bring forward the increase from 67 to 68 by seven years to 2037–39, though this has yet to be legislated.ⁱⁱⁱ Further increases in the SPA beyond age 68 are planned, but will not be timetabled until after the next review.

Figure 1. Legislated and planned increases in the state pension age^{iv}

A. Increases that (start to) take effect before 2019



B. Increases that take effect after 2019



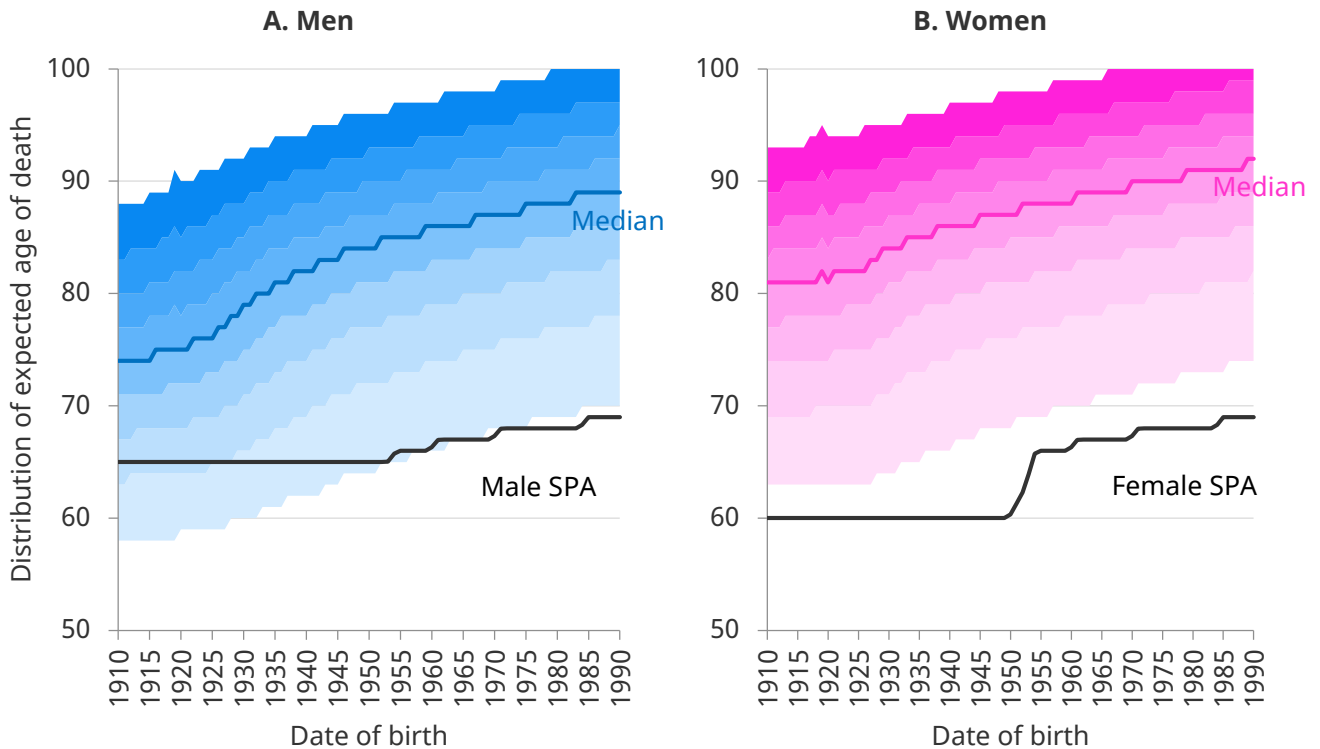
Increases in the SPA are an appropriate response to increases in life expectancies at older ages

For men reaching age 50 in 1960 (born in 1910), the median life expectancy was 74 years. 77% of them would have been expected to reach their SPA (65). For equivalent women, the picture was more generous: their median life expectancy was 81 years and 93% of women would have expected to reach the SPA (higher than for men because of both higher life expectancies and the lower SPA: had the female SPA been age 65 then 88% of women would have been expected to reach the SPA).

Over the period since then, life expectancies at older ages have improved dramatically. A man reaching age 50 this year (born in 1969) can expect to live until 87, while a woman can expect to live to 89. In the absence of any changes to the SPA, this would have implied an increase in average time spent receiving the state pension of 13 years for men and 8 years for women between those born in 1910 and 1969 (from 9 to 22 years for men and from 21 to 29 years for women).

The increase in the female SPA to 65 aside, the legislated subsequent increases in the male and female SPA simply act to keep the pension age at a relatively steady position relative to life expectancies.

Figure 2. Position of SPA in life expectancy distribution, by date of birth

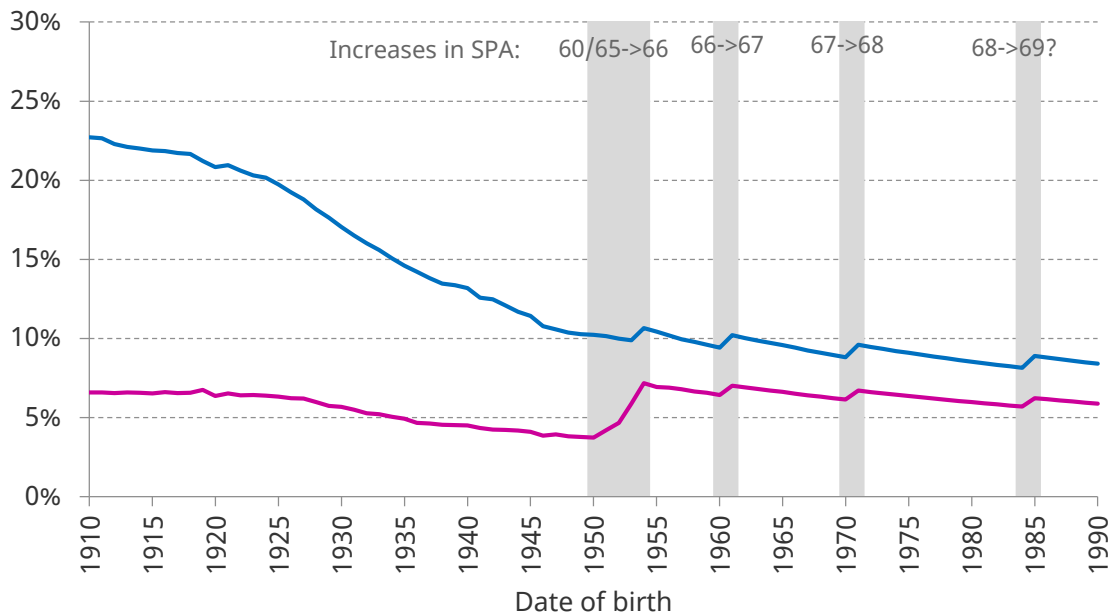


Note: Solid blue/pink lines denote median expected age of death for men/women. 10% of individuals do not make it to the age indicated by the lowest coloured band. Each band then indicates the age range in which the next 10% of individuals will die. 10% of individuals survive longer than the age indicated by the top coloured band, which is censored at age 100. Male and female SPA increases up to age 67 are as legislated. The increase between 67 and 68 is assumed to take place between 2037 and 2039 as per the government's 2017 announced intention. An increase between 68 and 69 is also illustrated, assumed to occur between 2052 and 2054.

Source: Authors' calculations based on ONS UK 2016-based principle projections.

The proportion of men alive at age 50 who would not be expected to make it to their SPA has declined markedly over time – from 23% of those born in 1910 to just 10% of those born in 1950. For women, this proportion fell from 7% to 4%. The equalisation of the female SPA with that of men has driven an increase in the proportion of women not expected to make it to their SPA (from 4% of those born in 1950 to 7% of those born in 1954). However, despite the further planned increases in the SPA beyond age 66, the proportion of 50-year-olds not expected to reach their SPA is still projected to decline over time in future.

Figure 3. Proportion of individuals alive at age 50 not expected to survive until SPA



Source: Authors' calculations based on ONS UK 2016-based principle projections.

It is changes in healthy life expectancy, not just life expectancy, that are important when discussing the changes in the SPA. There could be important implications if there is a significant increase in the proportion of individuals who are in poor health at a new higher SPA, even if the proportion of individuals expected to be alive at that point, and their remaining life expectancy, were similar to previously. Future healthy life expectancy is extremely uncertain, and there are no formal projections available. The OBR assumes in its long-run fiscal projections that healthy life expectancy will remain constant as a proportion of overall life expectancy in future – an assumption based on analysis of trends over the past two decades.^v In other words, it is not clear that the increase in the SPA will be associated with an increase in the proportion of individuals unable to work at older ages due to poor health.

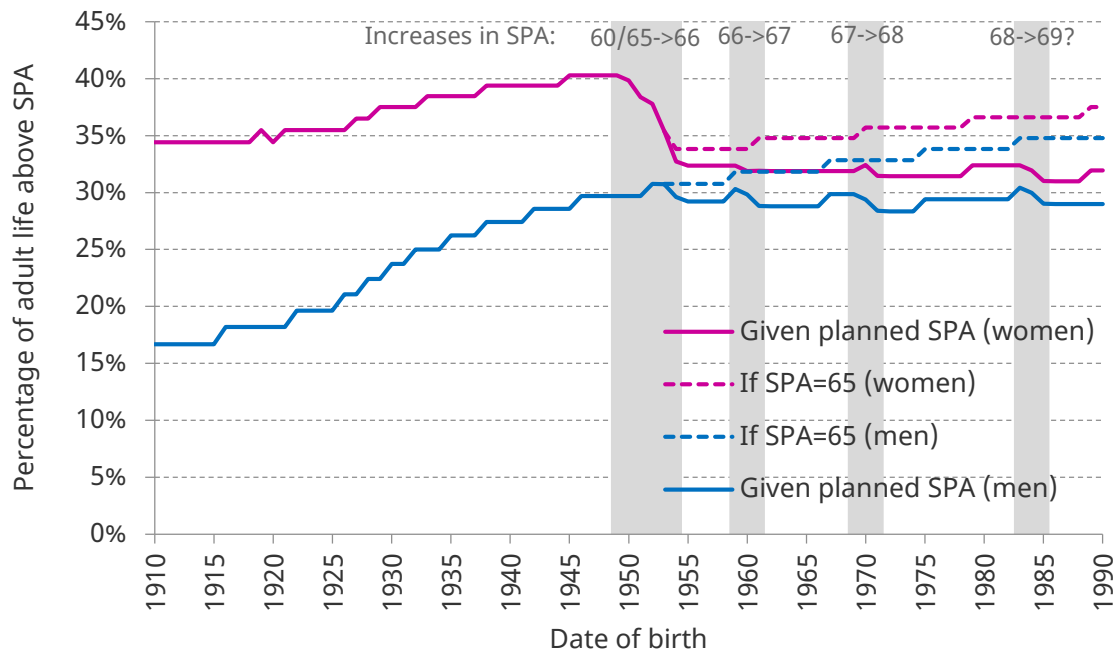
Planned increases in the SPA will keep the proportion of adult life on average spent above SPA broadly stable

While life expectancies increased and the SPA remained unchanged, the proportion of adult life (aged 20 and over) that an individual could expect to receive a state pension for increased. Between those born in 1910 and those born in 1950, the average increased from 17% to 30% for men and from 34% to 40% for women. This is, in effect, a huge increase in the generosity of state support over a lifetime, and one brought about by inaction rather than action in terms of legislation on the state pension age over the period from 1948 to 1994.

The legislated and planned increases in the SPA beyond age 65 broadly act to keep the proportion of adult life above SPA stable over time: for men, at around 29% – roughly the level it was for those born in the mid 1940s; for women, at around 32% – roughly the level it would have been for those born in the mid 1940s had those women had a SPA of 65. The median proportion of adult life spent above the SPA is therefore being maintained at near the record levels, sustaining the unintended increase in generosity of state support.

In the absence of increases in the SPA (after equalisation at 65), the proportion of adult life individuals could expect to receive a state pension for would be on an upwards trajectory – reaching 35% for men and 38% for women born in 1990.

Figure 4. Proportion of adult life above the SPA



Note: The proportion of adult life above SPA is defined here as $(\text{Median life expectancy at age 50} - \text{SPA}) / (\text{Median life expectancy at age 50} - 20)$. This is slightly different from the definition used by the Government Actuary's Department, at the behest of the Department for Work and Pensions, which is $(\text{Mean life expectancy at SPA}) / (\text{Mean life expectancy at SPA} - 20)$.^{vi} Planned SPA is as described in note to Figure 2.

Source: Authors' calculations using ONS UK 2016-based principle projections.

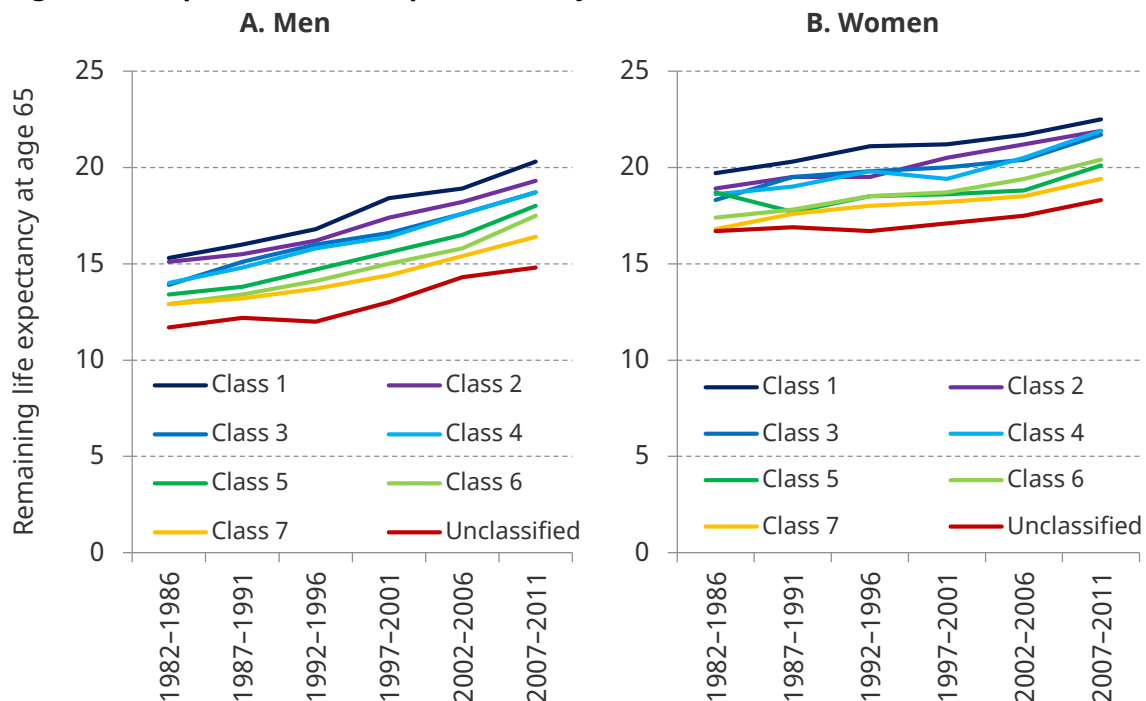
There are large inequalities in life expectancies between groups

There are considerable inequalities in life expectancies (and healthy life expectancies) across individuals. Many of these are along known and observed dimensions – for example, geography and socio-economic factors. Figure 5 shows life expectancy at age 65 by social class in England and Wales between 1982–86 and 2007–11 (for men in panel A and women in panel B). In 2007–11, life expectancy among men in ‘class 1’ (higher managerial and professional) was nearly four years greater than that among men in ‘class 7’ (routine) (for women, the difference was around three years).

Life expectancy has increased across all social classes over time. There is some potential for concern about a widening of the gap between groups over time, with life expectancies having improved slightly less over this period for some social classes who already had lower life expectancies. However, the pattern is not clear-cut, particularly for women. There are also no forecasts for how life expectancies may evolve for different groups.

The implication of observed inequalities in life expectancies is that some groups in society are expected to receive a state pension for fewer years on average than other groups. This will, however, always be the case regardless of what particular age the SPA is set to be. If one did want to increase public spending on those groups with lower life expectancies, changes to the SPA are unlikely to be the most efficient way of achieving this objective. The independent Cridland Review, for example, concluded ‘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’.ⁱⁱ Instead, those concerned about groups with relatively low life expectancies should consider other policies targeted at benefitting those groups rather than a universally lower state pension age.

Figure 5. Inequalities in life expectancies by social class



Source: Office for National Statistics, ‘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’.

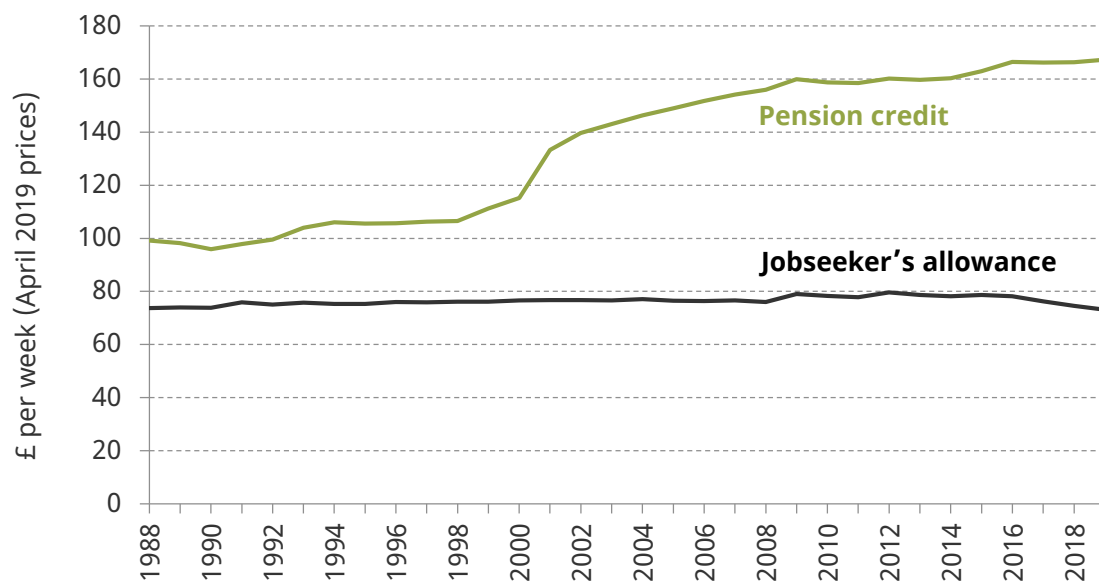
The government should be sensitive to the large cliff edge in benefit generosity that occurs at the SPA

The increases in the SPA are projected to be broadly in line with improvements in life expectancy, and therefore may not be associated with an increase in the proportion of older individuals unable to work. However, some will still certainly find themselves in that situation, unable to work, or perhaps just unable to find work, in later working life.

The increase in the SPA may be particularly keenly felt by such individuals because of the changing relative generosity of the state pension compared with working-age benefits. Figure 6, for example, illustrates how the level of the income floor guaranteed for single, healthy individuals aged above the SPA (labelled 'Pension credit') compares with the effective income floor for a single, healthy individual aged below the SPA (labelled 'Jobseeker's allowance'). In 1988, the level paid to a low-income pensioner was 35% higher than the level paid to a low-income working-age person. Over the following two decades, working-age benefits have been restricted to growing in line with prices, and more recently have been cut in real terms, while state pension benefits have been increasing in real terms, benefitting recently from the protection afforded by the 'triple lock'. As a result, by 2019, the level of pension credit was 129% higher than the level of jobseeker's allowance. There is therefore a large – and increasing – cliff edge between the income floor that the state guarantees to a healthy, low-income individual aged above the SPA and that guaranteed to an otherwise-similar individual aged below the SPA. Working-age unemployment benefits also have significant job-search activity requirements, with threat of benefits sanctions for those who do not comply.

The government should be sensitive to this disparity in the treatment between those just above and just below the SPA. There are strong arguments for a smoother transition between the working-age benefit system and that applicable to those of pension age – for example, by removing some of the job-search conditionality of benefits for those at older ages, as was recommended by the Cridland Review.

Figure 6. Income floors above and below the SPA



Source: Department for Work and Pensions, Annual Abstract of Statistics 2019.

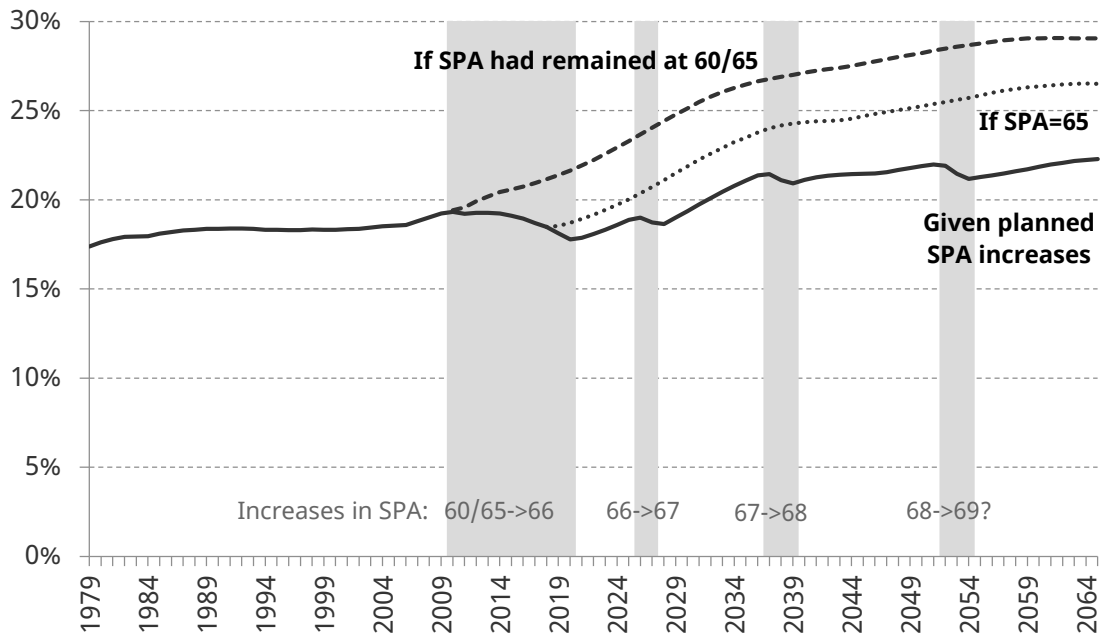
The proportion of the population aged over the SPA is still projected to grow over time

As individuals have been living longer, the proportion of the population aged over the state pension age has been rising: from 14.7% of the population in 1961, to 17.4% in 1979, to 18.6% in 2006 (shown in Figure 7). From 2007, the proportion of the population that is of pensionable age started increasing more rapidly as the first of the baby-boom generations reached SPA. In the absence of any changes to the SPA (i.e. if it had remained 60 for women and 65 for men), this year 21% of the population would be aged over the SPA. As things stand instead only 18% are.

Going forwards, the proportion of the population aged over the SPA is projected to continue rising over time, tempered slightly in 2026–29 by the legislated increase in the SPA from 66 to 67, and in 2037–39 by the planned increase in the SPA from 67 to 68. Based on the ONS’s principle population projections (and there is uncertainty surrounding assumptions about future fertility and migration), by 2040 the proportion of the population aged over SPA is projected to reach 21%.

The increase in the proportion of the population aged over SPA is in part driven by differences in the sizes of different generations – the UK fertility rate was much higher before the mid 1970s than it has been since. During the 2040s, the rate of increase in the proportion of the population aged over the SPA is projected to decline markedly, as all the baby-boomer generations will have entered retirement, and the generations crossing the SPA are more similarly sized each year to the projected size of the generation being born each year. By 2065, the proportion of the population above the SPA is projected to be around 22%.

Figure 7. Proportion of the population above the SPA



Note: Calculated assuming legislated SPA increases up to 67, the planned increase to 68 between 2037 and 2039, and an assumed increase to 69 between 2052 and 2054.

Source: ONS population estimates and authors’ calculations using ONS 2016-based principle projections.

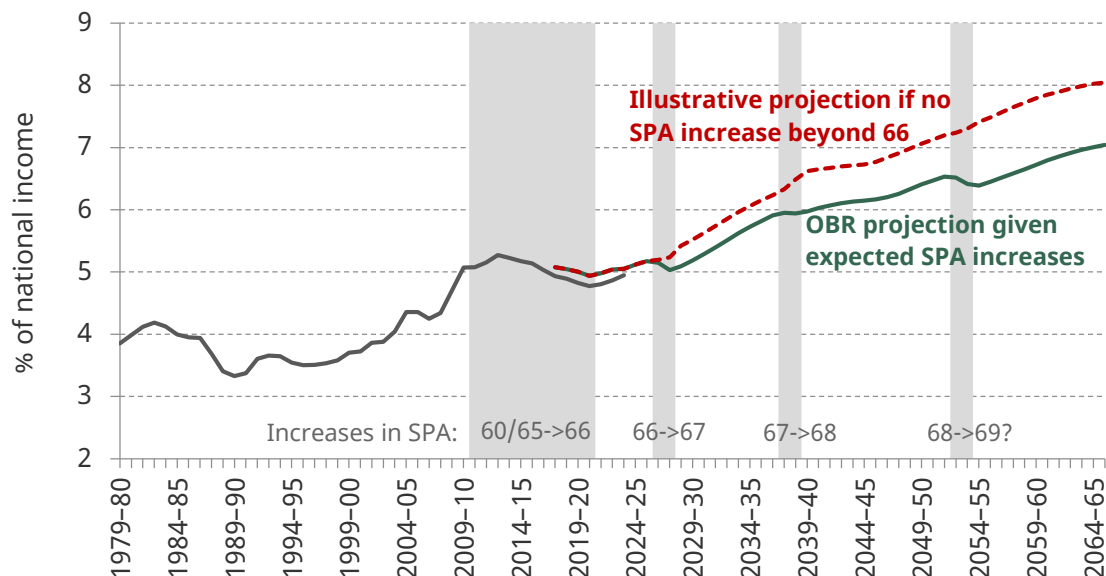
SPA increases have improved the financial sustainability of the state pension system, but a 1% national income increase in spending still needs to be funded over the next two decades

Total public spending on state pensions depends on the number of recipients and the generosity of pension payments. State pension spending as a share of national income has tended to increase over time,^{vii} but over the last decade spending has fallen slightly due to increases in the SPA. This year, the government spent around £106 billion (4.8% of national income) on state pension payments and other pensioner-specific benefits.

From next year, state pension spending is projected to start increasing as a share of national income again, as the proportion of the population aged over the SPA starts to rise. The increases in spending projected over the next decade are relatively modest, but after the effects of the increase in the SPA to 67 are through, spending is projected to increase more rapidly as the pace in the growth of the proportion of the population that is of pensionable age picks up (see Figure 7). Between 2027 and 2037, spending on state pensions is projected to increase by around 0.9% of national income: equivalent to £20 billion in today's terms. Sustainably funding such an increase is not an insignificant task for the government – raising an additional 0.9% of national income from taxation, for example, would require policy action of the order of magnitude of a 3 percentage point increase to the main rate of VAT.

Spending on state pensions would be markedly higher if the government did not increase the SPA again after it reaches age 66 in 2020. An illustrative projection of this is given by the red dashed line in Figure 8. By 2064–65, state pension spending could be around 1% of national income higher if the SPA remained at 66 rather than increasing to 69.

Figure 8. Public spending on state pensions



Note: Out-turn is the sum of spending on state pension, pension credit and winter fuel payments. OBR projection is for state pensions and other pensioner-specific benefits. Illustrative projection calculated by dividing OBR projection by % population aged above SPA and multiplying by % population aged 66+.

Source: Department for Work and Pensions, *Spring Statement 2019 Expenditure and Caseload Forecasts*; chart 3.14 of Office for Budget Responsibility, *Fiscal Sustainability Report 2018*.

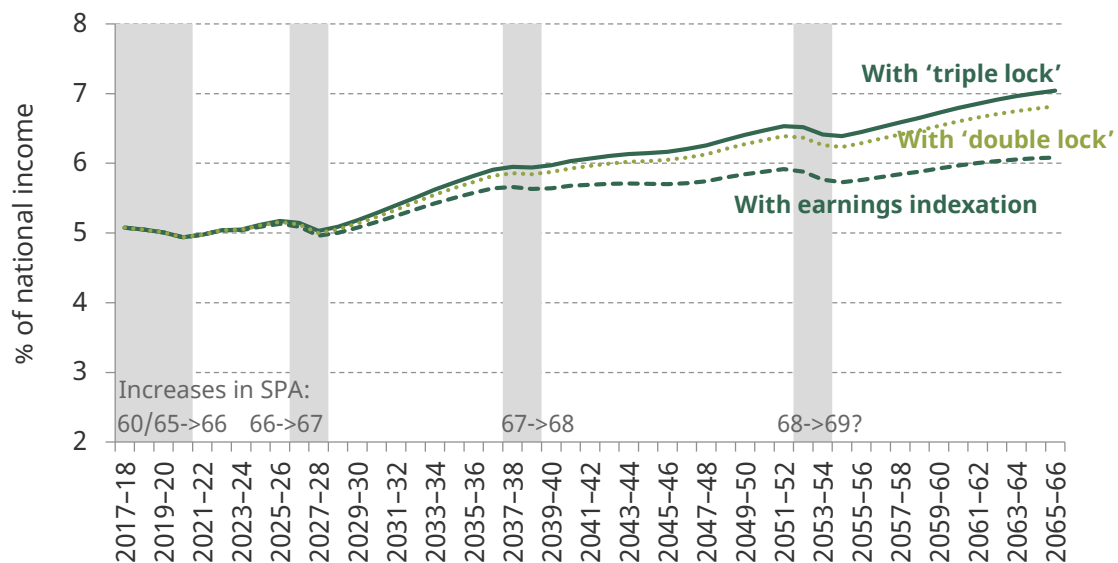
The current 'triple lock' indexation policy adds considerably to the financial pressure on the state pension system

The increase in state pension spending projected by the OBR is driven, however, not just by demographic change but also by the government's indexation policy. If the level of the state pension were increased over time in line with growth in average earnings, rather than the highest of the growth in average earnings, inflation and 2½% (the 'triple lock'), then the increase in pension spending between this year and 2037 would be reduced by a third. On the basis of current indexation policy, the OBR projects an increase in spending of 2.0% of national income (£45 billion in today's terms) between 2019–20 and 2065–66; that would be almost halved to an increase of 1.1% of national income (£24 billion) if the state pension were increased in line with average earnings growth each year.

Increasing the level of the state pension in line with average earnings growth or inflation – whichever is higher – (known as the 'double lock' and as proposed by the 2017 Conservative party manifesto) would do little to improve projections for long-run spending (shown in Figure 9). This is because it is generally rare for both average earnings and inflation to be below 2½% (the current decade being exceptional: this is a period where the triple lock has cost considerably more than a double lock), so getting rid of that aspect of the triple lock does little to change the long-run generosity of the state pension.

The independent Cridland Review recommended withdrawing the triple lock in the next parliament, and instead uprating the state pension in line with earnings each year.ⁱⁱ The government did not comment on this recommendation in its own review.ⁱⁱⁱ It should be stressed that if the government's objective is to have the level of the state pension rising in line with earnings growth over the long term, but also never falling from one year to the next in real terms, it is possible to do this without the cost implications of the 'triple lock'. The answer is a 'smoothed earnings link'.^{viii} This is less simple than other forms of indexation, but offers the government's desired protection to pensioner income with similar long run-cost projections to simple earnings indexation and therefore the same protection to the taxpayer as pure earnings indexation.

Figure 9. Public spending on state pensions, with and without triple lock



Source: Chart 3.14 of Office for Budget Responsibility, *Fiscal Sustainability Report 2018*.

End notes

ⁱ Department for Work and Pensions, 'The core principle underpinning future State Pension age rises: DWP background note', 2013, <https://www.gov.uk/government/publications/future-state-pension-age-rises-dwp-background-note>.

ⁱⁱ Independent Review of the State Pension Age, *Smoothing the Transition*, 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/611460/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf.

ⁱⁱⁱ Department for Work and Pensions, *State Pension Age Review*, 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630066/print-ready-state-pension-age-review-final-report.pdf.

^{iv} A summary of the legislated and planned increases in the SPA is provided in the table below.

Summary of legislated and planned increases in the SPA

	Under current legislation	Government intention
Female SPA = 60 Male SPA = 65	Prior to 6 Apr 2010 (Those born before 6 Apr 1950)	
Increase in female SPA from 60 to 65	Implemented Apr 2010 to Dec 2018 (Affected women born Apr 1950 to Dec 1953)	
Increase in male and female SPA from 65 to 66	Being implemented Dec 2018 to Oct 2020 (Affecting those born Dec 1953 to Oct 1954)	
SPA = 66	Oct 2020 to Apr 2026 (Affecting those born Oct 1954 to Apr 1960)	
Increase in male and female SPA from 66 to 67	To be implemented Apr 2026 to Mar 2028 (Affecting those born Apr 1960 to Mar 1961)	
SPA = 67	Mar 2028 to Apr 2044 (Affecting those born Mar 1961 to Apr 1977)	Mar 2028 to Apr 2037 (Affecting those born Mar 1961 to Apr 1970)
Increase in male and female SPA from 67 to 68	To be implemented Apr 2044 to Mar 2046 (Affecting those born Apr 1977 to Apr 1978)	To be implemented Apr 2037 to Mar 2039 (Affecting those born Apr 1970 to Apr 1971)
SPA = 68	Mar 2046 onwards (Affecting those born Apr 1978 onwards)	Mar 2046 to [unknown]
Increase in male and female SPA beyond 68		The timetable for this increase has not yet been planned. The current OBR assumption is that it will happen between 2052 and 2054.

Source: <https://www.gov.uk/government/publications/state-pension-age-timetable/state-pension-age-timetable>; DWP, *State Pension Age Review*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630065/state-pension-age-review-final-report.pdf.

^v C. Jagger, F. E. Matthews, P. Wohland et al., 'A comparison of health expectancies over two decades in England: results of the Cognitive Function and Ageing Study I and II', *Lancet*, 2016, 387, P779–86, [https://doi.org/10.1016/S0140-6736\(15\)00947-2](https://doi.org/10.1016/S0140-6736(15)00947-2).

^{vi} Government Actuary's Department, *Periodic Review of Rules about State Pension age: Report by the Government Actuary*, 2017, <https://www.gov.uk/government/publications/state-pension-age-periodic-review-report-by-the-government-actuary>.

^{vii} Due to the 'maturing' of the system (e.g. more individuals reaching the SPA with a full working life since 1948, more individuals having entitlements to the earnings-related components of the pension system that existed between 1978 and 2012) and an increasing share of the population aged over the SPA. There are, however, fluctuations around this trend as different governments have changed the generosity of pension benefits. (For example, in 1981, the government started only increasing the level of the state pension each year in line with prices, driving down spending as a share of national income over the following years.)

^{viii} The 'smoothed earnings link' was recommended by the Work and Pensions Select Committee (https://publications.parliament.uk/pa/cm201617/cmselect/cmworpen/59/5906.htm#_idTextAnchor0450), based on an idea discussed in A. Hood and D. Phillips, 'Benefit spending and reforms: the coalition government's record', IFS Election Briefing Note, 2015, <http://election2015.ifs.org.uk/uploads/publications/bns/BN160.pdf> (see page 15).