



Institute for Fiscal Studies

**IFS Report Summary**

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## Key findings

- 1 The state pension age for both men and women increased from 65 to 66 between December 2018 and October 2020. We find this increased the employment rate of 65-year-old men by 7.4 percentage points and of 65-year-old women by 8.5 percentage points. This meant that in 2021 there were 25,000 more men and 30,000 more women of this age in employment than would have been the case had the state pension age remained at 65.
- 2 These are significant increases in employment, and especially so given that there is generally a limited financial incentive in the UK to retire at the state pension age compared with many other countries, as one is able to combine receiving a state pension with continuing in paid work without any penalty. By mid 2021, 42% of 65-year-old men and 31% of 65-year-old women were in paid work, both higher rates than at any point since at least the mid 1970s (and for women very likely to be an all-time record). The increase in employment for this age group caused by the policy over just two years (2018 to 2020) was of a similar magnitude to the gradual increase seen among 65-year-olds over the twelve years from 2005 to 2017.
- 3 The increase in employment resulting from the higher state pension age is due to people staying in their existing job for longer, rather than to those in work moving to a different employer or those not in paid work returning to the labour market. It is predominantly due to increases in full-time work rather than part-time work. For men it is disproportionately driven by the self-employed, while women working in the public sector are particularly likely to delay retirement due to the reform.
- 4 People from more deprived local areas were more likely than those living in more prosperous areas to stay in employment as a result of the increase in the state pension age to 66. Women living in the most deprived fifth of local areas in England saw their employment rate rise by 13 percentage points, compared with a 4 percentage point increase in the least deprived fifth of local areas. Consistent with this, we also find significantly larger employment responses from people with lower levels of education than from those with degree-level education. These results suggest that less advantaged people are more likely to continue to work as a result of the higher state pension age.

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- 5 Those who delay their retirement as a result of the reform may in part be doing so because, faced with a loss of state pension income (which for a full single-tier pension is currently just under £180 per week), they feel that they have to continue to work to maintain their standard of living. Most of those who continue to work due to the reform are likely to be financially better off by doing so, because their extra earnings are likely to outweigh their lost pension income. That is not to say they would not have preferred to have been able to retire earlier and enjoy more leisure time. Delaying retirement may be difficult and disruptive for many, so the government should prioritise clear communication of changes to people's state pension ages well in advance.
- 6 Despite the effects of the reform on employment, it is nonetheless the case that over 90% of the population do not change whether they are in paid work at age 65 as a direct result of the policy. Indeed, the majority (6 in 10 men and 7 in 10 women) have already left the workforce before age 65.
- 7 Some people face obvious difficulties as a result of the higher state pension age, including those unemployed and searching for work at age 65. They want or need to continue working but cannot find a suitable job, and are reliant on a working-age benefit system that is much less generous than the pensioner benefit system. We estimate that an additional 5,000 65-year-olds are unemployed and seeking work as a result of the increase in the state pension age to 66. We also find that 4% of women and 3% of men aged 65 report that they are out of work for long-term health reasons (rather than being retired) as a result of the increase in the state pension age, an increase of over 25,000 people.
- 8 The evidence shows that much of the increase in employment is in full-time work, even though 20 hours of paid work at the National Living Wage would be sufficient to make up the financial shortfall from not receiving a full new state pension. This suggests there may be much as yet unmet demand from 65-year-olds for part-time work. Employers that can offer more part-time working might well be able to benefit from this.

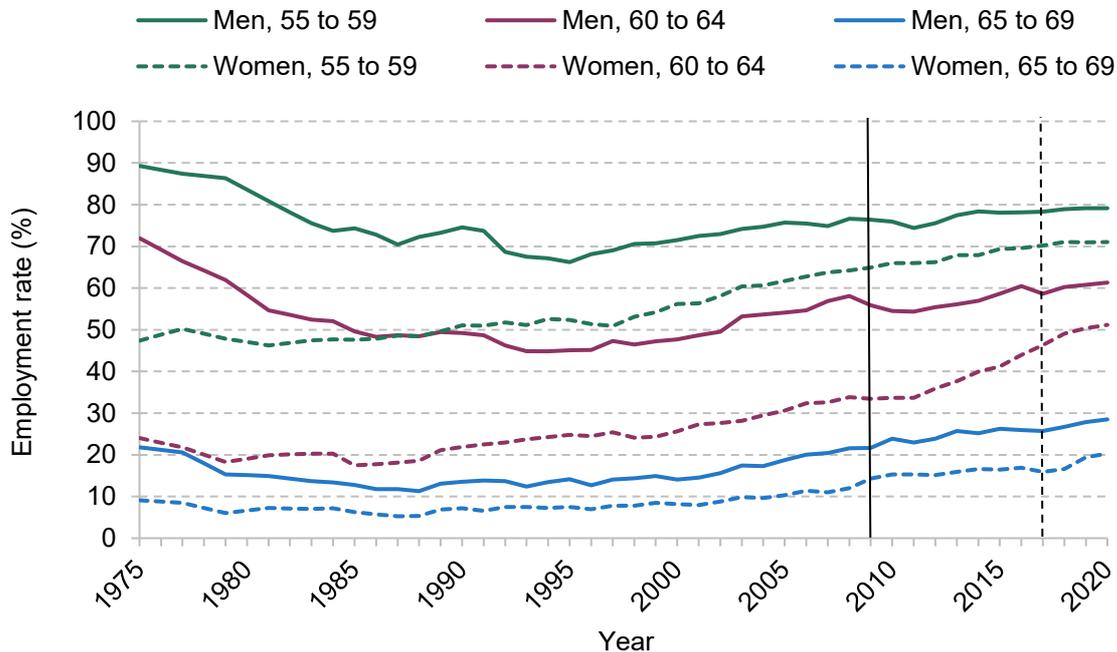
# 1. Policy background

The age at which people can claim a state pension ('the state pension age', SPA) in the UK has been rising in recent years, most recently with an increase for both men and women from 65 to 66 between December 2018 and October 2020. Previously, for men the state pension age had been 65 since the late 1940s, while for women the state pension age had risen from 60 to 65 between 2010 and 2018. Further increases are legislated, with an increase for both men and women from 66 to 67 due to occur between 2026 and 2028, as the government attempts to counteract some of the fiscal pressures brought on by an ageing population. In December 2021, the government launched the second independent review of the state pension age, to be published by May 2023 (Department for Work and Pensions, 2021). The first review (undertaken in 2017) concluded that the second review should consider the timing of the increase in the state pension age to 68, currently scheduled for 2044–46 (Department for Work and Pensions, 2017).

In 2021–22, a full new state pension is worth £179.60 a week, which most people can receive once they reach state pension age as long as they have at least 35 qualifying years of National Insurance contributions or credits. This means that a one-year increase in the state pension age leads to a reduction in state pension income of slightly over £9,300. For some, a larger amount is lost as they accrued a larger entitlement to the state pension system that operated prior to 2016 (the Basic State Pension and the State Earnings-Related Pension Scheme, SERPS); this will particularly apply to those who spent several years in paid work on relatively high earnings but who did not opt out of SERPS.

The latest increase in the state pension age from 65 to 66 comes on the back of two-and-a-half decades of gradually increasing employment rates for people in their late 50s and 60s. Figure 1.1 shows the employment rates of men and women of these ages between 1975 and 2020. Across all groups, employment rates have been rising since at least the mid 1990s, with an almost 20 percentage point rise for 55- to 59-year-old women and a 13 percentage point rise for 55- to 59-year-old men (though at nearly 80%, this was still lower than the almost 90% employment rate for this group seen in the 1970s). There have also been increases in employment rates for people in their 60s. Most strikingly, the employment rate of 60- to 64-year-old women more than doubled from 25% in 1995 to 51% in 2020 (and the rise since 2010 has been almost 18 percentage points). Some of this increase since 2010 is due to the increase in the state pension age for women over that period. Indeed, previous IFS research found that the increase in the female state pension age from 60 to 62 increased the employment rate of 60- and 61-year-old women by just over 6 percentage points (Cribb, Emmerson and Tetlow, 2016).

Figure 1.1. Employment rates of men and women in their late 50s and 60s, by five-year age band



Source: Authors' calculations using the Labour Force Survey. The solid vertical line shows the last full year (2009) in which the state pension age for women was 60. The dashed vertical line shows the last full year (2017) before the state pension age for both men and women started to rise from 65 to 66.

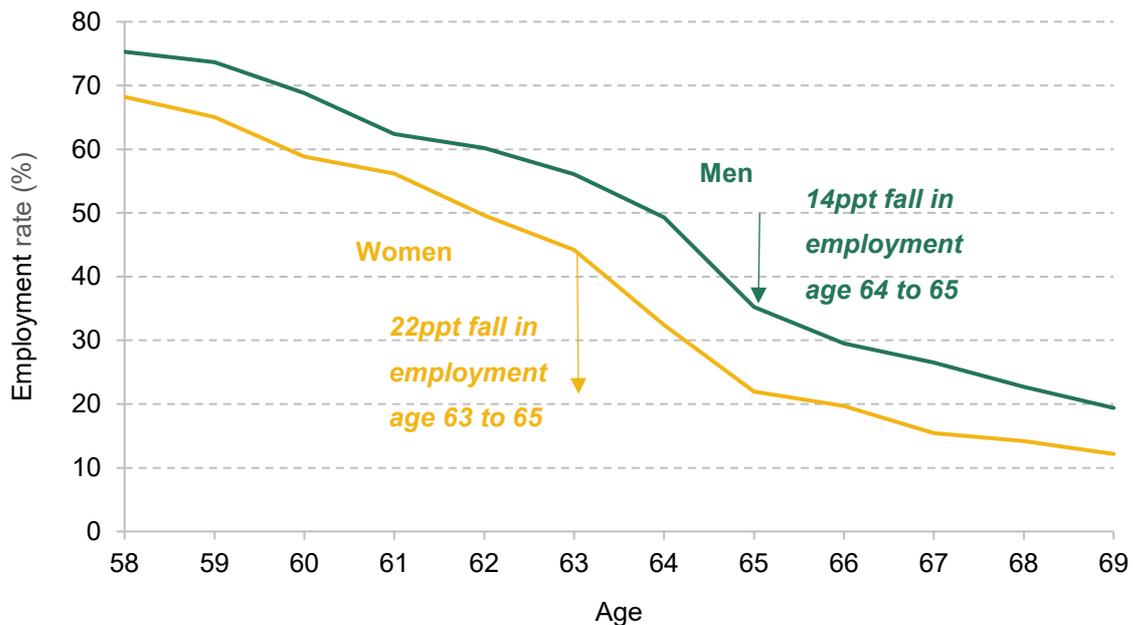
The increases in women's employment rates that resulted from previous increases in the state pension age might suggest that the latest increase, from 65 to 66, would also have significant effects on employment. However, it is possible that the employment response of an increase in the state pension age from 65 to 66 differs substantially, as fewer people are still in paid work when they reach 65, and because health problems might be a greater barrier to staying in work at these older ages. Furthermore, men might respond differently to an increase in their state pension age from women, as they have higher employment rates in their early 60s than women, often have longer attachment to the labour market, and have, on average, accumulated larger private pension resources upon which they can draw in retirement. It is also the case that the latter part (between March and December 2020) of the increase in the state pension age from 65 to 66 coincided with the COVID-19 pandemic and associated lockdowns, which could potentially have changed how people could respond to the reform in 2020.

This summary report summarises the key findings from our technical paper examining the extent to which the employment of 65-year-old men and women changed in response to the increase in the state pension age from 65 to 66 (Cribb, Emmerson and O'Brien, 2022). These results are important for the government to understand the effects of the reform, for employers to be able to respond appropriately to a change in the number of their older employees who look to retire later and a change in the make-up of the wider labour force, and for groups in civil society that are

interested in, or concerned by, the prospects for older people in the labour market. Furthermore, we analyse how the magnitude of the responses varies for different subgroups, allowing us to shine a light on where the biggest changes in employment responses are seen.

Given that this reform affects people in their mid 60s and is designed to encourage people to extend their working lives, it is important to look at how many people are in the labour market approaching the state pension age. Figure 1.2 shows the employment rates of 58- to 69-year-old men and women, by age, in the period 2017Q4 to 2018Q3 (before the state pension age rose above 65). Many are not in paid work some years before they reach the state pension age, while many can also be found in paid work at ages well above the state pension age. At all ages, the share of women in paid work is lower than the share of men in work by approximately 10 percentage points.

**Figure 1.2. Employment rates of men and women, prior to the state pension age rising from 65 to 66, by age**



Note: See figures 2 and 3 in Cribb, Emmerson and O'Brien (2022).

In general, there is a fairly gradual decrease in the employment rates of both men and women with age – for example, the male employment rate decreases from 69% at age 60 to 49% at age 64, a fall of around 5 percentage points per year of age. However, there is a much larger fall between the ages of 64 and 65: for men, the employment rate decreases by 14 percentage points, to 35% at age 65. During this period, the state pension age for women was rising between 64 and 65. As a result, we see a sharp reduction in the employment rate of women between the ages of 63 and 65, from 44% to 22%, or a 22 percentage point fall over two years. This again compares

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with a fall in employment of about 5 percentage points per year of age over the ages leading up to the state pension age.

These larger reductions in employment between ages 64 and 65 for men, and between ages 63 and 65 for women, would be consistent with the state pension age causing some people to retire. However, it is entirely possible that some (or all) of the large employment rate decrease at age 65 is caused by another factor; for example, some people might like to retire at 65 because it is a round number, or because they are a member of a defined benefit pension scheme that provides an incentive to retire at 65. In our analysis, we therefore look carefully at changes in the state pension age over time to identify how increasing the state pension age affects employment.

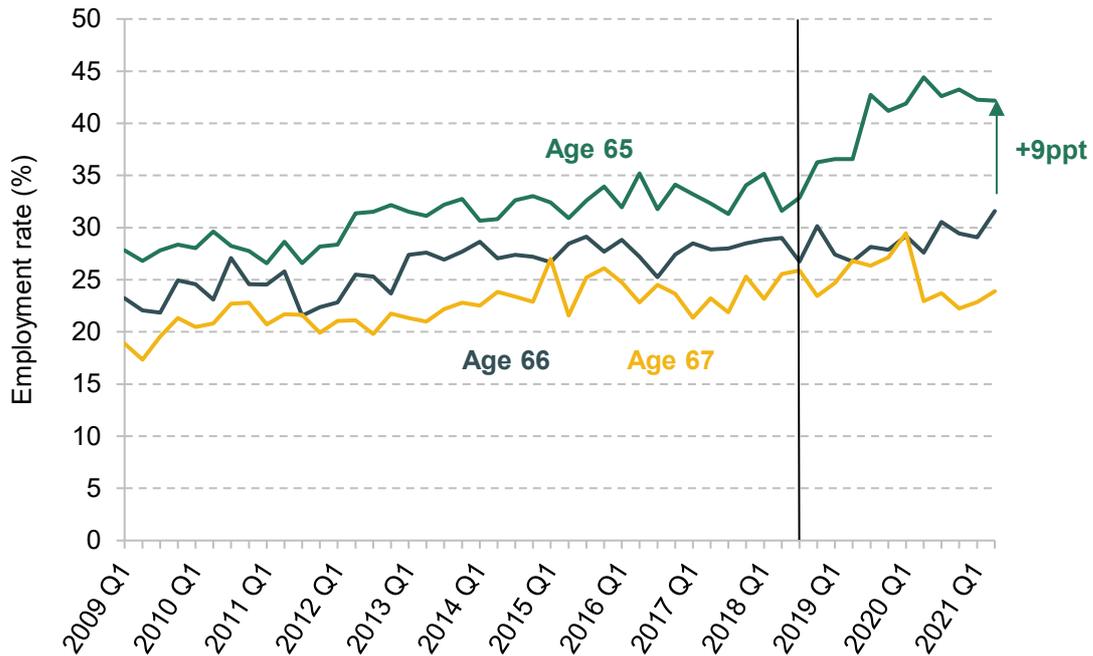
## 2. Employment effects of increasing the state pension age to 66

To estimate the impact of the increase in the state pension age for men and women from 65 to 66, we exploit the fact that the state pension age increased gradually over time between December 2018 and October 2020. Taking data from the Labour Force Survey and Annual Population Survey on 65-year-olds (progressively fewer of whom were over the state pension age over time) along with 66- and 67-year-olds (who were always over the state pension age, and therefore act as a ‘control group’ to help us know what would have happened in absence of the policy), we use regression analysis to estimate the effect of increasing the state pension age on the labour market outcomes of 65-year-olds. The key assumption of this work is that, in absence of the increase in the state pension age, the employment rates of people of these ages would have all evolved in the same way.

Figures 2.1 and 2.2 indicate that our assumption is plausible and provide an impression of the employment effect of the increase in the state pension age. These figures show, for men and women respectively, the employment rates of 65-, 66- and 67-year-olds over time. Prior to the last quarter of 2018, when the state pension age started to rise above 65, the employment rates of the three ages evolved very similarly. This provides reassurance that our assumption that different ages would have seen the same changes in employment rates if the state pension age had not been increased may be a reasonable one.

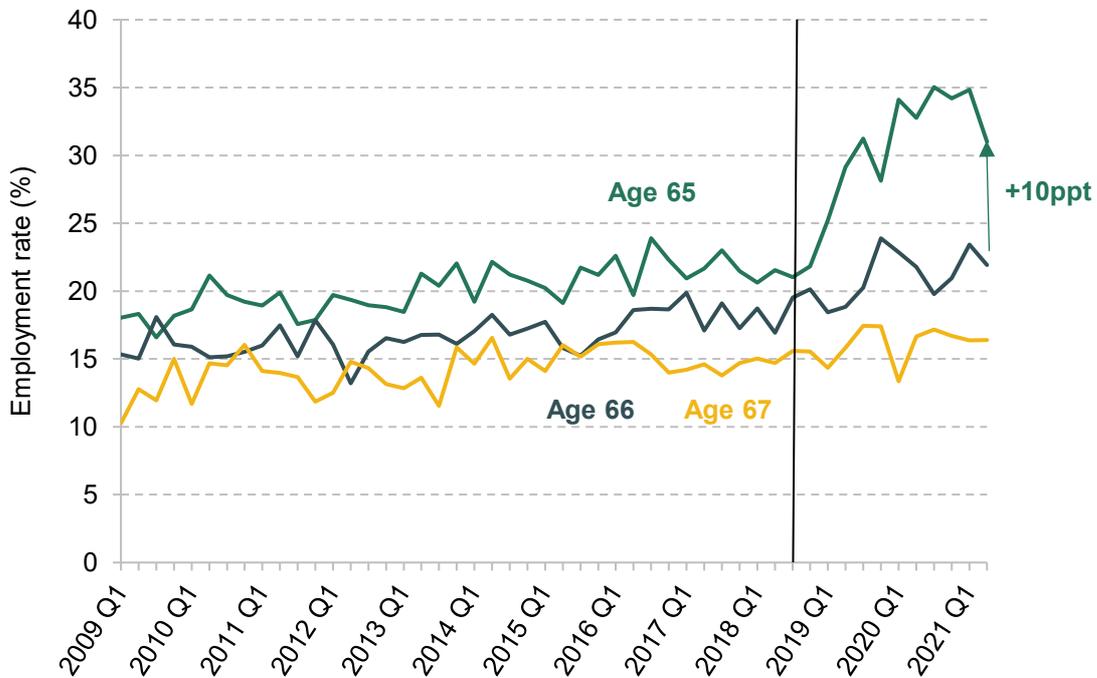
The figures also show a large increase in the employment rate of 65-year-olds after the start of the reform in 2018Q4, which is not matched by a similar increase in the employment rate at older ages. Figure 2.1 shows that between 2018Q3, when all 65-year-olds were over the state pension age, and 2021Q2, when all 65-year-olds were under the state pension age, the employment rate of 65-year-old men increased by 9 percentage points, from 33% to 42%. Similarly, Figure 2.2 demonstrates an increase in the employment rate of 65-year-old women by 10 percentage points, from 21% to 31%, over the same period. This implies that, despite the state pension age having now reached 66, the majority of 65-year-old men and women are out of the labour market.

Figure 2.1. Employment rates of 65-, 66- and 67-year-old men



Note: See figure 4 of Cribb, Emmerson and O'Brien (2022). The vertical line shows the last quarter in which all 65-year-olds were over the state pension age (2018Q3).

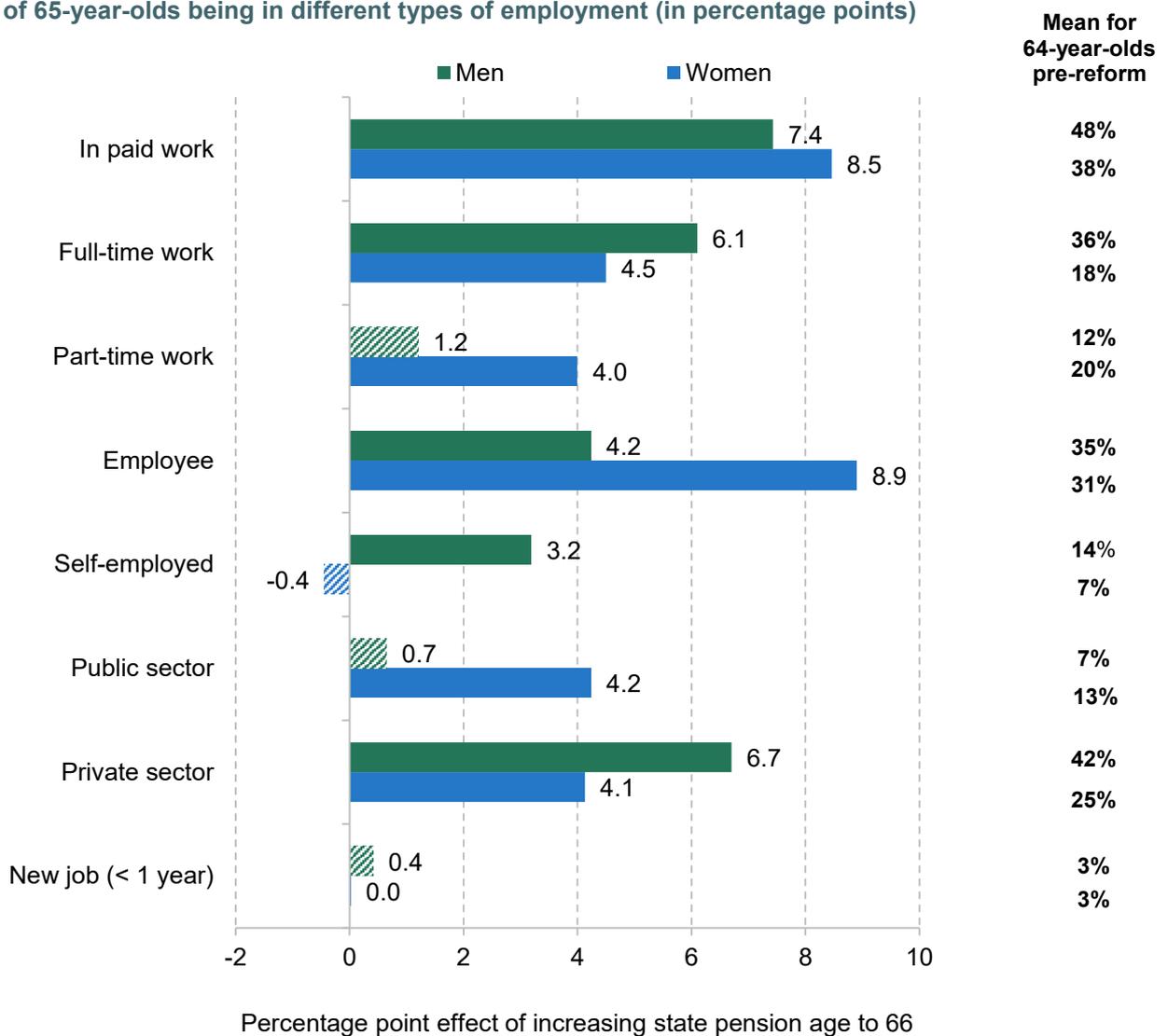
Figure 2.2. Employment rates of 65-, 66- and 67-year-old women



Note: See figure 5 of Cribb, Emmerson and O'Brien (2022). The vertical line shows the last quarter in which all 65-year-olds were over the state pension age (2018Q3).

Figure 2.3 summarises the key results from our regression analysis on the effect of increasing the state pension age on employment. Exact details of this analysis are provided in the technical working paper that accompanies this report (Cribb, Emmerson and O’Brien, 2022). We find that increasing the state pension age increases the proportion of 65-year-olds in paid work by 7.4 percentage points for men and by 8.5 percentage points for women, meaning 25,000 more 65-year-old men and 30,000 more 65-year-old women are in paid work directly as a result of the reform. Importantly, we find that these results are not driven by changes during the pandemic – indeed, they are robust to estimating the effects only on pre-pandemic data and to categorising furloughed employees as out of employment rather than in employment.

**Figure 2.3. Effect of increasing the state pension age from 65 to 66 on probability of 65-year-olds being in different types of employment (in percentage points)**



Note: See tables 2 and 3 of Cribb, Emmerson and O’Brien (2022) for full details. All effects are statistically significantly different from zero at (at least) the 5% level, except those with striped bars, which are not. Private sector includes the self-employed.

We break down this overall employment effect into different types of work, as is also shown in Figure 2.3. We find that almost none of this employment response comes from people in new jobs (i.e. those who have been working for their employer for less than a year). This implies that the reform causes those who are in work prior to age 65 to delay leaving their existing job, rather than them moving to a different job or those not in employment moving into paid work.

For both men and women, the increase in the state pension age caused significant increases in full-time work (a 6.1 percentage point increase for men and a 4.5 percentage point increase for women). In comparison, for men there is essentially no impact on part-time work, whereas for women there is (a 4.0 percentage point increase). Comparing these results with the pre-reform employment rates of 64-year-olds actually suggests that a disproportionate amount of the increase in employment for both men and women is coming from full-time rather than part-time work.

For women, all of the response comes through people who are employees (+8.9 percentage points) rather than self-employed. For men, it is more evenly split, with a 4.2 percentage point increase in the share of 65-year-olds who are employees and a 3.2 percentage point increase for those who are self-employed. Given that less than a third of working 64-year-old men were self-employed pre-reform, but over 40% of the response for men comes from the self-employed, this implies self-employed men are particularly likely to delay retirement as a result of the higher state pension age.

We also find differences by sex when comparing the sector decomposition of the employment response. For men, the vast majority comes from work in the private sector (+6.7 percentage points) compared with no significant increase from work in the public sector. On the other hand, for women it is more evenly split, with similar increases in the share of 65-year-old women working in the public and private sectors (just over 4 percentage points each). Given that only a third of working women report working in the public sector, this implies public sector women are particularly likely to delay retirement due to the reform.

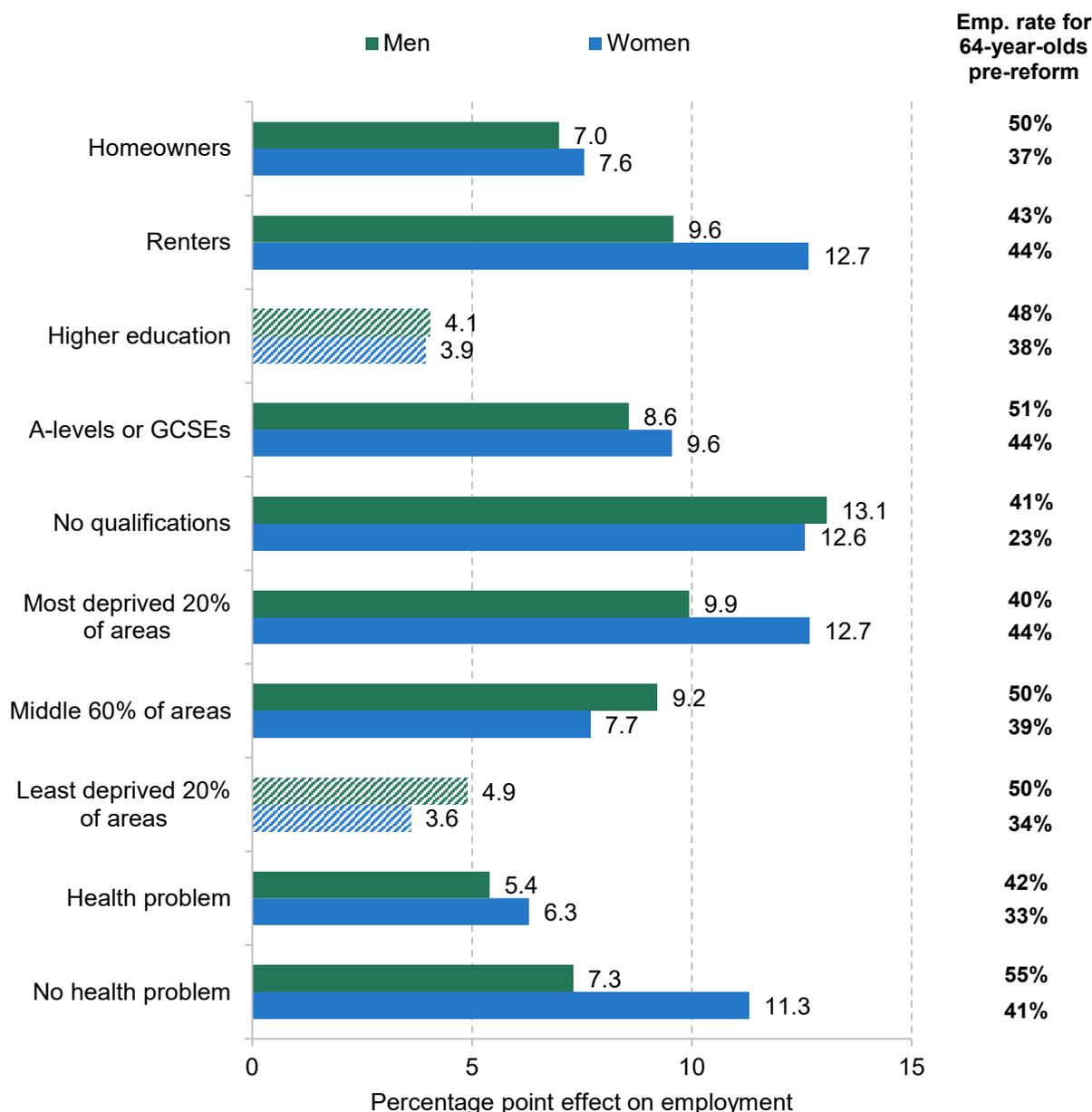
## How the employment effect of the increase in the state pension age differs across groups

Figure 2.4 shows how employment responses to the reform differ for people with different characteristics. The results suggest that generally the employment effects are larger for groups that tend to have lower socio-economic status. Specifically, for both men and women, we find significantly larger increases in employment at age 65 among those with no formal education qualifications (13 percentage points for both men and women) than for those with degree-level qualifications (4 percentage points for both men and women). In the most deprived fifth of local areas in England, we find that the higher state pension age boosted employment rates by 10

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percentage points for men and 13 percentage points for women. This is statistically significantly higher than the effects for those in the least deprived fifth of the country, where we find employment of 65-year-olds rose by between 4 and 5 percentage points. While we find some evidence that renters are more likely to delay their retirement in response to the reform, the differences between renters and homeowners are not statistically significantly different from each other.

**Figure 2.4. Effect of increasing the state pension age from 65 to 66 on employment rate for different subgroups**



Note: See tables 5 and 6 of Cribb, Emmerson and O'Brien (2022) for full details. All effects are statistically significantly different from zero at (at least) the 5% level, except those with striped bars, which are not. Deprivation is measured at the LSOA level using the Index of Multiple Deprivation, and includes local areas in England only.

Part of the reason that people with generally lower socio-economic status respond more to the reform could be due to them having lower levels of private wealth. This could make them less able to retire before they start to receive state pension income. In addition, people in lower-paid jobs would need to work for longer to make up for the loss of state pension income than would higher earners. Nevertheless, we still estimate that there are employment responses for groups with higher levels of wealth and earnings on average, such as homeowners, people with higher education, and people living in the least deprived areas of England (although some of these effects are not statistically significantly different from zero at the 5% level). Some of the employment response may therefore come from people with enough private savings to retire at 65, but who still decide not to retire until they reach the state pension age at 66, potentially as it acts as a trigger for them to leave paid work.

Figure 2.4 also shows that those people who do not report having a longstanding health problem were more likely to respond to the increase in the state pension age by delaying their retirement. For men not reporting a health problem, the probability of being in employment increased by 7.3 percentage points, while for women not reporting a health problem the increase was 11.3 percentage points. These compare with increases in the probability of being in paid work of 5.4 percentage points and 6.3 percentage points for men and women respectively who did report having a longstanding health problem. Especially for women, this suggests that those who do delay retirement as a result of the reform are those in better health, potentially raising the concern that there might especially be other women who would like to have responded to the increased state pension age by remaining in paid work but their health meant that they were unable to do this.

Our final results examine how the increase in the state pension age affects the share of 65-year-olds reporting different reasons for not being in paid work. As already shown, the reform led to an increase of the employment rates of 65-year-old men and women by 7.4 percentage points and 8.5 percentage points, respectively. However, we find that it caused a drop in the share of 65-year-olds who report themselves retired of 12.2 percentage points for men and of 15.4 percentage points for women. This means that the drop in the share of 65-year-olds reporting themselves as being retired more than offsets the increase in the share of 65-year-olds in paid work.

Consistent with this, we estimate that the increase in the state pension age increased the share of 65-year-olds who report themselves as being out of the labour market for health reasons, by 3.0 percentage points for men and by 4.4 percentage points for women. A key driver of this is likely to be a labelling effect: those in poor health who are unable to work might be more likely to report themselves as being out of the labour market for health reasons when they are below the state pension age (and potentially receiving an incapacity benefit) than they are when they reach the state pension age and receive a state pension.

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We also find that the increase in the state pension age from 65 to 66 increased the proportion of men and women reporting themselves as unemployed, by 0.9 percentage points and 0.7 percentage points respectively, or 3,000 more 65-year-old men and 2,500 more 65-year-old women reporting being unemployed. Although these numbers may seem small, it is important to point out that it is relative uncommon for people around this age to be unemployed to start with (2.0% of 64-year-old men and 1.1% of 64-year-old women were unemployed pre-reform). Furthermore, as this is a group of people who want to keep working due to the state pension age increase, but who cannot find a job, they are likely to be particularly adversely affected by the reform.

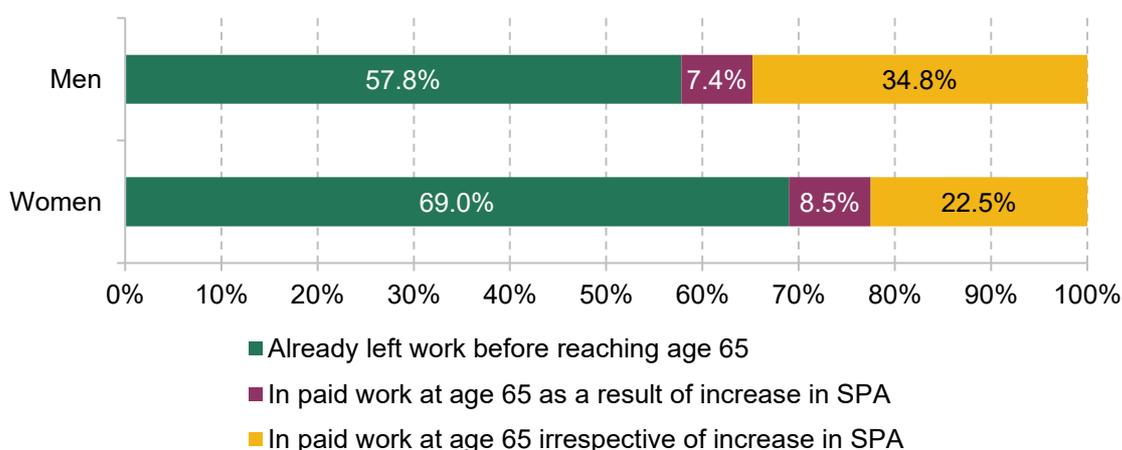
### 3. Policy implications

#### How large is the employment effect from a higher state pension age?

One of the key aims of the increase in the state pension age is to extend people's working lives, in part to mitigate the fiscal pressures caused by an ageing population. Our results show that the policy did lead to an increase in the employment rates of 65-year-olds, with similar results being found for previous increases for women. But are these employment increases large or small?

On the one hand, although we find that the state pension age rising from 65 to 66 led to an extra 7–9 out of every 100 65-year-olds being in paid work, this implies that over 90% of people do not change whether they are in paid work at age 65 as a result of the reform. This is shown in Figure 3.1. Many people – in fact the majority – continue to retire before the age of 65, either due to difficulty working or because they have sufficient retirement resources to weather a year's less state pension income. Currently, around 6 in 10 men and almost 7 in 10 women have already left paid work before reaching age 65. In addition, there is a significant minority of people who we estimate would work past their 65<sup>th</sup> birthday irrespective of whether the state pension was 65 or 66: 35% of men and about 23% of women.

**Figure 3.1. 65-year-old men and women who do and do not continue to work due to the increase in the state pension age from 65 to 66**



Note: Calculations based on figures 4 and 5 and table 2 of Cribb, Emmerson and O'Brien (2022).

Nevertheless, it is important not to underestimate the magnitude of the employment response. We estimate that the increase in the state pension age to 66 directly led to around 55,000 more 65-year-olds in paid work, or over 1.8 million more hours worked per week. In addition, the reform has led to employment rates of 65-year-olds reaching around 42% for men and 31% for women, higher than at any point that we have consistent records for (going back to the mid 1970s), with the female employment rate particularly likely to have been pushed up to an all-time record high. The increase in employment of 65-year-old men and women that occurred over only a two-year period as a result of this reform is similar in magnitude to the increase that occurred gradually over a twelve-year period prior to this change, between 2005 and 2017 (in which 65-year-old employment rates rose by 8 percentage points for men and by 7 percentage points for women). Another comparison is that Figure 1.2 showed that employment rates for men and women in their early 60s fell by about 5 percentage points per year. This implies that the size of our effects (7–9 percentage points) is similar to the change in employment rates over one-and-a-half years of life around this age.

Part of the reason that the policy may be effective at increasing employment rates is that it encourages people to stay in the jobs that they were currently doing. This is in contrast to many other government policies (such as getting lone parents into paid work), which have to encourage people to change their economic behaviour from what they are currently doing. In that sense, the effectiveness of the policy may be that it harnesses people's bias towards the status quo, and that means that many more people stay in paid work as a result.

## Who is particularly hard hit by the increase in the state pension age?

One way of thinking about who might be particularly hard hit as a result of the state pension age could be to look at the groups whose employment responds most to the rise in the state pension age, particularly if that is because they do not have enough other resources to maintain their standard of living and/or because the increase in the state pension age leads to a reduction in income that is large relative to their other wealth. Indeed, we show that there is strong evidence of people living in more deprived local areas working more as a result of the reform, compared with people living in less deprived areas, and less educated people working more relative to those who are more educated. Many in this situation would perhaps like to stop work at 65 but would find it hard to do so without receiving state pension income.

However, it is also worth saying that most people who respond to the reform by working – in particular those who work full-time – are likely to be *financially* better off than if the reform had not happened (i.e. the increase in their net earnings more than outweighs their reduced state pension income), although they would not benefit from the leisure time (or any other benefits)

that come with retirement. It will clearly be disruptive to these people's lives and plans if they are deciding to delay retirement because they feel it is their only option and particularly so if they find out quite late that their state pension age has been increased. As the government now acknowledges, changes to the state pension system should be made and communicated clearly with at least sufficient notice to ensure people can plan their retirement saving preparations adequately in advance. Current policy is that at least a decade of notice will be provided of any new increases in the state pension age, and this should be kept to.<sup>1</sup>

The other group that is likely to be particularly hard hit by the increase in the state pension age is those who want to work longer as a result of the reform, but who are unable to find a suitable job. These people face lower incomes (due to state pension receipt being delayed) but do not benefit from the higher earnings that those who delay their retirement receive in return for their labour. The fact that the reform increases the proportion of 65-year-olds who are unemployed suggests that there are some people would like to work longer due to the increase in the state pension age, but are unable to as they cannot find work (0.9% of men and 0.7% of women fall into this category, totalling over 5,000 65-year-olds). They face a working-age benefit system that is much less generous than the government support provided to people over the state pension age, and it includes conditionality requirements. Therefore, ensuring that older jobseekers are sufficiently supported – for example, by ensuring that Jobcentre staff are attuned to their needs and challenges – to find appropriate work becomes more important as the state pension age rises.

Those who are unable to do paid work due to being long-term sick or disabled may also have particular difficulties in responding to increases in the state pension age. We find that 4% of women and 3% of men aged 65 report that they are out of work for long-term health reasons as a result of the increase in the state pension age, totalling nearly 25,000 people. Finding the right balance of support that encourages appropriate forms of work, as well as a working-age benefit system that reflects the difficulties that some older, less healthy people face in finding work, seems a priority here. Certainly, a higher state pension age makes it more important that older individuals who are in poor health are eligible for – and actually receive – appropriate support.

## What are the implications for employers?

Of course, while much of our focus has been on how individuals are affected by the state pension age increase, people's employment decisions also have important effects on employers. We find that essentially none of the extra employment of 65-year-olds comes from new jobs; rather, it is driven almost entirely by people staying in their existing jobs for longer. This means

<sup>1</sup> See Department for Work and Pensions (2017 and 2021) respectively for current government policy and on plans for the next state pension age review, which will be published by May 2023.

that employers should be aware that reforms such as this are contributing to people desiring longer working lives, particularly in their existing jobs, and some of their staff may choose to retire later than they would have done previously.

In addition, we find evidence that the increase in employment at age 65 is disproportionately among those who are working full-time. This is despite the fact that an employee aged 65 would not need to work full-time to replace the income they have lost from the rise in the state pension age: someone on the National Living Wage working 20 hours a week would (roughly) replace the income from a full new state pension. This might suggest an opportunity for employers who are able to offer more flexible working. They might find that more of their full-time employees would like to remain in work, but at reduced hours, until they reach the state pension age of 66. Indeed, previous IFS research – from the same Centre for Ageing Better funded programme of work as this – found that almost a quarter of people working full-time in their mid 60s would like to work fewer hours than they are currently doing (Crawford et al., 2021). These employers might also find it easier to attract other older workers who appreciate this flexibility (either immediately or later on).

Finally, the increase in the state pension age could also be important for jobseekers in their late 50s, particularly women. In the 2000s, many employers may have assumed that a woman would be likely to leave her job at age 60 when she reached her state pension age. They may have been (rightly or wrongly) concerned about the need to recruit, and potentially train, a replacement within a relatively short time. One potential benefit, therefore, of a higher state pension age is that employers may be more likely to hire people in their late 50s or early 60s than they would have been before. With higher expected job tenure for people who do find new jobs in their late 50s or early 60s, this may also encourage employers to provide training for newly recruited older workers.

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