

**Centre for Ageing Better briefing in response to the  
Independent Review of State Pension Age Interim Report**

23<sup>rd</sup> December 2016

## Introduction

This paper sets out the Centre for Ageing Better's response to the Independent Review of the State Pension Age: Interim Report. We welcome the analysis set out in the Interim Report and are pleased it reflects many of the issues we set out in [our briefing to the Review](#). The Interim Report sets out an excellent set of questions. Rather than answer specific questions, particularly where we feel other organisations are better placed to do so, we build on our earlier analysis to set out four key areas which we hope the final report will address in recommendations to the Secretary of State:

- Taking action to support people to work for longer and making clear the link between an increase in State Pension Age and the Government's **Fuller Working Lives** strategy
- **Communicating** the purpose of the State Pension to the population and providing holistic information and guidance to support later life planning
- Maintaining the value of the State Pension to ensure it provides a **minimum income** to protect people from poverty in later life and consider making it truly **universal**
- Consider allowing for **early access** for those with poor long-term health or disability to mitigate any increase in state pension age.

## Building the link to Fuller Working Lives

We welcome the Interim Report's focus on Fuller Working Lives as part of review of the State Pension Age. We agree that the two are inextricably linked.

We fully support the Government's goal to achieve full employment over the lifetime of this parliament. If successful, this goal would generate significant benefits to individuals, the economy and to taxpayers. Yet to date the Government has not put forward an adequate plan on how they expect to realise this goal.

The Government has placed much focus on younger workers and supporting those with disabilities into work. These are two important elements, but achieving full employment will require 1.1 million more 50-69 year olds to be in work (920,000 50-64 year olds and 240,000 65-69 year olds).<sup>1</sup> This scale of change requires a cross-departmental commitment to increase economic activity of those over 50s. The policy goal and practice of supporting people to work for longer needs much more leadership from government than it has had to date. Even within DWP, responsibility for this issue appears to lack coordination and is fragmented between Full Employment work, the Fuller Working Lives strategy and pensions policy.

We believe such a goal is ambitious but achievable with a strong coalition of government, employers, and other leading organisations. The Centre for Ageing Better is committed to this goal through our partnership with Business in the Community and their 'Age at Work' campaign and the Older Worker Business Champion. As part of our partnership with the Greater Manchester Combined Authority, we will be supporting them to develop a plan to increase economic activity amongst those over 50 across the city region and to spread this learning elsewhere.

For the Government to fulfil its commitment on full employment will require major shifts in attitudes and practices by individuals and employers across all sectors and by public services. This means finding ways to prevent the many people who exit the labour market against their wishes before they reach even today's State Pension Age.

A key factor to determining whether older workers stay in work for longer is whether or not their work is fulfilling. The Centre for Ageing Better has commissioned research to identify what people in later life value in work and why are these things important to them. Interim findings suggest that factors that would increase the likelihood that people remain in gainful employment include:

- Older workers are supported to manage their physical and mental health effectively
- Reduced and/or flexible working hours are offered
- Older workers are stretched, challenged and given opportunities to develop new skills
- Older workers are offered career development opportunities

We believe there are a number of measures Government can take to enable older workers to remain in fulfilling work for longer. To raise the economic activity rate among those aged 50 to today's State Pension Age and beyond, the Government should:

- Commit to an ambitious societal goal to increase the number of people aged 50 to state pension age in employment by 1 million over the next 5 years and ensure the forthcoming Fuller Working Lives strategy contains cross-government commitments to deliver this.
- Fund skills training for people in mid and later life to enable them to remain in the labour market and level the playing field in terms of funding available for older apprentices.
- Promote mid-career conversations between employers and staff, along with a fully funded delivery model through the National Careers Service or a suitable alternative.
- Increase awareness of the right to request flexible work and increase the number of employers supporting staff in later life to take advantage of flexible working through actions in the forthcoming Carers' Strategy.

There is also a need to support those people who are out-of-work back into work and those who are in insecure and/ or low paid work to progress (see section below on mitigation).

## Communicating income and saving for later life

We know that a good later life requires careful planning and preparation, yet DWP estimates that 11 million people are not saving enough and face an inadequate income in retirement.<sup>2</sup> Working with other partners, the Government should develop a comprehensive communications plan to ensure individuals have clarity on:

**Purpose of the State Pension:** Much of the population does not realise that the State Pension is intended to protect individuals from poverty and may not match the level of income they have received during their working years. Government must ensure individuals understand that further private saving or other provision would be needed to achieve adequacy of income in retirement. The

Government should collaborate with employers to communicate this but should also find ways of ensuring those in low pay, those who are self-employed and those who are otherwise out of work due to health, disability or caring responsibilities are able to make plans to save for later life.

**Life expectancy:** Many people are unaware how long they will live and how much they will need to save to enjoy the living standards they expect in later life. Individuals need the best possible available information on how long they can expect to live and need to have access to the right information at the right time to plan for later life.

**Auto-enrolment:** Pensions auto-enrolment is a promising step towards extending private pension cover to many who otherwise would not have been covered, but alone it will not solve the problem of under-saving, particularly amongst those in middle age who haven't had workplace pension schemes in the past and for those who do not meet the eligibility criteria. The Government should explore what further action can be taken to help those in middle age boost their savings and help those aged 50 to State Pension Age understand the benefits of working longer in order to increase their pension savings. The upcoming auto-enrolment review is also a welcome opportunity to ensure that everyone in employment has the same access to being able to benefit from auto-enrolment.

**Pension freedoms:** Many people do not understand the impact the new options for using their private pension pot will have on their future retirement income. Government should work with the regulator, financial advice providers and financial services to ensure people who are accessing their private pensions early understand the implications of doing so.

**Cost of care:** Three in five people taking money out of their pension under the new pension freedoms have no plans for costs of care.<sup>3</sup> The Government must provide more clarity on social care funding and outline what costs people will be responsible for. Individuals will not be able to adequately plan for care costs in later life if they are unclear as to who bears funding responsibility.

**Provision and access to holistic advice services:** Decisions related to retirement provision cannot be separated from budgeting, savings, debt, rent or mortgages. This requires a more holistic approach to information, guidance and advice. We welcome the Government's announcement that it will establish a single service that covers financial guidance across the lifetime and brings together information on pensions and other financial planning for retirement. At the same time, the public needs to be aware of this service and must be able to access it at the right time in order to be able to plan and prepare. A trigger point such as the lead up to State Pension Age is a useful time to make some decisions, but earlier access across the life-course is also essential.

## Providing a minimum income for all in later life

As pointed out in the Interim Report, the new State Pension is designed as a:

*“single flat-rate state pension set above the basic level of the means test for future pensioners [which] will simplify the state pension and better support saving for retirement”.*

The State Pension is intended to ensure that everyone has a basic amount of money to support them in old age. We agree with this intention given the State Pension should protect individuals from facing poverty in later life.

To continue protecting individuals from facing poverty, it is essential that the State Pension maintain its value while also keeping in step with real wages in the economy. The Government's 'triple lock' was designed to redress the historical problem that the basic State Pension lost its value and has been fundamental to recent success in tackling pensioner poverty. Any future alternative formulation should maintain a guaranteed level of minimum pension income. This could be linked to a measure of Living Pension – a minimum income that is enough to live on (similar to the Living Wage). Such a measure would take into account certain higher costs faced by older people, such as higher energy usage or care costs associated with disabilities.

It is important to recognise the value of the full package of benefits to which people are entitled and to commit to maintaining the value of this package going forward. We suggest benchmarking pension incomes/benefits against other Western European/OECD countries.

As outlined in the Interim Report, there are a series of inequalities that mean certain groups have less pension wealth and are more likely to have to rely on the state in their retirement. These inequalities are linked to characteristics such as caring responsibilities, poor health or disability, self-employment, being from certain ethnic minority groups and gender. There is ongoing concern that, under the new State Pension system introduced in April 2016, certain groups will be less likely to be eligible for the full State Pension rate because they will not have the full 35 qualifying years.

A survey carried out by pension provider Aegon UK found that 55% of the UK public have taken a career break of at least a year at some point in their life, but 80% don't know how many years they need to be making National Insurance contributions to receive the new full state pension. The survey also found that 14% of the UK population have been out of work due to redundancy or forced unemployment, 15% due to child caring responsibilities and that 14% have had to leave work due to medical reasons. Although the New State Pension allows individuals who are unemployed, ill, disabled or a carer to claim National Insurance credits, 49% are unaware they can do so.<sup>4</sup> Furthermore, individuals who carry out informal caring responsibilities do not qualify for National Insurance credits if they provide fewer than 20 hours of care a week.

Individuals failing to reach the full 35 qualifying years face both having a reduced State Pension and having minimal private pension savings. While some of these individuals would qualify for Pension Credit or Housing Benefit, many do not go on to claim these benefits. The Government estimates that £3.5 billion low income benefits went unclaimed by older people in 2014-15.<sup>5</sup> Reasons for this include perceived stigma towards claiming benefits, lack of knowledge about the system or an assumption they would not qualify.

A universal State Pension that is not linked to National Insurance contributions or credits would reduce the complexity of the current system and overcome the system's failure to adequately

recognise the contributions of those undertaking non-waged activities, such as volunteering or informal caring. In order to protect the most disadvantaged from poverty in later life, the government should consider guaranteeing a minimum income regardless of years of National Insurance contributions or credits without creating disincentives to work.

## Mitigating the impact of an increase in SPA

Poor health is the single biggest factor pushing workers aged 50-65 out of the employment market.<sup>6</sup> 13% of people retire from work primarily because of poor health. Those who leave early due to poor health are unlikely to return. Of those who remain, around half are managing a chronic health condition.

Much more needs to be done to support people with long-term physical and mental health conditions to stay in work and to support those who fall out of work in their 50s back into work. Employers need to put in place age-friendly practices, including making reasonable adjustments to enable more people to work for longer. Earlier this year, the Centre for Ageing Better entered a strategic partnership with the Greater Manchester Combined Authority. We are working on a pilot project to find new approaches to supporting people over 50 to return to and progress in work. We hope to see the findings from this work inform future commissioned employment support across Greater Manchester.

In addition to working with employers to promote age-friendly workplaces, the Government must recognise that some individuals will not be able to continue working until State Pension Age due to poor health or disability. Most in this group are already in risky financial situations that will be exacerbated by raising the State Pension Age. Without policy mitigation, raising the State Pension Age will lead to an increased number of people transferring onto pre-State Pension age sickness and disability benefits. Fundamental to this is an effective system of work-ability assessments.

We recommend the Government explore allowing a form of early access to State Pension under certain conditions, for example if someone is close to State Pension Age and other attempts to rehabilitate or return to work have failed. Given that these individuals are likely to face shorter life expectancy, we see no strong reason for them to draw a lower rate than those retiring at a later age. Any new system should seek to smooth the transition from working age disability or health-related benefits to State Pension for these individuals without creating incentives to claim disability.

## Affordability

The Interim Report asks about trade-offs in terms of the main drivers of State Pension expenditure in order to keep the proposals cost neutral:

*Considering the main drivers of State Pension expenditure, which ones are more important to the policy intent, if they were presented as a trade-off? Maintaining early access, a generous increase annually or making the full State Pension amount accessible to most people? Which of these delivers fairer outcomes?*

Given the purpose of the State Pension to provide a minimum income, the government needs to consider how it will 1) maintain the value of the state pension, 2) ensure groups who are currently excluded from receiving the full state pension have adequate income in later life and 3) take action to mitigate the impact on people who are unable to work up to state pension age. We would like to see further modelling to understand the impact on both fairness and affordability of 1) alternatives to the triple lock, 2) removing or reducing the requirement for a minimum number of contributory years 3) providing early access for some people under certain conditions.

A key element to ensuring that public expenditure on state pensions remains affordable is enabling individuals to have fuller worker lives and remain in fulfilling work for longer. It is estimated that if we halved the employment gap for people aged 50-70, GDP would increase by up to £88 billion a year.<sup>7</sup>

### **References:**

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<sup>1</sup> The Resolution Foundation (2016), The road to full employment - What the journey looks like and how to make progress. Available from: <http://www.resolutionfoundation.org/app/uploads/2016/03/Full-employment.pdf>

<sup>2</sup> DWP (2012), Estimates of the number of people facing inadequate retirement incomes.

<sup>3</sup> Findings are based on a ComRes survey of 501 British adults aged 55+ who accessed their DC pensions after April 2015. Available from: <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/3-in-5-people-taking-money-out-of-their-pension-have-no-plans-for-costs-of-care/>

<sup>4</sup> Aegon UK (2016), Readiness Report: The impact of the pension freedoms and the new state pension. Available from: <https://www.aegon.co.uk/content/dam/ukpaw/documents/5th-UK-Readiness-Report.pdf>

<sup>5</sup> DWP (2016), Income-related benefits: estimates of take-up: financial year 2014/15

<sup>6</sup> Business in the Community (2016), Age in the Workplace Retain, Retrain, Recruit. Available from: [http://age.bitc.org.uk/system/files/research/bitc-age\\_inthe\\_workplace\\_report.pdf](http://age.bitc.org.uk/system/files/research/bitc-age_inthe_workplace_report.pdf)

<sup>7</sup> The Prince's Initiative for Mature Enterprise (2014), The Missing Million: Illuminating the employment challenges of the over 50s. Available from: [http://www.ilcuk.org.uk/index.php/publications/publication\\_details/the\\_missing\\_million](http://www.ilcuk.org.uk/index.php/publications/publication_details/the_missing_million)