BLACKBURN AND DISTRICT TRADES UNION COUNCIL

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Response to Second State Pension age review: independent report call for evidence

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According to the Institute for Fiscal Studies 2010 Briefing Note, **"The history of state pensions in the UK: 1948 to 2010"**, the original idea behind the State Pension *"was not to provide a high replacement income for most wage-earners but to provide a safety net against old-age deprivation. Beveridge's proposal was that individuals would be provided with a flat-rate income in old age that would be just sufficient to lift them above an absolute measure of poverty".*

Since then, however, we have come to have more ambitions expectations about retirement.

There does remain the idea that society has a role in counteracting the negative economic consequences of ageing.

But few people now would be content with interpreting this simply in terms of ensuring that the heads of the elderly are kept just above the poverty line. It is more widely, if not universally, accepted that retirement should ideally be a positive coda to life – not even just a period of rest, but a chance to enjoy a degree of what the Romans knew as *"otium".*

Measuring an appropriate age for access to a Pension sufficient to allow for a comfortable retirement needs to take account of a variety of factors wider than just the implications for managing its costs.

We should try to have an idea of the age beyond which it would not be reasonable to expect people to work. In setting this we also should be aware of the issues of equality and fairness that may arise. We need to have an idea of the economic and fiscal costs, but we should also see these not simply as a "burden" but as part of what is sometimes called the "social wage" – how the benefits of production are spread across society; another area raising questions of equality and fairness.

Metrics throwing light on the question of *"how long should we be expected to soldier on?"* ought to begin with what might give us a better idea of people's lived reality. If we set the State Pension age before the point that many people actually leave work, it creates a situation in which some will be "de facto" retired but simply not getting a pension - and maybe also having to rely on other means of support that could place them in a worse financial position longer term.

The first metrics we would consider, therefore, are measures of the proportion of people leaving work earlier than State Pension age.

Of particular importance are the numbers of those finishing work on grounds of ill health or disability. The Trades Union Congress, in its 2019 Report **"Extending working lives"**, found, for instance, that *"Almost one in four economically inactive people – and one in eight of all people – in this age group"* (60-65) *"were out of work because of long-term sickness or disability, with levels of ill health similar for men and women"*.

It also found that the impact of ill-health was not spread evenly across occupations: *"more than a third of process, plant and machinery operatives and people in elementary occupations who have become economically inactive in their 60s have left work because of chronic health issues. More than a quarter of economically inactive people whose last job was in the skilled trades, caring or leisure sector, or sales also reported long-term health problems. The occupations in which people are more likely to become economically inactive because of caring responsibilities are administration and secretarial, caring and leisure, process, plant and machinery operatives, and elementary occupations".*

Metrics relating to morbidity can be used to give some context here. The Centre for Ageing Better **"Annual Report 2022",** found for instance, that *"the number of years we can expect to spend in good health, without a disabling illness, continues to decline; this is now 62.4 years for men and 60.9 years for women".*

More people, of course, "retire early" than those who impact in statistics as having a health-based reason for doing so.

Metrics quantitatively assessing the overall proportion of those leaving the labour market prior to State Pension age can give some indication, in a sense, of how those

(who can afford to do so) “vote with their feet” on the question of what a preferred retirement age might be.

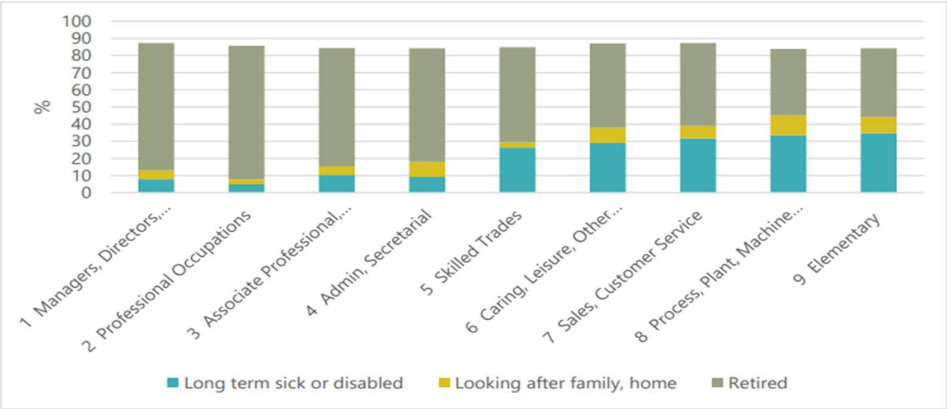
Most men and women are not in paid work before they reach the current State Pension age of 66. The Institute for Fiscal Studies, in **“Labour market effects of the increase in the state pension age from 65 to 66”**, January 2022, noted that: *“In general, there is a fairly gradual decrease in the employment 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”.*

We should look for and take account of metrics that illuminate the potential inequalities that may underlie a situation in which people are effectively retiring at differing ages because of differences in their personal resources.

It seems self-evident that those with private or occupational pensions, savings, and other forms of liquifiable wealth might feel more able to retire when the time is right, rather than need to wait for the availability of State Pension income. Identifying these as a proportion of the population is, however, difficult.

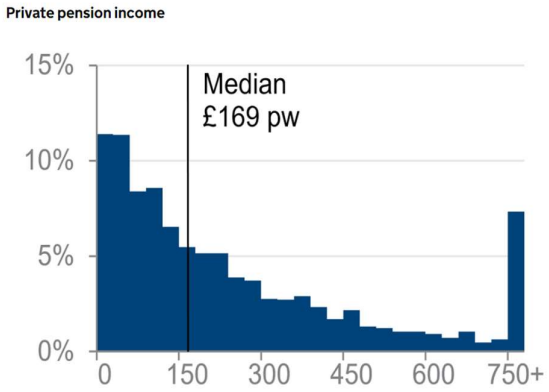
The TUC found that ex senior managers and professionals aged 60 to 65 who are no longer working were more likely to describe themselves simply as “retired”:

Fig 5: Reason for inactivity by main occupation group in last job, 60-65, Q3 2020



Source: TUC analysis of the Labour Force Survey, Q3 2020

The DWP **"Pensioners Income Series"** (FY 19-20, published March21) showed that more than half all pensioners had an occupational pension, 17% of them income from a personal pension, 69% income from a private pension and 62% some form of investment income. The additional income from these sources, however, can be quite marginal for most of the people involved. Average income from investments, for example, was £5 a week, and most people with a private pension seem to be getting under £150 a week:



In all categories of "additional" income there is a noticeable "spike" at the end of the table – where those with the highest incomes sit.

Another indication of the inequalities affecting when people feel able to retire are the Institute for Fiscal Studies' findings as to the different impacts on "continuing" employment discernible amongst different groups when they were faced with the recent national increase in state pension age: *"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 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"* (**"Labour market effects of the increase in the state pension age from 65 to 66"**).

We believe that poorer people should not get a worse deal than those better-off, in terms of when they can afford to retire or in terms of their ability to "make it" to State Pension Age. We feel that consideration of the above metrics would tend to the conclusion that the inequalities and disadvantages that already exist would be more

likely to be remedied by a *reduction*, rather than by further increases, in the State Pension Age.

The Centre for Ageing Better **"Annual Report 2022",** also pointed out that older workers may be more at risk of involuntary unemployment towards the end of their careers: *"Older workers were more likely to be made redundant during the pandemic and – once redundant – less likely to be re-employed than younger workers. For those made redundant during the pandemic, workers younger than 50 were almost twice as likely as those aged 50 or over to find a new job within six months".*

The Trades Union Congress, in its 2019 Report **"Extending working lives"** noted that: *"the steady erosion of the value of working age benefits over the decades means that the difference between pension and working age benefits is stark, even though the UK state pension remains one of the lowest in the OECD in terms of replacement rates of pre-retirement income. Since 1990 the gap between job seekers allowance and pension credit has more than quadrupled, from 30 per cent to 129 per cent."*

Spending on Pension benefits – State Pension plus associated payments, like Pension Credit – does appear to have been rising as a proportion of GDP. At the same time a combination of factors – including people living to older ages, the transition of the post WWII baby boom generation into retirement and women having fewer children – means the number of pensioners is set to increase relative to the population of working age. These metrics have led to countries across the EU taking steps to increase the pension age, and a focus on longevity as a potential regulator – the idea being, crudely, that the retirement age should rise the longer people live, regardless of their morbidity.

When Eos asked Zeus to make Tithonus immortal, she forgot to ask that he also be granted eternal youth. Now we might put it that whether worldwide increases in life expectancy are accompanied by a better health status is still a matter for debate.

De la Fuente, Javier et al. **"Are younger cohorts in the USA and England ageing better?"** (*International journal of epidemiology* vol. 48,6 (2019): 1906-1913. doi:10.1093/ije/dyz126) found that this also was an area where inequalities were manifest in both Britain and the USA. *"Our study"* they wrote, *"particularly underlined that household wealth is an important variable that moderates the relationship between birth cohort and health, so that an increasing health gap was observed between the wealthiest and the poorest for the recent cohorts in both the US and English populations. The increasing inequality of successful ageing in favour of higher-income groups has been previously reported (House JS, Lantz PM, Herd*

P.. Continuity and change in the social stratification of aging and health over the life course. J Gerontol B Psychol Sci Soc Sci 2005;60B:15–26). However, our study has additionally revealed that, whereas rich recent cohorts are healthier than previous birth cohorts, the poorest seem to be in a similar health status than their past cohort counterparts".

The Centre for Ageing Better **"Annual Report 2022"** put the matter more bluntly: *"Across England today – depending on where we live and how well-off we are – there are differences of up to ten years in how long we can expect to live and more than 17 years in the time we get in good health without a disabling illness".*

The discrepancies are so great that the idea of policy being linked to some common expectation of a fixed proportion of life in retirement seems quite irrelevant.

As The Trades Union Congress, in its 2019 Report **"Extending working lives"** says: *"looking only at averages masks deep inequalities in longevity. While a man or woman approaching retirement with a median income can expect to spend 30 and 32 per cent of their adult lives respectively in receipt of the state pension, this figure falls to just 26 and 29 percent for a man or woman in the lowest income decile. So the low income man is significantly closer to the 1948 average than he is to the current average".*

Further doubt that longevity predictions should lead to the pension age being further raised more quickly has recently been expressed by Lane Clark & Peacock LLP. In a Report published on their website on 12th January 2022 they reported that ONS projections now show a further decline in life expectancy at (current) state pension age for both men and women: *"Crucially, compared with the projections on which the last state pension age review was based, the new projections suggest that for men and women currently at pension age, their life expectancy is now more than two years shorter than previously thought. Most of this deterioration actually occurred before the Pandemic, and we are yet to see the full extent to which Covid-19 will impact on life expectancies in the long-term".* According to LCP partner Steve Webb, this latest data reinforced the case for a fundamental rethink of the timetable for increasing state pension ages and indicated that the Government should look again at the plan to start moving towards a pension age of 67 in just four years' time.

We believe that a further detriment arising from the focus on longevity is that it distracts from other circumstances affecting how much the Government, over time, will need to spend on pensions and other benefits. When compared with other OECD countries, the UK is near the lower end of the scale in terms of the proportion of pensioner income (excluding earnings) coming from state pensions and benefits.

We depend more heavily on at least a proportion of the retired having occupational and private pensions.

By the end of 2019, the UK passed the point at which Defined Contribution (DC) exceeded Defined Benefit (DB) pensions in terms of:

- Total Membership - 22.4 million (DC) vs 18.3 million (DB) and
- Employee Contributions – nearly two thirds are to DC schemes.

It is our understanding that this will gradually feed through as a growing crisis of adequacy in the non-State Pension part of the British pensioner income model.

In their 2021 Report **"What is an adequate retirement income?"** (p31), the Pensions Policy Institute commented: *"Using their replacement rate formulation, the Pensions Commission estimated in 2004 that at least 75% of DC savers would have contribution rates below their adequacy level and that around 9 million people may be under-saving. Today, around 5 million people currently approaching retirement are unlikely to meet their target replacement rate. The significant minority in DB schemes would enjoy more than adequate pensions. They concluded that the level of pension accrual was both deficient in total and increasingly unequal…."*.

The Report further noted:

"A fundamental consequence of the move from DB to DC pensions is the transfer of risk from the employer to scheme member. In DC schemes the member bears the investment, inflation and longevity risk. These build on the fundamental risk of not saving enough to achieve an adequate standard of living in retirement by:

- *removing the structure of retirement benefits being directly linked to salary and hence a guarantee of replacement rate at the point of retirement,*
- *introducing additional uncertainty as to how much needs to be saved to insure against changes in the economic environment, and*
- *leaving the individual to bear the financial risk of living longer than budgeted for (longevity risk)".*

Whilst these "chickens coming home to roost" do not have a direct connection to the question of the State Pension age we feel we might be excused for feeling that Governments would do more to address the demands of the future by legislating for employers to restore Defined Benefit Occupational Pension schemes.

We think it is also legitimate for us to advocate consideration of those metrics that make a comparison between the arrangements made in Britain and other industrialised and prosperous economies.

Rachel Harker's House of Commons Library Research Briefing **"Pensions: International Comparisons"** (11th March 2022) makes the point that Britain devotes a smaller percentage of its GDP to state pensions and pensioner benefits than most other advanced economies:

Public social expenditure on old-age pensions in OECD member states

First-pillar state pensions and benefits as % of gross domestic product

	2010	2011	2012	2013	2014	2015	2016	2017
Greece	11.1	12.5	13.7	12.9	13.3	13.7	13.7	13.0
France	11.3	11.5	11.7	12.0	12.0	12.0	12.0	11.9
Italy	10.0	10.2	10.8	11.3	11.6	11.7	11.6	11.5
Finland	8.1	8.3	8.9	9.5	9.9	10.1	10.4	10.5
Portugal	9.6	10.2	10.6	11.4	11.4	10.8	10.6	10.4
Austria	9.5	9.3	9.6	9.9	10.2	10.3	10.2	10.2
Belgium	7.6	7.8	7.8	8.1	8.2	8.4	8.3	8.4
Japan	8.2	8.3	8.4	8.4	8.2	8.1	8.2	8.2
Germany	8.2	7.8	7.8	7.8	7.8	7.9	8.0	8.0
Denmark	7.1	7.4	7.6	7.8	7.9	8.0	7.9	8.0
Poland	6.9	6.9	7.4	7.9	7.9	7.9	7.9	7.7
Spain	6.1	6.4	6.9	7.5	7.7	7.7	7.7	7.7
Slovenia	6.1	6.2	6.4	6.6	6.7	6.7	6.8	7.7
Czech Republic	6.7	7.0	7.2	7.3	7.2	6.9	6.8	6.7
Sweden	6.5	6.2	6.6	6.9	6.7	6.5	6.6	6.6
Hungary	6.8	7.1	7.5	7.7	7.3	7.0	6.9	6.6
OECD - Total	**6.0**	**6.1**	**6.3**	**6.4**	**6.5**	**6.5**	**6.5**	**6.5**
United States	5.8	6.0	6.0	6.2	6.3	6.3	6.5	6.4
Latvia	8.7	7.4	7.1	7.1	6.8	6.6	6.6	6.4
Norway	4.7	4.9	5.1	5.4	5.7	6.1	6.5	6.4
Slovak Republic	5.5	5.5	5.7	5.9	6.2	6.1	6.1	6.1
Switzerland	5.5	5.6	5.7	5.8	5.8	5.9	5.9	6.0
Colombia	5.5	5.5	5.4	5.5	5.8	5.9	6.0	5.9
Turkey	6.0	5.6	5.7	5.6	5.6	5.5	6.0	5.7
Lithuania	6.5	5.9	5.9	5.7	5.5	5.4	5.4	5.3
Netherlands	4.7	4.8	5.0	5.2	5.3	5.2	5.3	5.1
Luxembourg	4.2	3.9	4.5	4.6	4.6	4.9	4.9	5.1
New Zealand	4.4	4.6	4.8	4.8	5.0	4.9	4.9	4.8
United Kingdom	**4.9**	**5.0**	**5.2**	**5.2**	**5.2**	**5.1**	**4.8**	**4.7**
Estonia	6.4	4.9	4.8	4.7	4.7	4.9	4.9	4.6
Costa Rica	..	4.2	4.2	4.4	4.5	4.5	4.5	4.6
Canada	3.9	3.9	4.1	4.1	4.2	4.4	4.5	4.5
Australia	3.6	3.7	3.7	3.9	4.1	4.2	4.1	3.9
Ireland	4.3	4.4	4.5	4.4	4.1	3.2	3.6	3.4
Iceland	1.5	2.0	1.9	1.9	2.1	2.0	2.1	2.6
Mexico	1.4	1.4	1.6	1.8	1.9	2.0	2.1	2.4
Korea	1.5	1.5	1.7	1.7	1.9	2.1	2.2	2.2
Chile	2.6	2.5	2.4	2.3	2.3	2.3	2.2	2.2
Israel	2.0	2.0	2.1	2.1	2.1	2.1	2.0	2.0

Source: OECD Social Expenditure Aggregated Data (SOCX): cash benefits: old-age pension

We also, from the latest figures we can find from the OECD, **"Pensions at a Glance 2021"**, see that Britain spent a smaller percentage of public expenditure on old-age and survivors benefits than many comparative nations:

Table 8.3. **Public expenditure on old-age and survivors benefits**

	Level (% of total government spending)		Level (% of GDP)						Change of level	Level in net terms (% of GDP)	Total including non-cash (% of GDP)
	2000	2017	1990	2000	2005	2010	2015	2017	2000-17	2017	2017
Australia	12.8	10.9	3.1	4.7	3.7	3.8	4.3	4.0	-0.7	4.0	5.0
Austria	23.3	26.4	11.3	11.9	11.9	13.0	13.3	13.0	1.1	10.8	13.6
Belgium	17.8	20.2	9.0	8.8	8.9	9.9	10.5	10.5	1.7	9.3	11.5
Canada	10.1	11.6	4.2	4.2	4.0	4.3	4.7	4.8	0.6	4.5	4.8
Chile			8.0	5.0	3.7	3.4	2.9	2.8	-2.2	2.8	2.8
Colombia		13.1				5.5	5.9	5.9		5.9	5.9
Costa Rica		14.4						4.9		4.9	4.9
Czech Republic	16.8	19.8	5.5	6.8	6.6	8.0	8.0	7.7	0.9	7.7	7.9
Denmark	12.0	15.7	6.1	6.3	6.5	7.1	8.1	8.0	1.7	5.9	9.6
Estonia	16.5	16.5		6.0	5.3	7.5	6.9	6.5	0.5	6.4	6.6
Finland	15.4	22.0	7.2	7.4	8.0	9.8	11.5	11.8	4.5	9.8	13.4
France	22.2	24.2	10.4	11.5	12.0	13.2	13.8	13.6	2.2	12.3	14.1
Germany	22.8	23.0	9.5	10.9	11.2	10.7	10.1	10.2	-0.7	9.8	10.2
Greece	21.9	32.6	9.5	10.2	11.4	14.2	16.8	15.5	5.3	14.4	15.5
Hungary	15.7	18.2		7.4	8.3	9.6	9.1	8.5	1.1	8.5	9.0
Iceland	5.1	6.2	2.2	2.1	1.9	1.5	2.0	2.6	0.6	2.6	3.0
Ireland	9.3	14.2	4.8	2.9	3.1	4.8	3.6	3.7	0.8	3.6	3.8
Israel	9.9	11.9		4.5	4.7	4.8	4.7	4.7	0.2	4.7	5.3
Italy	28.9	32.1	11.3	13.5	13.7	15.4	16.2	15.6	2.2	12.8	15.7
Japan		24.2	4.7	7.0	8.1	9.6	9.4	9.4	2.4	8.9	11.3
Korea		9.4	0.7	1.3	1.4	2.0	2.8	2.8	1.5	2.8	3.0
Latvia	23.3	17.5		8.7	5.5	9.3	7.0	6.8	-1.9	6.5	7.2
Lithuania	17.9	18.7		7.1	5.7	7.7	6.7	6.2	-0.9	6.2	6.4
Luxembourg	18.8	20.2	7.8	7.1	7.8	8.0	8.4	8.5	1.4	7.0	8.5
Mexico		10.2	0.4	0.8	1.0	1.6	2.2	2.7	1.9	2.6	2.7
Netherlands	11.0	12.2	6.2	4.6	4.6	4.9	5.3	5.2	0.6	4.7	6.0
New Zealand	13.1	12.8	7.2	4.9	4.2	4.6	5.0	4.9	0.0	4.2	4.9
Norway	11.1	13.6	5.5	4.7	4.8	5.2	6.6	6.9	2.2	5.8	9.2
Poland	24.9	25.6	5.0	10.5	11.3	11.1	11.1	10.6	0.1	9.8	10.6
Portugal	18.3	28.1	4.8	7.8	10.0	12.0	13.3	12.7	4.9	12.7	12.8
Slovak Republic	11.8	17.6		6.2	6.0	6.7	7.2	7.3	1.1	7.3	7.6
Slovenia	21.8	23.6		10.4	9.8	10.9	11.1	10.4	0.1	10.4	10.5
Spain	21.5	26.5	7.7	8.4	8.0	9.2	11.0	10.9	2.5	10.4	11.4
Sweden	12.8	14.6	7.2	6.8	7.2	7.2	7.1	7.2	0.4	5.7	9.4
Switzerland	18.0	19.5	5.2	6.1	6.2	6.2	6.6	6.7	0.6	5.3	6.9
Turkey		21.5	0.7	3.9	6.0	7.4	7.1	7.4	3.5	7.4	7.4
United Kingdom	13.4	13.7	4.5	4.8	5.0	6.2	6.1	5.6	0.9	5.4	6.0
United States	16.4	18.6	5.8	5.7	5.7	6.6	7.0	7.1	1.4	6.6	7.1
OECD	**16.6**	**18.4**	**6.3**	**6.7**	**6.8**	**7.6**	**7.9**	**7.7**	**1.0**	**7.1**	**8.2**

Note: See Adema, W. and M. Ladaique (2009), "How Expensive is the Welfare State? Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", *OECD Social, Employment and Migration Working Paper*, No. 92, OECD, Paris, *http://dx.doi.org/10.1787/220615515052* for more details on the data, sources and methodology.
Source: OECD Social Expenditures Database (SOCX); OECD Main Economic Indicators Database.

StatLink https://stat.link/92exj3

Our brief examination of this area has given us a powerful impression of the extent to which the lives of people over 60 remain affected by inequalities – inequalities that appear to be fundamentally class inequalities.

The State Pension age does not impact on all of these. It does not factor into the issues of absolute and relative pensioner poverty, into the gender pension gap or into the condition of older people's housing.

It does, nevertheless, pick at several wounds. Raising it widens the gap between the effective retirement age of those who can afford to retire "early" and those whose retirement depends on the State Pension. Raising it increases the probability that those who don't "make it" that far without suffering illness or involuntary unemployment will have a period of reduced income prior to retirement. And raising it means that the poor will be that more likely to enjoy less years of healthy retirement. The plans for extension to both 67 and 68 should be abandoned and our first ambition should be to return to 65.

Karen Narramore
Secretary
08.04.2022