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Commentary

Raising the Pension Age

WHILE PRESIDENT Emmanuel Macron faced street protests over raising the pension age from 62 to 64 in France, the UK government quietly shelved a plan to bring forward an increase in the State Pension age (SPA) to 68 into the 2030s. Major increases have already been implemented. For men the SPA has increased from 65 to 66 and an increase to 67 is going ahead over the period 2026–2028. For women there has been a steeper path (60 in 2010, 66 in 2020 and henceforth in line with men). There has been some protest from women who argued that there was insufficient notice of the steep rise in the 2010s, but otherwise the government faced little resistance.

Why has it been rather easy to raise the pension age in the UK? Is it that we have been pummelled into passivity by relentless austerity? Perhaps younger Britons do not protest because they do not think that there will be a state pension for them anyway, so there is no intergenerational contract to maintain. The policy of subsidising private provision pursued by successive governments has produced very large inequalities in the experience of retirement and aging, and these suppress political mobilisation. The protests in France suggest that some idea of solidarity survives there; silence in the UK signifies that it's everyone for themselves.

But doesn't this mean that the UK is better placed to respond to the exigencies of an aging population, while the French struggle to adjust to the new reality? We are relentlessly primed in expert commentaries to think that raising the pension age is an appropriate and effective response to longer life expectancy. In 2014 the government legislated for periodic expert reviews of the SPA which would implement the rule that individuals spend on average around one-third of their adult lives in receipt of the state pension. The decision not to proceed with an accelerated rise invoked this logic: life expectancy has not increased as

expected, so the pension age should be held accordingly.

Framing the pension age as a technical problem is well understood as a way of trying to remove the policy from political contestation. But it is also a way of defining, or redefining, what the pension is for. The link to life expectancy communicates that state pensions insure against the risk of living a long life and running out of savings (longevity risk). But the old age pension has always had another purpose, which is to insure against the risk of forced retirement. The age-based pension provides cover for a number of contingencies that may mean having to stop work: declining health, limited job opportunities, the need to care for aging relatives or partners. Unlike disability and unemployment benefits, eligibility is straightforward and can be relied upon in planning. There is flexibility: the age-based pension provides a kind of basic income to which earnings can be added if the opportunity arises.

Understanding the old age pension as providing protection against a bundle of risks has several implications. Bundling together risks that affect different groups in the community differently is a way of securing political support for the measure. Those who can comfortably extend their working lives care about the old age pension because they are more likely to live longer and run down their assets. Those who cannot easily work to a ripe old age care about the pension because it provides a basic level of security at a point where paid work has become less accessible. The actually-existing pension, which pays a flat amount from a certain age without a retirement condition, is not perfectly designed for either of these risks, but it ties the fortunes of the two groups together.

Linking the pension age to life expectancy has the effect of securing insurance against longevity risk, while curtailing insurance

against forced retirement risk. The independent review conducted in 2017 by John Cridland cannot be accused of ignoring this issue. It presented an abundance of information about variation in healthy life expectancy across local areas and socioeconomic groups, and expressed concern that those experiencing ill health and disability, along with carers, would suffer a disproportionate impact from increases in the SPA. Submissions to the review proposed various ways of addressing this, such as regional variations in the SPA and earlier access to the state pension subject to actuarial reductions. However, the review concluded that there was no effective mechanism for targeting those with lower life expectancy, and the SPA should rise in accordance with the 'one third' rule. Reforms to working age employment rights and benefits should manage the unequal consequences, including means-tested early access to a pensioner benefit for carers and those with disabilities.

It is worth emphasising just how limited the insurance against forced retirement risk provided by the benefits system is, compared with the state pension. Basic rates of benefit for people of working age are less than half the state pension level. The single-tier state pension (STP) will be £203.75 per week in 2023/24, while the standard allowance for a single Universal Credit recipient aged over 25 will be £85 per week. Even a person in very poor health who gets through all the hoops for qualifying for a severe incapacity premium will only get three-quarters of the amount payable to a person who has crossed the age threshold.

While forced retirement falls most heavily on those with low lifetime earnings, the risks of poor health or care obligations do affect middle class people too. Large parts of the welfare state rely on a kind of propitious selection, whereby well-off people who have a low risk of bad things happening, but also a low tolerance of risk, are prepared to pay over the odds to ensure that the welfare state is there for them. Political support for the NHS benefits from this logic, although it will be undermined if service standards continue to slip and more of those who can afford it seek private alternatives. When it comes to the old age pension, propitious selection has been deeply undermined by pension privatisation. Private pension pots can be accessed without penalty from the age of 55. (This will rise to 57, but

the plan is to maintain a ten-year gap to the SPA, which gives a clue about how the government expects private pensions to be used.) Many pots are too small to secure a comfortable old age, but they are often large enough to cover a gap between retirement and receipt of the state pension. In other words, the 'pension freedoms' introduced by George Osborne in 2014 were perfectly designed to ameliorate concerns that middle income voters might have about raising the SPA.

Supporters of raising the SPA might object that the primary aim of the policy is to alter conventions about retirement to ensure that people plan to work longer. While raising the pension age is also a regressive reform to the benefits system, this is an unfortunate side effect, not the main issue. It is true that, cross-nationally, norms about retirement are somewhat aligned with pension ages, and people often speak of the retirement age and the pension age interchangeably. However, there are reasons to doubt whether past evidence will be a reliable guide to future behaviour. The strongest alignments between pensions and retirement arose when the pension age was fixed for a long period (in the UK, the age was 60 for women and 65 for men for six decades—from the introduction of National Insurance in 1948 to 2010). Changes in the pension age can be accompanied by quite substantial disalignment. Despite the importance attached by policy makers to giving advance notice of higher pension ages, pre-announcement of the increase in women's pension age made little difference to retirement norms. The plan to increase the pension age for women to 65 starting in 2010 was announced and legislated for in 1995, but a survey of over-50s in 2006 found that, on average, respondents thought that women were 'too old to work' at 61.¹ Polling data also suggests that people's views are not very sensitive to policy changes. YouGov's state pension age tracker shows a clear plurality (around 40 per cent) of respondents think that the age should be 65, a figure that has declined only fractionally since the tracker started in 2019, despite the pension age reaching 66 for everyone in 2020.

¹J. Radl, 'Too old to work, or too young to retire? The pervasiveness of age norms in western Europe', *Work, Employment and Society*, vol. 26, no. 5, 2012, pp. 755–71.

It remains that a rule that links the pension age to life expectancy makes intuitive sense to people worried about the sustainability of pensions in the face of demographic aging. It is assumed that failure to follow the rule means that people of working age will be overburdened with the cost of paying for current pensions, exacerbating intergenerational unfairness. This is indeed what happens if the government relies on National Insurance (NI) as the main source of funding, as NI is only paid by those of working age. It is built on a redundant model in which wages and salaries were the only source of household income. A fairer model would tap the non-wage income and asset wealth of older people, where income inequality is now as great as among those of working age. The real betrayal of younger generations that is happening now arises from astonishingly regressive decisions such as raising the ceiling for tax relief on pension contributions and committing to protect housing wealth from care costs by imposing a health and social care levy on NI (a reform cancelled in the Kwarteng budget and not reinstated since). Even the Johnson government noticed that the care reform was grotesquely unfair to younger generations and the minor, but symbolically important, decision was made

to extend the levy to the wage income of old age pensioners, although their non-wage income escaped unscathed.

The policy of raising the SPA was initiated by the Conservatives in 1995 and endorsed by Labour when it was in government, with both parties favouring expert reviews to implement life expectancy linking of the pension age. Under Corbyn this was rowed back, but we have yet to see what the Starmer regime will bring. In an ideal world, the plight of older people unable to work to the SPA would mobilise wider attention to the unrelenting meanness of the working age benefits system. Meanwhile, demographic aging means that more people should work longer, but many of those best placed to do so have ample savings and assets, and can afford to ignore the SPA. Raising the SPA will do nothing about the most pressing labour supply issue currently, which is declining participation among those aged 50–66. Addressing that issue means fixing the health and social care systems: urgent tasks which are a good deal more difficult than raising the pension age. The government would be lucky if it only had Macron's travails to contend with.

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