Changing the world of work for good

Second State Pension age review

TUC submission

May 2022

The Trades Union Congress ("TUC") is the voice of Britain at work. We represent more than 5.5 million working people in 48 trade unions across the economy. We campaign for more and better jobs, a better working life for everyone, and support trade unions to grow and thrive. We seek to represent the interests of all working people and their families, at work, in the community and at home.

Summary

The TUC believes that plans to increase the State Pension Age to 67 from 2026 to 2028 should be shelved. The significant slowdown in longevity improvements observed since the last review make it impossible to continue with this timetable while meeting the government's policy aim of keeping the proportion of adult life spent in receipt of the state pension stable at one third. While we recognise flaws with this 'one third' policy, and recommend that a wider range of factors than the average proportion of life spent in receipt of the state pension be considered when setting the SPA, it would not be appropriate for the government to abandon this policy simply because it no longer allows for rapid increases to the SPA.

There are also wide and growing differences in life expectancy and healthy life expectancy between the most and least deprived areas, and many people in low paying and manually intensive jobs face already face difficulties working until SPA. Further increases to the SPA will lead to increased poverty among those unable to respond to these increases by working longer and will widen existing inequalities.

We support the aim of increasing labour market participation among older people but believe that the SPA is a blunt tool for achieving this, and one that is likely to provide diminishing returns. It would be more productive to focus efforts on helping older workers below the current SPA to remain in work and helping older people who are unemployed or have left the labour market completely to return to work. The government must also do more to mitigate the effects of previous increases on those unable to stay in work. Both these factors have been made more acute by the impact of the Covid pandemic, which has led to a sharp drop in the number of older workers in the labour market.

The TUC also believes a key priority for pensions policy is to increase levels of workplace pension saving. This would increase living standards in retirement by ensuring more workers can supplement their state pension with a decent income from a workplace pension. It would also help workers to manage the transition from working to retirement. Having an adequate occupational pension gives workers the freedom to base their retirement decisions around a wider range of factors than the SPA and can make it easier for them to reduce their hours and supplement income from work with income from their pension, which may actually allow them to extend their work life.

Deciding the age at which people can draw their State Pension is ultimately about the priorities of governments and society. Attempting to find a mechanistic formula, whether based on the proportion of life spent in receipt of the State Pension, old-age dependency ratios, or some measure of affordability, obscure this ultimately political nature of the decision. We believe that it would be any future changes to the SPA should be considered

by an independent Pension Commission that would weigh up a wide range of factors before making recommendations to the government.

Recommendations

- The SPA should be frozen at its current level of 66
- More resources should be targeted at helping older unemployed people get back into work and encouraging those who have left the labour market before SPA to return
- Mid-life career reviews should be encouraged with funded training opportunities to help older workers who need to adapt or change roles to extend their working lives
- Those unable to work to SPA because of ill health, caring responsibilities, or long-term unemployment should get early access to an unreduced State Pension, and the eligibility age for Pension Credit should be lowered to mitigate the impact of previous SPA increases
- To boost levels of workplace pension saving:
- the auto-enrolment earnings threshold should be removed, the Lower Earnings Limit should be phased out and the age threshold should be lowered to 18 to ensure that all workers can benefit from a workplace pension with contributions calculated from the first pound of earnings
- the government should set out a plan to increase minimum employer contribution rates to help more workers achieve the contribution rates needed to fund a decent retirement
- The link between the SPA and the normal retirement age in public service pensions and the minimum normal retirement age for all workers should be broken to give people the maximum flexibility in how they respond to changes to the SPA and to encourage high levels of pension saving
- Responsibility for making recommendations on the SPA should be given to a Pensions Commission with commissioners drawn from employers, trade unions and independent experts.

Consultation questions

3.1. Intergenerational fairness:

As people are living longer, how do we ensure the costs of State Pension are shared fairly across generations?

The TUC would challenge the suggestion that all people are living longer. Although average life expectancies are still increasing the rate of improvement has slowed considerably after a period of worse than expected mortality experience. This means projected life expectancy is now lower than it was at the time of the last State Pension age review. Using the ONS central projections, projected life expectancy at 67 in 2038 has fallen from 23.1 years to 20.7 years between 2014 and 2020, and projected life expectancy at 68 in 2055 has fallen from 24.0 years to 21.2 years.

If we are to maintain the policy that people should spend a third of their adult life in receipt of the state pension, the decline in expected life expectancy makes the legislated for SPA increases unviable, let alone the accelerated timetable proposed at the last SPA review. According to analysis from LCP, maintaining the one third ratio would require delaying the increase from 66 to 67 scheduled for 2026-28 by 23 years.[1]

It is also clear that there are sections of the population for whom life expectancy and healthy life expectancy is falling. The latest data from the ONS shows life expectancy for both men and women in the most deprived areas fell markedly between 2015-2017 and 2018-2020. Life expectancy at birth fell by 6 years for men and 4.8 years for women in the most deprived decile. Women in the second, third and fourth most deprived deciles also saw falls in life expectancy at birth of 1.2 years and no decile saw improvements for men.

It should also be noted that any projections of life expectancy rely upon assumptions of future mortality changes, which are inherently subjective. ONS projections are based on an assumption that longevity improvements will return to the long-term trend in future, but there is a high degree of uncertainty around this.

The TUC believes it would therefore not be appropriate, based on the latest mortality data to continue with plans to increase the SPA to 67 from 2026-28.

What factors relating to intergenerational fairness should be considered when determining the State Pension age?

The TUC believes that an ever-increasing State Pension age will unfairly penalise younger workers who have already been hit hardest by stagnating pay, the growing prevalence of low-paying and insecure jobs, low levels of training and prospects of progression in many industries. Measures aimed at strengthening employment rights, raising pay in low paid industries and improving prospects for progression (which have been set out in detail in the

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[1] LCP, Twenty million adults could be in line for 'state pension age reprieve' as life expectancy improvements 'collapse' even before the Pandemic, December 2021 - https://www.lcp.uk.com/media-centre/2021/12/twenty-million-adults-could-be-in-line-for-state-pension-age-reprieve-as-life-expectancy-improvements-collapse-even-before-the-pandemic

TUC report *Stuck at the start*[2]) are the way to address these issues. Increasing the SPA will only exacerbate any intergenerational unfairness faced by younger workers by making them wait longer than previous generations to receive their state pension.

The most important factors when considering the fairness of potential changes to the State Pension age relate to inequalities within cohorts relating to income, occupation, ethnicity and geography. TUC analysis has found that people in low paid and manually intensive jobs and Black and Minority Ethnic workers are already more likely to be forced out of the labour market early due to ill health or caring responsibilities.[3] This is backed up by research from the Centre for Longitudinal Studies that found that that men and women who had been poor during their working lives were the most likely to leave the jobs market in their 50s, with poor health the key driver.[4]

As there is a wide gap in the value of benefits available before and after SPA (Job Seekers Allowance is £77 a week, whereas Pension Credit for a single person is £182.60) the effect of raising the SPA on those unable work is gap is to significantly reduce their incomes by forcing them to rely on working age benefits for longer.

We believe the impact of raising the SPA on those least likely to be able to respond by working longer, and least well-resourced to retire before SPA must be a major consideration when setting the SPA.

Is it reasonable to give people a fixed period of notice for State Pension age changes, and if so what period?

Yes. We agree with the principle set out in the Cridland Review that individuals should get at least 10 year's notice of any increases to their State Pension age. This provides a level of certainty for individuals affected by increases and allows time for them to make any necessary changes to their retirement plans.

This principle is important for maintaining faith in the State Pension system and giving younger workers confidence to plan for their own retirement. It will also reduce the potential for a repeat of the problems caused by failures to properly inform women affected by the equalisation and accelerated increases in State Pension age in the 1995 and 2011 Pensions Acts, which led to unnecessary hardship for many.[5]

Failing to provide 10 years' notice to individuals would also make it impractical to properly assess the impact of previous increases and the potential need for mitigation before implementing future increases.

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[2] TUC, Stuck at the start, June 2018 – https://www.tuc.org.uk/research-analysis/reports/stuck-start
[3] TUC, Extending working lives - How to support older workers, March 2021 – August 2017 - https://www.tuc.org.uk/research-analysis/reports/extending-working-lives-how-support-older-workers
[4] Centre for Longitudinal Studies, Lifetime poverty and attitudes to retirement among a cohort born in 1958, https://cls.ucl.ac.uk/wp-content/uploads/2017/02/JRF-retirement-report-FINAL-August-3-20172.pdf
[5] Parliamentary and Health Service Ombudsman, Women's State Pension age: our findings on the Department for Work and Pensions' communication of changes, July 2021 - https://www.ombudsman.org.uk/publications/womens-state-pension-age-our-findings-department-work-and-pensions-communication-0

3.2. Changes in the nature of work:

How have changes to the types of jobs people do affected working lives?

Over the last 15 years we have seen an increase in the use of zero- and short-hours contracts, low paid and bogus self-employment and agency work. The TUC estimates there are now 3.6 million people in insecure work in the UK.[6] This growing prevalence of insecure work makes it harder for many people to build up retirement savings, particularly when combined with high levels of student debt for those leaving university, and a dysfunctional housing market leading to housing costs absorbing a higher proportion of incomes and more people reaching retirement age without paying off their mortgage. This has the potential to make future generations more dependent on the State Pension for their retirement income than previously envisaged, increasing the significance of any changes to their SPA.

What are the anticipated future changes to the workplace? How could this impact on people's working lives?

The TUC supports the aim of extending peoples working lives by increasing labour market participation among older people. This will require changes to give people given stronger rights to work flexibly to manage work-life balance and reduce their workload if necessary. The TUC has called for day-one rights to flexible work and for employers to clearly state in their job adverts what reduced hours or flexible work opportunities are available. At present workers only have the right to request flexible working after 26 weeks with an employer and one in three requests is turned down. We believe that it must be made harder for employers to reject requests, especially from those with caring responsibilities. Day one rights would help employees of all ages develop a working pattern that suits their needs, as well as those of the employer. It would be particularly helpful to older workers re-entering the workplace, and the 50 per cent of older workers who say their job is excessively demanding.

Workers with caring responsibilities in later life face particular challenges and a statutory entitlement to carer's leave would also give them better scope to balance work with care and prevent them having to give up work when faced with particularly intense periods of caring.

An ONS study of older people who have left the Labour market during the Covid pandemic confirmed that these measures would encourage older people back into the workplace. Of those who said they would consider returning to work, flexible working was the most important aspect of choosing a new job (36%), followed by working from home (18%) and something that fits around caring responsibilities (16%).[7] It also found that 69% wanted a part time job and just 9% wanted a full-time job.

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[6] TUC, Jobs and recovery monitor - Insecure work, July 2021 - https://www.tuc.org.uk/research-analysis/reports/jobs-and-recovery-monitor-insecure-work

[7] ONS, Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic, March 2022 -

What factors do people consider when making decisions about when to retire?

The SPA serves as a reference point for people when deciding to retire, but it is clearly not the only, or even the most significant factor, with more than half of men leaving the labour market before reaching SPA. As set out above, many people are forced into early retirement because of poor health while for others the decision will be linked to the Normal Pension Age (NPA) of an occupational scheme, there retirement decisions of a partner, or the amount of occupational pension they have been able to accumulate.

It is clear that where people have sufficiently well-funded and flexible workplace pensions, many already choose to retire before SPA. For example, according to the Department for Education, almost half (48%) of all teachers accessing the Teachers' Pension Scheme for the first time in 2020/21 retired before the SPA. This has increased from 43% in 2018/19 (when the NPA, which is now linked to the SPA was lower), suggesting that many teachers are responding to a rising SPA by accessing their workplace pension early in exchange for a lower pension.

But many workers do not have adequate levels of workplace or private pension saving to provide a decent standard of living in retirement, let alone to give them control over how and when they stop work. Research form the Pensions Policy Institute found that one in four over-50s were at risk of falling below the Joseph Roundtree Foundation's minimum income standard, while less than half were on track to achieve a moderate or comfortable standard of living in retirement measured by the Pension and Lifetime Saving Association's Retirement Income Standards.

This shows the urgent need to boost levels of retirement saving in the private sector. The TUC believes the government should implement the recommendations of the 2017 auto-enrolment review to lower the auto-enrolment age threshold and phase out the lower earning limit so that contributions are calculated from the first pound of earnings as soon as possible. It should also phase out the £10,000 earning threshold and set out a plan to increase employer contribution levels from the current rate of 3% to give more low earners the opportunity to benefit from a decent level of employer contributions into a workplace scheme.

These measures would give people approaching SPA a sound financial base from which to make decisions around stopping or reducing work.

3.3. Sustainability and affordability:

What is the most sustainable and affordable way of managing the cost of State Pension in the longer term? What are the advantages and disadvantages of potential options?

The TUC recognises that an aging population will result in increased spending on the State Pension and other age-related benefits. But we believe that delivering economic growth,

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https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/reasonsforworkersagedover50yearsleavingemploymentsincethestartofthecoronaviruspandemic/2022-03-14 rather than reducing the value of the State Pension to future pensioners through a higher SPA or lower benefits, is the key to making sure this spending remains affordable.

To makes sure that we can meet the cost of providing a decent State Pension in future, the government must focus on delivering long-term the changes needed to move to a high-wage, high skill, high productivity economy. The TUC's proposals to achieve this can be found in our statement ahead of this year's Spring Statement[8] and include:

- New funding for the skills system to deliver access to fully-funded learning and skills entitlements and new workplace training rights throughout the life course.
- Reforms to corporate governance to embed long-termism and sustainable business models in corporate decision making, including reform of directors' duties and including elected worker directors on company boards.
- Delivering an industrial strategy that delivers good jobs as we transition to net zero, including funding for industrial decarbonisation, and new commitments to deliver supply chain jobs in the UK.
- An expansion in the public sector workforce, delivering the decent public services we need to level up.

These measures would raise tax revenues for the government, and also boost wages for individuals, increasing their capacity to save for retirement through workplace or private pension saving.

The TUC also believes that increasing rates of labour market participation among older workers will help to make our pension system more sustainable. But with one in eight people forced out of the labour market before SPA already, and around 500,000 extra older workers exiting the labour market over the pandemic, the focus should be on positive measures to help people stay in or return to work, rather than using the SPA as a tool for achieving this. This will require introducing the measures outlined in response to question 3.2, and also providing additional targeted resources to help unemployed older people back into work. The number of older workers who have left the labour market completely during the Covid pandemic also suggests resources should be focused on helping this group back into work where possible.

The TUC does not believe the cost of providing the State Pension should be managed by adjusting the State Pension age through any kind of mechanistic process, whether by reference to the percentage of adult life people can expect to spend on in retirement on average, or to the old-age dependency ratio.

Neither of these factors have any intrinsic link to people's ability or desire to work to increasingly old ages or their ability to adequately fund retirement from occupational or private pension saving.

Linking the SPA to average life expectancy does not account for the growing longevity gap between different groups, or the ability of people to work at different ages, or even affordability, which is actually dependant the level of government revenues and spending

[8] TUC, Ending the pay crisis, March 2022 - https://www.tuc.org.uk/research-analysis/reports/ending-pay-crisis

priorities of the government. These mechanistic processes are also easy to game to produce desired results, by for example varying the age at which adulthood start, the precise percentage targeted, or the choice of mean or median life expectancy.

Targeting a stable old-age dependency ratio has similar drawbacks. It also only takes into account one side of the demographic question, and does not recognise the short- and medium-term implications of falling birth rates on the public finances. Analysis in the Financial Times found that according to the latest ONS forecasts government will have to find £35bn in extra taxation each year to fund public services for by 2040, rather than the £145bn implied by the 2014 forecasts, partly as a result of lower spending on areas such as education.[9] In this context, focusing on the old-age dependency ratio, rather than the dependency ratio as a whole, would not give an accurate picture of the impact of demographic changes on public expenditure.

We also note that UK public expenditure on old age benefits, at 5.6% is low compared to the OECD average of 7.7%[10], which reinforces the fact that affordability is dependent on political priorities, rather than any kind of technical metric.

Rather than rely on a formula to determine the appropriate SPA in future, the TUC believes it should be within the remit of a Pension Commission, with commissioners selected to represent employers, trade unions and independent experts to make recommendations on the SPA. This would allow for a wider range of factors to be considered, including levels of private pension wealth, inequalities in wealth, health, longevity and labour market experience, and wider public policy aims.

3.4. Metrics for setting State Pension age

Is it reasonable for people to expect to spend a fixed proportion of their adult life in receipt of State Pension?

The wide and growing life expectancy gap means that even under the 1/3 formula the majority of people cannot expect to spend 1/3 of their adult life in receipt of the state pension.

We do believe that people should be able to expect dignity in old age however, and a universal SPA set at an age that does not require people to 'work until they drop' is a key element in achieving this.

We also believe it would be wrong for the government to move away from the 1/3 policy simply because this formula no longer allows for the SPA to be increased on the current timetable. Although the TUC has not previously supported the 1/3 policy, and believes there are more appropriate ways of setting the SPA, it is important to maintain some consistency in this area of long-term policy making.

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[9] Financial Times, Population changes provide UK with unexpected boost to public finances, February 2022 - https://www.ft.com/content/70020670-9f45-451b-8612-0a785ac16a5e

[10] OECD, Pensions at a glance, December 2021, Table 8.3 - https://www.oecd-ilibrary.org/sites/ca401ebd-en/1/3/8/2/index.html?itemId=/content/publication/ca401ebd-en&_csp_=9d37797bd84847326841f27f588be463&itemIGO=oecd&itemContentType=book

Are there options for taking account of differences in circumstances when setting State Pension age in future? What are the advantages and disadvantages of these options, and how could they operate within the current pensions framework?

As outlined above the TUC is committed to maintaining a universal SPA. Although the extreme inequalities of health and life expectancy between the most and least deprived areas may make the idea of some kind of variable SPA attractive, we believe this is impractical and ultimately undesirable.

But we do believe that mitigations need to be put in place to protect those people unable to stay in work until the SPA. These should include decoupling of the SPA and eligibility for Pension Credit, as proposed in the Cridland review, and also allowing early access to an unreduced State Pension for older people approaching SPA who are out of work and unlikely to be able to return to the labour market because of ill health, caring responsibilities or long-term unemployment.

If a link between the SPA and projected life expectancy is to be maintained we also believe the government should explore making that link to life expectancy in the most deprived areas rather than average life expectancy. This would address concerns about the impact of increasing the SPA on areas that are not benefiting from increasing life expectancy, and fit with the policy aims within the government's levelling up commitments to increase healthy life expectancy in poorer areas.

There is precedent for using benchmarks other than the mid-point when setting benefit rates. For example the Local Housing Allowance rates used to set the amount that can be claimed in Housing Benefit have been set at the 30th percentile of market rents in the area since 2011, rather than the median rent.

How can we best take into account the sensitivity of the life expectancy projections when considering an appropriate State Pension age for the future?

We recognise that the volatility of projected life expectancy will cause problems if the 1/3 policy is maintained, and that some degree of smoothing will be required. It is not useful to use a metric for setting the SPA that will require the timetable for changes to be revised significantly at each 6-yearly view. However the scale of the difference between the current timetable, and the timetable implied by the 1/3 rule means that even if smoothing is applied the increases scheduled for 2026-2028 should be delayed.

Are there other metrics which are relevant or more suitable to help determine State Pension age in future, and if so, what metrics?

The TUC does not believe any single metric is suitable for determining the SPA, and a wide range of factors should be taken into account.

As set out above, we do not believe old-age dependency ratios are a suitable metric, and believe that the government should explore the potential for linking increases to changes in life expectancy in more deprived areas.

It is also important to consider the potential impact of any change to the State Pension age on poverty levels among those affected. Analysis by the IFS concluded that the increase to from 60-63 for women led to an increase in the absolute income poverty rate among the women aged between 60 and the new SPA by 6.2 percentage points.[11] This was caused by the fact that not all women affected were able to respond to the increased by SPA by staying in work for longer, and some were forced to rely on working age benefits, which are significantly less generous than retirement benefits.

It is reasonable to expect that the more recent increase from 65 to 66 for men and women will have led to an even greater increase in poverty levels as a greater number of people at older ages will be unable to respond by working longer, and the gap between working and pension age benefits has increased as a result of freezes and caps to working age benefit increases. Further research is needed on the impact of the latest changes on poverty rates.

3.5. Additional information

Do you have any other comments which relate to the Terms of Reference of this review, that you wish to share?

The TUC believes the question of the link between the SPA and the normal pension age (NPA) in public sector schemes and the minimum normal pension age (MNPA) needs to be reviewed.

We believe the linking retirement ages in the public sector pushes too much responsibility for managing longevity risk onto individual public servants. It links the age at which they can access both state and occupational pensions to movements in average life expectancy, or whatever other metric is used to set the SPA in future. De-linking the NPA in public sector schemes from the SPA would give public servants greater flexibility in managing how they respond to any future changes to the SPA.

This is particularly relevant if this review recommends removing or weakening the link between the SPA and longevity projections as the link between the MNPA and SPA was intended to protect the state from increased costs resulting from longer life expectancy.

Maintaining the 10-year relationship between the SPA and the MNPA will also deter some from building up retirement savings at a time when there is a clear need to increase levels of pension saving. If this leads to a continual raising of the age at which individuals can access money they are 'locking away' then confidence in the system will be undermined and people will be more likely to save into other, less appropriate, products.

[11] IFS, Can't wait to get my pension: the effect of raising the female state pension age on income, poverty and deprivation, August 2017 - https://ifs.org.uk/publications/9565