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Life expectancy inequalities and state pension outcomes

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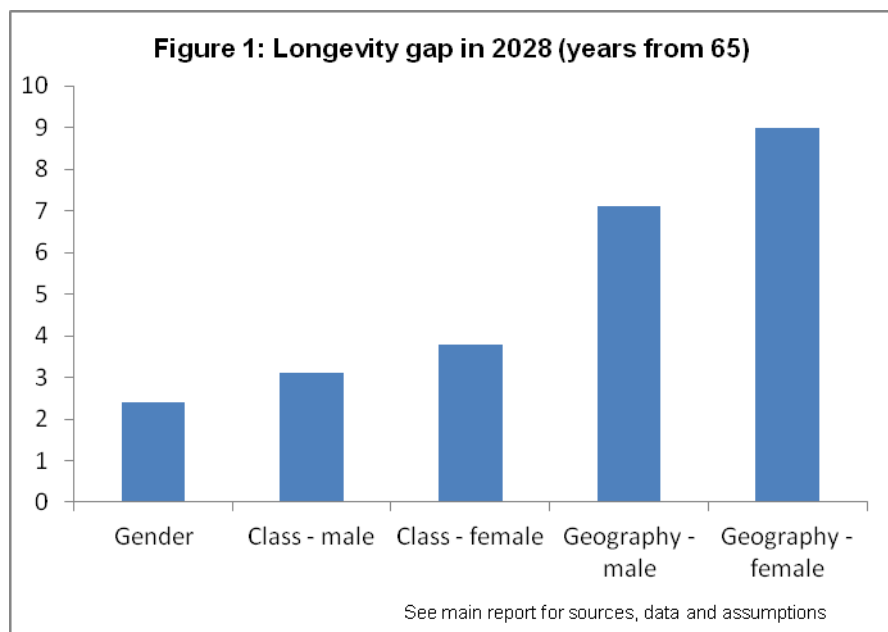
Introduction and summary

The Pensions Bill currently being considered by parliament will accelerate the timetable for increasing state pension age to 67. It will now reach 67 for both men and women by 2028, compared to 2036 under current legislation.

Increasing state pension age is unjust because of the persistence of inequalities in life expectancy between different groups. The ONS publishes details of current life expectancy gaps, but its projections are based only on average life expectancy; this report therefore models what life expectancy inequalities will look like in 2028 should current trends persist.

Figure 1 summarises the main results for 2028. The first section of the report shows that in this scenario:

- the gender longevity gap will decline slightly from 2.6 years to 2.4 years;
- the class longevity gap (between routine/manual and managerial/professional workers) will rise from 2.6 years to 3.1 years for men, and from 2.4 to 3.8 for women;
- the geography longevity gap (between the local authority areas with the highest and lowest life expectancy at 65) will rise from 5.5 years to 7.1 years for men, and from 5.1 to 9 for women.

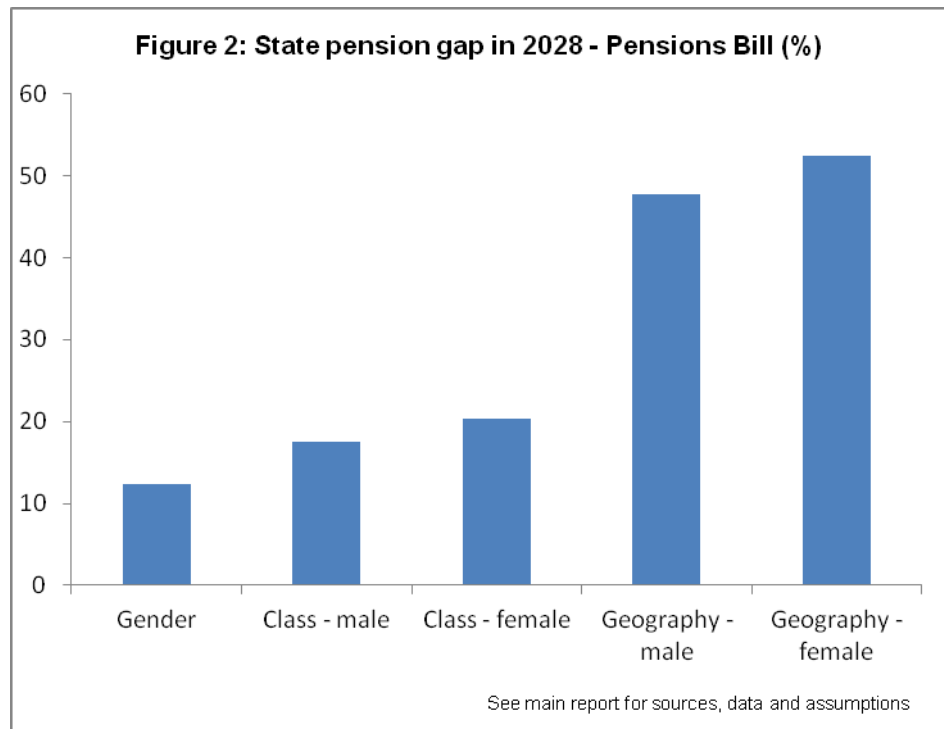


Life expectancy inequalities convert into significant differences in the amount of state pension income different groups can expect to receive over their retirement. Figure 2 summarises what our analysis shows these differences will be (if current trends persist) for 65 year-olds in 2028 once the Pensions Bill passes.

The second section of the report shows that in this scenario women can expect to receive 12.3 per cent more in state pension income than men from 2028, compared to 11.7 per cent more than men when the new ‘single tier’ state pension system is introduced in 2016.

Male managerial/professional workers can expect to receive 17.6 per cent more than routine and manual workers from 2028, compared to 16.1 per cent more than these workers from 2016. For women, the difference between managerial and manual workers will grow to 20.2 per cent from 2028, from 15.4 per cent now.

The difference in the state pension income received by workers in local areas with the highest and lowest life expectancy at 65 will grow to 47.7 per cent from 37.1 per cent for men, and 52.6 per cent from 33 per cent for women.



These results significantly undermine the rationale for increasing state pension age, especially along the Pensions Bill’s accelerated timetable. If policy is based only on projections of average life expectancy, it risks exacerbating a persistent injustice in how the longevity dividend has been shared across society.

The case for increasing state pension age has several other blind-spots. For instance, it is too often assumed that individuals' ability to work beyond 65 will increase steadily over time. Indeed, in 2010 there were record numbers of people working beyond state pension age. But female state pension age at this time was only 60. As the third section shows, since it started to rise from 2010 onwards, the proportion of women of aged above state pension age and between 50 and state pension age has declined significantly. In contrast, employment rates for men in these age groups, and both men and women aged 35-49, have increased. The Pensions Bill also removes one of the key incentives for working beyond state pension age, by reducing the generosity of state pension deferral arrangements.

Although data on this topic are not analysed in this report, existing research shows that inequalities between local areas in disability-free life expectancy are growing. People from some parts of the country are significantly more likely to be disabled by the time they reach state pension age.¹ Furthermore, data from the 2011 census showed that there were far fewer older people alive (particularly among the 'oldest old') than had been forecast by ONS only one year earlier.² Yet the government has cited the 2010 projections as the basis for the decision to bring forward the increase in state pension age to 67.³

By 2050, the OECD average male state pension age will be 65.6 – below what the UK's state pension age will be by 2020. Only a handful of countries have plans to raise pensionable ages in line with or faster than the UK.⁴ The TUC believe significant change is required before any further increase in state pension age is proposed. Primarily, action is required to address the health inequalities that create inequalities in life expectancy and state pension receipt.

We also need to ensure that people have greater capacity to work for longer. Again, this is partly about health inequalities, as previous TUC research has shown that long-term illness/disability is a significant cause of inactivity among older people – occupational health should be a priority for government and employers.⁵ Further action on ending discrimination of older people in recruitment and training, and greater options for flexible working, is also required.

¹ Data available on the ONS website, see <http://www.ons.gov.uk/ons/rel/disability-and-health-measurement/sub-national-health-expectancies/inequality-in-disability-free-life-expectancy-by-area-deprivation--england--2003-06-and-2007-10/index.html>.

² Richard Willets (2012) Longevity and our 'missing' 90 year-olds, The Actuary, available at <http://www.theactuary.com/features/2012/11/longevity-and-our-missing-90-year-olds/>

³ See the impact assessment at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181470/ia-increasing-state-pension-age-to-67.pdf.

⁴ Craig Berry and Nigel Stanley (2013) Third Time Lucky, TUC Touchstone Extra, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181470/ia-increasing-state-pension-age-to-67.pdf.

⁵ See <http://touchstoneblog.org.uk/2012/08/the-inconvenient-truth-preventing-extended-working-lives>.

As well as older people's employability, we also need to focus on wider issues within the labour market as a whole. Unless the economy is able to sustain a higher employment rate, employers will have little incentive to adapt to the particular needs of older workers and other 'disadvantaged' groups.

But if there are to be any further increases in state pension age, the TUC believes they must be decided by an independent commission, reporting directly to parliament and including trade union representation. The commission must have the ability to gather evidence on life expectancy inequalities as well as average life expectancy, and the actual capacity of people to stay in work for longer rather than become dependent on working-age benefits.

Life expectancy inequalities

The main injustice in raising state pension age is the fact that life expectancy varies considerably according to various socio-economic characteristics. In short there are chronic inequalities in life expectancy that mean some people live for longer in retirement (and in receipt of state pensions) than others.

Gender

As table 3 shows 65 year-old men can expect to live for a further 18.2 years, whereas 65 year-old women can expect to live for a further 20.8 years, a gender longevity gap of 2.6 years. On current rates of change this gap will decline only slightly between now and 2028, to 2.4 years.

Table 3: Life expectancy at 65 by gender (years)

	Men	Women	Gap	Gap change from 2011
2011	18.2	20.8	2.6	-
2016	19.6	21.9	2.3	-0.3
2028	21.5	23.9	2.4	-0.2

*England and Wales only.
Based on latest available ONS data: 2009/11 interim life tables and 2010-based period and cohort life expectancy tables.*

Class

As table 4a shows, our analysis suggests that class-based inequalities in life expectancy will increase between now and 2028. According to the latest ONS data available (for 2002/06), 65 year-old male routine and manual (or ‘blue-collar’) workers can expect to live for 15.8 years, and managerial and professional (or ‘white-collar’) workers can expect to live for 18.4 years – a gap of 2.6 years.

As table 4b shows, for women the figures are 18.9 and 21.3 – a gap of 2.4 years.

If current trends persist (decelerating in line with longevity increases for the population in general) the class longevity gap will have risen to 3.1 years for men and 3.8 years for women by 2028.

Table 4a: Male life expectancy at 65 by class (years)

	Routine & manual	Managerial & professional	Gap	Gap change from 2006
2006	15.8	18.4	2.6	-
2016	17.4	20.2	2.8	+0.2
2028	19.3	22.4	3.1	+0.5

Table 4b: Female life expectancy at 65 by class (years)

	Routine & manual	Managerial & professional	Gap	Gap change from 2006
2006	18.9	21.3	2.4	-
2016	19.8	22.8	3.0	+0.6
2028	20.8	24.6	3.8	+1.4

England and Wales only.

2006 results based on latest available ONS data: 2002/06 life expectancy by NS-SEC class. 2016 and 2028 results are TUC estimates based on average annual increase for NS-SEC group 1992/96-2002/06, adjusted by expected change in average annual increase for all England and Wales population between 1996-2006 and 2006-2028 (derived from ONS 2010-based period and cohort life expectancy tables).

Geography

Our analysis suggests that geography-based inequalities in life expectancy will also persist; table 5 provides a summary, but see the annex for full results. For men, the local authority area with the highest life expectancy at 65 is East Dorset (20.9 years). We compared this with a range of other local areas: the East Dorset result is 5.5 years more than men from Manchester, 4.5 years more than Liverpool, 4.3 years more than Nottingham, and 3.1 years more than Birmingham (see table A1).

East Dorset also has the highest female life expectancy at 65 (23.7 years). This is 5.1 years more than Corby, 4.9 years more than Manchester, 4.7 years more than Middlesbrough, and 4.3 years more than Hull (see table A2 of the annex for full results).

By 2028, if current trends persist (decelerating in line with longevity increases for the population in general), East Dorset's male life expectancy at 65 will have risen to 24 years, and the longevity gap will have grown in relation to all but two of the local areas studied. The gap between East Dorset and Manchester, for instance, will have risen to 7.1 years. Female life expectancy in

East Dorset will have risen to 28.1 years by 2028, and the gap between East Dorset and every other local area studied here will have grown. For instance, the gap to Corby will have grown to nine years.

Table 5: Summary – Life expectancy at 65 by local area (years)

	2011	2016	2028
Men			
Area with highest life expectancy at 65 (East Dorset)	20.9	21.8	24
Area with lowest life expectancy at 65 (Manchester)	15.4	15.9	16.9
<i>Gap to highest (change since 2011)</i>	5.5	5.9 (+0.4)	7.1 (+1.6)
Women			
Area with highest life expectancy at 65 (East Dorset)	23.7	25	28.1
Area with lowest life expectancy at 65 (Corby)	18.6	18.8	19.1
<i>Gap to highest (change since 2011)</i>	5.1	6.2 (+1.1)	9 (+4.9)

See annex for sources and assumptions (tables A1 and A2)

State pension inequalities

Increasing state pension age before life expectancy inequalities are addressed exacerbates existing inequalities in lifetime state pension receipt.

The analysis here shows what typical 65 year-olds in 2016 and 2028 can expect to receive from the single tier state pension over the course of their retirement, based on the receiving the full rate of the new single tier state pension. Results are shown according the current legislative timetable for increasing state pension (i.e. 65 in 2016 and 66 in 2028) and the accelerated timetable outlined in the Pensions Bill (i.e. 67 in 2028).⁶

Gender

The gender longevity gap is closing, but not as quickly as state pension age will rise according to the Pensions Bill. As table 6 shows, under current legislation 65 year-old women in 2028 can expect to receive 11.7 per cent more in lifetime state pension income than men – this will increase to 12.3 per cent when the Bill comes into law.

Table 6: Lifetime state pension receipt for 65 year-olds by gender

	Men	Women	% more than men received by women
2016	£146,764.80	£163,987.20	11.7
2028 (current timetable)	£153,504.00	£171,475.20	11.7
2028 (Pensions Bill)	£146,016.00	£163,987.20	12.3

England and Wales only.

Full single tier based on hypothetical 2012 rate of £144 per week.

Results are based on Table 3 data and assumptions.

⁶ For the sake of comparison lifetime state pension income is shown from age 65 onwards for both men and women (2028 data therefore relates to 65 year-olds reaching state pension age one or two years later). In practice, 65 year-old women in 2016 will have already reached state pension age – they will not be entitled to single tier but most will get more over the course of their lifetime as a result of reaching state pension age earlier. Furthermore, many people reaching state pension age may have a state pension higher or lower than the full rate of single tier as a result of the transitional rules for people with entitlements in the old state pension system, or lower because they do not have 35 years of qualifying NICs.

Class

Table 7a shows that the widening class longevity gap will cause class-based inequalities in lifetime state pension receipt to grow. Under current legislation, a male 65 year-old managerial and professional worker in 2028 could expect to receive 16.6 per cent more in lifetime state pension than a routine and manual worker. This inequality will rise to 17.6 per cent when the Pensions Bill comes into law.

Table 7a Male lifetime state pension receipt for 65 year-olds by class

	Routine & Manual	Managerial & Professional	% more than R&M received by M&P
2016	£130,291.20	£151,257.60	16.1
2028 (current timetable)	£137,180.20	£159,943.70	16.6
2028 (Pensions Bill)	£129,692.20	£152,455.70	17.6

Table 7b Female lifetime state pension receipt for 65 year-olds by gender

	Routine & Manual	Managerial & Professional	% more than R&M received by M&P
2016	£148,262.40	£170,726.40	15.2
2028 (current timetable)	£148,037.80	£176,716.80	19.4
2028 (Pensions Bill)	£140,549.80	£169,228.80	20.4

England and Wales only.

Full single tier based on hypothetical 2012 rate of £144 per week.

Results are based on Table 4 data and assumptions.

As table 7b shows, for women these figures are 19.4 per cent and 20.4 per cent. Female managerial and professional workers retiring in 2028 will get less than those retiring in 2016 – although their loss is not as great as routine and

manual workers. But male managerial workers retiring in 2028 will actually receive *more* from the state pension than those retiring in 2016, despite reaching state pension age at 67 rather than 65. This is due to the very fast pace of life expectancy increases for male managerial and professional workers – faster than state pension age increases between 2016 and 2028.

Geography

Widening geography longevity gaps will cause geography-based inequalities in lifetime state pension receipt to grow; table 8 provides a summary, but see the annex for the full results. Once the Pensions Bill passes, a 65 year-old man in East Dorset in 2028 can expect to receive 47.7 per cent more in state pension income over his retirement than those from Manchester, 35.8 per cent more than both Corby and Salford, 34.1 per cent more than Middlesbrough, and 32.5 per cent more than Nottingham (see table A3 in the annex).

A 65 year-old woman in East Dorset can expect to receive 52.5 per cent more in state pension income over her retirement than those from Corby, 42.6 per cent more than Manchester, 39.6 per cent more than both Middlesbrough and Hull, and 20.8 per cent more than Birmingham (see table A4 for full results).

Table 8: Summary – Lifetime state pension receipt for 65 year-olds by geography

	2016	2028 (current timetable)	2028 (Pensions Bill)
Men			
Area with highest life expectancy at 65 (East Dorset)	£163,238.40	£172,224.00	£164,736.00
Area with lowest life expectancy at 65 (Manchester)	£119,059.20	£119,059.20	£111,571.20
<i>% more received by resident in highest area</i>	37.1	44.7	47.7
Women			
Area with highest life expectancy at 65 (East Dorset)	£187,200.00	£202,924.80	£195,436.8
Area with lowest life expectancy at 65 (Corby)	£140,774.40	£135,532.60	£128,044.80
<i>% more received by resident in highest area</i>	33	49.7	52.6

See annex for sources and assumptions (tables A3 and A4)

Longer working lives?

Decisions to increase state pension age usually justified on the basis that many people are working beyond current state pension ages, so will have little difficulty in at least working up to a higher state pension age. Indeed, there were record numbers of people working above state pension age in 2010. But two recent developments place this prospect in jeopardy: the equalisation of male and female state pension age, and a change in government policy on deferring the state pension.

Working beyond state pension age

Evidence on working beyond state pension age has been heavily skewed by the fact that, up to 2010, women had a state pension age lower than men – despite women typically living longer, and living without disability for longer.

As such, until recently there were significantly more women working above state pension age than men. But as figure 7 shows, since female state pension age started to rise, the proportion of women working above state pension age has fallen faster than any other age group – and there are in fact now more men than women employed above state pension age.

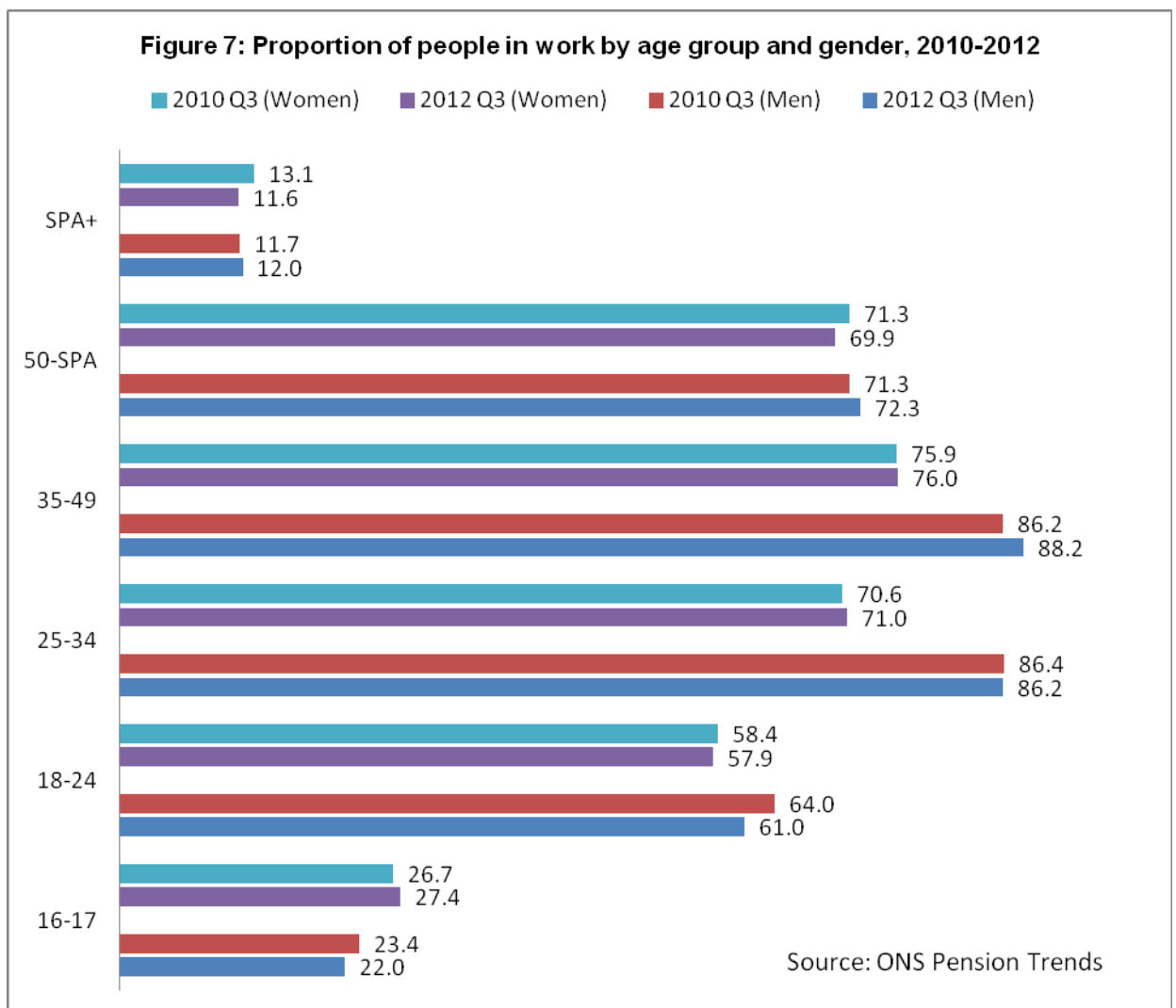
Between the third quarter of 2010 and the third quarter of 2012, as state pension equalisation got underway, the proportion of women aged above state pension age in work fell from 13.1 per cent to 11.6 per cent, and the proportion working between 50 and state pension age fell from 71.3 per cent to 69.9 per cent. The only other age group to have experienced a decline in their employment rate over this period are those aged 18-24, who saw a reduction of only 0.5 percentage points.

Male state pension age remained the same over this period, while the proportion of men working above state pension age increased – yet not as much as men aged below state pension age.

State pension deferral

The government's intention is to use the Pensions Bill to weaken one of the key incentives to work beyond state pension age for both men and women.

Currently it is possible to defer your state pension in return for a higher award – you get an extra 1 per cent weekly state pension for every 5 weeks you defer, and the option of a lump sum if you defer for at least a year.



But the government's intention is to remove these rights. The deferral rate for single tier has not been announced, but the government's costing of the new system assumes it will be an extra 1 per cent for every 10 weeks of deferral, with no lump sums. This change has been justified on the basis of 'actuarial neutrality' (that is, to cut spending) but other things being equal will lead to fewer people deciding that staying in work beyond state pension is worthwhile financially. Actuarial firm Hymans Robertson has estimated that would cost someone who defers for one year almost £6,000 over 20 years of retirement. When someone defers for five years, the loss would be almost £29,000 over a 20-year post-retirement period.⁷

⁷ See <http://www.theactuary.com/news/2013/08/actuaries-warn-on-costs-of-state-pension-deferral-reforms/>.

Older workers in the wider labour market

Ensuring the correct financial incentives are in place is only one aspect of encouraging longer working lives. We also need to ensure older people have the capacity to work for longer, primarily by addressing the poor health outcomes that making working in later life problematic for some people.

Further action on discrimination in both recruitment and training for older workers is also required, and employers must become more aware of the benefits of flexible working for extending working lives.

However, increasing the number of older workers also needs wider change in the opportunities that employers offer and in job creation rates across the economy as a whole. Relatively low employment rates among those approaching retirement are comparable to the position of other groups 'disadvantaged' within the labour market, such as women with children, disabled people, young people, and people with seemingly obsolete skills.

There is a need to focus on the demand for these workers, alongside their employability. Without job creation these groups will simply continue to compete with each other for limited employment opportunities. Tony Dolphin and Kaye Lawton of IPPR have argued that the UK employment rate needs to reach the 'tipping point' of 73 per cent to ensure employers are more willing to adapt to the particular needs of these groups.⁸

⁸ See

http://www.ippr.org/images/media/files/publication/2013/07/a_job_for_everyone_July2013_11002.pdf

Annex

Table A1: Male life expectancy at 65 by local area (years)

	2011	2016	2028
East Dorset (ED)	20.9	21.8	24
Manchester	15.4	15.9	16.9
<i>Gap to ED (change since 2011)</i>	5.5	5.9 (+0.4)	7.1 (+1.6)
Salford	16.2	16.8	18.2
<i>Gap to ED (change since 2011)</i>	4.7	4 (+0.3)	5.8 (+1.1)
Liverpool	16.4	17.3	19.5
<i>Gap to ED (change since 2011)</i>	4.5	4.5 (0)	4.5 (0)
Corby	16.5	17	18.2
<i>Gap to ED (change since 2011)</i>	4.4	4.8 (+0.4)	5.8 (+1.4)
Middlesbrough	16.5	17.1	18.4
<i>Gap to ED (change since 2011)</i>	4.4	4.7 (+0.3)	5.6 (+1.2)
Hull	16.5	17.1	18.5
<i>Gap to ED (change since 2011)</i>	4.4	4.7 (+0.3)	5.5 (+1.1)
Nottingham	16.6	17.2	18.6
<i>Gap to ED (change since 2011)</i>	4.3	4.6 (+0.3)	5.4 (+1.1)
Birmingham	17.8	18.8	21
<i>Gap to ED (change since 2011)</i>	3.1	3 (-0.1)	3 (-0.1)

2011 results based on latest available ONS data: 2009/11 life expectancy by local area. 2016 and 2028 results are TUC estimates based on average annual increase for each local 2000/02-2009/11, adjusted by expected change in average annual increase for all England population between 2002-2011 and 2011-2028 (derived from ONS 2010-based period and cohort life expectancy tables).

East Dorset is chosen as the comparator as it is the local authority area with the highest male life expectancy at 65.

Table A2: Female life expectancy at 65 by local area (years)

	2011	2016	2028
East Dorset (ED)	23.7	25	28.1
Manchester	18.8	19.3	20.3
<i>Gap to ED (change since 2011)</i>	4.9	5.7 (+0.8)	7.8 (+2.9)
Salford	19.1	19.9	22.2
<i>Gap to ED (change since 2011)</i>	4.6	5.1 (+0.5)	5.9 (+1.3)
Liverpool	19	20	22.2
<i>Gap to ED (change since 2011)</i>	4.7	5 (+0.3)	5.9 (+1.2)
Corby	18.6	18.8	19.1
<i>Gap to ED (change since 2011)</i>	5.1	6.2 (+1.1)	9 (+4.9)
Middlesbrough	19	19.5	20.7
<i>Gap to ED (change since 2011)</i>	4.7	5.5 (+0.8)	7.4 (+2.7)
Hull	19.4	19.9	21.1
<i>Gap to ED (change since 2011)</i>	4.3	5.1 (+0.8)	7 (+2.7)
Nottingham	20.4	21.4	23.8
<i>Gap to ED (change since 2011)</i>	3.3	3.6 (+0.3)	4.3 (+1)
Birmingham	20.7	21.6	23.6
<i>Gap to ED (change since 2011)</i>	3	3.4 (+0.3)	4.5 (+1.5)

2011 results based on latest available ONS data: 2009/11 life expectancy by local area. 2016 and 2028 results are TUC estimates based on average annual increase for each local 2000/02-2009/11, adjusted by expected change in average annual increase for all England population between 2002-2011 and 2011-2028 (derived from ONS 2010-based period and cohort life expectancy tables).

East Dorset is chosen as the comparator as it is the local authority area with the highest female life expectancy at 65.

Table A3: Male lifetime state pension receipt for 65 year-olds by geography

	2016	2028 (current timetable)	2028 (Pensions Bill)
East Dorset	£163,238.40	£172,224.00	£164,736.00
Manchester	£119,059.20	£119,059.20	£111,571.20
<i>% more received by ED resident</i>	37.1	44.7	47.7
Salford	£127,798.40	£128,793.60	£121,305.60
<i>% more received by ED resident</i>	27.8	33.7	35.8
Liverpool	£129,542.40	£138,528.00	£131,040.00
<i>% more received by ED resident</i>	26	24.3	25.7
Corby	£127,296.00	£128,793.60	£121,305.60
<i>East Dorset value</i>	28.2	33.7	35.8
Middlesbrough	£128,044.80	£130,291.20	£122,803.20
<i>% more received by ED resident</i>	27.5	32.2	34.1
Hull	£128,044.80	£131,040.00	£123,552.00
<i>East Dorset value</i>	27.5	31.4	33.3
Nottingham	£128,973.60	£131,788.80	£124,300.80
<i>% more received by ED resident</i>	26.7	30.7	32.5
Birmingham	£140,774.40	£149,760.00	£142,272.00
<i>% more received by ED resident</i>	16	15	15.8

Full single tier based on hypothetical 2012 rate of £144 per week.

Results are based on Table A1 data and assumptions.

East Dorset is chosen as the comparator as it is the local authority area with the highest male life expectancy at 65.

Table A4: Female lifetime state pension receipt for 65 year-olds by geography

	2016	2028 (current timetable)	2028 (Pensions Bill)
East Dorset (ED)	£187,200.00	£202,924.80	£195,436.8
Manchester	£144,518.40	£144,518.40	£137,030.40
<i>% more received by ED resident</i>	29.5	40.4	42.6
Salford	£149,011.20	£158,745.60	£151,257.60
<i>% more received by ED resident</i>	25.6	27.8	29.2
Liverpool	£149,760.00	£158,745.60	£151,257.60
<i>% more received by ED resident</i>	25	27.8	29.2
Corby	£140,774.40	£135,532.60	£128,044.80
<i>% more received by ED resident</i>	33	49.7	52.6
Middlesbrough	£146,016.00	£147,513.60	£140,025.60
<i>% more received by ED resident</i>	28.2	37.6	39.6
Hull	£149,011.20	£150,508.80	£143,020.80
<i>% more received by ED resident</i>	25.6	34.8	39.6
Nottingham	£160,243.20	£170,726.40	£163,238.40
<i>% more received by ED resident</i>	16.8	18.9	19.7
Birmingham	£161,740.80	£169,228.80	£161,740.80
<i>% more received by ED resident</i>	15.7	19.9	20.8

Full single tier based on hypothetical 2012 rate of £144 per week.

Results are based on Table A2 data and assumptions.

East Dorset is chosen as the comparator as it is the local authority area with the highest female life expectancy at 65.



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