Consultation Response

Age UK's response to the Independent Review of the State Pension age

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About this consultation

Under legislation already in place, women's State Pension age will be 65 from November 2018, 66 for both men and women from October 2020 and 67 from March 2028. Current legislation also increases State Pension age to 68 from April 2046 but the Government is looking at this again and will produce a report by May 2017. The Government's decision will be informed by a report from the Government Actuary's Department and the Independent Review of State Pension age led by John Cridland. The Review Team published its Interim Report on 13 October 2016. This sets out the context, considers the three pillars of affordability, fairness and fuller working lives and looks at the impact of changes to State Pension age for particular groups and possible ways to smooth the transition.

Summary and overview

This is a long and detailed consultation and in our response we have sought to do justice to the questions that have been asked. For the avoidance of doubt and to aid clarity below are a small number of key points that we believe it is important for us to draw out, many of which concern matters of principle. Taken together they can be fairly said to represent Age UK's position on the broader questions being raised in this review.

As you would expect, Age UK's primary concern is for those people who are most likely to suffer detriment from any rise in State Pension age – those who for a range of reasons, outside their control, will find it difficult or impossible to keep working or who are otherwise subsisting on an extremely low income. Our report from earlier this year, *Working Later, waiting longer,* explored a series of case studies to explain the issues some people can face. That report should be read alongside this response.

Key points:

The latest life expectancy figures are such that the case for bringing forward the rise in State Pension age to 68 now has not been made, in Age UK's view.

We do not think it is practical to vary State Pension age according to factors such as occupation or geography.

We think it is both possible and necessary to provide more protection to disadvantaged groups of people who are unable to work up until they reach State Pension age.

In particular we think that consideration should be given to helping two groups of people in this way: those who are entitled to ESA and who cannot reasonably be expected to work again; and others who have been caring for a long period of time and who are receiving Carer’s Allowance.

Because of the very real hardship experienced by some low income people who are unable to work as they approach their State Pension age we think that consideration should be given to granting them higher levels of means-tested benefits.

There is a pressing need for a more comprehensive and coherent package of training and support to help people aged 50+ to continue to work and to help those who are unemployed to get back into the labour market. This would be of great benefit to the economy as well as to the individuals concerned.

Although this review is concerned with the position after 2028 more needs to be done to help people approaching State Pension age now who are struggling to manage until they can receive their State Pension.

Changes must be communicated and people need time to adjust their plans and have the opportunity of achieving an adequate income in retirement. Age UK’s position has long been that people should have at least 10 years’ notice of any rise in their State Pension age; however, the fact that we now have a system of regular reviews in place means that it ought to be possible to extend this and we hope that the Government will seek to do so.

Introduction

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. The Age UK network includes over 150 local Age UKs reaching most of England. We provide information and advice to around 5.9 million people each year through web-based and written materials, and individual enquiries by telephone, letter, email and local face-to-face sessions. We work closely with Age Cymru, Age NI and Age Scotland.

Age UK believes that all current and future pensioners should have an adequate income in retirement. As a charity our focus is on the more disadvantaged groups, many of whom are reliant on the State Pension in retirement, so will be particularly affected by having to wait longer. This response has been informed by the views of people who have contacted Age UK about State Pensions and State Pension age and a small number of interviews we commissioned to explore issues in more depth. Some of their comments are referred to in this response and a fuller account is in our report ‘*Working later, waiting longer’.*[i]

We welcome the work of the Review Team led by John Cridland and are pleased to have the opportunity to comment. Below we have listed the questions and our comments, grouping these together in some cases.

Consultation questions and responses

1. Is our interpretation of the policy intent for the State Pension correct?

As set out in the Interim Report, the new State Pension is designed to provide a simpler flat-rate pension paid at a level above the basic rate of Pension Credit guarantee which can act as a platform for saving in retirement.

Age UK has been broadly supportive of the new State Pension. However, it is important to emphasise that while the new State Pension is higher than the standard rate of Pension Credit guarantee for a single person, it is only five pence higher. And it is only one element of the means-tested benefit system. Some disabled people and carers are entitled to a higher level of Pension Credit in recognition of their additional needs, while there is additional support to meet the cost of rent and council tax.

The continuing reliance on means-tested top ups can be seen in DWP projections in the 2014 Impact Assessment for the new State Pension which show that although entitlement to means-tested benefits will fall over time, 40 per cent of pensioners will still be entitled to Pension Credit, Housing Benefit and/or Council Tax support in 2040.[ii] So overall, while the new State Pension provides a higher pension for many with lifetime low earnings or time out of the labour market, people will generally need additional income to get by, and certainly to achieve the kind of lifestyle in retirement most want and expect.

Private provision therefore needs to be considered alongside State Pension policy. In particular, the 2017 review into automatic enrolment is of great significance, and to some extent must be considered alongside potential changes to the State Pension. The adequacy of savings depends on the amount built up, but also when people start to draw on these. If people leave the labour force and draw on savings to tide them over until a rising State Pension age then this will have an impact on the resources available later on.

More broadly, the aim of providing a State Pension (along with means-tested benefits if needed) can be seen as helping enable everyone to have some time in retirement and avoid poverty in later life. The State Pension remains the most important source of income for the majority of pensioners and is particularly valuable for lower income groups. The Interim Report shows that it provides around 80 to 90 per cent of income for people in the two lowest fifths of the income distribution in their first year of retirement

Comments from the people we interviewed in their 50s and early 60s demonstrate how important the State Pension will be to them. When asked what the State Pension meant to her, one woman we interviewed said ‘Freedom. That’s what it means for me’. Aspirations for retirement were modest – no-one mentioned cruises or foreign holidays – they wanted to take things a bit easier, spend time with family and friends, volunteer, and pursue hobbies.

The idea of being able to expect a reasonable length of time in retirement is reflected in the Government's principle that people should spend on average up to one third of adult life receiving the State Pension. On hearing this, people might assume that typically they might be in work for two-thirds of their adult life and retired for a third – that is for around half the time they have worked.

In reality, this will depend on people's circumstances. In our report *Working later, waiting longer* we demonstrate differences using two hypothetical men reaching 65 now, one in the top socio-economic group, and the other in the bottom group. The first went on to higher education after school, started work later, retired earlier because he has a good private income, and has a longer life expectancy. He has worked for 40 years and can expect to draw his State Pension for 20 years - half that time. In contrast, the other man started work at 15, worked for 50 years, but as he is in a lower socio-economic group can expect to receive his State Pension for around 16 years, just a third of the time he has spent working.

We also note that the Government's formula of increasing State Pension age so that people spend up to a third of their life receiving the State Pension is based on mean average life expectancy whereas the Pensions Policy Institute (PPI) has found a different picture if median measures are used. Based on 2014 mean life expectancy projections the PPI has suggested State Pension age would rise to 68 in 2042, whereas if State Pension age were based on when half of the population could expect to spend more than a third of their adult life receiving a State Pension, and a half less than a third, it would not rise to 68 until 2047.[iii]

The Government Actuary's Department has been asked to consider a scenario where people spend 32 per cent of their adult life in receipt of the State Pension as well as one based on a third of adult life.[iv] We believe that the Government should stick to a formula based on one third given the impact that reducing the average proportion of life receiving the State Pension would have on groups with lower than average life expectancies.

As well as being a payment that enables people to spend time in retirement, people we interviewed, and many who contact Age UK, see their State Pension as a return for the many years of contributions they have made. We question the sharp distinction made on page 81 of the Interim Report that a private pension is a 'property right', whereas a State Pension is an entitlement 'based on the rules approved by Parliament on the day'. Although it is a pay-as-you-go pension rather than a funded system, the State Pension still represents a means of redistributing resources across a lifetime. For example, an Institute of Fiscal Studies (IFS) report found the majority of State Pension spending reflects a transfer across individuals' lifetimes. The researchers state 'In a large part, spending simply reflects a redistribution of money across individuals' own lifetimes – similar to saving in a private pension but achieved instead through paying taxes during working life and 'in return' receiving a State Pension later'. [v]

2. How successful are other international policies? Are there any other policies that we could consider? How should the UK policy on State Pension age take these examples into account?

Others will be better qualified to respond to this question.

Affordability and expenditure – questions 3 and 4

3. 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?

4. Is the Pensions Commission's assessment of the proportion of GDP expenditure on pensioner benefits, over time, still valid, when considering State Pension age affordability post-2028? Is State Pension age the best tool to maintain a steady GDP proportion for pensioner benefits?

The Interim Report gives projections of the 'dependency ratio' as measured by the number of people who have reached State Pension age compared to the number of people of 'working age'. We do not feel this is an appropriate way to look at affordability. The dependency ratio paints an inaccurate picture of the contemporary labour market – and creates a false stereotype of older people. For example, approximately 1.2 million people are now working past State Pension age and they are excluded from this measure. There are alternative versions of such ratios, for example, those that compare employment and inactivity across the whole population and do not factor in age, which we believe are more helpful measures.

There should also be recognition that paid work is not the only way that people make a contribution to our economy and society. Age UK analysis found that in 2014 people aged 65+ contributed approximately £30 billion a year, through informal caring activities, childcare and volunteering, in addition to £50 billion through paid work.[vi] This can be seen at the individual family level. People who are retired but providing care for a relative make a major contribution by limiting the need for costly formal care, while many grandparents provide childcare which enables their children to go out to work, or work longer hours.

The consultation paper asks about ‘trade-offs’ between earlier access, a more generous increase, or ensuring most people can receive the full State Pension. Age UK approaches this question from the perspective of the more disadvantaged current and future pensioners.

Lower income groups are likely to have lower average life expectancies and will therefore be more affected by rises in State Pension age as discussed elsewhere in this response. In terms of the uprating policy, the triple lock is described by some as ‘unsustainable’.[vii] While the formula is certainly more favourable than that used for social security benefits for younger people, it is important to note that other elements of pensioners’ incomes are likely to fall in real terms over their retirement. Government expenditure projections assume the triple lock remains in place, but even so, over time the new system will cost less that the pre-2016 system, (and that is not taking into account higher national insurance receipts from the abolition of contracting out).

If the triple lock remains in place it will particularly benefit younger people retiring in the future. For example, the Pensions Policy Institute (PPI) has calculated that a younger person with lower earnings has a 63 per cent chance of achieving an adequate retirement income if the new State Pension is increased by the triple lock, but this could fall to 36 per cent if it is linked with earnings.[viii]

In time there may be a case to review the triple lock, for example, some people have suggested reconsidering the 2.5 per cent underpin. However, any review needs to be based on a full picture of the impact. The projections in the Interim Report show how important the State Pension is for the retirement income of younger generations, particularly women (Figure 8). These assume the triple lock will continue and look just at the first year of retirement. It would be helpful to also have projections of total pension income based on different uprating mechanisms over the course of retirement for the different generations, and also to look at the impact on poverty rates.

In terms of coverage of the new State Pension, the Report notes that by 2028 around 90 per cent of people will qualify for the full amount. We do not have information about those who are not on course to receive a full State Pension but they are likely to include people who have not been in the UK all their lives, some who have had complicated lifestyles, for example with periods of very low earnings below the lower earnings limit, as well as others who have not needed to work all their lives due to other financial resources or a high earning partner. If the number of years of contributions needed for a full pension was increased then more people would face low income and reliance on Pension Credit, while if the number of years was reduced, coverage would rise but more working people who have paid contributions for more than 35 years may question why they are still paying national insurance. In the absence of further evidence we feel 35 years is a reasonable balance between a pension based on a very lengthy period of work and/or care, and a system where virtually everyone receives the full amount.

In conclusion, either a rise in State Pension age or a different system of uprating will disproportionately affect those with the lowest incomes. It is therefore difficult for Age UK to argue for trade-offs within the State Pension system. We have an ageing population and we may need to consider an increasing proportion of GDP going towards State Pensions and other support. We note that although costs may be rising, UK spending on the State Pension is lower than in many countries. OECD data shows that the UK is 24th out of 35 countries in terms of the percentage of GDP spent on 'old-age and survivors benefits'.[ix]

Future generations and intergenerational fairness – questions 5 and 6

5. Are there any other issues around opportunity to achieve adequacy for future generations that we need to consider? How can we best take into account wider economic impacts, for example, the likelihood of low interest rates in pension outcomes or the changes in housing costs and overall wealth distribution?

6. Are there any other factors that may impact the value of the State Pension for each generation?

The consultation looks at the position of three generations – Baby Boomers (born 1945-1965), Generation X (born 1966-1979), and Generation Y (born 1980-2000). It refers to the importance of fairness between workers and pensioners and warns of the danger of the financial and social contract breaking down if 'the State Pension is not enough for pensioners or the costs too much for workers'.

Age UK believes it can be valuable to compare the circumstances of different generations but it is important to be careful how this information is used. Dividing the whole population aged 15 to 71 into 3 groups is a somewhat arbitrary exercise, (for example, a 51 year old falls into the category of 'Baby Boomer' but is likely to have more in common with someone in their late 40s than someone of 70), and looking at groups by age or date of birth alone misses the wide variation of circumstances within these groups. For example, Analysis on Radio 4 explored issues of fairness for different generations and looked at whether there should be changes to State Pensions, but presenter Paul Johnson, Director of the IFS, also said '… the really big disparities remain between the rich and the poor in each generation. The gap between rich and poor 30 year olds or indeed rich and poor pensioners is vastly greater than the gap between different generations on average.' [x] The Interim Report sets out projected state and private pension income levels for the different generations. Median State Pension income is higher for later generations (assuming the triple lock stays in place) and projected median private pension income is highest for Generation Y. This might seem surprising given some commentators have suggested young people are likely to be worse off than their parents.[xi] The explanation given is that, while younger generations are less likely to have high levels of defined benefit pensions, there will be wider membership of defined contribution pensions following automatic enrolment.

However, it is important to note there are uncertainties around such projections, especially when considering the likely future income of younger people many years from retirement. There will be changes that we do not know about, and others that we are aware of but the impact is unclear. For example, the trend away from defined benefit to defined contribution pensions and the greater flexibility in drawing private pensions make it harder to estimate the income people will have in the future, and the changing nature of the labour market such as the increase in self-employment, including through the gig economy, may reduce the proportion with private provision unless a way can be found to include them in auto-enrolment.

As pointed out in the Interim Report, wider economic circumstances, including housing costs and wealth, also have an impact. Many younger people are facing high rents and find it hard to buy a property unless they have family help, while some Baby Boomers have benefited greatly from rises in property prices. Wealth inequalities are greater than income inequalities and this can be seen as an area of intergenerational unfairness. However, property and other wealth are likely to be passed on to family member (during lifetimes and as inheritances) and as a consequence this is likely to lead to greater wealth inequality within future generations. IFS analysis looking at the position of different cohorts concluded 'inheritances look like the major potential reason why the later economic position of cohorts born in the 1960s and 1970s could yet turn out better than that of their predecessors'. However, those who already had relatively high levels of wealth were most likely to benefit from inheritance.[xii]

While housing wealth can be a useful asset to draw on in retirement, it is clear that not everyone can do this, now or in the future, especially as the proportion of people renting in retirement is increasing – the Centre for Housing Policy at York University has estimated that by 2040 a third of 60 year olds will be doing so.[xiii]

In conclusion, the uneven distribution of wealth makes it all the more important that the State Pension is maintained as a strong foundation for retirement security for future generations.

7. Are replacement rates linked to pre-retirement income a good measure of adequacy for the future? What would be the most relevant alternatives?

Adequacy levels based on pre-retirement income such as those put forward by the Pensions Commission can provide an indication of an appropriate retirement income, but as the Interim Report suggests, may not be the best measures, especially in a changing environment where more people phase their retirement, and pension savings may be drawn in advance of State Pension age rather than annuitised. Another concern with income-replacement measures is that those with very low lifetime earnings may be considered to be well provided for despite very limited pension income and high outgoings (with a health condition and living in a ‘hard-to-heat’ home, for example). On the other hand, those with very high pre-retirement incomes can be seen as having inadequate resources, even if their pension levels are much higher than average and allow them to have a good standard of living.

There is an array of different measures of adequacy, many developed by academics and using complex statistical techniques, each of which reflects different factors. Although Age UK does not at present argue for any one particular method, we believe that an adequacy measure can only be considered appropriate if it reflects the spending needs of average and below-average income of older people once they have stopped working. Any measure must reflect standard of living fairly and sensitively, and be flexible enough to consider people in differing circumstances.

One approach is to use broad benchmarks setting out income needed for certain standards of living. The Joseph Rowntree Foundation (JRF) regularly produces minimum income standards as a way of establishing the income levels people in different groups typically need to avoid poverty, while other organisations have looked at resources needed for a reasonable or comfortable life. For example, a 2014 report by NEST suggested a household income of £15,000 a year seemed to be the level of income typically needed to provide ‘comfort and financial stability in retirement’.[xiv] These benchmark measures could be combined with more in-depth analysis based on individual circumstances taking into account costs and expectations.

8. What evidence is there to suggest "burnout" is a feature of certain professions and what are the alternatives for workers in those roles? How can FWL strategy support best the transition required, if that is the case?

There are undoubtedly people who find it difficult or impossible to continue working longer due to the physical nature, stress or other factors linked to their job. However, it would be difficult to identify particular jobs or professions which require specific policy interventions or special treatment. Demands and pressures will depend on the location and nature of the role, not just the job title or job description. For example, a job such as 'sales assistant' could be mainly sitting at a till or could involve lifting heavy stock and long periods standing. There is also variation between employers in their ability to help workers change roles. For example, a hairdresser working for a large chain might have the opportunity to move to a desk-based role if they become physically unable to stand for long periods, whereas a small employer may not be able to offer an alternative role.

The Interim Report suggests knowledge workers, for example teachers, are a group who might face particular issues. We are not in a position to comment on this but feel that while some people will be under great pressure, it is difficult to conclude that everyone in certain professions will be in the same situation, or to identify specific jobs where 'burnout' is likely to occur. If this is the case, then the way forward may be to look at making adjustments to workplaces or ways to facilitate career change.

Our view is that all workers should be offered a personalised mid-life career review. This would give them the opportunity to discuss their aspirations and receive help to consider work options going forward and provide a chance to explore a change in direction, retraining, or flexible working, rather than wait until they are forced to make decisions because they can no longer do their job. It could also include a brief consideration of people's pension saving, helping plan a transition to retirement as might be desired.

In conclusion, we do not think it would be workable to have different State Pension ages for different jobs or professions, because it is hard to define these accurately, it assumes people remain in the same line of work, entrenches ageism, and it may provide a disincentive to retraining.

9. To what extent can a delay in State Pension age act as a direct mechanism to enable Fuller Working Lives? What factors would increase the likelihood that people remain in gainful employment during any such delay?

The consultation paper refers to analysis by the IFS which found that a one year rise in women's State Pension age increased women's employment rate by 7.3 percentage points (and the probability of unemployment by 1.3 percentage points)[xv] although we are yet to see if this trend has continued. Increasing State Pension age is one way of putting pressure on people to work longer but there are also ways to encourage this. For example, employers have an important role, through improved initiatives like accessing flexible working[xvi] and their HR policies.

Current government policy has very much focussed on employee retention – keeping people in work. While this is one important aspect of longer working lives, there has perhaps been a lack of attention on other areas. For example, unemployment can often be particularly problematic for people aged over 50, who find it harder to get back into work than do younger age groups. As the recent Age UK policy briefing *Helping 50+ jobseekers back to work: lessons from the Work Programme* [xvii] shows, the current government flagship scheme for the long-term unemployed has failed to deliver satisfactory outcomes for older participants. As State Pension age rises, the numbers of older unemployed people using government and private back-to-work services will increase, and it is essential that these are designed to meet the specific needs of older claimants, as outlined in the briefing.

Training is essential for helping people stay in work. In recent years the Government has had a near-total focus on Apprenticeships, which are not generally aimed at older workers. Such training is unlikely to be appropriate for the majority of people in their 60s, we would like to see urgent consideration given to what training provision is appropriate to address skills shortages among older workers. It is important to consider how the training is delivered as well as the content, especially the respective roles of employers and the government. At present there is far too little learning and training taking place among the over 50s, in spite of many people recognising the role that this can play in improving their employment prospects.[xviii] [xix] Training should include digital skills, as more than one in ten people aged 50-65 have never been online. Our aspiration is that everyone should reach State Pension age with digital skills, as it becomes so much harder to acquire these skills in retirement.

Life expectancy and health life expectancy – questions 10 to 13

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

11. Do you think that regional factors have an impact on Life Expectancy and how? How should the Government factor in the combination of regional and socio-economic factors?

12. Are Healthy Life Expectancy and Life Expectancy improving sufficiently for the majority of the population? Are there specific aspects of Healthy Life Expectancy that would directly interact with State Pension age and how?

13. The Pensions Commission suggested that lower Life Expectancy should be tackled through improvements to health and occupational health. Do you agree? How should we take into account the Life Expectancy and Healthy Life Expectancy information when considering State Pension age?

There is inevitably uncertainty in life expectancy projections and the slowing down of changes to mortality rates seen in the 2014-based projections show that we cannot assume improvements will continue to rise at the rate once expected. The Interim Report suggests that, based on the latest projections and the Government's principle of up to a third of adult life receiving the State Pension, State Pension age would reach 68 by 2041, five years later than estimates based on earlier projections. Given this uncertainly we do not see that it is necessary to introduce legalisation to bring forward the rise in State Pension age to 68 this Parliament as there could be a further slowing down in life expectancy projections.

There are significant differences in life expectancy depending on where people live and also between social groups, however we do not believe that these could be used as a basis for setting different State Pension ages. It would be difficult to know where to draw boundaries between areas, and people move during their lifetimes. Similarly, people may move between types of job, or be hard to classify, for example, because they have been a carer for many years.

There are also big differences between groups in terms of healthy life expectancy and disability-free life expectancy. For example, in 2012-14 in England, men in Dorset who had reached the age of 65 could expect 13.6 years in good health, while for those living in the London borough of Newham the number was just 5.4 years. For women aged 65, Richmond upon Thames was the local authority with the highest healthy life expectancy at

16 years, while Tower Hamlets had the lowest at 6 years.[xx] There are also differences in deprivation and disability within and between the different countries within the UK.

The people we interviewed for our *Working later, waiting longer* report were well aware that years in retirement are not the same as years in which they would be healthy enough to have an active later life. They worried that when they did eventually reach retirement they would not be fit enough to do things such as looking after grandchildren.

We agree that wider health and support policies are needed to try to reduce the major inequalities that exist, both in terms of regional variation and between different groups in society. We would also like to see much greater investment in public health to reduce these health inequalities, and to enable fuller working lives. In January 2015, the Richmond Group of Charities (of which Age UK is a member) commissioned the 'PROMISE' study, an in-depth research project looking at long-term conditions in the UK undertaken by the British Heart Foundation Centre on Population Approaches for Non-Communicable Disease Prevention. The report found that meeting the World Health Organisation's goal of a 25 per cent reduction in mortality by 2025 would result in an extra year of healthy, disability-free life for 1.12 million people in the UK – and models in depth four interventions that could make significant progress towards achieving this.[xxi]

However, while inequalities persist we also need to consider how State Pension age policy can enable the majority of people to make the most of a period of retirement. We are interested in the idea of early access to the State Pension for some groups as discussed further below. Some measure of the differences between life expectancy and healthy or disability free-life expectancy, or between socio-economic groups, could provide a useful benchmark to establish at what age the State Pension might be paid under an early access scheme.

Groups most impacted by a rise in State Pension age

Questions 14 to 18 look at the position of people who are most likely to rely on their State Pension in retirement which correspond to groups that the Pensions Policy Institute (PPI) describes as 'under-pensioned'.[xxii] The people we interviewed for our report *Working later, waiting longer*, provide individual accounts of life for some in these groups.

While they face different challenges the groups all have difficulties building up private provision. This is generally linked to a combination of factors including lower than average employment rates, lower earnings, part-time work, limited access to workplace pensions, and periods when they cannot work at all. Specific issues are considered under the different questions.

14. How can we best take into account the impact of caring responsibilities in later life and specifically within the decade prior to State Pension age?

Many people have some form of caring responsibilities in the decade before State Pension age which can have an impact on their ability to work and their future retirement income. This is likely to increase given the ageing population, longer working lives, and cuts to social care budgets – helping people remain in work (and get back to work once their caring responsibility ends) needs urgent attention. Otherwise, the burden of supporting carers will fall largely on the state and on carers' private resources. This would be a bad outcome for employers who would have a reduced talent pool from which to fill their vacancies and improve productivity.

Analysis set out in our recent report *Walking the tightrope: the challenges of combining work and care in later life* finds: [xxiii]

- As little as five hours caring per week has a significant impact on someone's ability to stay in work.
- Women are more likely to be carers than men, but there are also significant numbers of male carers.
- Men experience a sharper withdrawal from the labour market than women, who are more likely to reduce their working hours rather than stop work altogether.
- Men and women who are caring for over 10 hours per week are more likely to leave work altogether than reduce their working hours.
- Caring is more likely to affect the employment of lower-skilled occupational groups, who on average cut their working hours by 1.6 per week, whereas carers in professional and managerial occupations on average made no change (controlling for hours worked and other factors).

For older workers who start providing care, staying in work can be crucial. The 'retention' issue has been the focus of the DWP's Fuller Working Lives strategy, and we hope that the forthcoming updated strategy, due to be published in early 2017, will continue working on many of the key issues. Combining work and care is often challenging, but there are measures that can be taken by the government and employers that can mitigate the difficulties people face. We hope that this review will consider how some of these measures can be progressed by government in order to achieve a fairer deal for carers. This includes back-to-work support and improving employers' recruitment processes, which at present are an obstacle for many carers as well as ex-carers attempting to return to work.

Our *Walking the tightrope* report recommended various measures including a statutory entitlement to five days of paid carers leave, plus a longer period of unpaid leave. Carers in our focus groups saw this as being crucial for allowing them to stay in the same job, and striking a fair balance between avoiding financial hardship and job security.

Age UK has called for all jobs to be 'flexible by default'. This would allow workers to assume that a job can be done flexibly, unless the employer can justify otherwise, and extend the right to request flexible working to day one of a job and during the recruitment process. We believe it would improve the uptake of flexible working opportunities among lower skilled workers in particular, who are less likely to be able to work in patterns that suit their needs, and empower carers to approach their employer.

Carer's Allowance should also be reformed to provide better incentives to work. Many carers in our focus groups found themselves tempted to ensure they earned under £110 per week so as not to lose benefit. And given that eligibility starts at 35 hours of caring per week, there is a significant gap between the point at which caring impacts on work (and hence earnings) and the point at which the carer can claim a supporting benefit.

Those carers who are not able to work will need to rely on benefits, support from others such as a partner, or private provision. For people in their 50s and early 60s this could mean starting to draw on retirement savings, or accessing a private pension. For example, a woman we interviewed who was only 53 was considering drawing her private pension as soon as she could in order to enable her to work less and provide more support for her mother.

It is unacceptable that someone providing 35 hours of care a week, and often far more, receives Carer's Allowance of just £62.10. People who are not able to work in the years before retirement miss out on opportunities to increase their retirement savings and should not be in a position where they have to draw savings already built up to make ends meet. The Government needs to look at the level of financial support for carers to ensure they are able to continue their vital role. We also strongly believe that those who have spent some years caring and are not able to work until a rising State Pension age should have some protection as considered in our response to question 25.

15. How can we best take into account the impact of poor health and disability in later life and specifically within the decade prior to State Pension age?

As the consultation paper points out, people with poor health or disabilities face difficulties staying in the labour market and this has a knock on effect for private pension provision.

The decade before retirement is a key time. Some of the recommendations we made above in relation to carers, such as introducing a ‘flexible by default’ system, would also help ill and disabled people. There also needs to be suitable alternative jobs for people who cannot continue in their current role, for example because of physical or other demands. The Government recently published *Improving Lives: The Work, Health and Disability Green Paper.* This gives a picture of the current position and sets out ambitious plans to halve the disablement employment gap though working across government departments and with employers, and improving employment support.[xxiv] Age UK will be looking at the Green Paper and responding to the consultation.

We believe that there are many advantages to helping disabled people remain in work or get back to work – both for them, and for society in general. However, State Pension policy needs to recognise that not all will be able to work, or to work without detriment to health. We consider later how State Pension age policy could recognise this.

16. How would any State Pension age changes affect the self-employed in the future? How can we take into account the very diverse profiles in this group?

Self-employment is growing in particular among the over 50s. For some this is good news, bringing flexibility and an opportunity to apply their skills and experience; for others it is less attractive, for example, people who are forced to work on terms and conditions that are detrimental to their wellbeing and their financial security.

Self-employed people are one of the groups that the PPI describe as ‘under pensioned’.[xxv] On average they have lower earnings than those in employment but they are a diverse group and there are great variations in income at either end of the earnings range. The PPI report shows that self-employed people tend to have lower levels of private pensions and this will be linked to their lower earnings, insecurity of income, and the lack of access to employer contributions and automatic enrolment. Some will have substantial business assets but many do not, and the proportion paying into a private pension has reduced.

On the other hand, self-employed people are one of the groups that benefit most from the new State Pension. Under the old system the maximum that someone who has been self-employed all their lives could receive is the basic State Pension (currently £119.30 a week) whereas under the new system someone with at least 35 years of contributions will receive the full amount of £155.65 a week.

We have concerns about the ability of many self-employed people with low and modest earnings to build up adequate retirement incomes, but this mainly relates to private rather than State Pension provision. There are self-employed people who find it hard to work until their current State Pension age and will face further difficulties if this rises, however, issues are likely to be linked to factors such as the physical nature of their work and caring responsibilities, the same ones that affect employed people. And people may move between employment and self-employment. For these reasons, we do not see that it would be practicable or desirable to treat self-employed people differently in terms of the State Pension, although we welcome the commitment to consider the self-employed in the auto-enrolment review.

17. Does ethnicity affect pension outcomes? Are educational outcomes improving for ethnic minority groups and how is this likely to translate into both improved employment rates, earnings, and ultimately retirement income? Are there any other data or consideration that you can contribute that might be significant in our consideration of ethnic minority impacts from a change in State Pension age?

As noted in the Interim Report, people from ethnic minorities tend to have lower than average pension incomes and there are also differences between minority groups. The PPI Under-pensioned analysis shows how this is linked to disadvantage in terms of lower labour market participation, earnings, and private pension provision. And immigration patterns will mean that some ethnic groups are more likely to have moved to the UK later in their working life, so may have incomplete State Pension contribution records as well as more limited time to build up private savings. All these factors suggest that many ethnic minority groups will be particularly affected by a rise in State Pension age, and for those with very limited resources, a rise in Pension Credit age. However, as with differential life expectancy by socio-economic group and region, we believe it would not be possible to have differential State Pension ages based on ethnicity and that the causes of inequalities should be the focus of attention.

18. What is the best way to take into account the lower pension outcomes for women in our recommendations?

Women on average have lower pension incomes than men, mainly due to the differences in private provision. Projections in the Interim Report show these differences are likely to persist over time. Indeed they will increase for Generation Y as, while State Pension levels will be broadly equal, the gender gap between private pensions is expected to rise. Caring responsibilities remain a key factor in women’s lower pension income and the PPI has shown that the employment rate among women aged 20 to 40 is considerably lower for those who have children compared to those who do not. Credits for caring generally protect people’s State Pension record (although we have yet to see if 2010 changes limiting the protection for childcare to those with children under the age of 12 will have an impact). However, private provision is affected because women are less likely to be in work, if they do work are more likely to work part-time work, and tend to have lower wages.

General comment on different groups

While different factors affect the groups considered above, they share a greater reliance of State Pension income due to lower private pension provision. This links to earnings levels, labour market engagement and access to workplace pensions. Self-employed people are the group specifically excluded from automatic enrolment, but the PPI has shown that among people in the workforce, those from ethnic minorities, women, carers, and disabled people are less likely than other employees to be auto-enrolled, mainly due to low earnings. It is also important to note that this research does not include people who have had significant periods of unemployment, and further work is required to determine the likely retirement income for people in this position.

Addressing overall income gaps will require consideration of employment and private pension policies. In respect of private pensions auto-enrolment has so far been very successful in increasing pension saving, but it does not cover all workers and many need to save more. We are pleased that the forthcoming review of auto-enrolment is looking at excluded groups.

There also needs to be more attention paid to the transition to retirement and the process of how people access their pension savings at retirement. The ‘freedom and choice’ flexibilities have transformed the landscape from when auto-enrolment was first designed. Inertia has proven to be a successful tool for encouraging people to save but it is likely to be less successful at retirement where people need to develop an understanding of their options and the products available. It is clear that some people who are not able to stay in work will draw on their retirement savings in order to manage until an increasing State Pension age and then have less to live on later on. We would like to see more analysis of the impact that the changes are having on overall future resources for different groups.

In time, we hope that people in under-pensioned groups will have better opportunities to work and save, but they are still likely to be reliant on their State Pension, and any rise in State Pension age will have a greater impact than it would for others who have had full working lives, higher earnings, and opportunities to build up good private pensions. As one man who had been caring for his mother for some years told us ‘Everything about the future depends on the State Pension’.

19. For older workers in particular, the adequacy of income in retirement may be best considered at a household level. However, when planning future changes to the pension system, how reliable is this assessment now and how reliable will it be for future generations?

The majority of people will reach State Pension age in couples and most are likely to consider their resources jointly when planning. However, people’s status can change due to relationship breakdown or bereavement. If people move from living as a couple to being a single person household this can have a major impact on finances especially, for the partner with lower individual income. Women are particularly likely to be in this position given that, in general, they have lower incomes and, on average, live longer than men. In the past widows could often receive support based on their late husband’s national insurance contributions or workplace pension scheme, but defined benefit schemes providing a pension for a surviving partner will be less common in the future, most annuities are single life, and the freedom and choice changes may result in more pension funds being drawn earlier or in a form which does not provide a survivor’s income. Furthermore, unlike the old system, the new State Pension is broadly speaking an individual entitlement without provision for partners or surviving spouses. For these reasons it is important that pension policy is based on individual entitlement.

20. Is it appropriate for this Review to include in its considerations the entry point for all the welfare policies that are linked to State Pension age? Which ones should be excluded and why?

The consultation paper lists 12 entitlements which are linked to age (some of which are due to be replaced by Universal Credit). Our complex social security system has built up over many years and includes different types of support including contributory benefits, means-tested benefits, non-means-tested benefits linked to disability or caring, and specific age-related benefits. We believe that means-tested benefits and income maintenance benefits should be considered as part of the Review alongside State Pension age, but not the other ones listed for the reasons set out below. (Note that there are some differences in benefit systems between the different UK countries).

Disability costs benefits

Disabled adults may be entitled to one of the following benefits to help with the extra costs of disability: Attendance Allowance (currently paid to people 65+), Personal Independence Payment (PIP - for people disabled before the age of 65), or Disability Living Allowance (DLA - the predecessor of PIP and still in place for those aged 65+ who were already receiving it on 8 April 2013). Criteria and levels vary, in particular the maximum level of DLA or PIP is £57.45 a week more than the maximum rate of Attendance Allowance as people disabled after the age of 65 cannot receive support based on their mobility needs. Age UK has long argued this is very unfair but, in the context of the current rules, we would expect the age at which people receive Attendance Allowance to continue to be linked to age 65 (State Pension age after equalisation).

Additional age-related one off payments

The Winter Fuel Payment is the only specific social security benefit based solely on age that is available only to older people. It is linked to women's State Pension age but the level has been frozen for many years, and while it makes an important difference to many older people, its overall contribution to retirement income is limited. Responsibility for free TV licences is being transferred to the BBC, Cold Weather Payments are linked to receipt of means-tested benefits and not just paid to older people, and the Christmas Bonus is only £10 a year and goes to a range of benefit recipients. While no doubt there will be further debate about these payments going forward, we feel it could be a distraction to the work of the Review team to consider the age at which these are paid.

Income replacement and means-tested support

We do however, believe that the Review should consider the benefits that provide regular income to those unable to work before State Pension age (or women's State Pension age prior to equalisation) and the additional means-tested support available to people who have reached State Pension age.

The table on pages 80-81 in the consultation paper shows that, for those who are not in work, the levels of State Pension and pensioner means-tested benefits are higher than benefits for younger people. As considered further later, earlier access to the higher rate of pensioner support is one approach that could be used to protect disadvantaged groups on low incomes from rising State Pension age if they are not able to work, or cannot find a job – an issue considered further in our response to question 25.

21. How far should this Review take into account impacts on occupational scheme rules? What are the most significant challenges for those pension schemes if State Pension age is changed?

Others will be better qualified to respond to this question.

22. What are the alternatives to a universal State Pension age? How can they be designed and implemented so that both the principles of Affordability and Fairness are retained?

Some of the people we interviewed about State Pension age felt strongly that there should be an individually based approach to when people receive their State Pension, taking into account factors such as health and occupation. As one man said 'At the end of the day you've just got to… take into account individual health'. Age UK has a lot of sympathy with these views. As set out in the Interim Report, life expectancy and circumstances vary considerably and chronological age is not necessarily a good indication of health and capabilities. In theory it would be possible to have a more individualised approach in line with private provision. Annuity rates can differ depending on someone's health, whether they are a smoker or their postcode, while occupational pensions can provide early access on health grounds. And more generally, people now have much more flexibility about how they access their private pension savings.

However, in practice, with a large national scheme where several hundred thousand people reach State Pension age each year, we feel a system based on individual assessment is not realistic. As discussed earlier, it would be difficult to find a fair and practical way of basing State Pension age on factors such as occupation or where someone lives. Instead we believe there should be options to protect certain groups.

23. What other factors and trends are increasingly relevant and will be prevalent in the future when considering an appropriate retirement age for individuals?

The age at which someone retires, or starts to phase their retirement, will vary for individuals. People may continue to work for positive reasons, for example, because they enjoy the social interaction, want to keep active and find work fulfilling, or they may feel they cannot afford to stop working. On the other hand, the decision to retire may be based on good financial resources or being forced out of work for reasons such as ill health. For many people it will be a combination of factors that influence their decision.

We agree with the issues that the Interim Report has highlighted as important – the nature of work, increasing freedom to access private pension provision, longevity and health, caring and possible changes that will have an implication for adequacy.

However, there are also other trends, such as long-term unemployment specifically and unemployment generally, and 'worklessness' – i.e. all those who are unemployed and inactive – that are important to understand in more detail. Many older people who are not in work do not define themselves as being unemployed, even though they are in fact searching for work, and this results in a complex interaction between the different economic statuses making it harder to understand the true meaning of different trends.

For example, Age UK research has found that in spite of positive trends in the employment rate among the over 50s, people are in fact working fewer hours that in the past which is likely to impact on their income. This may partly be for positive reasons, for example more people accessing flexible working, but also partly for negative reasons, such as people being forced onto zero hour contracts. It is not sufficient to look at the employment rate in isolation and conclude that because the proportion of people working has risen then everything is well. A deeper understanding is required.

There are other issues within the labour market that need to be clearly defined and examined in more detail, for example, flexible working. We often hear from politicians and the media about increasing flexibility in workplaces – however flexibility from the employer and employee perspectives often mean different things, and in terms of helping people to work longer it is important to make a distinction. This Review should consider the employee perspective – good flexibility here often means employers/line managers who are supportive and receptive to changes in working patterns (wherever their business needs allow this), delivered through a variety of working patterns. One particular issue for concern is that lower skilled workers find it much harder to access flexibility than their professional/managerial counterparts, which has important implications for raising the State Pension age. The Age UK report '*A means to many ends: older workers' experiences of flexible working*' has more detail on flexible working.[xxvi]

And overall, these changes mean that working lives and pension provision are becoming more complex, so people will need increased information, advice, and support to make decisions. We would like to see a joined-up journey for information and advice, starting with a mid-life career review, at-retirement pensions guidance and a later life health check, and would like to see the Government build such a journey into its plans for public financial guidance.

24. Is there any evidence that these Government policies have any impact on the decision to work longer? What other policies can Government adopt alongside the Fuller Working Lives strategy to strengthen Fuller Working Lives outcomes, for example supporting profession transitions and incentives to work longer for low earners?

The Fuller Working Lives policy has successfully engaged a number of blue-chip companies to improve their policies for older workers. However, more attention needs to be placed on engaging smaller employers, as they make up the majority of employers. The

Government should consider appointing a small business champion for older workers, to look at specific policy interventions.

Also, as noted earlier in this response, Fuller Working Lives has focussed on retention, and there are still gaps around recruitment and re-training issues. In particular, where people are trying to move back into work after a spell out of work, there are significant age-related barriers which have not been sufficiently addressed through Jobcentre Plus or the Work Programme.

Long-term unemployment remains a particular problem for people aged 50 and over, with 43 per cent of those who are unemployed having been so for more than a year, higher than any other age group.[xxvii] New Age UK analysis demonstrates that the Work Programme has not delivered sufficient support for this group. Recommendations for the design of the Work and Health Programme are included in Age UK's report.[xxviii]

The benefits system also has a role in ensuring that work always pays. Universal Credit aims to do this but roll out has been slow and changes to the original scheme have reduced the financial incentives to work. And for older people receiving benefits there is virtually no incentive to work. A single person receiving Pension Credit will have their benefit reduced pound for pound aside from a minimal disregard of £5 a week. This level has been unchanged for over 25 years, and is something that Age UK believes needs to be reformed.

25. What approach is more appropriate in your view, if we were to protect impacted groups? Should we consider ways to remove any barriers to building their own private retirement income or to support them through the welfare system or is there another approach altogether? Why?

Earlier we looked at the need to consider the adequacy of private pensions and ways to ensure lower income groups are able to build up saving, but State Pension income will remain very important. There is a strong case to introduce protection for certain at risk groups and we consider some of the options to do this here. We appreciate that this would increase complexity but this will be lessened if protection is linked to receipt of, or assessment for, other DWP benefits.

Early access after a certain number of years of contributions

The Interim Report gives, as an example, a system with access after 50 years of NI, while PPI modelled a State Pension based on 45 years. Alternatively, a different figure could be used based, for example, on a set number of years below standard State Pension age. We believe this approach is worth exploring further as a way of protecting a section of the population who started work at a young age and are dependent on their State Pension.

Reduced pension at an earlier age

Currently people can defer drawing their State Pension in order to receive a higher amount later, but cannot choose to receive a reduced pension earlier. Allowing flexibility before and after State Pension age would be consistent with flexibilities within private pension systems and could be of particular benefit to people with lower life expectancies. However, we think there is a risk that general early access could result in the lower age being seen as the default State Pension age, and there would be complex decisions to be made about how means-tested support would be affected. We cannot envisage the Government allowing people to receive their pension early and then draw the full level of Pension Credit to make up the shortfall, yet any reduction in levels of benefits could mean people end up living on incomes below the accepted minimum. For these reasons we do not see this as the way forward.

Early access for particular groups close to State Pension age

We believe one of the most promising approaches would be to allow early access for two particular groups – people entitled to ESA who are ill or disabled and cannot reasonably be expected to work again, and older carers who have been receiving Carer's Allowance for a specified time. PPI modelled the outcome if people on these benefits could draw their State Pension three or five years before State Pension age, although different periods could be used.[xxix]

In terms of ESA claimants, as set out above we believe it has to be accepted that for some people work is not realistic or beneficial and it is better for the individuals and the system that such individuals are able to draw their State Pension and retire early with dignity.

Being a full-time carer is often physically and emotionally draining, it would therefore be reasonable to consider earlier access to a State Pension when someone had been caring for say at least 5 years. Even if caring responsibilities subsequently end before they reach the standard State Pension age, it is likely to be difficult to return to work and we believe it would be right to enable someone to continue to receive their pension rather than having to attempt to go back to work again for a short period – unless of course they wished to do so.

Enhanced working age benefits

The Interim Report suggests one option would be additional amounts within means-tested benefits for some groups such as carers. An alternative approach would be to allow earlier access to Pension Credit – this would have the advantage of reducing the burden on the administrative systems and individuals by removing work conditionality, although we recognise some might criticise this approach on the grounds that it could encourage people out of the labour market sooner.

We believe earlier access to higher levels of means-tested benefits should be explored further in order to provide additional support to low income individuals who are seeking work but have not yet been able to find a job and those unable to work. It would, for example, be possible to link this to differences in average life expectancy between highest and lowest socio-economic groups (for men this is around four years based on the latest figures). This could be reviewed along with State Pension age and reduced if the gap between socio-economic groups narrows.

Protecting resources built up

We do not necessarily see the different approaches described above as mutually exclusive. There is a strong case for higher levels of means-tested benefits for people close to State Pension age and also for allowing early access to State Pension age for groups such as carers and disabled people which would have a valuable role in helping some in these groups avoid running down retirement savings in advance of State Pension age. Age UK's report *Working later, waiting longer* gives examples of people in their 50s already receiving their modest occupational pensions and others who have drawn on the equity in their home. We believe there needs to be further exploration of the extent that this is happening, along with analysis of the impact this is likely to have on retirement income later on in life.

26. How can the Government and others communicate any future changes on State Pension age? How important is stakeholder involvement in ensuring that the right messages reach the right people in good time?

There have been many attempts to increase awareness of state and private pension provision and encourage people to be more engaged in thinking about their future retirement. Such initiatives need to continue, however it is important to be aware that most people do not proactively seek information about pensions, particularly when they are years away from retirement. And while anyone with an interest in the area of pensions will be aware of a large amount of media and political coverage around pension changes, many people with busy lives and a range of day-to-day financial pressures will be focussing on getting by now, rather than possible future plans.

We believe it is important that different government departments, private sector providers, employers and other organisations (including those providing information and advice such as Age UK) work together to put out consistent messages about pensions. Web-based information will be appropriate for many but other channels also need to be available as not everyone is able, or wishes, to get information and guidance online.

A key message is that people should check their State Pension age and the amount they can expect to receive. The planned Pensions Dashboard will bring together different entitlements and it is important that this is developed in a way that is easy to access, trusted, covers all pension providers and brings together all pension entitlements (including State Pensions). Checking State Pension entitlement should be encouraged as one of the first steps to take. We are concerned that the model currently under development for the Pensions Dashboard will result in very different approaches for different providers and therefore risks losing trust and brand recognition as an independent source of advice.

Another key message for those with private pensions is to encourage people to contact Pension Wise for guidance about accessing their savings. This is particularly important for people considering drawing income or capital to tide them over until State Pension age, as they need to be aware of the potential impact on State benefits and future resources and any alternative options.

Finally, there is a case for the Government to contact people individually where they are affected by major changes such as a rise in their State Pension age. We appreciate this can be expensive and there are questions about how to ensure that letters or digital communications actually reach people and are read. However, without better personalised information there is a danger that future pensioners, like many of the women affected by the 1995 and 2011 changes, will find out too late that things have changed. This would not only have in impact on individuals but also on overall confidence in pensions if people feel that rules can be changed at short notice and that they cannot trust Government to deliver on its promises.

In the past we have argued that, at the very least, people should have 10 years notice of any change to their State Pension age and we have also made clear this should be from the time that people could reasonably be expected to know about changes, not from when any legislation is agreed by Parliament. Given we now have a system of regular reviews we believe it should be possible to extend this – for example the Pensions Commission suggested providing 15 years notice. In addition for people who are further away from State Pension age, any information source such as the State Pension age calculator needs to highlight the system of reviews and how this might potentially affect their State Pension age.

Issues remain for those affected by earlier changes

The remit of the Cridland Review is to consider the position for State Pension age after 2028. However, in preparing this response and our report *Working later, waiting longer* we have drawn on experiences of some people due to reach State Pension age before that date as they are likely to be more aware, and concerned, about their State Pension age than others who currently may feel retirement is far away. Furthermore, we feel there are still issues that need to be addressed for people affected by previous legislation. As set out in this response we believe there is much that can be done to enable people to work up to and beyond the current State Pension age but we also hope the Government will consider some forms of early access and/or higher means-tested benefits to protect people already struggling to work until their current State Pension age.

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