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Raising the state pension age sounds good but is not without its challenges

(Dr Frank Eich)

Only two days after presenting its austerity budget which outlined the new Government's intended fiscal consolidation path over the course of this Parliament, the new Secretary of State for Work and Pensions, Ian Duncan Smith, announced that his Government would increase the State Pension Age (SPA) for males to 66 years by 2016. This is eight years earlier than planned by the previous government. The increase would take place at a later stage for females – theirs is currently being raised from 60 years to 65 years over the period 2010 to 2020. No announcement has been made so far whether the Government intends to bring forward the dates of the further increases to 67 years and 68 years (planned so far to be completed by 2046) though the new Government has hinted that Britons might have to work into their 70s in the future. Having been given a "triple guarantee" with respect to the uprating of the Basic State Pension and the promise to increase NHS spending in real terms in every year of this Parliament, the grey vote appears to be sharing at least some of the pain after all.

The argument presented is that increases in longevity and generally healthier lives for longer make such a move inevitable and even desirable. Indeed, Lord Turner, who chaired the influential Pensions Commission last decade, argued only last year that his proposed changes to the SPA had not been radical enough and that Britons probably would have to work until 70 years within two decades. Ray Barrell and colleagues at the highly respected National Institute for Economic and Social Research (NIESR) argued that making people work for longer could also play a major part in dealing with the fiscal legacy, which has arisen as a result of the economic and financial crisis.[1]

This all sounds reasonable – and is in line with what most governments around the world have been trying to do for a while - but as with every policy, there will be winners and losers. As Nigel Stanley, head of communications at the TUC, argued in a recent guest contribution to pensionomics.com,[2] increases in life expectancy have not been the same across the different socio-economic groups, with those on higher incomes generally enjoying much greater advances in life expectancy and healthier lifespans than those on lower incomes. Add in the facts that those on higher incomes will generally base their retirement decision less on the availability of the modest Basic State Pension than those on lower incomes (and as such are often in the position to retire earlier) and will often have also entered the labour force at a later age (for example after graduating from university) than less skilled workers, and it becomes clear that such a policy would hit those in the lower socio-economic groups relatively harder. Some have argued that the right way to go about this then has to be to link the legal pension age to the number of years worked rather than a specific age.

Whether such a policy might be fair or unfair will for many of those affected be an entirely academic question though – due to health issues they are just not able to work in their 60s and 70s. There is after all a difference between working for 40 years on an assembly line in a factory and behind a desk as an accountant. The real challenge will be to increase the effective retirement age, in other words the age when people actually go into retirement. The gap between the effective and legal age might not be as large in the UK than in many other countries, but it is there. And there will be little choice than to support those who genuinely cannot extend their working lives on other welfare schemes.

One final comment: the new Government should take the opportunity and learn from best practice elsewhere. In Denmark, for example, the legal pension age is adjusted automatically in line with changes in longevity, thus taking this issue out of day-to-day politics. Over time it is likely that the automatic uprating will become a normal feature of life, raising few eyebrows when it takes place.

[1] Ray Barrell et al.: *How to Pay for the Crisis or Macroeconomic implications of pension reform*, NIESR Discussion Paper No 333.
[2] Nigel Stanley: *Why raising the state pension age is no pensions panacea*, guest contribution to pensionomics.com.