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Policy briefing

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Cridland review into State Pension Age reform: final report summary and analysis

Key Points:

- Independent review into State Pension Age conducted by John Cridland CBE published its final report on 23 March.
- State Pension Age (SPA) should be increased for to age 68 starting in 2037, and should not rise by more than a year over a ten year period.
- The Triple Lock should be withdrawn by 2020.
- Support to carers: employers should have eldercare policies in place which set out a basic care offer, and offer Statutory Carers' Leave (using the Statutory Sick Pay model) of about 5 days.
- People should be given access to a mid-life MOT to take stock of their circumstances, facilitated by employers and the Government.

Disturbing but pragmatic reading

On 23 March, the Department for Work & Pensions published the final report of its independent review into the State Pension Age, conducted by John Cridland CBE.

This is one of those policy areas that had to be addressed no matter how politically unpalatable the findings are. So an external review was essential. It was equally unsurprising that Cridland would question the short-termism that has underpinned government pensions policy in recent years.

Most of the recommendations are highly sensible and what many stakeholders have been calling for over the years: increasing the SPA, scrapping the Triple Lock, and supporting carers.

The recommendations

State Pension Age increases

- Should rise to age 68 by 2039, seven years earlier than originally timetabled.
- SPA should not increase more than one year in any ten-year period. This means that SPA could reach 70 by 2057, affecting anyone born after 1987.

This move would affect about 5.4 million people aged under 45, and would result in the proportion of adult life in retirement peaking at just over 32.8%, close to the current 10 year average.

Observers called for a need to take into account life expectancy differences by region and lifestyle, however the complexity arises of how to practically reflects those various characteristics while maintaining a straightforward pension age.

Triple lock

By withdrawing the triple lock in the next Parliament, and replacing it with a link to earnings, pension spending be reduced to 5.9% of GDP by 2066/67.

Intergeneration Foundation: "It simply cannot be fair that young people, hit by having to work to 70, should have to continue paying today for the triple lock for well-off boomers and those on overgenerous final salary pensions, many of whom do not need the state pension."

Flexibility within a universal State Pension Age

- Carve-out in SPA increases for disadvantaged people: those on means-tested benefits should access their state pension at 67 when general SPA goes to 68 in 2037, and "continue to lag a year behind for rises thereafter".
- Those who defer pension past SPA should be rewarded by lump sum when they do draw state pension.

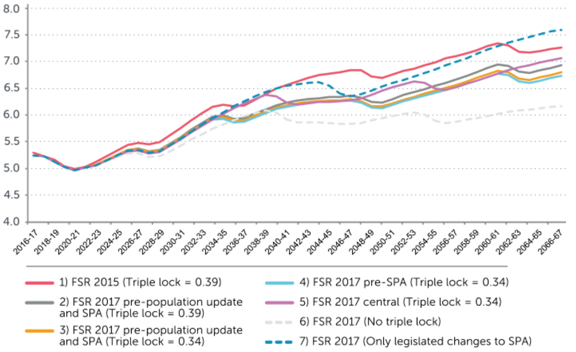
Supporting carers

- all employers should have eldercare policies in place which set out a basic care offer;
- a Statutory Carers' Leave should be offered for people with caring responsibilities, based on the Statutory Sick Pay model. Offered for to 5 days to enable informal carers to provide emergency care. This should be introduced as soon as possible, but at least 10 years before SPA increases to 68

Economic assumptions

Many of the recommendations were based on projections of life expectancy and the need to reflect the impact on public finances. It reconciles the costs of some recommendations against the savings or efficiency gains of others.

Impact of reforming SPA on public finances: state pension spending as % of GDP



From the Cridland report, pp.34-36:

The Office for Budgetary Responsibility (OBR) long term projections on the government finances include estimates of pension spending, and also spending on health and social care.

The OBR uses a range of economic assumptions, along with those on population, when assessing the sustainability of the UK fiscal position (how much of the UK's income is being spent by the Government and on what). Key to this are population (working age versus pension age).

- Both will affect the size of the economy, spending on pensions, and therefore "affordability" and the Government's fiscal position.
- Assumptions about productivity growth (which the OBR assumes matches earnings growth) and prices are important for determining the cost of triple lock uprating, as lower earnings growth can increase the relative cost of the triple lock.
- The link to earnings means that upward changes in (labour) productivity growth in the economy will (at least in OBR projections) automatically feed through to State Pensions.

An impact on broader pension policy

The Cridland Report highlights a critical importance of bringing together a sustainable and carefully considered pension and savings policy in the light of demographic and economic realities.

Pensions triple lock is clearly as unsustainable as it is divisive. Trying to impose protections for people retiring in the next few years using funds the Government cannot afford not only sends false assurances but also risks upsetting those who intend to retire later after the money runs out.

The complexities of savings versus other personal finance issues such as debt and protection reflect the importance of a mid-life "MOT". It should not be surprising that it echoes what many stakeholders including the Personal Finance Society have been calling for over years.

Carers support: this approach at long last acknowledges the sacrifices made made mainly by women in society and not just later in life but throughout their working lives and who have been consequently penalised through lower earnings, lower income and lower savings. The idea of a Statutory Carers Leave is a start, but the Government should look further at idea to correct this fundamental societal imbalance.

A bitter pill, but will it be swallowed?

The big question is whether the recommendations will be swallowed whole or watered down. The government will not make any immediate decisions, but will consider both the Cridland report and an accompanying paper by the Government Actuarial Department on longevity and is expected to announce its position in May.

The Personal Finance Society View

The report exposes the fundamental mismatch between the need to encourage people to plan and save for a longer life in retirement, and the Government's short-termist pensions policies such as pension freedoms which encourage people to live for today.

Establishing a link between the pension age and longevity expectations has proved effective in countries including Sweden, Norway and Germany, and will introduce much needed sustainability to our system.

A mid-life MOT will help people plan for their later lives, particularly the vulnerable in our communities, and the financial advice profession stands ready to partner with the Government to deliver this service.

The Government needs to seriously consider the idea of an independent pensions commission to come up with sustainable measures aimed at encouraging people to save more earlier, and not squander their wealth earlier in life

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