PENSIONS AND LIFETIME SAVINGS ASSOCIATION

STATE PENSION AGE INDEPENDENT REVIEW

A RESPONSE BY THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION

FAIRNESS, AFFORDABILITY AND SIMPLICITY SHOULD BE AT THE HEART OF THE STATE PENSION AGE REVIEW

December 2016

INTRODUCTION

We're the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

EXECUTIVE SUMMARY

State Pension plays and must continue to play a crucial role in providing decent retirement incomes for all. As the PLSA's recent research into retirement income adequacy[1] demonstrates it is a vital component of the retirement income prospects of each generation.

We believe that the state pension should have a very clearly defined purpose of:

- ensuring that the vast majority of pensioners are free of poverty;
- enabling people to plan their own retirement saving in addition; and
- enabling people to begin to exit the labour market at an age which reflects their ability to continue in full-time work.

The UK is already set to have the highest State Pension age of any OECD country. We believe that raising it higher still would cause unacceptable detriment to two particular segments: people with lower than average life expectancies who might only live long enough to receive very little, if any, State Pension, and those with lower than average healthy life expectancies who may be unable to remain in the labour market until State Pension age. We recommend therefore that **State Pension age should remain at currently-legislated levels**.

We believe that a State Pension set at its current value relative to average earnings is affordable without further increases to State Pension age. The triple lock has been valuable both politically and in raising the relative incomes of pensioners but, in future, would add around 1% of GDP to the cost of State Pension. We recommend that **State Pension is indexed in line with earnings in future, in order to maintain its current value of around 30% of average (median) earnings**.

We have evaluated the options against three principles: affordability, fairness and simplicity and we believe this combination of indexation and age of eligibility strikes the right balance between these. In particular, we believe it is better than the alternative of a variable pension age. Simplicity and clarity must be integral to the mechanism for the determining the State Pension age if the new State Pension is to succeed in providing savers with a simple, clear platform for retirement saving. As such, on balance, **we support the current system of a single State Pension age for all**. Any proposals to vary the age at which different individuals receive their State Pension or the amount of pension received risk creating confusion for individuals and deterring them from saving at a time when we are moving to a simpler state pension.

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[1] PLSA, *Retirement Income Adequacy: Generation by Generation*, November 2016

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The impact of any changes to the State Pension age on pension schemes should also be factored into the equation. As the results of our survey[2] reveal some schemes, particularly those with DB, still retain links to the State Pension which would be affected in different ways by any reform to the mechanism for calculating the State Pension age.

[2] The PLSA conducted a survey of members in June 2016. The results of this are detailed in the 'impact on pension schemes' section of this response.

WHAT IS THE STATE PENSION FOR?

1. The Review is rightly uncertain exactly what the purpose of the state pension is. 'The policy objective *appears* to have returned to the 1948 model, where individuals take responsibility for adequacy of income in retirement to suit their own needs and aspirations, with the Government providing a basis that intends to protect most from poverty.'[3] (emphasis added). Greater clarity around the purpose of the state pension, in isolation and in the context of overall retirement income, would help policymakers better tackle issues like changes to State Pension age. It might also help with the promotion of a benefit which is the largest single component of most people's lifetime wealth[4] but which many people do not believe will be around by the time they come to retire[5].

2. We believe that the policy objective identified by the Review is broadly the right one. State Pension should ensure that the vast majority of people avoid poverty in retirement and should provide a simple foundation for retirement saving which will assist individuals with their retirement planning. In addition, we believe that it should be available to people from an age at which a large majority of the population could reasonably be expecting to leave or substantially reduce their participation in the labour market.

3. We recognise that there are inevitable trade-offs between the rate of state pension, the age from which it is payable and the cost to future taxpayers. These issues are explored in the following sections.

LONGEVITY, HEALTHY LONGEVITY AND STATE PENSION AGE

4. Clearly such an important aspect of an individual's retirement income must be sustainable and the PLSA has, in the past, supported increases in the State Pension age that are directly linked to increases in life expectancy as a sensible way of putting the State Pension system on a sustainable footing.

5. It is clear though that increasing the State Pension age in line with average life expectancies will affect cohorts of pensioners in different ways. Most starkly, people with lower than average life expectancies might not live long enough to receive their State Pension. Figures showing stark differences in regional life expectancies underline this concern. In 2012-14 a girl born in Chiltern could expect to live 6.9 years more years than a girl born in Middlesbrough, while a boy

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3 State Pension Age Independent Review, p.18
4 PLSA analysis of ONS Wealth and Assets Survey, wave 4 (2016).
5 Consumer research conducted by NOW: pensions in May 2016 showed one in five 18 to 30 year olds don't believe there will be a state pension for them when they eventually retire.

born in Blackpool has a life expectancy 8.6 years shorter than a boy born in Kensington and Chelsea. [6]

6. There is some evidence from our own Longevity Model[7] that these disparities may be reducing. While the average life expectancy of DB pensioners has improved by 2.3 years during the past 10 years, marked differences existed between different segments of the DB pensioner population based on income. Whereas the more "comfortably off" male pensioners identified in the research have experienced an improvement in longevity of 1.9 years, more "hard-pressed" pensioners have seen an improvement of 2.5 years, albeit from a lower starting point. This trend, if continued, may level out much of the difference in longevity between different socio-economic groups but for now there remains a significant risk to lower income groups in continued growth in State Pension age.

7. However there also continues to be a great deal of volatility in life expectancy experience and some evidence of a potential slowing in the growth of life expectancy. This concurs with the findings in the Review's Interim Report, which show that although Life Expectancy is still increasing each year, the 2014-based projections show a slower increase in improvements in mortality rates than the 2012-based ones.

8. Individuals with lower than average healthy life expectancies may also face undue detriment if they are unable to remain in the labour market until State Pension age. The ONS' figures on Healthy Life Expectancy (HLE) highlight the substantial numbers of people who are unlikely to still be in good health when they reach State Pension age. Only in the 6% least deprived areas could a man expect to be in good health by the time they reached a State Pension age of 68. If the State Pension were to rise to 69 this figure would drop to 2% and at 70 would be less than 0.4%[8].

9. The figures also highlight the differences in HLE that exist between regions in England and Wales. In the most deprived areas, males at 65 can expect to live 8 years less of their lives in "good" health compared with the most affluent areas, while women face a gap of 7 years. A woman in Richmond upon Thames could expect to live to 72 in good health, whereas a woman in Manchester was likely to be in poor health from her mid-50s (54.4 years). These statistics underlie the reality for many people who will not be able to stay in work until they reach State Pension age due to ill-health or simply because the job market cannot accommodate them.

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[6] ONS Life Expectancy at Birth and at Age 65 by Local Areas in England and Wales: 2012 – 2014
[7] NAPF Longevity Model 2014
[8] ONS Health state life expectancies for female at birth, United Kingdom, 2013-2015

10. The PLSA believes that the ongoing uncertainty about life expectancy experience over the coming decades, coupled with the significant concerns set out above about the impact a rising State Pension age would have on certain groups means there is no case for increasing or bringing forward increases to the State Pension age at the current time. For someone entering the labour market today the UK already has the highest State Pension age in the OECD. The evidence suggests this is high enough.

THE STATE PENSION LEVEL

11. The PLSA supports the policy intent of the State Pension identified by the Review: that the Government will provide a flat-rate State Pension, set above the weekly means test level and designed to protect most people from poverty in retirement. This is currently achieved through a state pension set at £155.65, or just under 30% of average (median) earnings.[9] This appears a reasonable target to maintain and is broadly consistent with the Pensions Commission's objective[10] of a state pension system which delivers a 31% replacement rate to the median earner.

12. We believe it is right that pensioner incomes should keep pace with working age incomes and that; therefore, indexation to earnings is more appropriate than indexation to prices. This would enable the Government to communicate the future value of the state pension in straightforward terms as 30% of average earnings.

13. The triple lock has – through the accident of low earnings growth and low inflation - enabled pensioner incomes to grow more quickly than those of the working age population. This has proved useful in addressing decades where the State Pension only kept pace with prices and as a result pensioner incomes fell well below those of the working age population.

14. However, in the longer term the triple lock will prove an expensive way of protecting pensioner incomes during periods of low wage growth: the OBR estimates that it will add well over one per cent of national income to pension spending by the middle of this century relative to the cost of earnings indexation. It has also been argued that it adds a "bizarre degree of randomness"[11] to the future level of state pensions, which will depend not on overall increases in prices or earnings but on the timing of those rises.

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[9] Some pensioners currently receive more than this if they built up Additional State Pension (AP) under the old State Pension system and those contracted out of AP may be receiving less. DWP calculate that in 2016 61% of those reaching SPA had below full entitlement to the single-tier, whilst 13% qualified for the full amount and 27% had above full entitlement.
[10] A New Pension Settlement for the Twenty-First Century: the Second Report of the Pensions Commission
[11] Paul Johnson, Inaugural PMI Lecture, October 2015

15. We believe that a simpler, fairer and more affordable uprating mechanism is a linkage to earnings growth reflecting the aim for the State Pension to keep pace with working age incomes, with a floor to protect against any periods when wages fall.

PUBLIC EXPENDITURE AND THE TRADE-OFF BETWEEN AGE AND RATE

16. As the Review's Interim Report shows continuing with a State Pension age of 67, rising to 68 in 2044 (at which point the UK would have the highest State Pension age of the OECD countries) will cost 7.3% of GDP. Whilst this is substantial increase on the current level of 5.5% of GDP, it includes a 1% cost attributable to the triple lock and is below the range of 7.5-8% set by the Pensions Commission. The PLSA agrees with the Pensions Commission's proposals that state pension expenditure should stay broadly constant over time to ensure fairness between the generations.

17. In considering cost, the Review presents three of four logical combinations of state pension indexation and age[12].

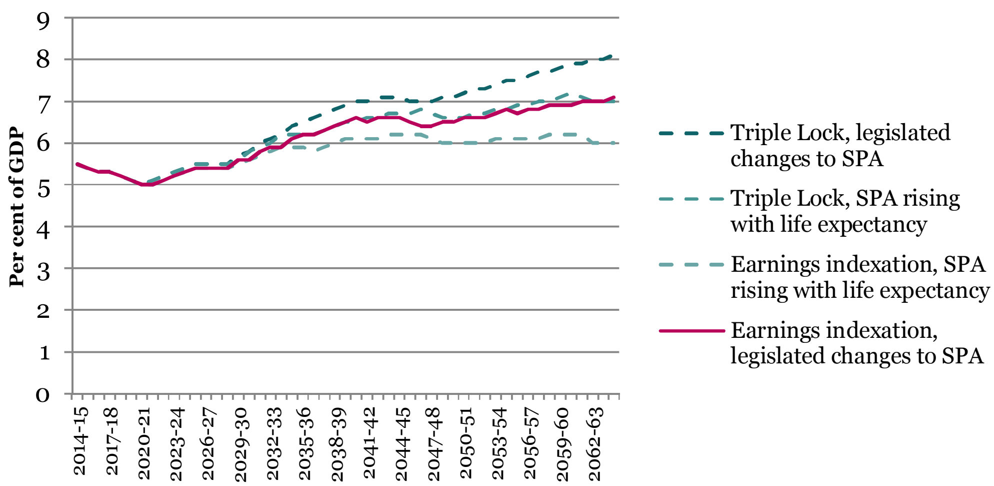
FIGURE 1: INDEXATION/AGE OPTIONS

	Triple Lock	Earnings indexation
Legislated changes to State Pension age	Included	Not included
State Pension age rising with life expectancy	Included	Included

18. The PLSA believes that the most appropriate trade-off is in the missing fourth option, which would combine earnings indexation with a halt to further increases in State Pension age. This option would take total spending on state pension to around 7% of GDP by mid-century with an almost identical profile to the option which combines further increases to State Pension age with an ongoing triple lock. We believe that it much better meets the objectives of simplicity and fairness.

[12] Figure 6, Independent Review of State Pension age: Interim Report

FIGURE 2: STATE PENSION SPENDING PROJECTIONS



Source: PLSA analysis of OBR Fiscal Sustainability Report 2015

SIMPLICITY

19. The Association supports the general principles set out in the Terms of Reference which place affordability, fairness and supporting fuller working lives at the heart of this review. To this list we would add the degree of simplicity offered by the State Pension age timetable. A system which is easy to understand will be better placed to assist individuals with their retirement planning and be easier to communicate to those approaching retirement. This will be crucial in the coming years as retirement decisions become even more complex. Helping savers understand what provision they have, and where, will be an essential first step in equipping them to make informed decisions around taking a retirement income.

20. This is one reason why the Association supports the creation of a pension dashboard as a means of informing and empowering the consumer to help with retirement planning. Simplicity and certainty have been fundamental design principles of the new State Pension; these need to be replicated in the structure for determining the State Pension age if savers are to be able to adequately plan for their retirement.

21. It is important that individuals understand when they will receive their State Pension and from when this date will be certain. It has been suggested that the State Pension should be used as the mechanism through which to tackle some of the inequalities addressed above by providing a variable or actuarially-adjusted flexible State Pension age. However, we believe that such an approach would sacrifice the simplicity of the current system and be challenging to communicate to savers. A variable or a flexible State Pension age would threaten to undermine

the clarity and simplicity which are likely to support individuals in their retirement planning. We believe these inequalities are best addressed by government through other levers in the welfare state rather than the State Pension age. Another impact of variable State Pension ages would be on pension schemes and this is explored further below.

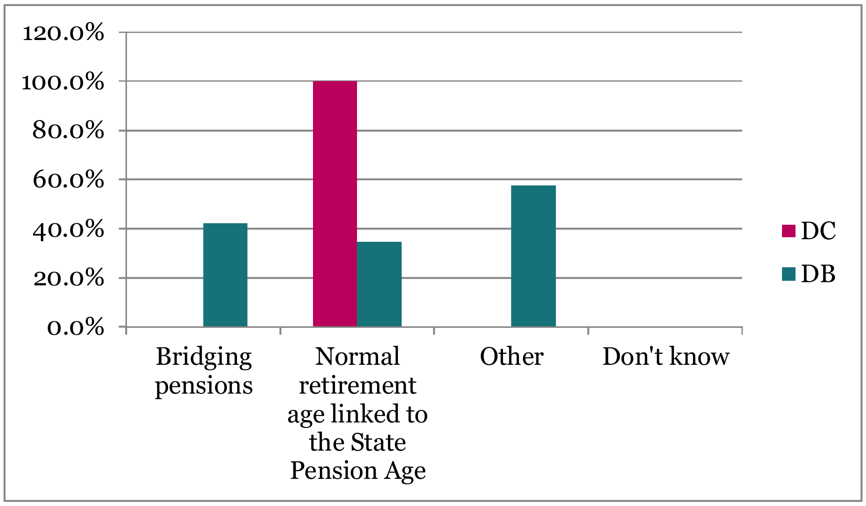
IMPACT ON PENSION SCHEMES

22. In order to understand the impact of any changes to the State Pension age timetable on pension schemes we conducted a survey of our membership in June 2016.

23. Of our respondents around four in ten (37%) fund members had a main scheme which interacted with the State Pension. This was significantly higher for those operating DB/Hybrid schemes (40%) than DC arrangements (6%). When asked how, DC schemes stated that the scheme has a normal retirement age linked in some way to the State Pension age. It was more split for DB/Hybrid; Fifty eight per cent said it linked in a way not specified in the survey, which was predominately through links to GMPs or a basic State Pension offset to pensionable salary. Following this, the most common way in which these schemes linked was through bridging pensions, a pension that is higher at the outset and then reduced at the age at which the individual can claim for the State Pension (42%) or by linked retirement age (35%).

24. In addition there may be a future impact on schemes if the Government goes ahead with plans to link the Normal Minimum Pension Age (the minimum age at which anyone can access their benefits) to State Pension age. The proposal was for this to rise to 57 when SPA rises to 67 and to stay 10 years behind SPA in perpetuity. The principle of such a link is sound given the primary purpose of pensions savings. However if SPA continued to rise in the future, in a way that may be increasingly detrimental to certain groups it would be important to understand the corresponding impact on an individual's ability to access their pensions savings and manage the transition from full to part time participation in the labour market.

FIGURE 3: IN WHICH WAY DOES YOUR MAIN SCHEME INTERACT WITH THE STATE PENSION?



Source: Pensions and Lifetime Savings Association survey of membership June 2016[13]

25. In order to capture the impact of any change to the calculation of the State Pension age respondents were asked to rank the impact of five different scenarios on their scheme. The results revealed noticeable differences. Members were much more likely to say that a scenario entailing a single state pension for everyone, fixed at current levels would have no impact on their schemes than any other (73%). The most disruptive changes were the introduction of a variable State Pension age which 31% of schemes said would have a major impact, followed by an actuarially-adjusted flexible State Pension age which 22% of schemes said would have a major impact on the operation of their scheme. A minor impact in this scenario might entail relatively limited changes to scheme rules and administration, whereas a major impact might demand a fundamental review of scheme rules or significant administrative changes. The net impact of these proposed changes are detailed in the table below.

FIGURE 4: NET IMPACT OF SCENARIOS FOR STATE PENSION AGE CHANGES

Scenario	Impact (NET)	Major	Minor
A State Pension age which varies with individual circumstances such as income or place of residence	64	31	32
A single State Pension age with flexibility either side to enable people to choose whether to draw their pension with the amount adjusted accordingly	59	22	38

[13] The Pensions and Lifetime Savings Association conducted an online survey of their fund members in June 2016 examining views on the State Pension Age; 74 funds responded which is a 12% response rate.

A single State Pension age for everyone, rising periodically	57	3	54
A single State Pension age for everyone, rising according to a formula set out in legislation	56	6	51
A single State Pension age for everyone, fixed at current levels	23	0	23

Source: Pensions and Lifetime Savings Association survey of membership June 2016[14]

CONCLUSION

26. The State Pension does, and will continue to, play an important role in providing decent retirement incomes for all. As such is it important to ensure it is fair and sustainable. We do not believe there is a case for raising the State Pension age this time. We also believe that a simpler, fairer and more affordable uprating mechanism is a linkage to earnings, with a floor to protect against any periods when wages fall. This is the best long term solution for ensuring the State Pension continues to provide an income in line with the incomes of the working age population.

[14] The Pensions and Lifetime Savings Association conducted an online survey of their fund members in June 2016 examining views on the State Pension Age; 74 funds responded which is a 12% response rate.

STATE PENSION AGE INDEPENDENT REVIEW: CONSULTATION QUESTIONS

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

The PLSA believes that the policy objective identified by the Review is broadly the right one. State Pension should ensure that the vast majority of people avoid poverty in retirement and should provide a simple foundation for retirement saving which will assist individuals with their retirement planning. In addition, we believe that it should be available to people from an age at which a large majority of the population can reasonably be expected to work until.

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?

We believe it is important to note that, on current timescales the UK is already set to have the highest State Pension age of any OECD country. We also note with interest the fact that other countries in the OECD have so far chosen to focus on fuller working lives as the best means for addressing any equality issues.

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?

As the main body of our response argues we think maintaining State Pension ages at currently-legislated levels should take precedence over earnings-plus annual increases.

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 PLSA agrees with the Pensions Commission's proposals that state pension expenditure should stay broadly constant over time to ensure fairness between the generations with a range of 7.5-8% of GDP.

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?

The PLSA supports the policy intent of the State Pension identified by the Review: that the Government will provide a flat-rate State Pension, set above the weekly means test level and designed to protect most people from poverty in retirement. This is currently achieved through a state pension set at £155.65, or just under 30% of average earnings.[15] This appears a reasonable target to maintain and is broadly consistent with the Pensions Commission's objective[16] of a state pension system which delivers a 31% replacement rate to the median earner.

We believe it is right that pensioner incomes should keep pace with working age incomes and that; therefore, indexation to earnings is more appropriate than indexation to prices. This would enable the Government to communicate the future value of the state pension in straightforward terms as 30% of average earnings.

We would also point the Review team to our recent report on adequacy, *Retirement Income Adequacy: Generation by Generation*[17], which highlights the different challenges faced by different generations – and different segments within 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?

As our adequacy report[18] highlights, replacement rates are imperfect but probably the best available tool at present. We would like to see further research into improving and/or replacing replacement rates.

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?

The Interim Report clearly shows both inter and intra-regional variation in life expectancy projections. However the PLSA's longevity research concluded that these are largely the result of concentrations of certain socio-economic groups, with socio-

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[15] Some pensioners currently receive more than this if they built up Additional State Pension (AP) under the old State Pension system and those contracted out of AP may be receiving less. DWP calculate that in 2016 61% of those reaching SPA had below full entitlement to the single-tier, whilst 13% qualified for the full amount and 27% had above full entitlement.
[16] A New Pension Settlement for the Twenty-First Century: the Second Report of the Pensions Commission
[17] PLSA, *Retirement Income Adequacy: Generation by Generation*, November 2016
[18] *Ibid*.

economic status continuing to be the key driver of differing life expectancy outcomes. Addressing such socio-economic inequalities could not only driver fairer outcomes when decided the level at which to set State Pension age, but could also address regional deprivation issues.

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?

We would agree with the Interim Report's findings that we have seen increases in Healthy Life Expectancy in line with those observed for life expectancy. However the ONS' figures on Healthy Life Expectancy highlight the significant differences that exist between regions in England and Wales. In the most deprived areas, males at 65 can expect to live 8 years less of their lives in "good" health compared with the most affluent areas, while women face a gap of 10 years. A woman in Richmond upon Thames could expect to live to 72 in good health, whereas a woman in Manchester was likely to be in poor health from her mid-50s (54.4 years). Only in the 20% least deprived areas could a man expect to be in good health by the time they reached a State Pension age of 68[19]. These statistics underlie the reality for many people who will not be able to stay in work until they reach State Pension age due to ill-health or simply because the job market cannot accommodate them.

The PLSA remains concerned that the ongoing uncertainty about life expectancy experience over the coming decades, coupled with the concerns set out above about the impact a rising State Pension age would have on certain groups means we do not believe that there is a case for increasing or bringing forward increases to the State Pension age at the current time.

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?

Yes. We think both life expectancy and healthy life expectancy should be embedded in the policy intent for State Pension through articulation an objective of linking State Pension age to ability to stay fully engaged in the labour market.

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

The lower pension outcomes experienced by women are largely linked to lower levels of saving in private pensions. This is being addressed by automatic enrolment and the

[19] ONS Life Expectancy at Birth and at Age 65 by Local Areas in England and Wales: 2012 – 2014

2017 review will need to consider the extent to which the earnings trigger takes some women out of pensions savings. Whilst some women may still have lower state pensions due to historic policy decisions, the new State Pension is being implemented in a way that address any unequal outcomes as fast as is possible.

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?

The impact of any changes to the State Pension age on pension schemes, particularly those with DB, should be considered as part of this review. Around four in ten of our fund members have schemes which retain links to the State Pension through bridging pensions, links to GMPs or a basic State Pension offset to pensionable salary.

In order to understand the impact of any changes to the State Pension age timetable on pension schemes we conducted a survey of our membership in June 2016.

Of our respondents around four in ten (37%) fund members had a main scheme which interacted with the State Pension. This was significantly higher for those operating DB/Hybrid schemes (40%) than DC (6%). When asked how, DC schemes stated that the scheme has a normal retirement age linked in some way to the State Pension age. It was more split for DB/Hybrid; Fifty eight per cent said it linked in way not specified in the survey, which was predominately through links to GMPs or a basic State Pension offset to pensionable salary. Following this, the most common way in which these schemes linked was through bridging pensions, a pension that is higher at the outset and then reduced at the age at which the individual can claim for the State Pension (42%) or by linked retirement age (35%).

In addition there may be a future impact on schemes if the Government goes ahead with plans to link the Normal Minimum Pension Age (the minimum age at which anyone can access their benefits) to State Pension age. The proposal was for this to rise to 57 when SPA rises to 67 and to stay 10 years behind SPA in perpetuity. Whilst the principle of such a link is sound given the primary purpose of pensions savings if SPA continued to rise in the future in a way that may be increasingly detrimental to certain group it would be impact to understand the corresponding impact on individual's ability to access their pensions savings, especially under freedom and choice.

In order to capture the impact of any change to the calculation of the State Pension age respondents were asked to rank the impact of five different scenarios on their scheme. The results revealed noticeable differences. Members were much more likely to say that a scenario entailing a single state pension for everyone, fixed at current levels would have no impact on their schemes than any other (73%). The most disruptive changes were the introduction of a variable State Pension age which 31% of schemes said would have a major impact, followed by an actuarially-adjusted flexible

State Pension age which 22% of schemes said would have a major impact on the operation of their scheme. A minor impact in this scenario might entail relatively limited changes to scheme rules and administration, whereas a major impact might demand a fundamental review of scheme rules or significant administrative changes.

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?

Simplicity and clarity must be integral to the mechanism for the determining the State Pension age if the new State Pension is to succeed in providing savers with a simple, clear platform for retirement saving. As such, on balance, we support the maintenance of the current system of increasing the State Pension age for all in line with rising life expectancy through a formula set out in legislation. Any proposals to vary the age at which different individuals receive their State Pension or the amount of pension received risk creating confusion for individuals at a time when we are moving to a simpler state pension.

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?

In January 2015 we published Wave I of our Understanding Retirement research[20] programme. 'The unpredictability of retirement' explored the retirement experience of those aged 50-70.

We found that state and private pensions both play a role in the timing of retirement for the over 50s. Despite the relative drop in the value of the state pension in relation to working incomes, when asked when they anticipated retiring two fifths of over 50 year olds (40 per cent) anticipated they would retire, or had already retired, as a result of reaching the SPA.

Those who were more reliant on the State Pension for their retirement income (Pinched Penny) were the most likely to consider the SPA as the trigger for retirement, with Satisfied Sarah (someone with a DB pension) the least likely to do so. With only a state pension to support them the SPA is naturally a key driver of retirement for over 50s like Penny. For Sarah having enough money is the most likely trigger for retirement.

Malcolm in the Middle (who has only DC savings) had a much more fragmented group of likely triggers with a combination of financial, state pension and health events shaping likely retirement age. This all points to different transitions or timing for retirement for Malcolm.

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[20] The Unpredictability of Retirement, Understanding Retirement Wave I, NAPF, January 2015

Among those already retired, the most commonly cited triggers of retirement were:

- health reasons and being tired of working for Sarah;
- reaching SPA and health reasons for both Malcolm and Penny.

Other triggers were less frequently cited for Malcolm and Penny, but a greater variety of triggers played a role for Sarah. Poor health was more often cited as a trigger after than before retirement; noticeably significantly more retired Pennys cited poor health as a trigger than Pennys who were working.

For the majority of over 50 year olds the SPA, although increasing, is still perceived as a benchmark for the likely point of retirement; but there are signs that this may be changing.

With an increase in the number of over 50 year olds approaching retirement with a DC pension or other savings, there could potentially be a rise in the number of people working past SPA. Our research demonstrated that even now 30 per cent of working Malcolms thought that they would not retire until after SPA.

Increases to the SPA were also creating uncertainty with working baby boomers increasingly uncertain when and whether they will receive a state pension. Moreover, they lack certainty about the income that can be generated by their DC pot and, in common with others, worry about their health and their ability to continue working.

Retirement remains predominantly about not continuing to do paid work. Eighty eight per cent of Pennys, 81 per cent of Malcolms and 78 per cent of Sarahs are retired and not doing any paid work.

For those who are retired and not working, the majority across all our groups do not want to go back to work. Although there has been an increase in the number of retired people working in the UK, most older people still prefer to move straight into retirement. Once there, most (70 per cent) do not want to go back to paid work, particularly Penny and to a slightly lesser extent, Malcolm. However, a significant minority of those who are retired but not working would like to do so, but would need to find work that was not physically demanding, was flexible, or with few responsibilities.

However, work plays an important role in supplementing pensions among some of the retired. Only a minority of over 50s continue to work in retirement (22 per cent of Sarahs, 19 per cent of Malcolms and 12 per cent of Pennys). For Sarah and Malcom this is typically to earn extra income and keep their minds busy. However, a number of Malcolms work in retirement in order to make ends meet. For Penny working in retirement is most likely to help make ends meet rather than keeping their mind busy. However, of our three groups, Pennys are least likely to be in work during retirement. This may be due to limited opportunities to work, a preference not to work or, simply that they have become used to making ends meet.

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?

The Association supports the general principles set out in the Terms of Reference which place affordability, fairness and supporting fuller working lives at the heart of this review. To this list we would add the degree of simplicity offered by the State Pension age timetable. A system which is easy to understand will be better placed to assist individuals with their retirement planning and be easier to communicate to those approaching retirement. This will be crucial in the coming years as retirement decisions become even more complex. Helping savers understand what provision they have, and where, will be an essential first step in equipping them to make informed decisions around taking a retirement income.

As such, we believe existing inequalities are best addressed by government through other levers in the welfare state rather than the State Pension age.

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?

Helping savers understand what provision they have, and where, will be an essential first step in equipping them to make informed decisions around taking a retirement income.

This is why the Association also supports the creation of a pension dashboard as a means of informing and empowering the consumer to help with retirement planning. Simplicity and certainty have been fundamental design principles of the new State Pension; these need to be replicated in the structure for determining the State Pension age if savers are to be able to adequately plan for their retirement.