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New life expectancy figures released

Synopsis: A new report suggests that the State Pension Age may need to rise to 71 by 2050.

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The current legislated trajectory for the State Pension Age (SPA) is for an increase to 67 between 2026 and 2028, followed by another notch up to 68 between 2046 and 2048, although the 68 timing could change.

Following an independent review and DWP review last year, the Government kicked the decision on whether to bring forward an SPA of 68 until a further study is completed after the general election. This was a repetition of the manoeuvre it had executed ahead of the 2019 election in response to the Cridland Review.

Controversially, Cridland had proposed a 2037-39 introduction for an SPA of 68 based on Office for National Statistics (ONS) 2014-based mortality data.

The topic of the SPA is kryptonite for politicians and has been made worse by the path of pensioner life expectancy over recent years. It becomes much harder to justify SPA increases when life expectancy improvements are flatlining.

However, life expectancy is not the only financial justification for raising the SPA. Another that is relevant for pay-as-you-go pension systems, such as the UK State Pension, is the old age dependency ratio – basically the number of workers (aged 16-64) per state pensioner.

A new report from the International Longevity Centre (ILC) says by 2050 the SPA needs to rise to between 70 and 71 to maintain the current status quo in terms of dependency ratio. It could be worse: the ILC says that if the UK's working adult population is defined as 20 to 64 years, to account for time spent in full time education, the SPA might need to hit age 70+ as early as 2040 to maintain the current dependency ratio.

The ILC accepts that the recent stalling in life expectancy during the austerity years and COVID has temporarily eased the pressure for increases in the SPA beyond 67 after 2027, but reckons that, in longer-term, the pressure will be to increase the SPA to 68 or 69 before 2040.

The ILC says that in the UK the problem becomes even more pressing because of the exit of workers from the workforce long before SPA, as it reduces the tax base to pay for pensions.

Poor health is one of the key reasons for this workforce decline, which the ILC regards as one of the greatest barriers to economic prosperity currently faced by the UK. Research shows that, by age 70, at present only 50% of adults are disability-free and able to work.

The ILC calculates that if the proportion of the economically active population were to increase from current levels of around 78% to 85%, then it may be possible to hold the SPA at below 70 from 2040 – at least for a few years.

Comment

If the next Government is going to adopt the Cridland timing of 2037-39 and stay with the principle of giving at least ten years notice of an SPA change, it will need to commission that fresh study almost as soon as it enters office.

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