



The ACA has responded to the call for evidence on changing the State Pension Age to age 66...

ACA SAYS LINK CHANGES IN STATE PENSION AGE TO LONGEVITY IMPROVEMENTS OF THOSE ON LOWER INCOMES

9 August 2010 – Responding to the call for evidence by the DWP on increasing the State Pension Age (SPA) to age 66, the Association of Consulting Actuaries (ACA) has broadly endorsed this being brought forward to 2016 (from 2026) as proposed in the Coalition Government’s programme. This move reflects the rapid improvements in longevity in recent years. However, as those on lower incomes are much more dependent on State provision, the ACA recommends that any future mechanisms for linking SPA to life expectancy should broadly reflect changes in life expectancy amongst those on lower incomes, rather than for the population as whole.

Commenting on the ACA evidence, **ACA Chairman, Stuart Southall** said:

“We would expect increasing the SPA to have a much greater impact on lower income groups, where a greater reliance on State pension provision will more or less compel them to work until they reach their SPA, assuming always that work is available. At the same time, people in this group tend to have shorter life spans and as such are being hit at both ends, being likely to both retire later than their higher income counterparts and die before them. As such, we would expect that increasing the SPA will have a disproportionate effect on the poorer in society.

“We would welcome, however, further discussion and debate on formulaically linking SPA to life expectancy, which we expect to continue improving, rather than reactively increasing the SPA during a financial crisis. Given those at the poorer end of the spectrum are much more dependent on State provision, it would make sense for any such formula to be based broadly on life expectancy for those in low incomes rather than for the population as a whole”.

The ACA evidence says that advance notice in advising the public of changes in SPA might take account of financial arrangements that have already been entered into that terminate upon a person reaching State Pension Age. For example, many occupational pension schemes have bridging pensions or level income options that terminate when members reach SPA. Depending on the rules of these arrangements, accelerating the increase in the SPA to 66 will either result in an unexpected increase in the arrangement's costs or result in a gap in the beneficiaries' total pension income.

Generally, given the impact of changes in the SPA on particularly lower income groups, it would probably not be appropriate to make changes without giving a notice period of at least five years (along with measures to encourage employers to retain older workers) in order to give those approaching retirement some opportunity to make up for the lost payments from the State.

The ACA evidence says changes in SPA, when implemented, should avoid a cliff edge, or "birthday lottery", where people born on one day have a much different SPA than those born a day later. Although an overnight change would save more money it would be preferable to see a gradual phasing in of the increase to 66 (using a similar mechanism as set out in the *Pensions Act 2007* for increasing the male SPA from 65 to 66 over the two year period from 2024 to 2026).

The ACA's evidence to the DWP consultation, 'When should the state pension age increase to 66?', is available at the ACA's website at www.aca.org.uk (see: recent publications).

For further details:	Stuart Southall	0207 533 1883
	David Everett	0207 7432 6635
	Steve Leake	01483 540300
	David Robertson	020 3207 9380 (M: 07919 911380)

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the World.