Age ain’t nothing but a number

Article By:

Tax Strategy & Benefits Practice Group

With a whirlwind of changes enforced in the last seven years the state pension age, which remained unchanged from the 1940s until 2010, is yet again in for a shake-up. On 18 July, David Gauke, Work and Pensions secretary announced plans to bring forward the increase in state pension age to 68 – this will come into force between 2037 and 2039. The government fiercely argues its proposals would reduce the expected rise in related spending by 0.4 per cent of GDP by 2039/40 and will make economic savings of £74 billion by 2046/2047 following the outcome of the Cridland report.

The changes fall against a pressurised backdrop of the continuous and rapidly rising life expectancy rate as well as an ageing population causing a surge in the number of people in receipt of a state pension.

What are the implications?

For millions of workers, this will now mean having to work an extra year before receiving their state pension entitlement or begrudgingly relying on private pension savings to bridge the income gap from their retirement until state pension age. Public sector workers bear a particularly harsh brunt as their workplace retirement is also linked to the state pension age. Similarly for private sector pensions, some open defined benefit schemes now have retirement ages linked to the state pension age to manage longevity risk.

A numbers game

The state pension age increase announcement was ironically released on the same day as a University College London study that found that the rate of increase in life expectancy had nearly halved since 2010 in England.

The gaping hole therefore appears to be how the government plans to accommodate:

- those who are less likely to live longer – based on socio-economic factors such as lower wages leading to a poorer quality of life;
- those living in areas in which the average life expectancy is lower than the state retirement age – taking into account environmental and, again, socio-economic factors and,

- those who cannot afford to retire earlier but equally cannot continue working until the state pension age due to ill health or other factors.

A blanket state pension age increase to 68 creates disparity and highlights a lack of private provision for the many that fall into these groups, making the increase in retirement age likely to pave the way for a new social inequality amongst our future elderly population.

70 is the new 60

For trustees the message is an impending forecast of uncertainty in the pensions market.

Workers who are more than 10 years away from pension age should be on alert that their state pension age is no longer fixed. With the rapid increases in the state pension age in the last seven years alone, it seems further rises to age 70 and beyond are a likelihood for today's young workers and millennials. As the government continues its fine balancing act of demographics and economics, horizon-scanning suggests the scope for state support during one's retirement period is thinning which massively impacts retirement planning for both future pensioners and pension schemes.

A stone left unturned

So what will now happen to the minimum pension age for taking pension benefits without additional tax charges? HM Treasury has been urged to clarify the position but the government is yet to comment. It is already set to rise to 57 in 2028 in line with the state pension age increase from 66 to 67. Based on speculation it is likely this will eventually increase to 58 in order to maintain the 10 year gap between the two milestones. The lack of clarity creates yet more frustration for workers when considering how to plan for their retirement and a new era of a glass ceiling in reaching one's state pension entitlement.

Roshiny Panchalingam contributed to this article.

National Law Review, Volume VII, Number 254

Source URL:https://natlawreview.com/article/age-ain-t-nothing-number