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The UK State Pension age review and demographic uncertainty

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The Royal Society, 25 March 2019

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Objective and agenda

- Context
- Projected costs
- Projecting mortality
- State Pension age review

Objective: to illustrate the significance of demographic uncertainty in the context of UK state pensions

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Context

- UK state pensions
- National Insurance fund
- State Pension age

State pensions aim to provide dignity and security in retirement whilst delivering fairness across the generations

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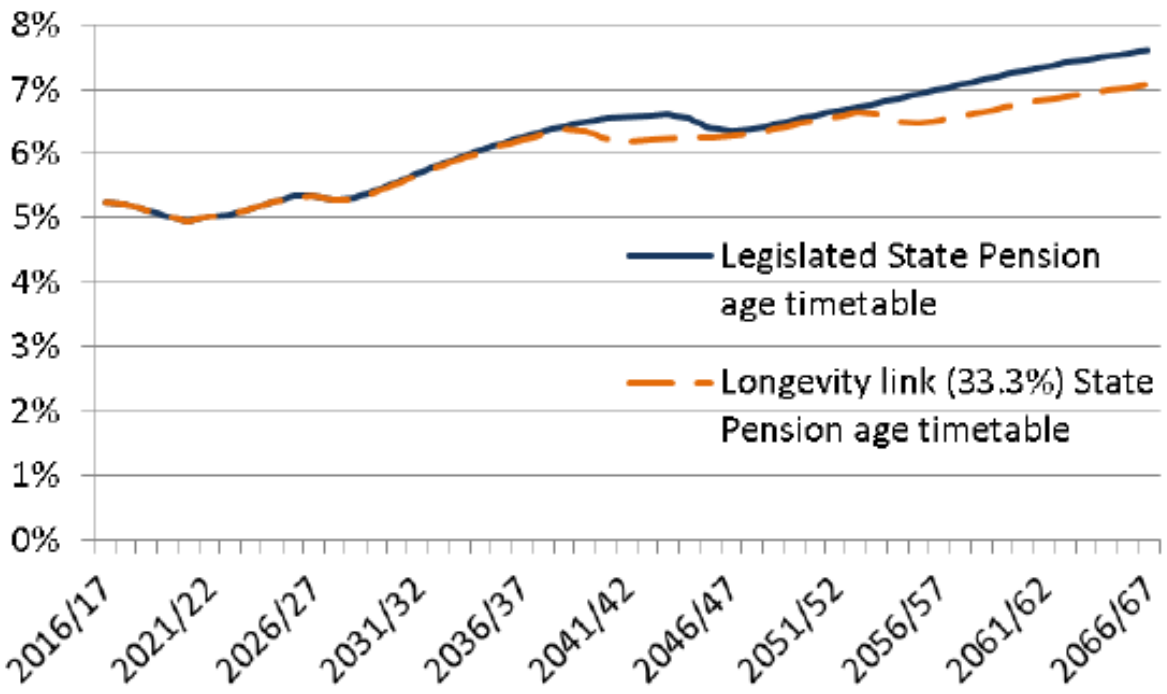
State Pension costs are projected to increase as % of GDP

Figure 1.4: State Pension expenditure as % GDP, UK, 2016/17–2066/67[32]



Source: OBR

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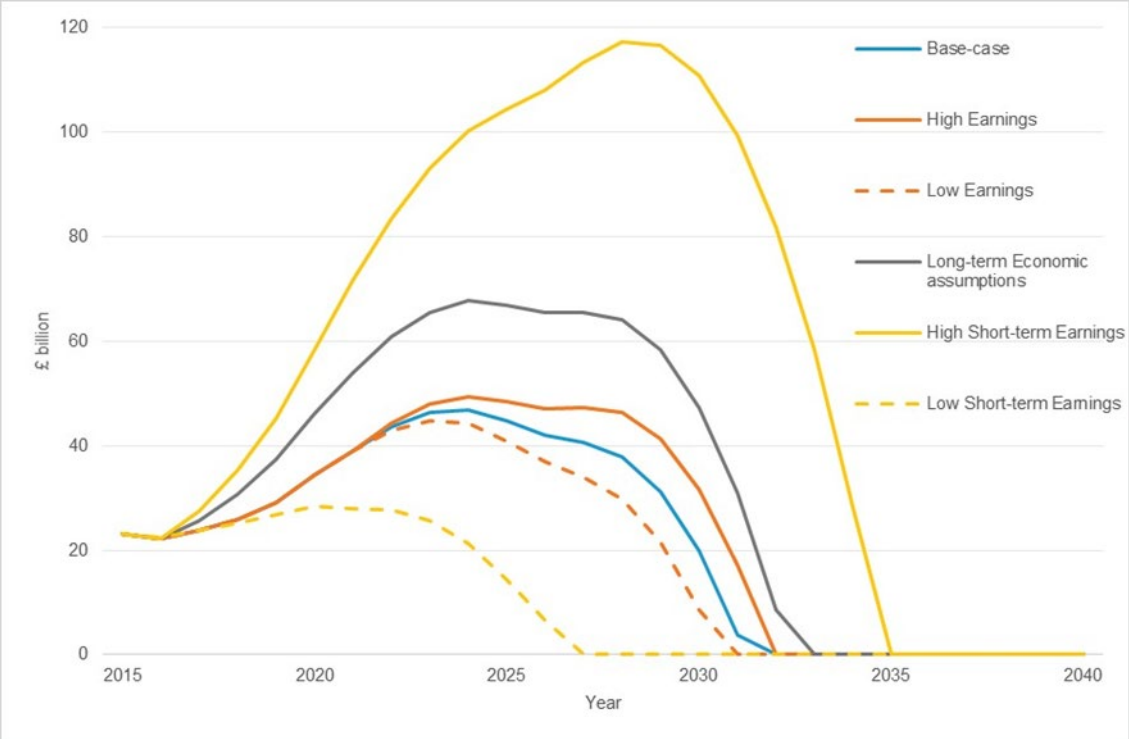
NI fund is sensitive to economic growth (specifically earnings growth)



Projected NI fund balance – variant economic assumptions (source: GAD)

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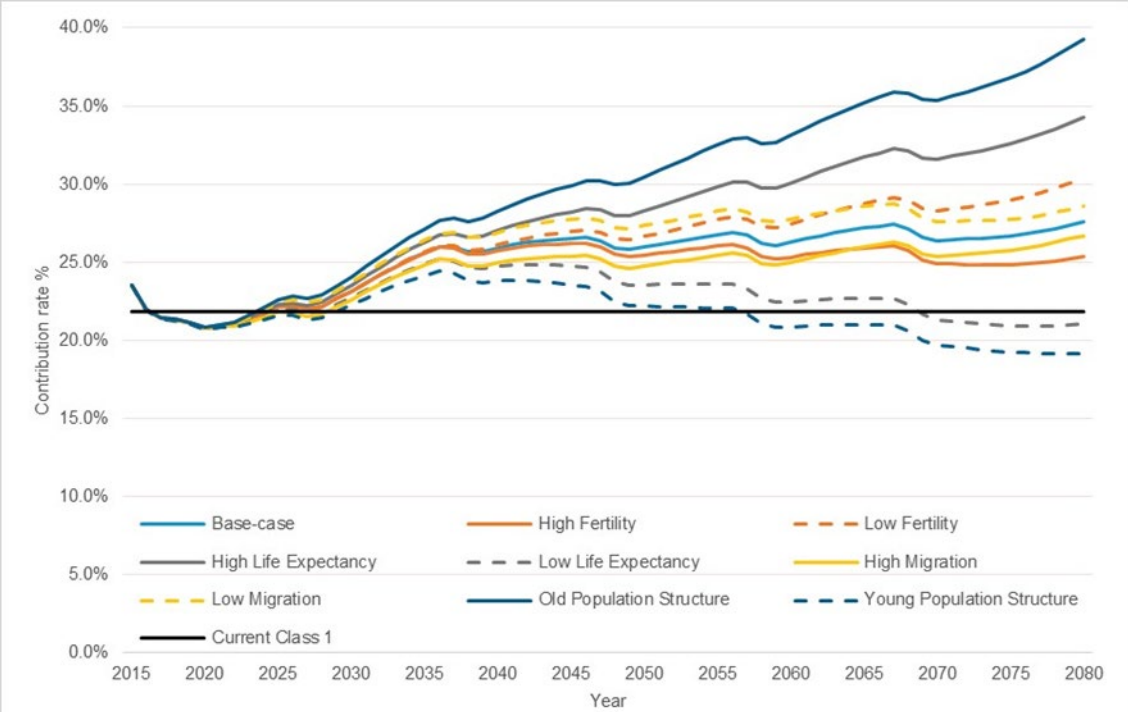
Break-even contribution rate is sensitive to demographic assumptions



Break-even contribution rate – variant demographic assumptions (source: GAD)

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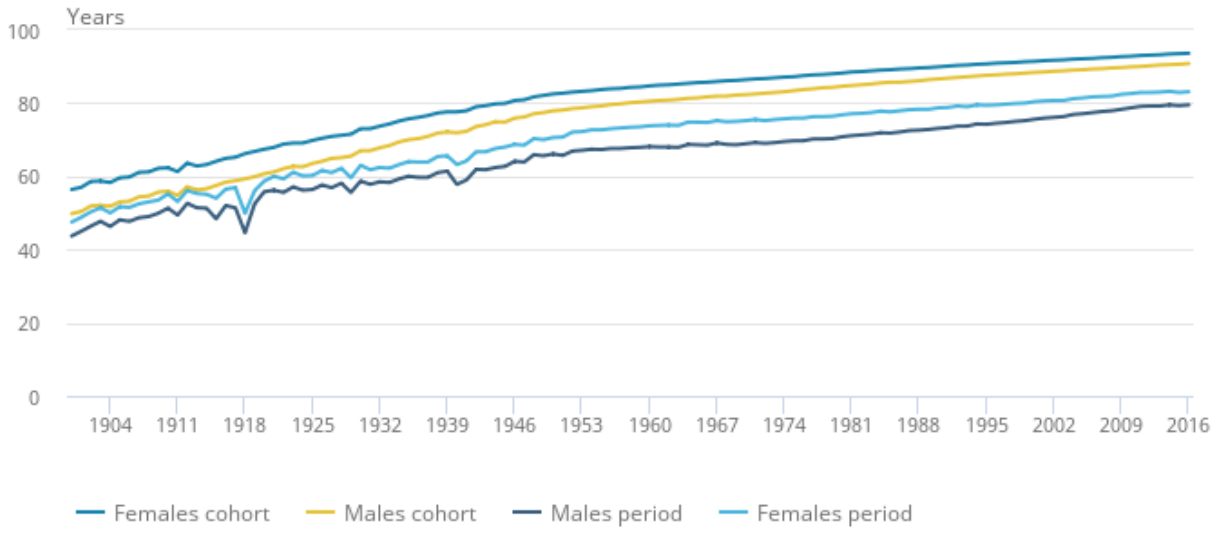
Life expectancy has been increasing

Figure 2: Period and cohort life expectancy at birth

England and Wales, 1900 to 2016



Source: Office for National Statistics

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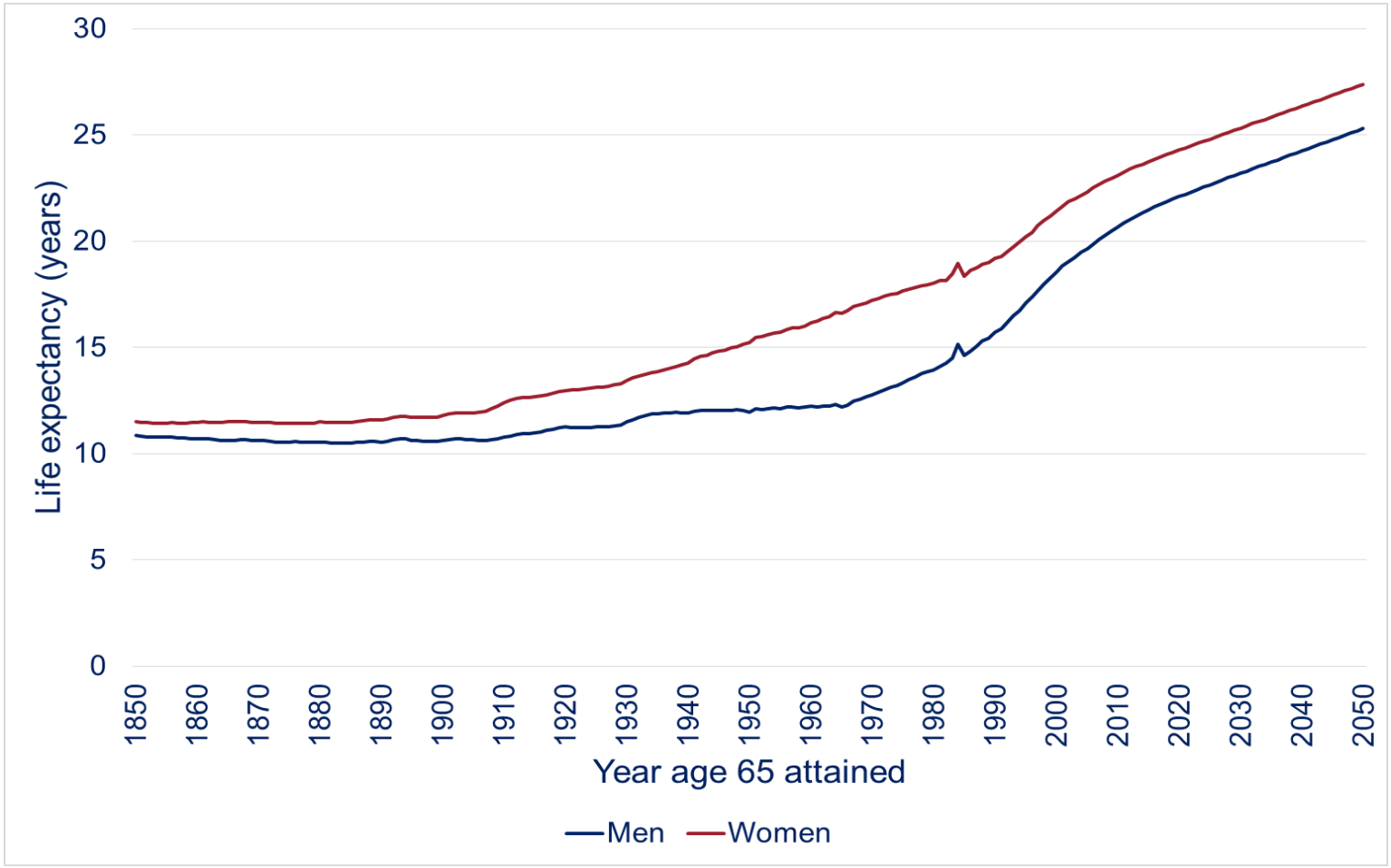
Increases in life expectancy at age 65 have been even more significant



Projected cohort life expectancy at age 65 (source: ONS)

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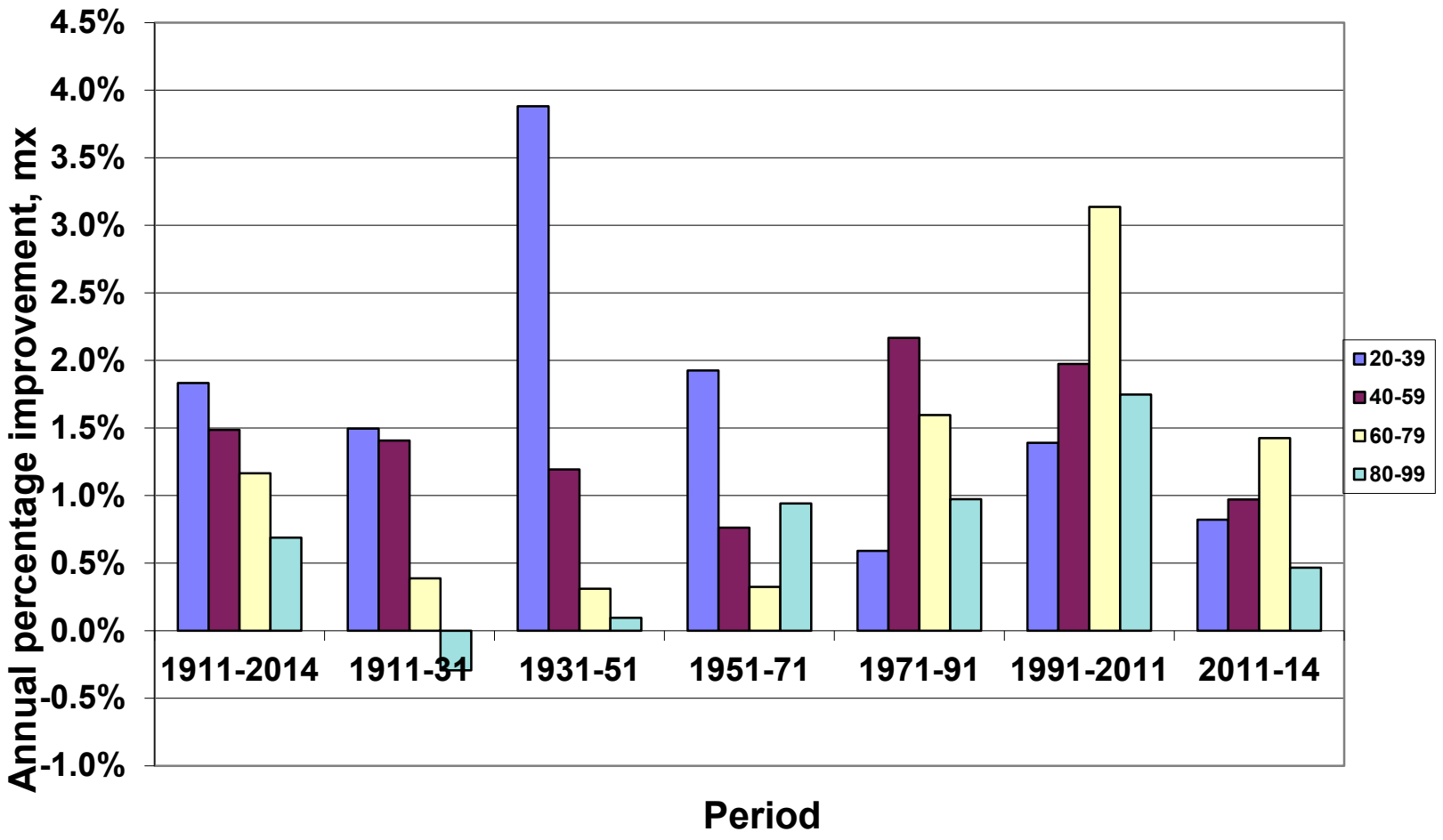
Mortality improvements have varied by age and time period



Annualised mortality improvements (males, E&W)

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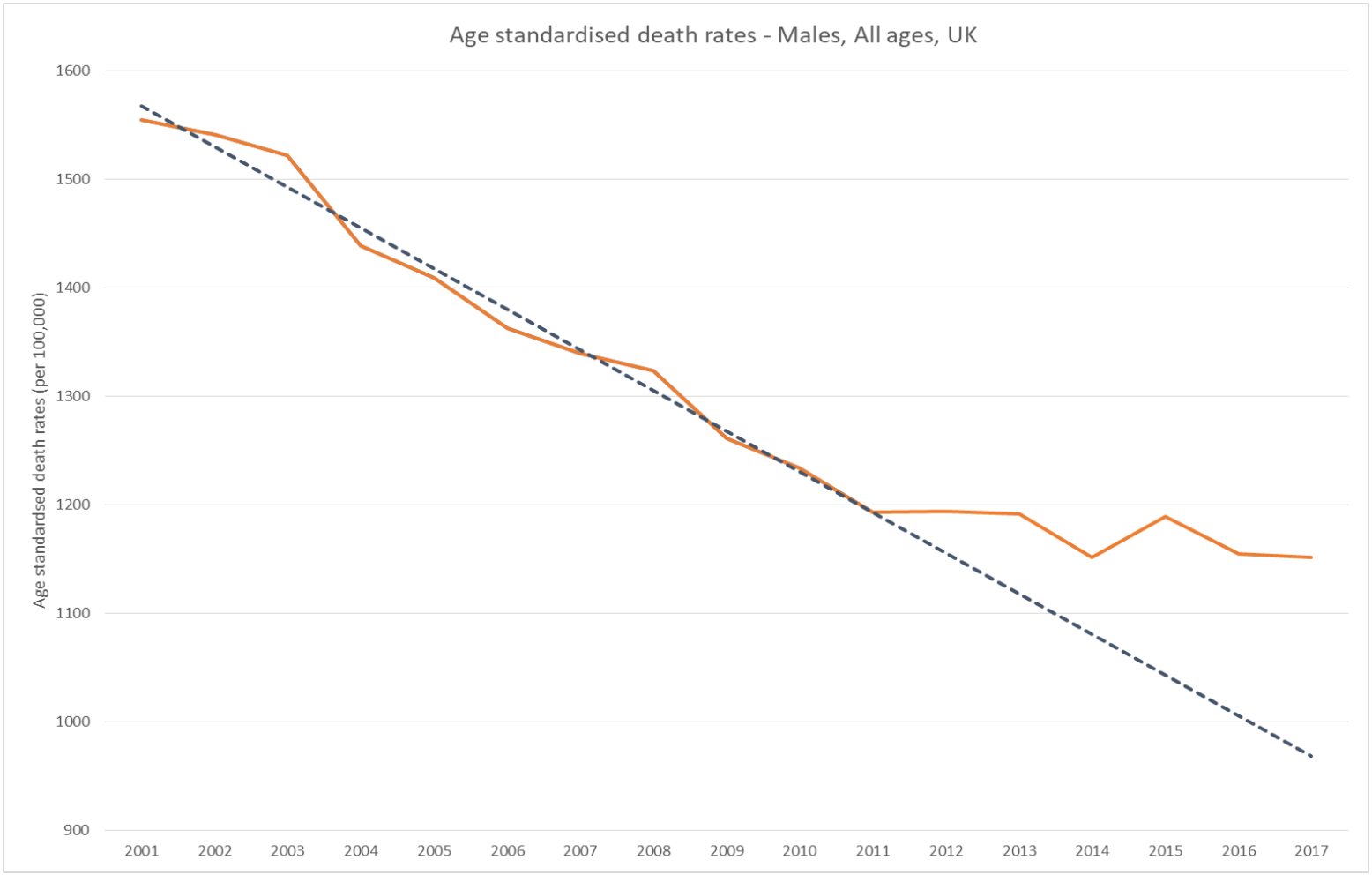
Mortality improvements have recently tailed off



Source: ONS

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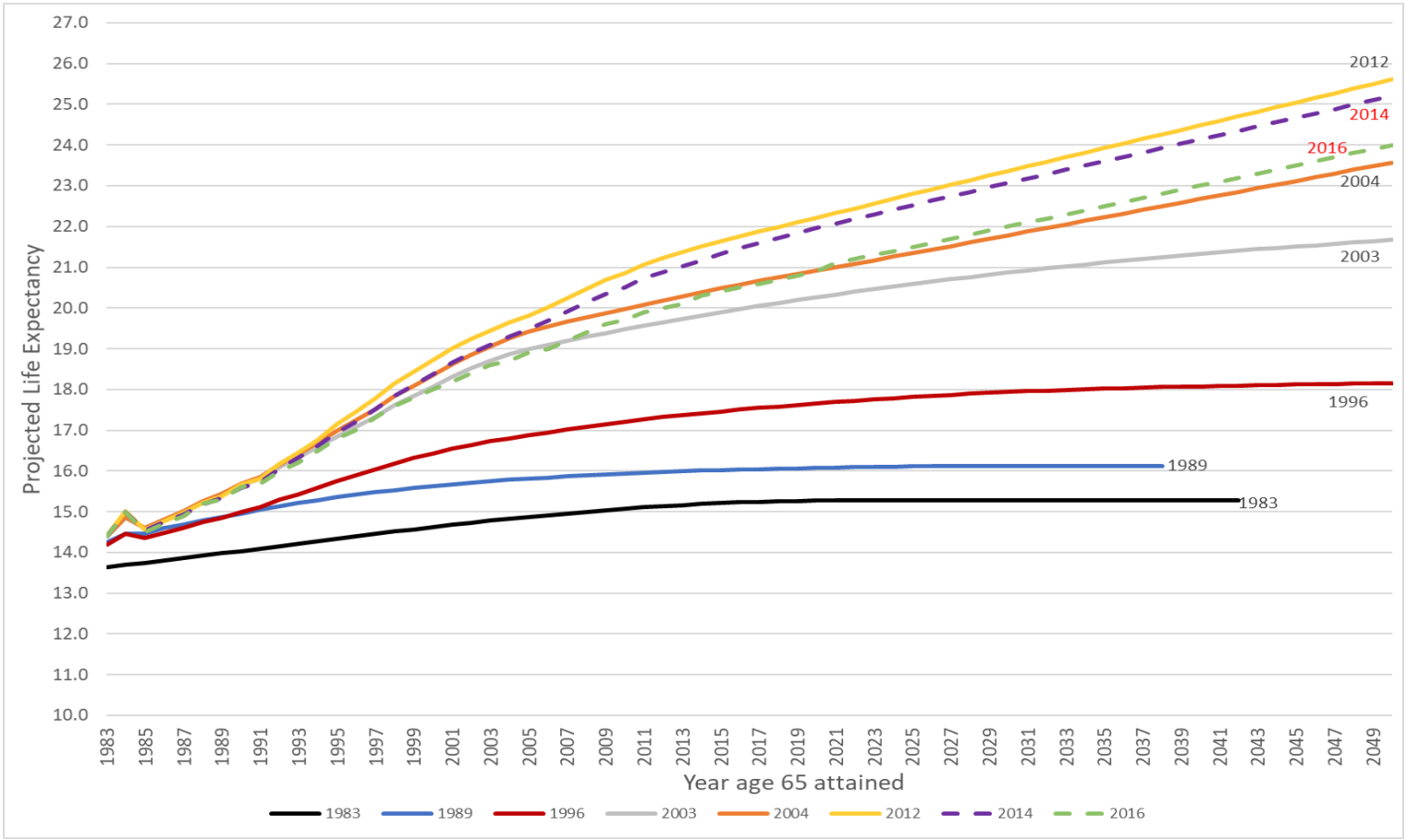
Mortality projections vary significantly through time



Cohort life expectancy at age 65 from projections made between 1983 and 2016 – Males, UK

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There are a variety of potential drivers for future mortality changes

- Changes in bio-medical technology
- Effectiveness of health care systems
- Behavioural changes related to health:
- Smoking prevalence
- Lifestyles
- Obesity
- Emergence of new diseases (eg HIV, SARS)
- Antibiotic resistance
- Re-emergence of old diseases (eg TB)
- Environmental change, disasters, wars
- Changes in population composition; cohort effects, migrants

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State Pension age (SPa) review: parameters & assumptions

- Broad question: what does SPa need to be in the future to fix the proportion of adult life spent in receipt of state pension?
- Parameters specified by Secretary of State:
  - Period of reaching State Pension age to be covered – 2028 to 2064
  - Proportion of adult life spent in retirement – 2 options: 33.3% and 32%
  - Age at which adult life starts – 20 (OECD convention)
- Further assumptions:
  - Mortality based on ONS UK principal population projections (2014 latest available)
  - Central assumption of 1.2% annual mortality improvements in long term
  - Use unisex (weighted by numbers) cohort life expectancy

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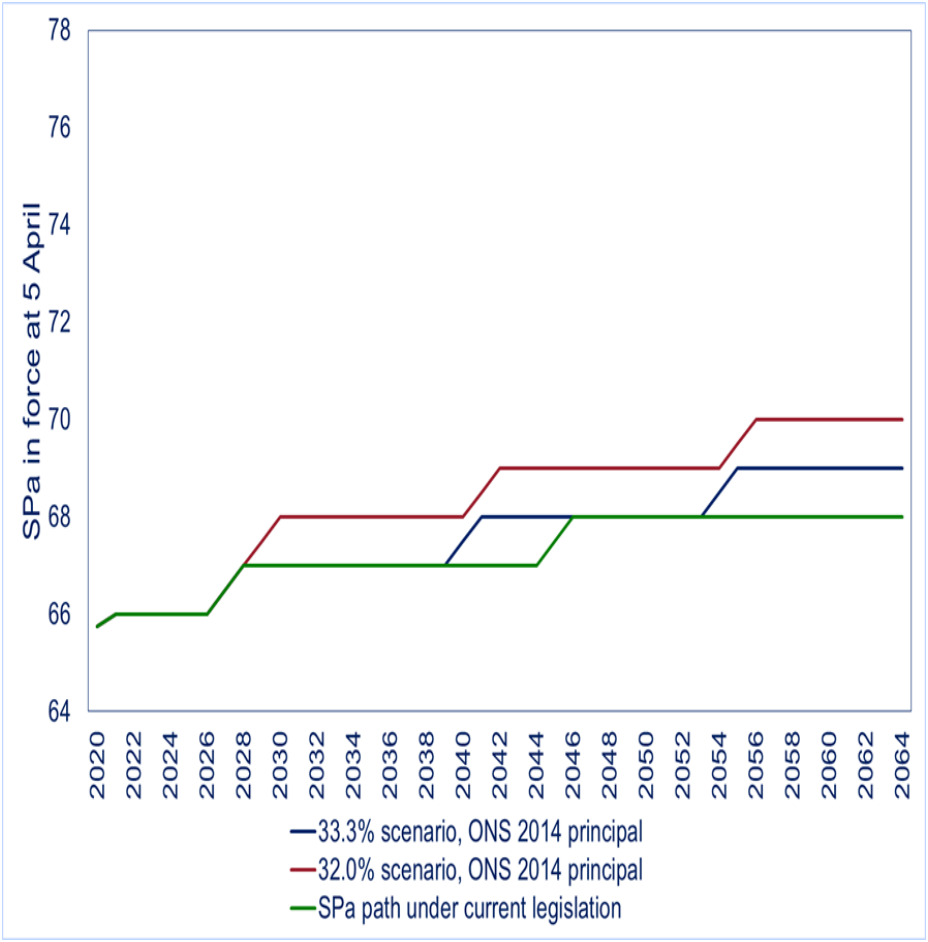
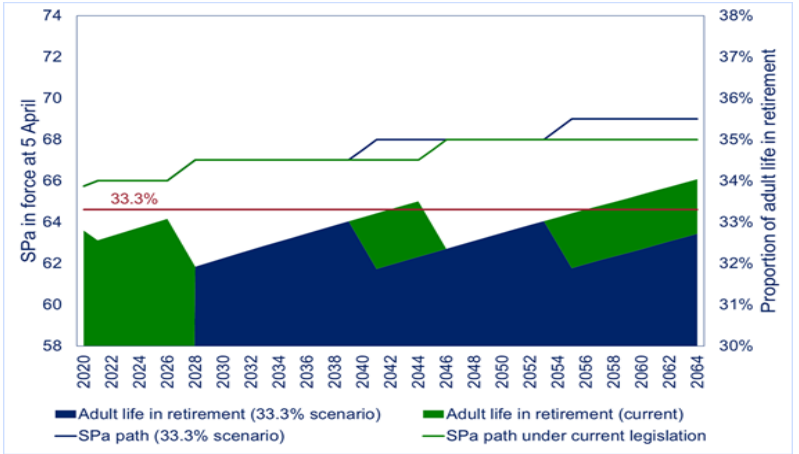
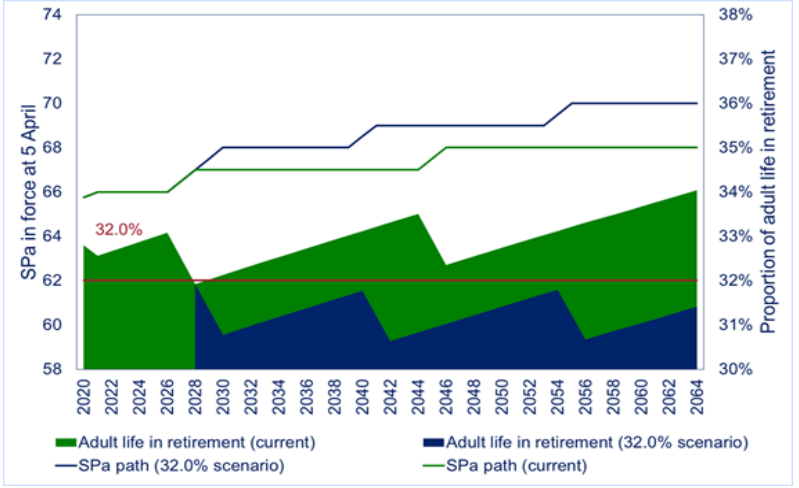
GA report main results: SPa needs to increase more rapidly to achieve fixed proportion







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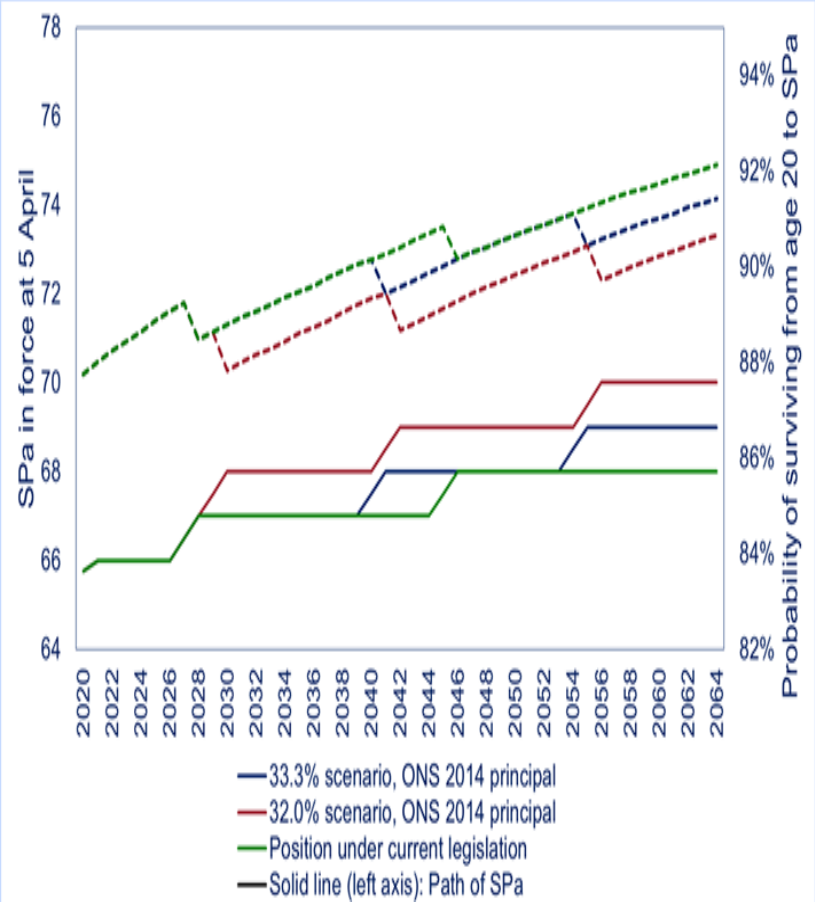
Still an increasing chance of surviving to SPa and an increasing old age dependency ratio



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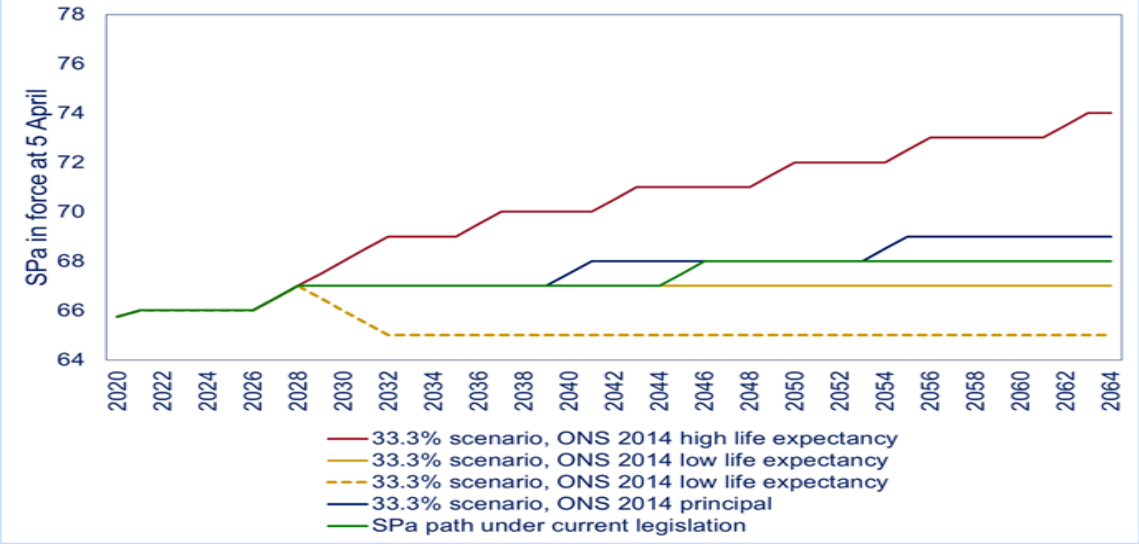
Results sensitive to alternative assumptions on mortality improvements

Table 8: *Cohort life expectancies at age 65 (in 2014 and 2064) and calculated proportion of adult life in retirement (in 2028-29), under ONS 2014-based principal population projections and adjusted long-term improvement rates*

Central long-term improvement rate	Cohort life expectancy at age 65				Proportion of adult life in retirement*
	Men		Women		
% pa	2014	2064	2014	2064	(2028-29)
0% (low)	20.3	20.9	22.5	22.8	30.0%
1.0%	21.0	25.3	23.3	27.3	31.6%
1.2% (principal)	21.2	26.7	23.5	28.7	32.0%
1.4%	21.3	27.6	23.6	29.6	32.3%
2.4% (high)	22.2	34.8	24.6	36.9	34.4%

* based on the currently legislated SPa timetable



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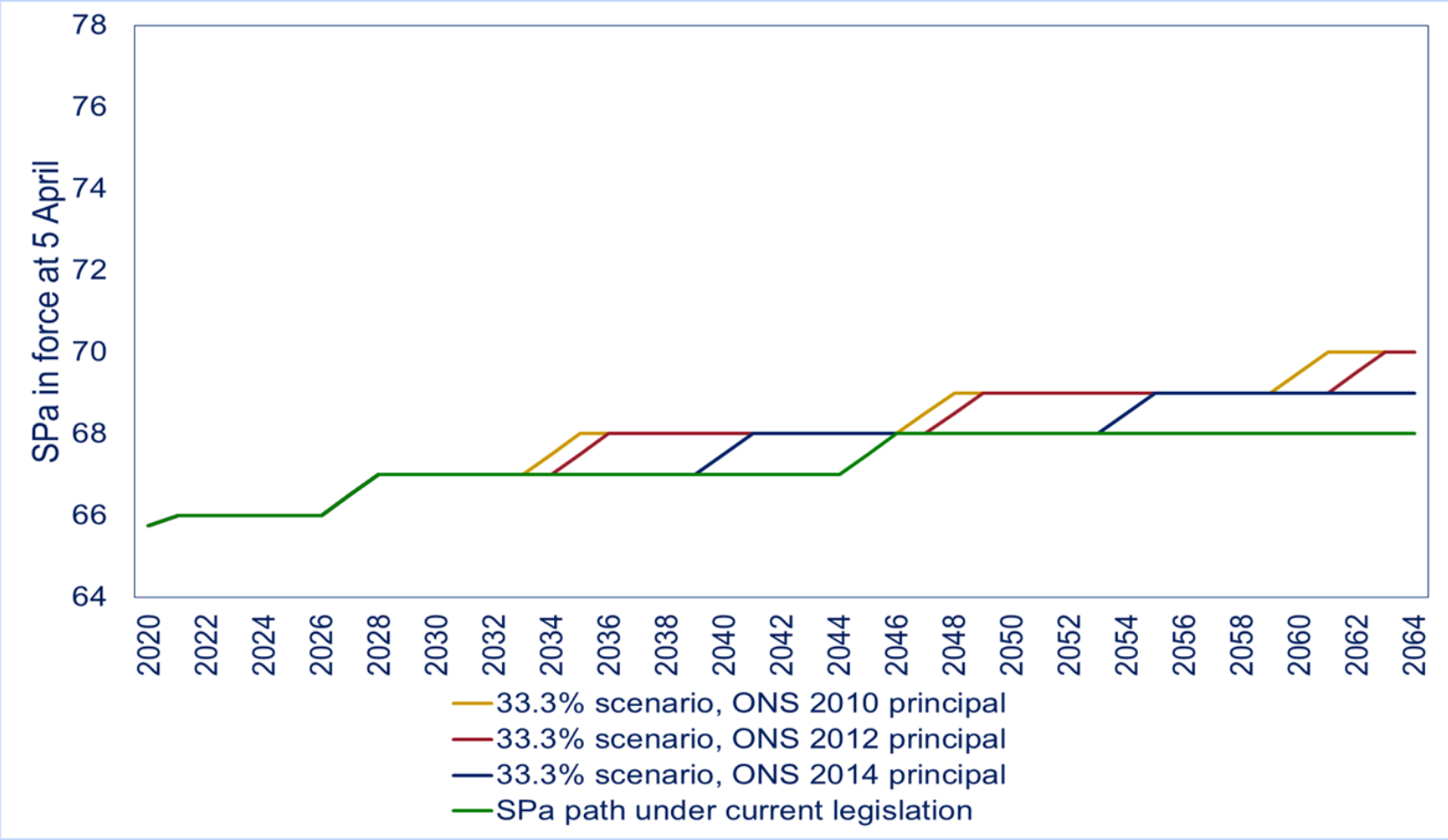
Recent mortality projection changes would have *deferred* SPa increases



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Government response

- Follow independent review recommendation to increase SPa from 67 to 68 between 2037 and 2039
- But given uncertainty, wait for another review (due by 2023) before legislation
- Policy for post 2039 not set yet
- Minded to commit to "up to 32%"

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Key points

- Future life expectancy is unknown (and unknowable)
- But governments and individuals need to be able to plan for the future
- Intergenerational fairness requires a balance between flexibility to manage evolving uncertainty and fixed rules to provide certainty / forecastability

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References

- "Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2015" (GAD, October 2017)
- "Periodic review of rules about State Pension age: Report by the Government Actuary" (GAD, March 2017)
- "State Pension age review" (DWP, July 2017)
- "National Population Projections: 2014-based projections" (ONS, October 2015)
- "Fiscal sustainability report" (OBR, January 2017)