TISA

Response by TISA to: Third State Pension age review: independent report call for evidence

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About TISA

Supporting the financial journey through life

The Investing and Saving Alliance (TISA) is committed to improving the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

We care about the entire financial life of consumers: from their first savings account opened to ensuring people can age and retire with dignity. TISA believes that savings and investments play a significant role in the lives of people and small businesses. Consumers benefit when they put aside money for their future. Saving and investing can provide a buffer for emergencies; help people achieve big and small goals throughout their lifetime; and give people quality of life in later years.

TISA is a not-for-profit membership organisation and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. We have approximately 270-member firms involved in the supply and distribution of savings and investment products and associated services. Our members include the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, FinTechs, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Our work, your influence

With a focus on four key workstreams that best support the consumer and UK financial services, TISA has become a leading industry voice and ally for delivering consumer focused initiatives.

Our policy work reflects TISA's broad scope of interests and aims on meeting the needs of UK consumers, members and our industry. From improving financial education, inclusion and accessibility, right through to savings, investments and retirement planning, the work we do with our members to **influence policy** is crucial in enhancing the industry we operate in and driving positive change.

As part of our commitment to delivering focused and impactful consumer outcomes, TISA's policy working groups have been structured into **four distinct workstreams**:

1. **Consumer Protection**
   Protecting the best interests of UK consumers in their financial journeys.

2. **Consumer Access**
   Considering issues that could directly impact access to financial products.

3. **Effective Products**
   Examining key considerations and legislation relating to products across the investing and saving landscape.

4. **Corporate Responsibility**
   Exploring issues that directly impact society, the environment, and the economy.

All groups focus on both strategic and technical elements of policy/regulation. Key outputs from our workstreams can include recommendations to government and regulators on developing a financial services framework that protects and benefits UK consumers, finding solutions to operational/infrastructure challenges and developing standards of good practice on the interpretation and implementation of new regulation.

We provide a channel for firms to have their say on the policy we develop and present, contribute to our technical and regulatory interpretation work and, importantly, gain insights from other TISA members, policy makers, government and regulators.

Find out **more about TISA here:** https://www.tisa.uk.com/about-tisa/

Executive Summary

TISA welcomes the opportunity to respond to the DWP call for evidence – Third State Pension age review: independent report call for evidence.

Our response is based on some important expectations that we set out below:

• There will be no cut to state pensions in payment

• There will be no retrospective changes made to benefits already accrued

• State Pension benefit will continue to be funded through National Insurance (NI) contributions.

It is crucial that the State Pension Age is reviewed periodically to ensure it remains fair and sustainable against a constantly changing landscape.

The complexity involved in reviewing such an important benefit is significant. The cost is influenced by several moving parts, some of which is within government's control and some of which, is not. And given the UK population is not a homogenous group, a single SPa cannot generate equal outcomes for everyone. As such, we recommend a degree of flexibility is considered, to enable access at a slightly earlier age – this being particularly important for groups who have a reduced life expectancy who would otherwise not benefit from receiving a SP for as long or perhaps at all. This would require careful consideration to ensure early access did not become the norm and that pensioners in poverty were not unduly disadvantaged in the longer-term. As poverty is most prevalent in the age group 60-65, further thought needs to be given as to how additional support can be provided to this cohort in the years immediately preceding SPa.

The interaction with Auto Enrolment, our other mandatory pension system is an important factor to consider. If tax benefits continue to be stripped back, it places an even greater reliance on private pension provision and other savings to bridge shortfalls. We should ensure that all reviews and changes to the SP take in to account the overall retirement income targets that are deemed appropriate and the impact this has on AE's ability to deliver on the income level that will be required from private pension provision. Of course, some groups are significantly underserved by our existing pensions framework e.g. the Self-Employed and this is a further factor to consider.

Our response references a suite of factors which need to be considered when reviewing SPa and the SP framework more generally. Whilst it is not possible to conduct a 100% like for like comparison with international counterparts due to various differences in the wider benefit systems, learnings from abroad nonetheless provide useful insights and will prove beneficial for this review.

We would be pleased to discuss any aspects of our response with you in more detail.

Question responses

4.1 Life Expectancy

a. What are the advantages and disadvantages of linking State Pension age to life expectancy?

Life expectancy (LE) is a major but not the only factor in determining an appropriate State Pension age (SPa). An approach which aims for all current and future generations to be eligible to receive a state pension for a broadly similar proportion of their adult life is one way in which equitable outcomes can be measured. But this is an extremely complicated area, which comprises many facets including UK economic capability, adjustment mechanisms, UK tax policy, immigration policy, other mandatory pension systems (i.e. for UK Auto Enrolment (AE)), currently underserved cohorts – the list goes on and on.

Whilst LE plays a crucial role, projections can and do change. The assumptions used in 2014 to create the current legislated schedule of SPa increases are now outdated and assume a higher level of LE than the 2022 projections. Yet there appears no appetite to level down these increases or push back the dates to reflect the over inflated assumptions previously made. If SPa is to be determined largely by LE, then this has to work both ways and should not only be used where it supports an increase.

When considering inter-generational fairness and changes to SPa, we need to consider not only how this impacts future retirees (flow) but also existing retirees (stock). Advancements in AI and medicine could conceivably see LE increase significantly within a relatively short space of time. If LE suddenly jumped by 5 years due to a cure for cancer, you would expect SPa to be subject to a correlated increase. However, existing retirees would also benefit in part from this LE increase and receive their state pension for longer, with no corresponding downside. In effect, the flow is not only having to wait for longer to receive their state pension but they are also having to further subsidise the stock, who are now living longer. This leads to consider ways in which to control or limit the cost associated with stock. The way in which this is currently controlled which generates a financial impact is through the SP AAM or triple lock. Any changes made to this AAM will have a relatively quick impact (dependent on lead time) on the future cost of managing the stock. Allowing the financial impact of a change in SPa to occur organically will take decades to realise. As such, it is not possible to consider SPa without considering the existing and potential alternatives to the SP AAM.

The SP has a significant role to play in securing good retirement outcomes for millions of individuals and households. For many, it will be the main or only source of retirement income. As such, any increases to SPa will result in changes being required to retirement plans. This may simply mean pushing retirement back if possible, or more complicated changes to fund the gap between retirement and a revised SPa. People plan their retirements years in advance and cannot be expected to make changes at relatively short notice. We strongly recommend that increases to an individual's SPa cannot occur once that person has reached Normal Minimum Pension Age (NMPA) – which would result in a 12 year notice period. Private pension provision will be relied upon by millions to fund the gap between retirement and SPa. It would be entirely inappropriate for any gap to be lengthened after NMPA has been reached – even where LE has rapidly escalated.

We also need to be mindful that LE differs between cohorts. An average means 50% will be above this and 50% will be below. This will vary based on numerous variables including health, geographic location, household income and gender. The complexities of enabling different cohorts to access the State Pension at different ages based on a personalised LE is too great to consider or implement. However, it should be recognised that groups who have a lower than average LE will not receive a State Pension for as long as others, or perhaps not at all and will in effect, be subsidising them. To recognise this inequity, we recommend a degree of flexibility to enable people to access their State Pension earlier than SPa, with a corresponding actuarial reduction in benefit. Minimum access age could be linked to a previous SPa where a subsequent increase has occurred. This would require careful consideration to ensure early access did not become the norm and that pensioners in poverty were not unduly disadvantaged in the longer-term. As poverty is most prevalent in the age group 60-65, further thought needs to be given as to how additional support can be provided to this cohort in the years immediately preceding SPa.

b. How would linking State Pension age to life expectancy impact upon intergenerational fairness?

As highlighted above, there are aspects about linking SPa to LE which align to intergenerational fairness and other aspects which don't. The complexity and impacts of making changes to the SPa, means there are a multitude of factors which need to be considered, to ensure consequences and unintended outcomes for groups are assessed and understood.

4.2 Sustainability

c. What role, if any, should State Pension age have for managing the cost of the State Pension in the longer term?

The role of SPa plays a major part in determining the cost of the State Pension. Other factors include the amount, adjustment mechanisms and the dependency ratio. Ultimately, as a pay as you go system, sustainability will be determined by the ability of the income generated by the working age population to support an increasingly growing cohort of retirees. We have highlighted above the inequity caused to the working age population created by pushing back the SPa. This links to the need to not consider State Pension in isolation but also consider other mandatory pension systems we have in the UK i.e. Auto Enrolment (AE).

The tax benefits of our funded pension system are under constant scrutiny, with certain benefits already restricted or frozen such as Annual Allowance and Lump Sum Allowances. Other policies such as the inclusion of unused private pension wealth in IHT are likely to impact pension saving behaviours. If the tax benefits of our funded pension systems continue to be stripped back, it becomes increasingly challenging for consumers to bridge the gap between retirement and SPa. Where retirement is forced onto individuals due to health and the nature of their work, this becomes even more of an issue and will lead to private pension and other wealth being exhausted or significantly reduced before SPa is reached. Any increase to the existing SPa will of course compound this significantly.

d. What are the advantages and disadvantages of using State Pension age to manage the cost of the State Pension in the longer term?

Increasing SPa will not reduce any costs for existing retirees. This will only impact future retirees and given we need to give individuals and households sufficient lead time to prepare for any changes (at least 12 years as recommended above), there will not be any short-term cost reductions gained.

The use of SPa as part of the decision making process is more palatable than other options which could be employed to reduce the cost – such as means testing, removing or reducing the triple lock and reducing the amount payable.

In the longer-term, we have already highlighted the challenges which need to be overcome and it will take a package of measures which include SPa to broadly achieve some form of fairness, whilst managing the cost.

e. What other factors relating to sustainability should the Government consider when determining State Pension age? What are the advantages and disadvantages of using these factors?

Any review and changes to the state pension should take into account pension adequacy targets and the impact this has on AE's ability to deliver on the income level that will be required from a private pension.

The stock vs flow needs to be considered. Whilst the current cost of the stock cannot be reduced, future increases could be managed through Automatic Adjustment Mechanisms (AAMs).

The lead period people need to accommodate SPa changes needs to be appropriate – we recommend at least 12 years which represents the difference between current NMPA and SPa.

4.3 Automatic Adjustment Mechanisms

f. What are the advantages and disadvantages of using Automatic Adjustment Mechanisms to make changes to State Pension age (i.e. if a certain factor changes, State Pension age is automatically increased or decreased as a result).

Automatic Adjustment Mechanisms (AAMs) take the human element out of the process. If the formula is agreed, then it is accepted that the resulting output will be the figure used and any subjective or political elements involved in a human decision making process are removed.

However, the rigid approach provided through AAMs mean that extraordinary events which result in significant and inequitable spikes cannot be controlled, unless there is human intervention or a smoothing process baked into the formula. We saw such events unfold during Covid which resulted in the triple-lock becoming a double-lock for 2022/23. We would again reiterate:

- the need for any changes to have a minimum 12-year notice period to enable consumers and households to be able to effectively plan for later life
- how you manage the fairness between the stock and the flow

g. What factors could be considered for use in an Automatic Adjustment Mechanism, and why?

The UK government often uses experiences and learnings from international pension systems to help inform and develop our domestic framework. Research from DWP's March 2023 report 'Understanding decision making around changing the State Pension age: A review of international evidence,' concludes the variable factors used for AAMs from seven countries which tie SPa to LE are:

- age at which link to life expectancy is set
- rate at which SPa is linked to life expectancy
- frequency of revisions
- notice period considered
- minimum SPa increase allowed
- maximum SPa increase allowed
- whether the SPa can decrease as well as increase
- the time period of data used
- the way in which life expectancy is calculated
- the level of automation

This provides an excellent base from which to work from. We have populated a table below which includes the above factors and what UK currently does where relevant and what we propose should be the model for the UK State Pension were the government to pursue a SPa AAM.

Variables	Current UK position	TISA recommended position
Age at which link to life expectancy is set	66 is currently used to measure future life expectancy	No change
Rate at which SPa is linked to life expectancy	N/A	A partial link with a set percentage which retains the existing proportion of life expectancy before/after SPa
Frequency of revisions	Reviewed at least every 6 years	No more than every 5 years
Notice period considered	A non-legal commitment of 10 years minimum	12 years to reflect the gap between NMPA and SPa
Minimum SPa increase allowed	N/A	6 months
Maximum SPa increase allowed	N/A	1 year

Whether the SPa can decrease as well as increase	No	Yes – if life expectancy drops, then this should be reflected in lowering SPa
The time period of data used	GAD to agree this	GAD to agree this
The way in which life expectancy is calculated	GAD to agree this	GAD to agree this
The level of automation	None for SPa	If an AAM were to be considered, the above considerations should influence how it is constructed

4 Factors for setting State Pension Age

h. What other factors do you think the government should consider when making decisions regarding State Pension age? What are the advantages and disadvantages of using these factors?

Aside from factors already mentioned in this response, SPa links to broader aspects of life, including workplace participation and eligibility for other state benefits. All of these need to be considered when undertaking a formal SPa review.

i. Which of these factors (life expectancy, sustainability and other factors) do you think are most important for the Government to consider when making decisions regarding State Pension age, and why?

LE and sustainability are two of the most important factors. We have also highlighted several other factors which need to be considered throughout our response – each of which will have the own unique impact on retirement outcomes for specific cohorts.

j. How might changes to State Pension age impact people differently? Which groups of people, regions or nations may be most impacted by changes to the State Pension age, and why?

This is not an exhaustive list. We have outlined some groups impacted below but also please see our response to previous questions.

- Workers in manual jobs – they may be physically unable to work for longer and will need to fund the interim between retirement and SPa
- Those with lower life expectancy than the average – they will already not be receiving the SP for as long as others. A further increase in SPa compounds this impact

- Lower earning households – it will be harder for them to bridge the gap between retirement and SPa
- Public sector workers, nearly all of which are in unfunded DB schemes will not be as impacted by SPa rises as those in funded DC schemes, given DB pensions have no actual pot size which is eroded by pension income payments