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Equality in State Pension Age

*Presented to Parliament
by the Secretary of State for Social Security
by Command of Her Majesty
December 1993*

FOREWORD BY THE SECRETARY OF STATE FOR SOCIAL SECURITY

The difference in state pension ages – 60 for women and 65 for men – is the last glaring inequality in our treatment of men and women. It is outdated and unfair. The government is committed to act during this Parliament to remove this inequality. It is essential to do so to provide a clear framework within which occupational pension schemes can comply with the European Court ruling requiring them to equalise their benefits to men and women.

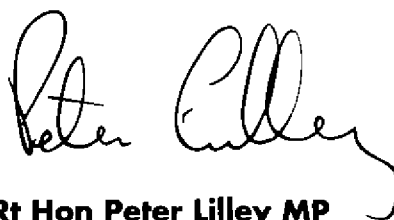
The new state pension age will be 65 for both men and women. To give women and employers ample time to prepare for this, it will not even start until 2010. Women's pension age will then be raised gradually to reach 65 by 2020. So no women currently aged 44 or over will be affected by the change. Those currently between 38 and 43 will receive their pension at ages between 60 and 65. Only those currently 38 or under will have to wait until 65.

It is right to equalise at the current men's pension age of 65 for four reasons. First, women are increasingly playing an equal role to men in the economy. They make up nearly half of all those in employment and rightly expect to be entitled to retain their jobs for as long as men. The measures we spell out in this White Paper will enhance the future pension entitlement of many women who take a number of years out of work to care for children, and of low earners.

Second, people are living longer and healthier lives. The number of pensioners is set to grow by almost a half, to over 15 million towards the middle of the next century. At present there are 3.3 people of working age to support each person over pension age. If pension ages were unchanged that ratio would have fallen to 2.2 to one by 2030. A common pension age of 65 will mean that there will be a more sustainable ratio of 2.7 people of working age for every pensioner. Expenditure on state pensions is set to double in real terms to some £60 billion by 2025. A common state pension age of 65 will save some £5 billion from that total and would strike a fair balance between generations.

Third, the trend throughout the industrial world is towards higher pension ages. The large majority of our trading partners in the European Community, North America, Scandinavia and Australasia, have – or are moving towards – pension ages of 65 or higher. An equal state pension age of 65 is therefore important to help Britain maintain its international competitiveness. Fourth, the trend in occupational pension schemes is towards equalising normal pension age at 65. A state pension age of 65 offers a sensible match with this increasingly important form of provision.

These proposals represent a fair balance between the needs of future generations of pensioners and workers, whilst protecting the position of millions of women who are still a very long way from pension age. They provide a fair and sustainable basis for the state pension in the next century.



Rt Hon Peter Lilley MP

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1. AN EQUAL STATE PENSION AGE OF 65

Equality

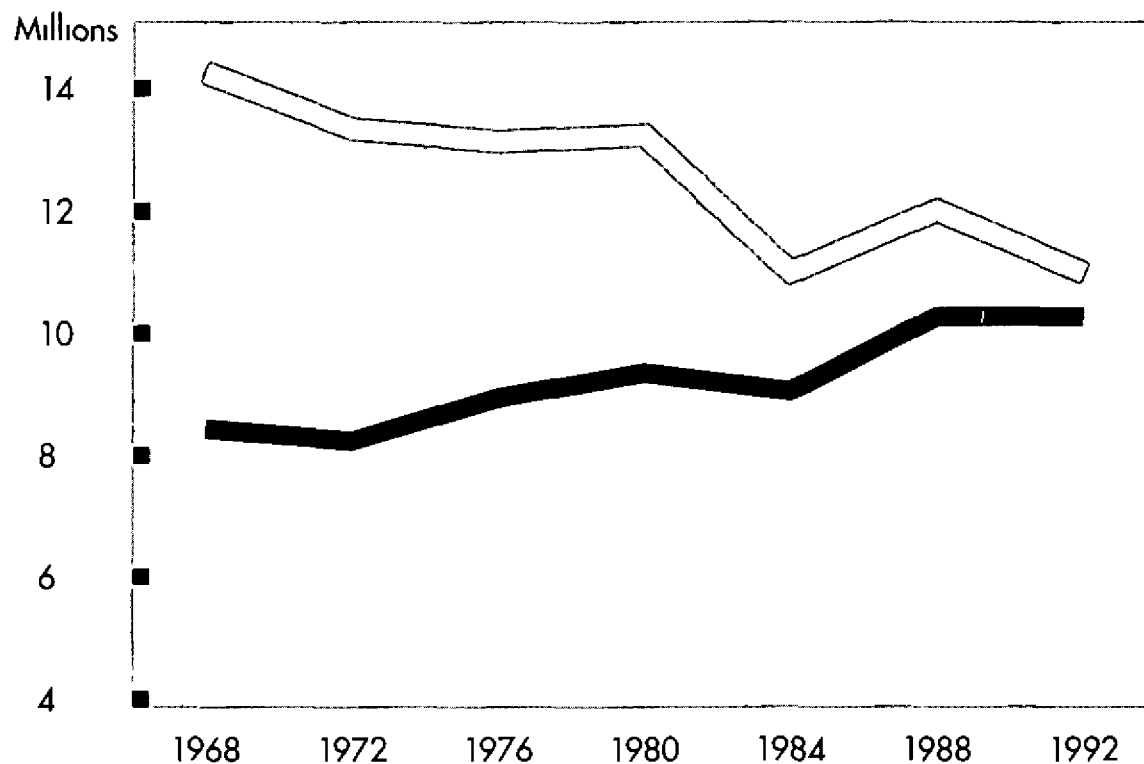
- 1.1** The present pension age for women was introduced in 1940. Prior to that, the state pension age was 65 for both men and women. The lower age for women was introduced largely to cope with the fact that most women were younger than their husbands and had no pensions in their own right. Much has since changed.
- women now play a full role in the workforce alongside men and most women expect to work for most of their adult lives. Women rightly expect to be treated fully on equal terms with their male colleagues (see para 1.2),
 - married women are much less dependent on their husbands' National Insurance contribution records. Virtually all women will have some entitlement to a state pension in their own right by the early part of the next century (see para 1.3),
 - the needs of married couples in which the husband reaches 65 ahead of his wife are now dealt with through dependency increases which did not exist when women's pension age was first reduced (see para 1.4).

The preferential pension age for women has no place in this modern context. There is no reason for a woman to receive an earlier pension than a man if they have both paid the same contributions. The Government has therefore concluded that it is right and proper to equalise the state pension age for men and women.

Women in employment

- 1.2** The number of women in employment has greatly increased over recent years. A quarter of a century ago 37 per cent of employees were women, in 1992, that had increased to around 50 per cent. Discrimination between men and women at work is now unlawful. Employers can no longer set different retirement ages for men and women. Many occupational pension schemes have had equal pension ages for some years and the remainder are now equalising following the European Court's judgement in the Barber case. Only the state pension age remains different between men and women.

Men and Women in employment 1968-1992



Great Britain – unadjusted figures (millions) for employees in employment



M 	14.2	13.3	13.1	13.2	11.0	12.0	11.0
W 	8.5	8.3	9.0	9.4	9.1	10.3	10.3

Figure 1

Women's pensions

1.3 Historically, women's entitlement to state pensions has been reduced by a number of factors including fragmented employment records. This is changing and is set to change further. Moreover, the rules governing entitlement to pension have been improved in two important ways

- those who have a shorter working life because they stay at home to look after a child or a sick or disabled person are assisted in building up entitlement to the basic pension by Home Responsibilities Protection introduced in 1978,
- the concession which allowed married women to pay reduced rate

National Insurance contributions, leaving them reliant on their husbands' National Insurance records, was withdrawn (except for those with preserved rights) from 1977

The combined effects of these factors will mean that by 2010 almost all women will retire with a basic pension entitlement in their own right, and many of them will receive the full basic pension

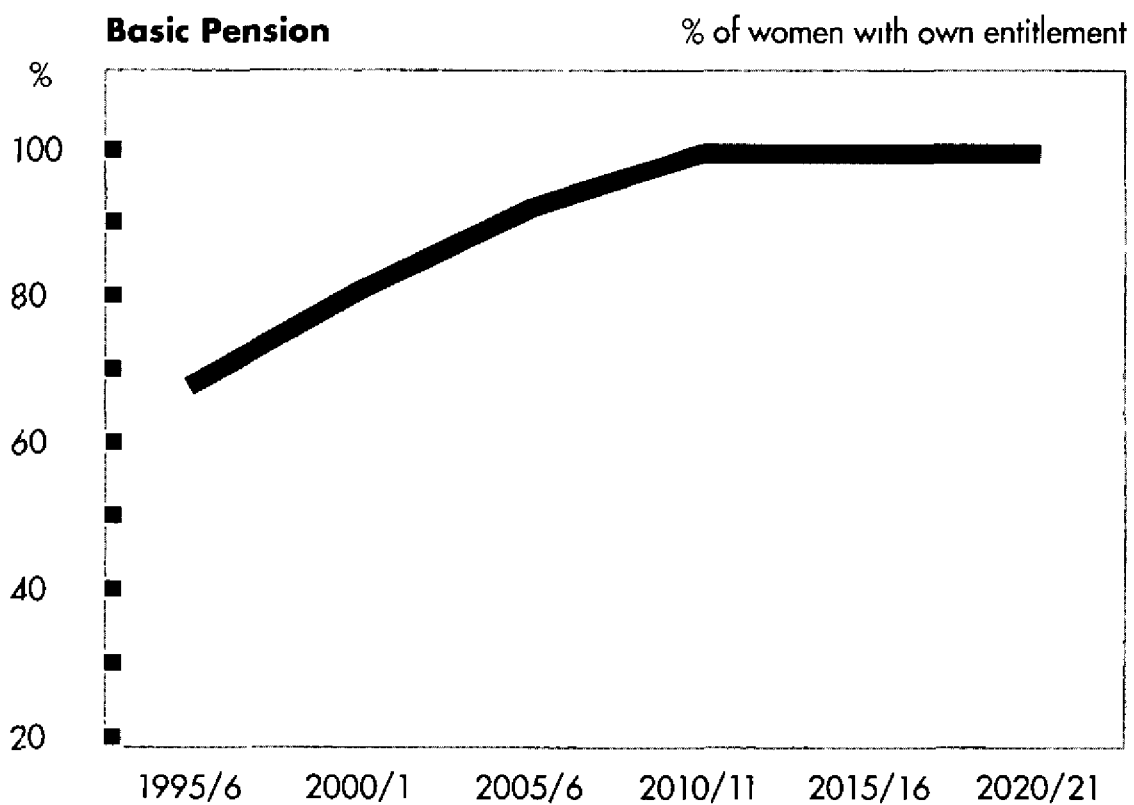


Figure 2

Origin of unequal pension ages

- 1.4** Prior to 1940, state pension age was 65 for both men and women. Women's state pension age was reduced to 60 as part of a package to enable married couples (where the wife was usually younger than the husband) to receive a pension at the couples' rate when the husband reached 65. This was aimed in particular at households where men in receipt of unemployment assistance, which included an allowance for a dependent wife, lost the allowance at age 65 if their wife was younger. The change was introduced at a time when married women were

largely dependent on their husbands' pension provisions but it was also extended to single women. The subsequent introduction of dependency increases removed the major rationale for inequality. Chapter 3 gives details of the Government's proposals to make dependency increases available to men and women on an equal basis.

A responsible and sustainable choice

1.5 In setting the new equal state pension age all the key factors point in one direction:

- people are living longer healthier lives (see paras 1.6-1.7),
- there will be more pensioners in the next century each supported by fewer people of working age (see paras 1.8-1.10),
- public expenditure on state pensions is already set to double between now and 2025 (see para 1.11),
- our international competitors are facing similar pressures and are moving towards higher pension ages (see paras 1.12-1.13),
- occupational schemes are predominantly equalising at 65 (see para 1.14).

The Government believes the case for choosing a common state pension age of 65 is clear.

Longevity

1.6 When Beveridge¹ was writing his report on the welfare state, 12 per cent of the population consisted of men over 65 and women over 60. Today the figure is 18 per cent. On average, people now draw their pensions for some four years longer than they did then – women, on average, now drawing pensions for nine years longer than men do.

¹ Beveridge, W. 1942, *Social Insurance and Allied Services*, London, HMSO.

- 1.7** Moreover, the life expectancy, at birth, of people born in 1991 (who will reach pension age in the middle of the next century) is projected to be some six years longer than that of people born in 1941. Against this background the Government considers that it cannot make sense to reduce the age at which either sex can draw the state pension.

Proportion of pensioners in the population

- 1.8** By 2030 the full effects of the post-war and 1960s 'baby booms' will be seen in the pensioner population. This demographic phenomenon, combined with increasing longevity, will boost the number of people over current pension age to almost half as many again as now – from 10.4 million to a projected 15.5 million. At the same time as the number of pensioners increases, the number of young people entering the workforce is set to fall. The number of people of working age as compared with that of pension age (the support ratio) will therefore be drastically reduced by the middle of the next century.
- 1.9** In 1991 the ratio was 3.3 people of working age to each pensioner. This ratio is projected to fall to 2.2:1 by 2030 if pension age is unchanged. Equalising at 65 means that in 2030 the projected ratio would be 2.7:1. This is still a significant fall compared to the present day but it is more sustainable. To allow the support ratio to fall lower – for example, equalising pension age at 60 would mean a drop to 1.8:1 – would clearly be difficult to sustain.

Table 1: Number of people of working age (age 16 to appropriate pension age) per pensioner

	1991	2020	2030	2050
Current scheme	3.3	2.7	2.2	2.1
Age 60		2.2	1.8	1.8
Age 65		3.3	2.7	2.5

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- 1.10** The support ratio measured this way understates the imbalance between those at work and those drawing pensions because, for example, many people retire before they reach state pension age. Equalising state pension age at 65 will reduce this imbalance directly, by restricting the number of pensioners and indirectly, to the extent that individuals' retirement patterns are affected. Any permanent expansion in the workforce arising from later retirement would lead to the creation of more jobs through the wage bargaining process.

Public expenditure

- 1.11** Spending on the elderly is already almost half of total benefit expenditure. Benefit expenditure is increasing faster than the growth of the economy at a projected underlying rate (excluding spending on unemployed people) of 3.3 per cent per annum until the end of the century. This rapid growth is projected despite the fact that the number of pensioners is not expected to grow significantly over that period. But in the next century we will face the added pressure of a rapidly increasing pensioner population coupled with maturing entitlements under the State Earnings Related Pension Scheme (SERPS). As a result expenditure on state pensions is set to double in real terms from just under £30 billion now to almost £60 billion by 2025. Equalising at men's pension age will save just under £5 billion from that total. In contrast, a decision to equalise at women's current pension age would have added nearly £7 billion to public expenditure in that year.

The international context

- 1.12** Economic and demographic pressures are not exclusive to the UK. Countries throughout the industrialised world face increases in the proportion of elderly people in the population. Many have already recognised the need to keep pension expenditure under control and have raised their pension age, or equalised at the higher level. The majority of EC countries have equalised or are intending to equalise at 65 or above. Most of the Scandinavian countries and the USA have, or are moving to, an equal state pension age of at least 67. France, which reduced its pension age to 60 in 1981, is finding that burden of support very hard to bear and has recently introduced measures to mitigate the effects of that decision, such as extending the contribution period required for a full pension.
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Table 2: Examples of pension ages and moves to equalise and raise pension age

Country	Current (F/M)	Planned (F/M)	Timing	Date of Legislation / Comments
Australia	60/65	65	1995-2015	Announced as part of the 1993/94 budget
Austria	60/65	65	2024-2033	1993 legislation
Canada	65			Already in place
Denmark	67			Already in place
Germany	60/65	65	2001-2012	1989 legislation
Greece	60/65	65 for new entrants	1993-2043	1992 legislation
Iceland	70			Already in place
Republic of Ireland	66			Retirement pension payable at 65 Old age pension at 66
Italy	55/60	60/65	1994-2004	1992 legislation
Luxembourg	65	65 with flexibility from 57-68 depending on contributions record	1991	1991 legislation
Netherlands	65			Looking at possible increase, perhaps to 67
New Zealand	60	65	1994-2001	1992 Act following 1991 announcement
Norway	67			Already in place
Portugal	62/65	65	1994-2000	1993 proposals
Spain	65			Already in place
Sweden	65			Already in place
Switzerland	62/65	64/65	1996-2004	Approved by National Council in 1993 but yet to be discussed by the State Council
USA	65	67	2002-2027	1983 legislation

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- 1.13** The situation in these countries is very similar to our own. Ignoring this trend towards higher pension ages would put our industry at a disadvantage compared to other countries. Extra costs to industry from a lower state pension age would arise in three ways. First, direct costs would be incurred through the employers' National Insurance contributions needed to finance earlier pensions. Second, there would be pressure on wage costs as a result of employees having to pay higher National Insurance than they otherwise would. Third, any moves towards earlier retirement and hence, a smaller labour force would also tend to raise wage costs and spread the tax burden over a smaller productive base. Britain's international competitiveness would suffer. Choosing a common pension age of 65 avoids these risks and keeps the UK on a par with its trading partners.

Occupational pensions

- 1.14** The clear trend in occupational pension schemes is towards equalising the normal pension age at 65. These schemes provide an increasingly important source of income in retirement. A common pension age of 65 offers a good match with this form of private provision.

The other options

- 1.15** In reaching the conclusion that equalising pension age at 65 is the right course, the Government examined in detail a range of options. The main ones, and the reasons for their rejection, are outlined below.

A fixed pension age of 60 or 63

- 1.16** If costs could be put to one side the idea of lowering men's pension age may seem superficially attractive. But such an approach would run counter to demographic pressures. People are living longer and healthier lives and already draw their pensions for considerably longer than they did when the current unequal pension ages were first established. This trend is set to continue. As we move through the first part of the next century the proportion of the population made up by people over pension age will rise significantly even with equal pension ages of 65. To equalise state pension age at a lower age would exacerbate this change, placing an increasing burden on the population of working age. The public expenditure cost of equalising at 60 would be some £7 billion a year more than now (in today's prices), or £12 billion a year extra compared to equalising at 65. Equalisation at 63 would cost over £4 billion a year more than a common pension age of 65.
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- 1.17** Moreover, any such use of public expenditure would be poorly directed. The effect would be to take money away from the working age population – many of them facing the expense of bringing up families – to provide pensions to men in their early sixties. Most of these men would probably be working (as there is no requirement to stop work in order to draw a pension once it is due), many of them receiving good wages or salaries. Others may already have chosen to retire early on good occupational pensions and/or other private sources of income. At the other end of the income scale, many of the least well off, on Income Support, would gain little or nothing as their Income Support would be reduced pound for pound for any retirement pension which became payable at 60 or 63. Overall – even if it could be afforded – such a course would represent a very poorly focused use of public funds.
- 1.18** Some commentators have argued that equalising pension age at 60 would release jobs for unemployed people. In practice though, many people would draw their pension at 60 but carry on working. Even where experienced workers did choose to retire early, this would rarely lead to jobs being created for unemployed people. In France, the decision to reduce pension age to 60 in 1981 was taken in the hope of reducing the numbers of unemployed. In fact such a reduction did not occur and there followed a steady increase in unemployment for some years. History shows that the number of jobs available is not fixed. If the workforce grows the number of jobs will tend to rise too. If it shrinks, so too will the number of jobs. Moreover, current conditions are clearly no guide to employment opportunities in twenty or thirty years time when a considerably smaller proportion of the adult population will be of working age.
- 1.19** Choosing a common pension age below 65 would also ignore the trends in occupational pension schemes and, importantly, it would leave the UK moving in the opposite direction to our trading partners. The additional costs imposed on employers and employees by equalisation at 60, together with any reduction in the overall size of the workforce through people retiring earlier, would put the country at a competitive disadvantage.
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- 1.20** Equalising pension age at 63 would cause considerable disruption both to individuals' own planning and to occupational pension schemes. In other respects its effects would be similar to those of a common pension age of 60 but less marked. It involves a substantial redistribution of resources from women to men in their early sixties, many of whom are relatively well off. It does nothing to improve the falling support ratio, and like a common pension age of 60 runs counter to the international trend.

A flexible period of retirement

- 1.21** A number of proposals have been made involving giving people greater choice over the age at which they start to draw the state pension. The earlier they chose to do so the lower the level of pension they would have for the rest of their life. The level would be set actuarially so that the additional years during which the pension was drawn were paid for by the permanent reduction in pension.
- 1.22** In fact the present state system already offers a flexible half-decade of retirement. For each year after the state pension age that a person defers drawing his or her pension that pension will be permanently enhanced by $7\frac{1}{2}$ per cent. Thus a woman who currently defers taking her pension for the maximum five years until she is 65, will be entitled to a pension for the rest of her life at $37\frac{1}{2}$ per cent above the rate payable at 60. Likewise a man who defers drawing the pension until he is 70 will receive $37\frac{1}{2}$ per cent more than had he started to draw his pension at 65. In practice, however, fewer than 2 per cent of pensioners take up the option of deferring their state pension at all. Other countries which have tried flexible periods of retirement have similarly found that the large majority draw their pension at the earliest possible date – even though at a reduced rate.
- 1.23** So the two key features of any flexible period are the age at which it starts and the pension level in the first year. The pension available in the first year will effectively become the normal amount payable since the overwhelming majority of people will, on all the evidence, start drawing it at once. The pension level available to those who defer claiming to the middle of a 'flexible period of retirement' is only of theoretical relevance and cannot realistically be described as the standard rate of pension.
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- 1.24** A specific proposal considered in the consultation was for a flexible decade of retirement starting at 60, with a pension at the current level (£56 10 for basic pension) for those who did not start drawing it until 65. On an actuarially neutral basis this would mean a basic pension for people who started to draw their pension at 60 of only about £40 a week. In short it would involve cutting the basic pension by over £15 a week for all women (who at present can receive £56 10 at age 60) and for the vast majority of men who in practice would draw the lower level available in the first year (uprated by inflation) for the rest of their lives.
- 1.25** This would lead to far more pensioners living on low retirement incomes. Many more would be dependent on income related benefits. This in turn would mean many more would face a severe disincentive to save to top up their basic pension since modest extra retirement income would be offset against income related benefits and any significant savings would reduce or remove entitlement to such benefits.
- 1.26** Despite this effective cut in the standard pension rate a flexible decade starting at 60 would be expensive in the early years. Most of the cohort of men aged 60 to 64 would start drawing their pensions simultaneously increasing initial expenditure by over £3 billion more than the present system. In the longer run the low rate of pension payable to the majority who would start drawing pension at 60 would lead to pressure to increase the rate which would be hard to resist.
- 1.27** A decade of retirement with a pension in the first year equal to the present pension would be virtually indistinguishable from equalising the state pension age at 60 and this would be prohibitively expensive – costing £12 billion a year more than equalising at 65.
- 1.28** The Government proposes to maintain and indeed enhance the flexibility inherent in the present pension scheme. Anyone who defers retirement beyond the new state pension age of 65 will be entitled to an increment for each successive year. That increment will be increased to 10 per cent per year (as against the present 7½ per cent). This will generally be somewhat more generous than strict actuarial neutrality would require. And no limit will be set on the number of years a pensioner can defer beyond 65.
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Other possible schemes

- 1.29** *The discussion document described two other possible schemes which had been suggested as ways of adding to flexibility. Under one of these, called a 'Split Pensions Scheme', the State Earnings Related Pension (SERPS) would become payable to men and women at age 60 whilst the basic pension would be payable from age 65. In practice, such a scheme would offer little by way of flexibility except to those who can already be flexible about their retirement date because they have sufficient resources from private sources. People with low lifetime earnings, and consequently modest SERPS entitlements, would receive less at age 60 than their better paid counterparts who may have had more opportunity to acquire savings and incomes from other sources. A split pensions scheme would also be highly complex for individuals and pension providers and would make planning for retirement more difficult.*
- 1.30** *Under the other possible approach – a 'Contributions Test Scheme' – a full state pension could be drawn as soon as a set number of years' contributions had been paid. In practice this would tend to lead to late or reduced pensions for people who had been out of the employment field for significant periods, or had gaps in their contribution record for other reasons. Women would tend to be disproportionately represented amongst this group. The Government saw little merit in these types of scheme and believes that real flexibility is better provided through the arrangement set out at paragraph 1.28 above.*

Conclusion

1.31 To equalise state pension age for men and women at 65 is the only option which provides a sound, sustainable and affordable base for the future. The Government recognises the importance of implementing this change gradually in a way that is fair to both men and women. It has therefore paid particular attention to the transitional arrangements and to improving the state pension scheme as a whole. Chapters 2 and 3 give further details of

- the gradual phasing-in arrangements, which ensure that no woman now aged 44 or over is affected at all and that many others benefit from the transitional arrangements,
- special improvements which will enhance the National Insurance records of millions of people (mostly women) and help provide them with better pensions in the future,
- other equalisation measures which will be of benefit to both men and women.

2. HOW THE CHANGE WILL BE IMPLEMENTED

- 2.1** In developing its proposals for implementing the change the Government has paid particular attention to the need to give people enough time to plan ahead and to phase the change in gradually. It has also recognised the need to have the new arrangements in place well before the number of people over pension age peaks toward the middle of the next century.

Lead-in period

- 2.2** The change will not begin to be implemented until 2010. This lead-in period of over 16 years allows plenty of time for people to adjust their plans. It means that women currently aged 44 or over will experience no change to their pension age – they will still be eligible for their state pension at 60. This lead-in period is a good deal longer than that given by many of the UK's trading partners (see Table 2).

Phasing-in

- 2.3** Having started the process, the change will then be phased-in over the following 10 years. All women who were born before April 1950 will still get their state pension at 60. Only women currently 38 or under will have to wait until 65. Those currently aged between 38 and 43 will receive their pension no later than age 60 plus one month for every month (or part month) their birthday falls after 5 April 1950.
- 2.4** Table 3 shows some examples of how the proposed phasing will work. Appendix 1 gives full details of the phasing running from the start of the financial year in April 2010 until March 2020.

Table 3: Examples of new pension ages during the phasing-in period

Date of Birth	Pension Age	Pension Year
April 1950	60yr 1mth	2010
Oct 1950	60yr 7mth	2011
April 1951	61yr 1mth	2012
Oct 1951	61yr 7mth	2013
April 1952	62yr 1mth	2014
Oct 1952	62yr 7mth	2015
April 1953	63yr 1mth	2016
Oct 1953	63yr 7mth	2017
April 1954	64yr 1mth	2018
Oct 1954	64yr 7mth	2019
April 1955	65yr 0mth	2020

3. EQUALISED STATE PENSIONS

The equalised scheme

- 3.1** The main effect of equalisation is to put state pension on the same footing for women as it is now for men. For men and women, retirement pension will be available at age 65, with full entitlement depending on 44 years' National Insurance contributions or credits (before allowing for years of Home Responsibilities Protection)
- 3.2** In most respects the equalised state pension scheme will remain very similar to the existing one. As now, there will be no requirement to retire in order to qualify. Nor will there be any limit on the amount people can earn while drawing their pension. Increments to retirement pension will continue to be payable for each year that claiming is deferred past age 65. The least well off – those on Income Support – will not suffer any financial loss as a result of the change.
- 3.3** Married women or widows who have retained the option to pay reduced National Insurance contributions will continue to be able to pay at the reduced rate between 60 and 65. They will also continue to be able to revoke the option and move to paying the full rate.

Improvements to state pensions

- 3.4** The Government proposes that the equalisation of pension ages should be accompanied by a number of improvements to the state pension system. These changes, which are set out below, will
- provide help in building a full pension record to those who have caring responsibilities at home and to families and disabled people who have low earnings (paras 3.5-3.8),
 - ensure that married couples are treated equally irrespective of whether the man or woman is the older partner (paras 3.9-3.10),
 - build on the existing flexibility in the system by offering more attractive terms to those who wish to defer drawing their pension (para 3.11).
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Helping those with home responsibilities

- 3.5** *Home Responsibilities Protection (HRP) helps protect the pension records of people who withdraw from the labour force for significant periods to look after children or sick or disabled people. It works by reducing the number of years of contributions needed to qualify for a basic pension. At present, women (who are the main beneficiaries) can be covered for a full basic pension by HRP for up to 19 years whilst cover for men can apply for up to 24 years, and the scheme currently only applies to basic pension, not to the State Earnings Related Pension (SERPS)*
- 3.6** *The Government proposes to equalise the maximum number of years of HRP for a full basic pension at 22. This increase of three years for women, together with the automatic award of National Insurance credits for women aged 60-64 (see para 3.14 below), could help more women to qualify for the basic pension.*
- 3.7** *The Social Security Act 1986 contained powers to enable regulations to be made to extend HRP to SERPS entitlements allowing those with caring responsibilities – predominantly women – to obtain a full SERPS pension on the basis of as little as 20 years' earnings. Since SERPS began in 1978, this would effectively mean that new awards of SERPS could be enhanced from 1999 onwards, significantly improving women's retirement incomes. Regulations will be made at the appropriate time.*

Helping families and disabled people with low earnings

- 3.8** *Family Credit and Disability Working Allowance (DWA) already provide valuable help to families and disabled people who have low or modest earnings. Since it was introduced in 1988, Family Credit has helped some one and a half million families. The Government proposes to help families and disabled people further in that awards of Family Credit and DWA will in future enhance a worker's pension record as if they were additional earnings. This improvement will apply to pension awards made from 1999 onwards. The effect of this measure on pension entitlement will depend on an individual's earnings pattern – in many cases people's need for help from Family Credit/DWA diminishes as their earnings rise over time. But for someone receiving the average award of Family Credit for a year (currently £42 per week) who also has the average level of earnings for a Family Credit recipient, the measure will increase the pension which that year's work would otherwise have earned by approximately 75 per cent.*
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Married couples

- 3.9** Under the current system, a dependency increase (currently £33 70 a week) can be payable, subject to certain conditions, to a man over pension age in respect of a wife under pension age. When the wife reaches pension age this is replaced by a 'Category B' pension (also £33 70 a week) based on her husband's National Insurance record or by a 'Category A' pension based on her own record if this is better. Dependency increases and Category B pensions can also be awarded in respect of men but only in a much more limited range of circumstances.
- 3.10** The Government proposes to equalise the conditions for these awards on the more favourable basis applicable to payments in respect of women. In practice this means that the older spouse, on reaching 65, will be able to claim a dependency increase in respect of the younger spouse (provided the latter does not have earnings or an occupational or personal pension over a certain amount or is not receiving a benefit in their own right equal to the value of the increase). Thus, many couples will find they qualify for the couples pension rate – the Category A rate plus the dependency increase – as soon as the older partner reaches 65. This change will take effect on the same timescale as the change to state pension age.

Flexibility to defer retirement pension

- 3.11** The current state pension scheme allows people to defer claiming their pension for up to five years after pension age in exchange for an increased rate of pension. The increase – known as 'increments' – is currently 7½ per cent for each full year of deferral. Very few people – less than 2 per cent – choose to defer drawing their pension and the Government does not expect this proportion to change substantially. However, it believes that those who do choose to defer should in future be offered better terms for doing so. Accordingly, for people who defer claiming their pension from 2010 onwards the Government proposes to increase the rate of increments to 10 per cent a year and to remove the upper limit on the number of years for which pension can be deferred. This measure will help those who work beyond pension age and wish to be sure of an enhanced income once their retirement begins.

National Insurance contributions requirements

- 3.12** In the main the changes to National Insurance contributions requirements are only those needed to achieve equalisation. In most circumstances the future requirements for women will be the same as they are now for men.
- 3.13** The key points of the proposals are that, for men and women, a full basic pension will be based on 44 years' National Insurance contributions (before allowing for years for which Home Responsibilities Protection is awarded). All employees – men and women – with earnings above the lower earnings limit will pay Class 1 National Insurance contributions up to age 65, their employers will also pay Class 1 contributions. People working beyond their 65th birthday will not pay National Insurance contributions but their employers will. Women who are self-employed will also continue to pay contributions – Class 2 and, as necessary, Class 4 – up to age 65.

Autocredits

- 3.14** Currently men aged 60 to 64 who are not paying National Insurance contributions automatically receive National Insurance credits ('autocredits') in order to protect their pension entitlement. Equalisation will mean that autocredits will be available to women on the same basis. The award of autocredits means that some women could improve their contribution records and, therefore, become entitled to a higher rate of pension. It also ameliorates the effect of extending the number of years for which women need to pay contributions in order to qualify for a full pension (44 instead of 39). Women with 39 years' contributions who stop work at 60 can therefore still accrue a full record at 65.

Effect on other benefits

- 3.15** Equalising state pension age will in turn affect other Social Security benefits. Those benefits which are payable up to, but not beyond, state pension age will in future be available equally to men and women until age 65, but not beyond. The phasing arrangements described in Chapter 2 will apply to this change as appropriate.
- 3.16** The Government is considering separately what changes might be necessary to the arrangements for contracting out of SERPS in the light of these proposals, and what changes are necessary to assist employers in achieving equal treatment in occupational pensions.
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- 3.17** The availability of concessionary fares on public transport paid for by local authorities is currently linked to pensionable ages. The difference of treatment of men and women should clearly not continue when it has been abolished for state pensions. But the precise phasing-in of the change need not be the same. The Department of Transport will be consulting on this.

Northern Ireland

- 3.18** Provision of social security in Northern Ireland is governed by the long-established and widely accepted principle of parity with Great Britain. The Government consider that this should remain the basis of future provision in Northern Ireland and will have regard to it in implementing this White Paper.

APPENDIX 1: PHASING

Date of Birth	Pension Age (Year/Month)	Pension Date
06 04 50 - 05 05 50	60 1	06 05 2010
06 05 50 - 05 06 50	60 2	06 07 2010
06 06 50 - 05 07 50	60 3	06 09 2010
06 07 50 - 05 08 50	60 4	06 11 2010
06 08 50 - 05 09 50	60 5	06 01 2011
06 09 50 - 05 10 50	60 6	06 03 2011
06 10 50 - 05 11 50	60 7	06 05 2011
06 11 50 - 05 12 50	60 8	06 07 2011
06 12 50 - 05 01 51	60 9	06 09 2011
06 01 51 - 05 02 51	60 10	06 11 2011
06 02 51 - 05 03 51	60 11	06 01 2012
06 03 51 - 05 04 51	61 0	06 03 2012
06 04 51 - 05 05 51	61 1	06 05 2012
06 05 51 - 05 06 51	61 2	06 07 2012
06 06 51 - 05 07 51	61 3	06 09 2012
06 07 51 - 05 08 51	61 4	06 11 2012
06 08 51 - 05 09 51	61 5	06 01 2013
06 09 51 - 05 10 51	61 6	06 03 2013
06 10 51 - 05 11 51	61 7	06 05 2013
06 11 51 - 05 12 51	61 8	06 07 2013
06 12 51 - 05 01 52	61 9	06 09 2013
06 01 52 - 05 02 52	61 10	06 11 2013
06 02 52 - 05 03 52	61 11	06 01 2014
06 03 52 - 05 04 52	62 0	06 03 2014
06 04 52 - 05 05 52	62 1	06 05 2014
06 05 52 - 05 06 52	62 2	06 07 2014
06 06 52 - 05 07 52	62 3	06 09 2014
06 07 52 - 05 08 52	62 4	06 11 2014
06 08 52 - 05 09 52	62 5	06 01 2015
06 09 52 - 05 10 52	62 6	06 03 2015
06 10 52 - 05 11 52	62 7	06 05 2015

Date of Birth	Pension Age (Year/Month)	Pension Date
06 11 52 - 05 12 52	62 8	06 07 2015
06 12 52 - 05 01 53	62 9	06 09 2015
06 01 53 - 05 02 53	62 10	06 11 2015
06 02 53 - 05 03 53	62 11	06 01 2016
06 03 53 - 05 04 53	63 0	06 03 2016
06 04 53 - 05 05 53	63 1	06 05 2016
06 05 53 - 05 06 53	63 2	06 07 2016
06 06 53 - 05 07 53	63 3	06 09 2016
06 07 53 - 05 08 53	63 4	06 11 2016
06 08 53 - 05 09 53	63 5	06 01 2017
06 09 53 - 05 10 53	63 6	06 03 2017
06 10 53 - 05 11 53	63 7	06 05 2017
06 11 53 - 05 12 53	63 8	06 07 2017
06 12 53 - 05 01 54	63 9	06 09 2017
06 01 54 - 05 02 54	63 10	06 11 2017
06 02 54 - 05 03 54	63 11	06 01 2018
06 03 54 - 05 04 54	64 0	06 03 2018
06 04 54 - 05 05 54	64 1	06 05 2018
06 05 54 - 05 06 54	64 2	06 07 2018
06 06 54 - 05 07 54	64 3	06 09 2018
06 07 54 - 05 08 54	64 4	06 11 2018
06 08 54 - 05 09 54	64 5	06 01 2019
06 09 54 - 05 10 54	64 6	06 03 2019
06 10 54 - 05 11 54	64 7	06 05 2019
06 11 54 - 05 12 54	64 8	06 07 2019
06 12 54 - 05 01 55	64 9	06 09 2019
06 01 55 - 05 02 55	64 10	06 11 2019
06 02 55 - 05 03 55	64 11	06 01 2020
06 03 55 - 05 04 55	65 0	06 03 2020
06 04 55	65 0	06 04 2020

The pension age shown at col 2 is the age at which women born on the first date of each line in col 1 can receive their pension. Women born later in the monthly period of col 1 will also be able to get their pension on the date shown in col 3 and will therefore have a slightly lower pension age.

APPENDIX 2: COMPLIANCE COST ASSESSMENT

Purpose and benefits of the measure

- 1.** State pension age will be equalised at 65 for men and women. The measure to be phased-in over a ten-year period commencing April 2010. By completion of phasing women will no longer be able to draw state pension before 65. Other benefits currently related to state pension age will be payable to both men and women up to 65.
- 2.** This is the option favoured by the CBI because of its beneficial effects on the UK's international competitiveness (paras 10-12) and its compatibility with the trend amongst occupational schemes to equalise at 65 (para 8). Options, such as equalisation at 60, were expected to raise business costs and so did not attract support from the business community.

Business sectors affected

- 3.** Most businesses will be affected by this measure to a degree dependent on the proportion of women in their workforce and the pension age policy operated by that company.

Compliance costs

Non-recurring costs

- 4.** CBI research indicates that within a 'typical' business the measure will carry few costs. Most attendant publicity will be issued through the Government. Direct costs for employers are related to providing further information on the change, eg employers may need to produce revised pensions handbooks and/or explanatory publications, in some cases reprogramming of computer software may be required, employers with large cohorts of female workers may opt to provide an advice service, phasing arrangements may necessitate some staff training to explain the change. Written notification of the change will be made by many employers. Costs will vary according to how much an individual employer feels it is necessary to do, company size and percentage of female employees. *Costs would be incurred under any of the options to equalise state pension age and would have been higher for most options other than 65.*
 - 5.** Small firms will be similarly affected.
-

Ongoing costs

- 6** There are no direct ongoing costs. Indirect costs are discussed in the following paragraphs

Retirement age and pension age

- 7.** Contractual retirement ages have been equalised for some years. As a result of the Barber ruling by the European Court of Justice occupational pension schemes are also required to have equal pension ages in respect of pensionable service since May 1990.
- 8.** Concerning normal pension age in private occupational pension schemes, most employers with equalised ages below 65 are thought unlikely to raise those ages towards 65 in the short to medium term. The majority of companies with previously unequal pension ages have already equalised at 65 following the Barber judgement in May 1990. The Government is considering separately what changes might be necessary to the arrangements for contracting out of SERPS in the light of the change to state pension age and the requirements for equal treatment in occupational pensions.

Bridging pensions

- 9.** Some companies with an equalised pension age lower than 65 pay bridging pensions to compensate men for the fact that they will not receive state pension until age 65. After equalisation and during the phasing period such companies will have to consider paying bridging pensions to women reaching company pension age until they reach their new state pension age or cease the payment of bridging pensions altogether. On the extreme assumption that all companies currently paying bridging pensions continue to do so and make them available to women between 60 and 65 at the rate of basic state pension, it has been estimated that the overall annual cost would be £300 – £400 million in today's prices, if costs are spread over average remaining working lifetimes.

Effects on international competitiveness

10. As the number of pensioners increases in the next century, the population of current working age is expected to fall from 34.4 million (1991) to 33.7 million (2030). In 1991 there were (on average) 3.3 people of working age per person over pension age (support ratio). If state pension ages remain unchanged the support ratio will drop to 2.2:1 by 2030. By equalising state pension age at 65 the support ratio is improved to around 2.7:1.
11. Many European countries have already moved to equal pension ages for men and women or are moving towards equalisation. Over the next two decades most will have introduced equal state pension ages, many at age 65 or above. The difficulties the UK would face if it ignored this trend are described in Chapter 1.
12. Against this background, the improved support ratio brought about by raising state pension age to 65 will be of benefit to the UK's international competitiveness.

Extent of CCA consultation

13. Initial consultation was through the discussion document 'Options for Equality in State Pension Age' to which there were 33 business and pensions industry responses. The Confederation of British Industry were approached for more detailed information. CBI's findings largely resulted from consultation with their own panel of pensions industry experts representing 25 independent pensions companies.
14. Refer any enquiries on this CCA to

DSS (Branch E2A)
ADELPHI (11th Floor)
1-11 John Adam Street
London WC2N 6HT
071-962 8828

APPENDIX 3: REVISED COSTINGS OF STATE PENSION AGE OPTIONS

- 1.** This appendix sets out revised estimates of the effects on public finances of the equalisation options of ages 60, 63 and 65
- 2.** The approach used to derive these effects is as discussed in Appendix 1 of the discussion document 'Options for Equality in State Pension Age' Two main modifications have been made
 - the figures have been adjusted to 1993/94 price levels,
 - the figures for each option have been adjusted for a phasing profile beginning in 2010 and taking two years to achieve each single year of state pension age change, ie the proposed pace of phasing for the chosen option has been adopted for the other two options

Overall impact on public finances

- 3.** Adding together all of the effects of changing state pension age on benefit spending and income tax and National Insurance contributions gives the overall impact on the Exchequer Table 1 sets out these Exchequer costs for each of the three options at 1993/94 prices and the corresponding figures from the discussion document which were given at 1991/92 prices As in the discussion document, estimates are provided for 2025, when the financial effects are likely to be at their maximum, and 2035 when the estimates should provide a reasonably representative indicator of the scale of the effects up to 2050 (see Appendix 1 para 10 of the discussion document for further detail)

Table 1: Exchequer costs

£ billion	Costs +VE	Savings -VE
	2025	2035
Age 60 discussion document	4.5	3.5
Age 60 white paper	5	4
Age 63 discussion document	-1	-0.5
Age 63 white paper	-1	-0.5
Age 65 discussion document	-3.5	-3
Age 65 white paper	-4	-3

Discussion document figures at 91/92 prices, white paper figures at 93/94 prices

Impact on public expenditure

- 4.** The discussion document also presented estimates of the impact of changing state pension age on the overall level of public expenditure on benefits. These estimates are arrived at by adding together the effects of changing state pension age on contributory and income-related benefits. Table 2 sets out the impact on public expenditure of each of the three options at 1993/94 prices and also shows the corresponding figures from the discussion document.

Table 2: Expenditure effects

£ billion	Costs +VE	Savings -VE
	2025	2035
Age 60 discussion document	6	5
Age 60 white paper	7	5.5
Age 63 discussion document	-0.5	- neg
Age 63 white paper	-0.5	- neg
Age 65 discussion document	-4	-3.5
Age 65 white paper	-5	-4

Discussion document figures at 91/92 prices, white paper figures at 93/94 prices

Effect on the National Insurance Fund

- 5.** The discussion document also presented estimates of the net impact of changing state pension age on the National Insurance Fund (see Appendix 1 para 33 of the discussion document). These estimates are arrived at by adding together the effects of changing state pension age on spending on contributory benefits and revenue from National Insurance contributions. Table 3 sets out the effect on the National Insurance Fund of each of the three options at 1993/94 prices and also shows the corresponding figures from the discussion document.

Table 3: Effects on National Insurance Fund

£ billion

Costs +VE

Savings -VE

	2025	2035
Age 60 discussion document	7	6
Age 60 white paper	8	7
Age 63 discussion document	- 0.5	- neg
Age 63 white paper	- 0.5	- neg
Age 65 discussion document	- 5	- 4
Age 65 white paper	- 5.5	- 4.5

Discussion document figures at 91/92 prices, white paper figures at 93/94 prices



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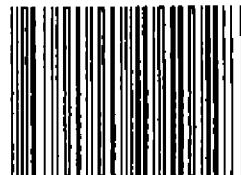
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