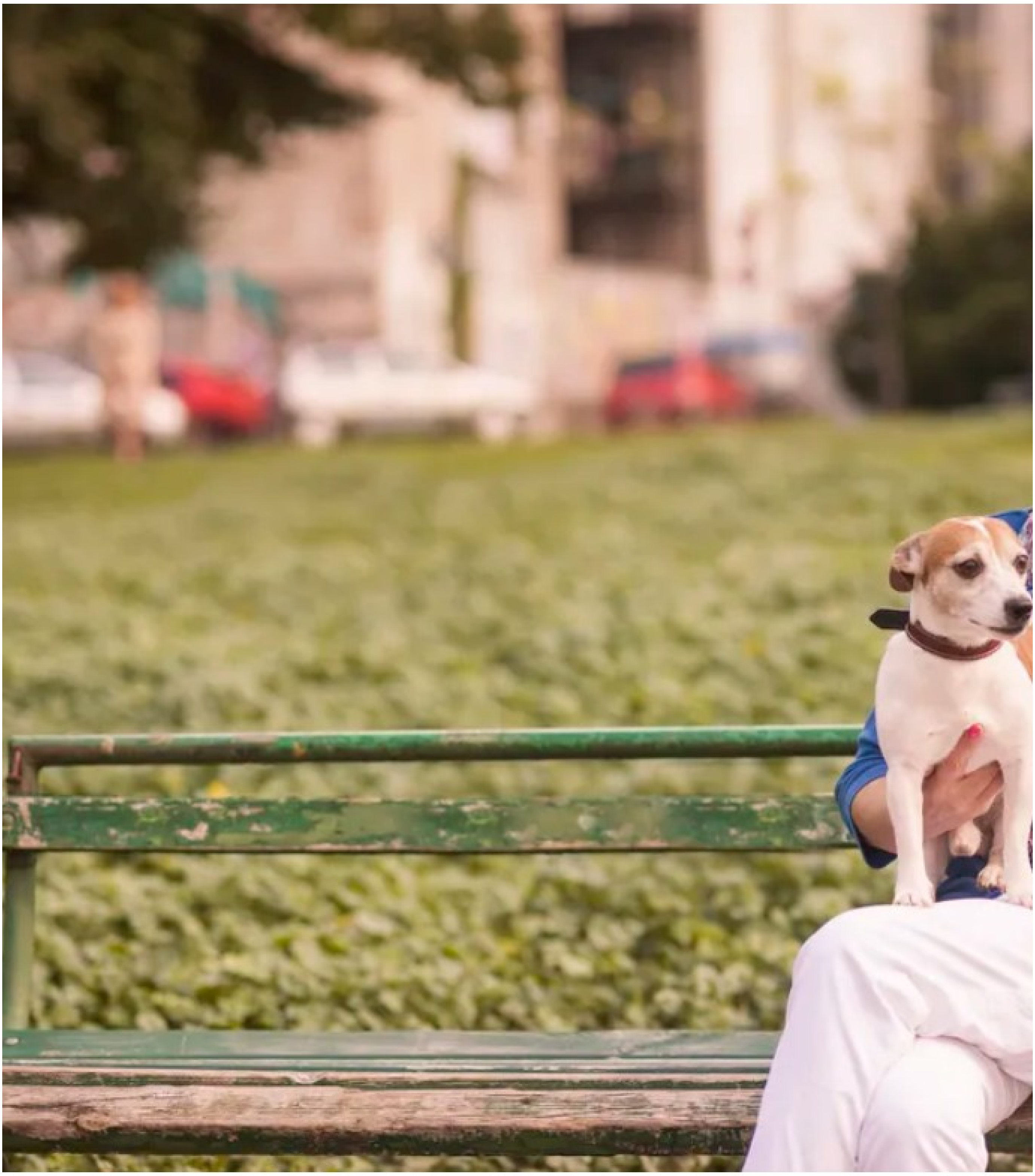
Will Labour raise the st age?

A government in need of cutting expenditure coul hike the state pension age. We look at whether it and faster than currently planned



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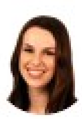

BY RUTH EMERY PUBLISHED 3 WEEKS AGO IN FEATURES

As chancellor Rachel Reeves prepares to unveil her maiden Budget next month, speculation is mounting that pensions could be used as a cash cow to raise revenue for the Treasury.

There are plenty of pension reforms that could save money for the Labour government, from overhauling pension tax relief and chopping the 25% pension tax-free cash to making retirement savings subject to inheritance tax.

While the government has pledged to keep the state pension triple lock, it has already shown that it is not afraid of making "tough decisions", including ones that affect the oldest members of our society. For example, scrapping the winter fuel payment for millions of pensioners.

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Another potential change that Reeves and her colleagues might be considering is to increase the state pension age.

Such a move could raise billions of pounds, making it an attractive option for a government grappling with a £22 billion spending shortfall that it says it inherited from the Conservatives.

However, it would also be an emotive issue, not least due to the "Waspi" situation, where campaigners claimed that a rise in the state pension age was poorly communicated to women born in the 1950s, leaving many with a financial loss. Earlier this year, the government was found guilty of maladministration.

Any change to the state pension age would certainly hit the headlines, and depending on what was announced, could even trigger a revolt. In other countries, like France and Russia, there have been large-scale protests over raising the retirement age.

Regardless of what the UK government announces in the Budget on 30 October, the issue may return to the headlines in the coming months anyway, because a decision to accelerate state pension age rises was delayed ahead of the election but will need to be dealt with soon.

We look at the current timeline for state pension age increases, and whether the Labour government could speed things up.

What is the current timeline for state pension age increases?

The state pension age is currently 66. It is due to go up a couple of times over the next 20 years:

- The state pension age will rise to 67 between 2026 and 2028
- It will then rise again to 68 between 2044 and 2046

The government has legislated for these increases, however, the timing of the rise to 68 could be changed and will be looked at by an independent review.

These reviews are held each parliament. They offer recommendations, which the government can accept or reject. The 2017 review suggested the rise to 68 should be in 2037-39. The 2022 review recommended a slower increase to 68, in 2041-43, and it mooted a possible rise to 69 in 2046-48.

The government acknowledged the recommendations but delayed the decision, saying it would hold another review within two years of the next parliament.

According to the investment firm Fidelity International, the people most impacted by this are:

- The rise to 67 affects those born on or after 5 April 1960
- The rise to 68 (between 2044 and 2046) affects those born on or after 5 April 1977

The case for raising the state pension age faster - and higher

Various think tanks and policy experts have warned about the unaffordability of the state pension.

Earlier this year the International Longevity Centre said the UK state pension age may have to rise to 71 by 2050 to keep up with longer life expectancy, and to ensure there are enough people left in the workforce to pay tax to help fund the state pension.

Meanwhile, a recent report from the London School of Economics (LSE) argued that the state pension age should be increased to 68 “as soon as possible” - rather than waiting until 2044 to 2046.

The report notes: “This delay will create heavy pressures on the budget. The last government were considering making the change in 2037-9, but is that soon enough?”

According to the LSE, the “savings to the Exchequer from a one-year rise in the pension age (to 68) could be a huge £6.1 billion”.

The authors looked at the benefit/cost ratio of raising the pension age to 68, and calculated that the “loss of wellbeing equivalent” was £1,830 per person aged 67, while at the same time the government saves £7,625 per person.

They conclude: “So we can ask: What is the benefit/cost ratio from not raising the pension age to 68. The benefit/cost ratio is 0.24. This is a small number. It constitutes a strong argument for raising the pension age to 68 as soon as is possible.”

The ballooning cost of the state pension is well illustrated when looked at in terms of percentage of GDP.

The Office for Budget Responsibility expects the cost of the state pension as a percentage of GDP to rise from 4.8% to 8.1% by 2071.

Andrew Oxlade at Fidelity International comments: “The stated aim has been to keep it below 6%, a level it would breach somewhere in the late 2040s. The primary ways to mitigate this are either slower rises in the state pension, which would involve watering down or abandoning the triple lock, or to increase the age of state pension eligibility.”

The argument against raising the state pension age faster

However, some experts argue that if the state pension age rises earlier, millions of retirees could be left struggling.

According to research by SunLife, the state pension is the only source of income for one in four (24%) of retired people – while 28% of over 50s not yet retired have no pension savings apart from the state pension. The maximum new state pension is £11,502 a year.

Mark Screeton, chief executive at SunLife, comments: “According to Retirement Living Standards, an individual needs an annual income of £14,400, for a ‘minimum standard of living’ while for a ‘moderate’ standard of living, an income of £31,300 is needed. This means that the current new state pension falls well short of what is needed for pensioners to get by, let alone live well.

“Therefore, if the state pension age were to rise to 68 by the early 2030s rather than 2044-46 as currently planned, millions could be left struggling with no private pension savings to fall back on.”

Age UK raises the point that many older people are unable to work due to ill health and a faster rise in the state pension age “would be deeply unfair and condemn many to even deeper poverty”.

Caroline Abrahams, charity director at Age UK, explains: “Waiting longer for your state pension may be ok if you are lucky enough to be fit and well and to have a good job which you really enjoy, but that's not everyone's experience. Unfortunately, there are millions of people in their late fifties to mid-sixties who are struggling on a very low income because they are out of work due to ill health, a caring responsibility or unemployment - and the widespread ageism in the jobs market hardly helps.”

She adds that if and when a government does raise the retirement age again, “we think they should exempt certain groups of people who through no fault of their own just can't work for any longer, such as those who are very unwell or carers. A one-size-fits-all state pension age is increasingly hard to justify."

Ros Altmann, a former pensions minister, tells *MoneyWeek* that she hopes the government does not increase the state pension to 68, as “the people who will lose out are the poorest and those in worst health who are unable to keep working but don’t have enough money to retire on”.

So, will Labour raise the state pension age?

It would be a brave government to accelerate planned increases to the state pension age, especially given the fall-out over changes to the winter fuel payment. There's an outside chance that it could be mentioned in next month's Autumn Budget.

However, the issue will emerge again within the next year or so when an independent review checks the scheduled increases and makes any further suggestions.

How the government responds could depend on how badly it still needs to raise revenue, whether we have seen any increase to healthy life expectancy and how much notice it thinks is right to give workers approaching retirement.