

WORKING LATER

Raising the effective age of retirement



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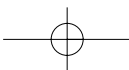
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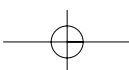
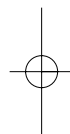
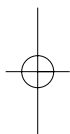


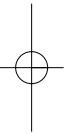
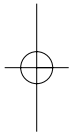
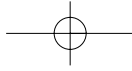
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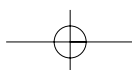


PART 1

WORKING LATER

RAISING THE EFFECTIVE AGE OF RETIREMENT

PETER ROBINSON



Executive summary

Key conclusions

At some point, the state pension age for men and women will have to rise, to send a clear signal about the desirability of working longer in the context of increasing life expectancy. This could only be sold as part of a package that included a significant increase in the generosity of the basic state pension. However, any government that did this would be undertaking a significant political risk, just one indication of how difficult it will be to secure a *popular* consensus on pensions reform, as opposed to a consensus among the policy elite.

A key barrier to reform is that many people distrust the evidence that healthy life expectancy is increasing. They expect to get sick and die in a timescale that is not radically different from the previous generation. This helps to explain why they hope to retire either at the same time as their parents, or preferably before, and why they are hostile to working longer, especially if this is seen to be imposed by the state.

There is less to be learned from the experience of other countries than might be imagined. No country has found it easy to engender the necessary political consensus to support difficult pension reforms, and no country offers a system that can be easily emulated. There is little evidence that pension reforms in other countries have had a significant impact on labour-force participation rates. The fact that in many other OECD countries the key objective of pensions reform has been to *reduce* the generosity of the state pension system must limit the lessons that can be learned for the UK.

Key points of the analysis

Post-war pension systems in the OECD economies were designed to fund somewhere around fifteen years of comfortable retirement; at the turn of the century the average effective length of retirement ranged between sixteen and twenty years for men, and twenty-one to twenty-five years for women, in key OECD countries.

Raising the average effective age of retirement would be a key means of making the UK pensions system sustainable, by raising the effective supply of labour and future levels of gross national income. It is supportive of the other two means for meeting the pensions challenge, as the longer people stay in work, the more tax revenue they contribute to fund the state pension, and the more means and opportunity they have to save to meet their expectations for a good standard of living in retirement.

From the 1970s through to the 1990s, the average effective age of retirement fell in most countries, with both public policy and employers often encouraging early labour market withdrawal. In the last decade, this has begun to be reversed in a number of countries. Public policy is now geared towards improving employment rates for older workers. Employers can no longer afford to fund early retirement and, indeed, will increasingly need to actively recruit older workers. The declining generosity of state and employer-provided pensions will result in people needing to work longer.

Although all these factors give individuals incentives to work longer, the increase in employment rates that has occurred for older workers in some countries is more a function of the general improvement in the labour market and better-qualified cohorts of women replacing older, less well-qualified cohorts. Identifying a significant impact from policy changes on employment rates is difficult.

Increasing employment among older workers is central to government policy and links together three major areas: pensions, disability and the objective of full employment. In particular, there is a strong overlap between the issues of pensions and disability, with the latter accounting for a significant component of early labour market withdrawal. However, no country has been any more successful than the UK in tackling this issue.

The great paradox of the pensions debate is that at the heart of the 'problem' is one of the greatest pieces of good news facing people living in the rich industrial economies: the sharp increase in (healthy) life expectancy. A young man in the UK, currently aged nineteen, and who reached the age of sixty-five in 2051, is projected to live, on average, until he is about eighty-seven, and a young woman until she is nearly ninety. Currently men retire, on average, at the age of sixty-three, and women at sixty-one. No pensions system is likely to be able to sustain an average of twenty-five to thirty years of retirement.

However, many people do not appear to believe this good news story of increasing healthy life expectancy. They distrust the data and they place little faith in averages. There is an ongoing debate about how far increasing life expectancy will be accompanied by more years of active, healthy living. People value having a period in their retirement when they will be able to enjoy that retirement, but most people should expect to stay reasonably healthy past the age of seventy-five.

Governments in all OECD countries are concentrating on providing the *incentives* and *support* needed, and tackling *barriers*, to help raise labour-force participation rates for older workers. Providing incentives and, as importantly, removing disincentives, through the pensions, tax and benefits systems, are important components of reform, but the impact of such initiatives is complex and uncertain. Support through active labour market policies will be increasingly important, and this presents a great challenge

to the employment services. Age discrimination legislation has a role to play alongside wider efforts to change attitudes.

The state pension age provides a powerful signal to individuals and employers, which impacts on their practices and decisions. The normal retirement ages set by employers and the expected retirement ages of individuals tend to cluster around the state pension age, even if the average effective retirement age differs from the state pension age. However, the issue of raising the state pension age is being left to 'another day' in most countries, just one manifestation of the crisis of legitimacy that makes pensions reform so difficult in any country.

Critically, opposition to the Government raising the state pension age in the UK is common to people from across different social class backgrounds. The concern of many policy-makers is over the perceived inequity of raising the state pension age when people from lower social classes have significantly lower life expectancy.

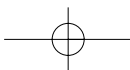
The political challenge

The Government needs to signal clearly that people working longer, on average, is an important component of a sustainable pensions settlement. It needs to try to convince people that healthy life expectancy is increasing. It should make the point that people can choose to retire at whatever age they want, providing they have the income from private means, including their savings, to sustain this choice, but that the state cannot subsidise people through a longer period of retirement.

The Government's stated principle to establish a pensions system that people understand is actually quite revolutionary. Policy-makers have every incentive to leave the system with all its complexities and opacity and let people muddle through. The declining generosity of public and private pensions will force people to 'choose' to work longer. It would be far preferable to create a system that people understand and that allows them to make long-term plans, rather than waking up to cold reality late in the day.

The Government's stated principle of basing pensions reform around as broad a consensus as possible will be anything but easy to achieve, and raises big questions about how to secure agreement within the Labour Government; how to secure the buy-in of other political parties and the wider policy community; and how, then, to persuade a sceptical, if not hostile, public.

The intriguing political challenge for the Government is to try to sell a deal whereby a significantly enhanced basic state pension is linked to receiving that pension later in life, for workers reaching sixty-seven by around 2030.



1. Introduction

Raising the effective age of retirement

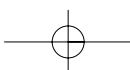
The debate over pensions reform in the UK is seen to be at a critical juncture. In October 2004, the Pensions Commission, headed by Adair Turner, published its first report (Pensions Commission 2004); the final report is due in the autumn of 2005. In February 2005, the Government produced a document setting out its Principles for Reform (DWP 2005a), designed to provide an initial framework for a national pensions debate. All the political parties, the pensions industry, employers and trades unions, relevant pressure groups and other stakeholders are geared up for a wide-ranging debate on one of the most difficult issues in public policy. The prospects for agreement on a way forward are unclear.

Although in the General Election campaign of May 2005 pensions were not necessarily among the most high-profile issues, everyone recognises that this involved elements of a 'phoney war'. A heated debate is due, but no-one was sticking their head too far above the parapet during the election, using the forthcoming final report of the Pensions Commission as cover for postponing full discussion for a little while.

Indeed, one event shortly before the election revealed both the political sensitivities of the issue and the nature of the substantive questions, which will, at some point, have to be addressed. The Government chose not to fight an open battle with the unions over reforms to public sector pensions ahead of the general election. At the core of those reforms was the proposal to raise the normal pension age for most public sector workers from sixty to sixty-five by 2013. This has produced a clear backlash from public sector workers, who feel that the goalposts have been moved by the Government without adequate consultation. Many feel that they will be unable to work full-time until sixty-five in their current jobs without suffering 'burnout', a feeling that may be shared by many colleagues in the private sector.

This particular conflict within the public sector neatly illustrates precisely why pensions reform is so difficult. If there is one thing about which there is widespread agreement in the policy community, it is the desirability of encouraging people to work longer as one key component of resolving the pensions problem, particularly in the light of significant increases in life expectancy. There is, however, significant public resistance to this change being 'imposed' by Government, and any government that tried, for example, to raise the age at which people can claim the state pension, would be punished for it (Gosling and Lewis 2005).

This raises, perhaps, the greatest challenge for pensions reform. It will be a significant achievement if the final report of the Pensions Commission



is able to generate some consensus about the desirable direction of pensions reform that secures wide buy-in from the policy community. It will also be a significant achievement if the Labour Government can reach consensus within its own ranks on how to go forward, and then reach some agreement with the other political parties. But, even if a consensus is secured among the policy elite and the policy-makers, achieving a wider public consensus will be an even harder challenge to meet. If we are learning anything in the countries of the EU in 2005, it is about the wide gap between the positions of the policy elite and the perceptions of ordinary people, a gap that seems to be producing a real crisis of legitimacy in many countries. This does not augur well for the prospects for difficult pensions reform.

This report looks specifically at the desirability of raising the effective age of retirement, that is, the age at which people leave the labour force. There are two components to this. First, reducing economic inactivity among older workers (aged fifty to sixty-four), around which there is already a clear consensus among policy-makers. Second, possibly at some point in the future increasing the state pension age (or 'national default retirement age') from sixty-five to sixty-seven, or even older, as a clear signal to future generations about the need to extend working lives, given increases in longevity. On this second point there is no consensus.

The report discusses the objectives of pensions reform and the parameters of the problem of early labour market withdrawal in the UK and some other OECD countries. It looks briefly at some aspects of pensions reform in a number of other countries – the Netherlands, Sweden, Germany, Australia and the United States – to show how difficult the reform process can be in any mature industrial democracy, and how common the problems are that countries are grappling with. It draws on the results of some original qualitative work undertaken by ippr, on public attitudes towards raising the effective age of retirement, originally published in May 2005 (Gosling and Lewis 2005) and published again alongside this report. It sets out some of the options facing policy-makers in the UK.

ippr's qualitative work

ippr conducted a series of focus groups in spring 2005, asking questions about people's attitudes to retirement and working later. When combined with existing qualitative research, ippr's work clearly shows a number of trends and contradictions in the way that people think about pensions and retirement. It also provides evidence of considerable hostility to working and receiving the state pension later than sixty-five.

2. The objectives of reform

In February 2005, at an event held at ippr, the then Secretary of State for Work and Pensions set out six principles for the reform of the pensions system, 'As a first step towards promoting debate and building consensus' (page 1, DWP 2005a). These six principles, set out in the box below, have been criticised as being too innocuous to stir up any real debate. This is both unfair and inaccurate. As already noted, the final principle of basing reform around as broad a consensus as possible will be anything but easy to achieve, and raises big questions about how to secure agreement within the Labour Party; how to secure the buy-in of other political parties and the wider policy community; and how, then, to persuade a sceptical, if not hostile, public. The fifth principle, of establishing a system that people understand, is actually a great challenge to policy-makers. As discussed later in the report, policy-makers have a great incentive to make pensions reform as opaque as possible; the accrual of policies in the UK has created one of the most complex pensions systems of any industrialised country.

The Government's six principles for reform

- The pensions system must tackle poverty effectively.
- The opportunity to build an adequate retirement income should be open to all.
- Affordability and economic stability must be maintained.
- The pensions system should produce fair outcomes for women and carers.
- Reform should seek to establish a system that people understand.
- Reform should be based around as broad a consensus as possible.

Source: DWP (2005a)

The first four principles set out by the Government are important in setting the objectives for reform. First in importance is having a pensions system that tackles poverty effectively, with the Government making clear '... that the prevention of poverty in retirement is a fundamental role of the state' (page 2, DWP 2005a). The second principle refers explicitly to ensuring that all of today's working-age generation have the best opportunity to build adequate retirement incomes, which seems especially relevant for moderate earners, who will be most affected in the future by the decline in pension provision by private sector employers.

The third principle reminds us that a key reason why so many other OECD countries are undertaking painful reforms to state pensions is the lack of affordability of current promises, which, if met, would see spending on state pensions rise sharply as a proportion of GDP. As is widely understood, the UK is one of the few countries that, ostensibly, does not face such a critical problem with the sustainability of its state pension system, though there is some debate over just how costly to the exchequer the current pensions system is likely to prove, given the problems with private sector pensions and the growing importance of means-tested benefits (PPI 2005). A critical part of the UK's problem is that employers – in both the private and public sectors – have woken up to the lack of affordability of the defined-benefit, final-salary pensions schemes, which used to be seen as the gold standard of UK pension provision. However, as will be discussed below, the very fact that in many other OECD countries the key objective of pensions reform has been to *reduce* the generosity of the state pension system must limit the lessons that can be learned for the UK. In this country, there seems to be wide agreement that the generosity of the state pension system has been allowed to erode too far, and this needs to be redressed in the light of the decline in occupational pensions and the slower than anticipated take-up of personal private pensions.

The fourth principle emphasises the importance of having a pensions system that is seen to be equitable and fair, particularly for women and carers. This is a widely shared objective, but one that can be achieved through a number of different means. This raises a final critical point about these principles for reform, that they help us to distinguish in the debate between the *objectives* of reform and the *means* to achieve those objectives. The objective of reform is not, for example, to establish a 'citizen's pension', that is, one based on residency rather than a record of contributions; this *might* be one means of achieving some of the objectives set out above. The pensions industry tends to talk about 'increasing savings' or 'closing the savings gap', as if this is the main goal of policy, when again it may be just one means of achieving some of these objectives.

The first report of the Pensions Commission has proved influential, in part because of the stark choices it put forward (Pensions Commission 2004). The problems that the current pensions systems will pose for future generations of retirees, in the context of an increasing proportion of the population aged over sixty-five, led the Commission to pose four options:

- pensioners will become poorer relative to the rest of society; or
- taxes/national insurance contributions devoted to pensions must rise; or
- the savings rate must rise; or
- average retirement ages must rise.

No-one would want to support the first option, and the likely solution will involve a mix of the other three. This report concentrates on the last option, of raising the average effective retirement age. This is not because this is the only solution – a mix of the three options is desirable. However, it is the one that, arguably, commands the greatest consensus among the policy community. A key reason for this is that it is the only option guaranteed to raise future gross national income or output, out of which all future pensions must be paid. This is because it will raise the effective labour supply and the potential level of output. The option of raising taxes or national insurance contributions and/or reforming tax reliefs and subsidies, is largely about redistribution, which has to be a key component of public policy to achieve the objective of tackling poverty effectively. There is much debate about whether, and how, an increase in the savings rate (overall, or for one part of the economy) would translate into a subsequent increase in investment and future increases in output or gross national income.

An increase in labour-force participation rates among workers aged fifty to sixty-four and an increase in participation for those sixty-five or over would, of course, yield higher tax revenue for the exchequer and reduce benefit payments. It would also provide a longer period over which people would be earning an income out of which they could save a proportion to meet their requirement for an adequate retirement income. Older workers are more likely to be thinking actively about how they will meet their expectations in retirement, and this is the age when saving for retirement might seem both more urgent and more feasible, if other costs relating to children or housing are less pressing. Raising the average effective age of retirement is, therefore, supportive of the other two means for meeting the pensions challenge.

The Government has an 'aspirational' target to raise the employment rate for the working-age population to eighty per cent (DWP 2005b). The target date is unspecified, but the way the target has been framed gives a clue. The aim is for eighty per cent of all adults aged sixteen to sixty-four to be in work. The denominator used is different from the usual way that the employment rate is measured in the UK, which is as a proportion of men aged sixteen to sixty-four, and women aged sixteen to fifty-nine, in work. The target then applies to the time after the state pension age has been equalised for men and women at sixty-five, which will occur between 2010 and 2020. In 2004, the employment rate on this measure in the UK was seventy-three per cent, up from seventy-one per cent in 1997 and sixty-eight per cent in 1993, when the last recession came to an end. This gives some sense of the scale of ambition involved in reaching an eighty per cent employment rate. The Department for Work and Pensions (DWP) suggested that an extra one million older people (aged fifty to sixty-nine) in work would be consistent with meeting this target. Increasing employment among older workers is therefore central to government policy and links together three major areas: pensions, disability and the objective of full employment.

3. The good news of increasing life expectancy

The great paradox of the pensions debate is that at the heart of the 'problems' that we face is one of the greatest pieces of good news facing people living in the rich industrial economies: the sharp increase in (healthy) life expectancy.

In the UK, in the early 1970s, a man reaching the age of sixty-five could expect to live, on average, until he was about seventy-seven, and thus spend around twelve years in retirement if this was the age at which he left the labour market (Donkin et al 2002). By the end of the 1990s, a man aged sixty-five could expect to live, on average, until he was about eighty, and thus have about fifteen years in retirement if he left the labour force at this age. An important feature of these figures is that they give us some idea of the typical length of retirement that the post-war pensions system might have been designed to fund comfortably. Women have longer average life expectancies and have typically quit the labour market earlier; but one of the unsatisfactory and outdated features of the pensions system was the assumption that many women might live on the retirement incomes secured by their spouses, rather than building up their own pension entitlements.

According to the Government Actuaries Department (GAD), a young man currently aged nineteen, who reached the age of sixty-five in 2051, is projected to live, on average, until he is about eighty-seven (DWP, 2005c). Retiring at sixty-five would imply living for about twenty-two years in retirement. A woman currently aged nineteen, who reached sixty-five in 2051, could expect to live until she was nearly ninety, implying an average of about twenty-five years in retirement, if she left the labour force at sixty-five. There is considerable debate over the precise numbers, but not the trend, with most observers, including the Pensions Commission, pointing out that most commonly used projections of life expectancy have, if anything, systematically understated the gains in life expectancy. One consequence of this is that employers and other pension providers have been caught out by not making enough provision for the costs of meeting higher-than-expected life expectancy.

This, then, is the very positive picture facing the current generation of young people who have just entered, or are about to enter, the labour market. It is an objective of public policy to raise participation rates in education and training for young people post-sixteen so that, when they do enter the labour market, they have the qualifications and skills that will enable them to secure decent employment with a good lifetime profile of earnings. If a typical twenty-year-old woman entered the labour market today, exited

at sixty-five and lived until she was about ninety, she would spend about half of her life in work and the other half split between growing up and being educated in her early years and then being retired in her later years. If she tried to exit the labour market before sixty-five, she would be aspiring to spend a smaller proportion of her life working than not working. If she attempted to retire at sixty, she would be expecting her pension and other income to last her for up to thirty years, following a period of perhaps only forty years in the labour market. This kind of arithmetic does not make sense; the idea that, out of a lifespan approaching ninety years, only forty years would be spent in paid employment. This is a challenge facing all of us, to adjust our expectations in the face of such significant increases in life expectancy.

One of the key problems in the pensions debate is that many people do not appear to be aware of, or just do not believe this good news story. A survey in 2004, of over 3,500 individuals, compared their estimates of how long they expected to live with estimates of life expectancy from the Government Actuary's Department, as applicable in mid-2004 (O'Brien et al 2005). On average, men underestimated their life expectancy by nearly five years and women by six years. Qualitative work, such as that undertaken by ippr, suggests that many people base their expectations of retirement upon the experiences of family and friends (Gosling and Lewis 2005). They expect to retire either at the same time as their parents did, or preferably before, and to get sick and die in a timescale that is not radically different from the previous generation. They are inclined to distrust data on improving health and life expectancy, but it is not clear whether this is part of a general distrust of official information or a specific response to media and celebrity campaigns about risks to health, or both.

To a very great extent, this explains why people see the years between sixty-five and seventy as 'protected time'. After seventy, many expect their health to begin to deteriorate. The qualitative work shows that, other than the self-employed, who often claimed to enjoy their work, and a vocal minority who thought working longer would help stave off physical and mental decline, there was limited appetite for working longer. The pertinent issue here seemed to be 'choice' versus 'coercion' in working longer. The ability to choose when to leave full-time work or 'wind down' to part-time employment, rather than have this process determined by Government, was important to many people.

Many have contradictory attitudes to the state pension. People claim not to be intending to rely on it, but data shows that expected retirement ages cluster around current state pension ages. People also react angrily to suggestions that the state pension age may have to rise to accommodate demographic pressures. This suggests that either people are unsure about what their sources of income in retirement may be, or they are intending to rely on the state pension more than they are likely to admit.

Some of the sentiments expressed by people can be understood in the light of uncertainties in the debate, particularly in relation to how healthy people will remain in older age, as life expectancy increases. The interim report of the Wanless Review of the future of health policy (Wanless 2001) talked about an optimistic view and a pessimistic view. The optimistic view is that increases in life expectancy will be at least matched by increases in healthy life expectancy ('compression of morbidity'), so that people enjoy a reasonably lengthy period of retirement in good health and are therefore really able to enjoy their retirement. The pessimistic view is that higher life expectancy will be accompanied by people spending more of their life in ill-health ('expansion of morbidity'). Wanless concluded that the evidence suggested that, while levels of very serious ill-health were falling, older people are experiencing more minor health problems, though whether these trends would continue in the future was unclear. The optimistic view is that this higher incidence of minor health problems will not impact significantly on people's quality of life, so that a later average age of retirement would still allow for some 'protected time', when people could enjoy their retirement. The Government has argued that health problems do not become widespread till past age seventy-five (DWP 2005c).

This is a debate that will continue. However, even in 1995, average healthy life expectancy at sixty-five, that is, expected years of life in good or fairly good general health, was 11.3 years for men and thirteen years for women (Wanless 2001). Healthy life expectancy at sixty-five had increased, but at a lower rate than overall life expectancy. Still, this does suggest that, on average, even those retiring in the mid-1990s could expect to live through to their mid- to late-seventies in reasonably good health, calling into question why people thought there was special significance to the years sixty-five to seventy. But, as we have seen, people do not trust this data and they do not put much stock in 'averages'.

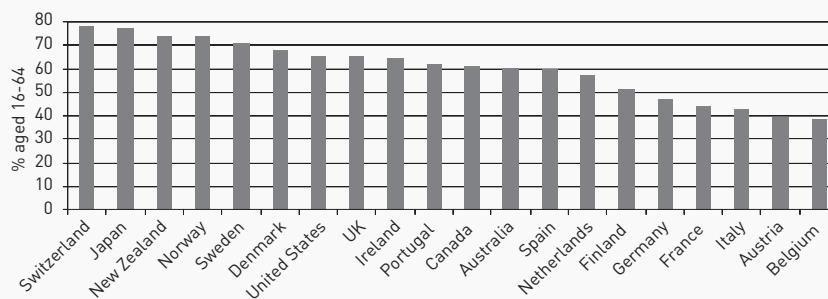
It is widely recognised that the ageing of the population will pose at least as many challenges for healthcare and social care as for the pensions system. This is usually discussed in terms of the rising costs to healthcare and social care systems that ageing might impose. The overlap comes with this issue of whether rising life expectancy also means rising healthy life expectancy, so that, even if the effective average age of retirement rises, people will still be able to enjoy a good many years in retirement where they are fit and healthy enough to engage in meaningful activity, something people really care about.

4. The problem of early labour market withdrawal

So far, the discussion about retirement has been couched in terms of people leaving the labour market at sixty-five, which, as the Government describes it, will be the 'national default retirement age' in the UK, but only when the state pension age for women is equalised at that for men between 2010 and 2020. In practice, a high proportion of men leave the labour market before sixty-five or, put another way, the average effective age of retirement is significantly lower than sixty-five.

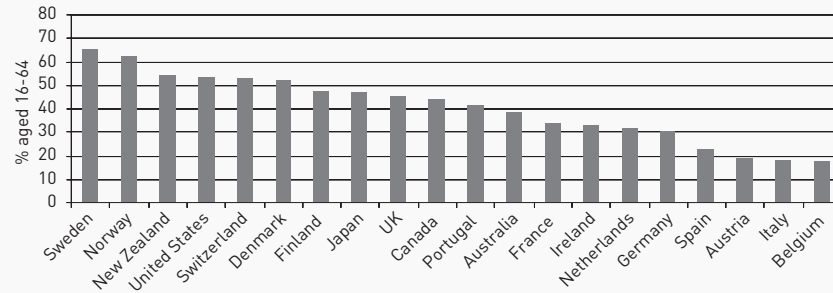
Figures 1 and 2 illustrate one way of presenting the issue of early labour market withdrawal for the advanced OECD economies. They show employment rates in 2003 for men (Figure 1) and women (Figure 2) aged fifty-five to sixty-four. The striking thing about these figures is the range of variation across the industrialised economies, with employment rates for older men varying from less than half in Italy, Germany and France to around seventy per cent in Sweden and Denmark, and nearly eighty per cent in Switzerland and Japan. The employment rate for men aged fifty-five to sixty-four in the UK was sixty-five per cent in 2003, which is above the average for these countries and on a par with the United States, but below those in the best-performing countries. For older women (Figure 2), the variation is just as striking, with fewer than one in five women aged fifty-five to sixty-four in employment in Italy and Belgium, compared with nearly two-thirds in Sweden. The employment rate for women aged fifty-five to sixty-four in the UK was forty-six per cent in 2003, which, again, is above the average for these countries and similar to the United States, but below those in the best-performing countries.

Figure 1: Male employment/population ratios in selected OECD countries, 2003



Source: OECD (2004a)

Figure 2: Female employment/population ratios in selected OECD countries, 2003



Source: OECD (2004a)

An alternative way of presenting this data is to look at the effective average age of retirement, the age at which the average man or woman leaves the labour force. This will be influenced by early labour market withdrawal before the 'national default retirement age', but also by the minority of people who work on after this age. In the UK, in 2004, seventeen per cent of men and ten per cent of women aged sixty-five to sixty-nine were in paid employment (DWP 2005c). The corollary of this is that the 'typical' age at which men and women leave the labour force will be lower than the 'average' age (the median is lower than the mean).

Table 1 shows the 'official' age of retirement in six OECD countries, including the UK. This is the age at which a full state retirement pension can be claimed for those who satisfy the relevant conditions. The second column of Table 1 shows OECD estimates of the average effective age of retirement for men and women, using data covering the years 1997-2002. This is the average age at which people leave the labour force. The third column shows OECD estimates of average life expectancy at sixty-five in 2000, for men and women in these countries. Subtracting the second column from the third gives the average effective length of retirement. The final column in Table 1 gives OECD estimates of the expected age of finishing full-time 'schooling' in these countries in 2002.

Although there is little variation in the 'official' age of retirement in these countries, especially for men, there are significant variations in the average effective age of retirement, which, of course, mirror the differences in labour-force participation rates for older men and women in Figures 1 and 2. In the UK, at the turn of the century, men were leaving the labour force, on average, at the age of sixty-three, lower than in the US, where the average effective age of retirement was sixty-five, and higher than in Germany or the Netherlands, where it was sixty-one. Women in the UK were leaving the

labour force, on average, at the age of sixty-one, again lower than in the US, where the average effective age of retirement was sixty-three, but higher than in the Netherlands, where it was fifty-nine.

Average life expectancy across these countries does not vary as much as the average effective age of retirement, so it is the latter that largely explains the differences in the average effective length of retirement. At the turn of the century, men in the UK could expect to spend an average of 17.5 years in retirement, about one year more than in the US, and about two years less than in the Netherlands or Germany. Women in the UK could expect to spend an average of nearly twenty-three years in retirement, about one and a half years more than in the US, and about two years less than in the Netherlands or Australia.

Table 1: The average effective length of retirement in selected OECD countries

Men	(1) 'Official' age of retirement	(2) Average effective age of retirement, 1997 – 2002	(3) Average life expectancy at 65, 2000	(3) – (2) Average effective length of retirement	(4) *Expected age of finishing (FT) schooling, 2002
United States	66	65.0	81.3	16.3	20.4
New Zealand	65	64.3	81.4	17.1	20.7
United Kingdom	65	63.1	80.6	17.5	19.7
Sweden	65	63.5	81.7	18.2	21.8
Australia	65	63.2	81.9	18.7	19.7
Netherlands	65	61.0	80.3	19.3	21.5
Germany	65	60.9	80.5	19.6	22.1
Women	(1) 'Official' age of retirement	(2) Average effective age of retirement, 1997 – 2002	(3) Average life expectancy at 65, 2000	(3) – (2) Average effective length of retirement	(4) *Expected age of finishing (FT) schooling, 2002
United States	66	62.9	84.2	21.3	20.4
United Kingdom	60	61.2	83.9	22.7	19.7
Sweden	65	62.0	85.0	23.0	21.8
New Zealand	65	61.3	84.8	23.5	20.7
Germany	65	60.2	84.2	24.0	22.1
Australia	62.5	60.6	85.4	24.8	19.7
Netherlands	65	59.1	84.2	25.1	21.5

Note: * expected years of full-time schooling (over the age of five). Data only available for men and women combined.

Source: OECD (2003a, 2004b, 2005a)

If it is correct to say that post-war pensions systems in the OECD economies were designed to fund somewhere around fifteen years of comfortable retirement, then the conclusion that, at the turn of the century in these

countries, the average effective length of retirement ranged between sixteen and twenty years for men and twenty-one and twenty-five years for women, is salutary. With life expectancy improving, if the average effective age of retirement did not increase, pensions systems would need to finance even lengthier average periods of retirement. This could only prove feasible with sharp increases in taxes or social security contributions and/or contributions to private pensions and savings vehicles.

The one note of optimism to stress here is that labour-force participation rates for older workers and the average effective age of retirement have been rising in the UK and some other countries over the last decade. Both in the UK and elsewhere, this reflects, in part, a general recovery in employment (since 1993 in the UK), but the increase in employment rates for older workers has been faster than the average. The possible reasons for this are explored further below. But part of the explanation is the unwinding of policies that were specifically designed in the 1970s and 1980s to encourage early labour market withdrawal, based on the fallacious assumption that jobs vacated by older workers would be freed up for other people.

The final column of Table 1 gives us some sense of how the length of time in the labour market continues to be squeezed at the other end by higher rates of participation in education and training, which are an explicit goal of public policy. It is possible, in some pensions systems, for people to gain credits towards state pension entitlements for passing certain ages (16,17 and 18 in the UK) or if they are participating in higher education (Sweden, for example). Many students may work part-time or out of term time. Education and training is of course designed to give people the qualifications and skills necessary to secure a job that will yield the earnings out of which taxes and contributions are paid and saving can take place. However, the aim of any efficient education and training is to help people make the transition into the labour market as soon as is feasible, armed with the qualifications and skills that will enable them to progress. This is worth emphasising because some countries have deliberately encouraged later labour market entry, based on the same fallacious assumption that jobs not taken up by younger people would be freed up for others. In some countries, such as Germany, the excessive time taken to graduate from higher education results in unnecessary costs and an unhealthily long transition into paid employment.

5. The international experience of raising employment rates and the effective age of retirement

It is widely accepted among policy-makers that they should, 'Beware the "pensions panacea": there is no "one size fits all" solution waiting ready-made in any other country' (ABI 2005). A key reason for looking at the experiences of other countries in relation to pensions reform is to remind ourselves that they are facing the same set of issues, and while there are going to be useful lessons, both positive and negative, to learn, the grass is not necessarily greener on the other side of the fence. No country has found it easy to engender the necessary political consensus to support difficult pension reform, and no country offers a system that can be easily emulated. Indeed, the key lesson to learn is that the pensions settlement in any one country will be conditioned by the way that the pensions system has evolved in that country, which limits what is likely to prove acceptable in terms of reform to the people. This is just one obvious reason why you cannot design pensions policy from scratch and why you cannot just import another country's system.

Most comparative analysis tends to pick on the same set of countries. In part, this is because those countries might have some characteristics in their pensions systems that seem similar, or have tried reforms that look similar to those that might have been mooted here. However, there is one key warning worth flagging up again. In many other countries, recent pensions reform has had, at its heart, the objective of *reducing* the generosity of the state pension system, which is perceived to be fiscally unsustainable. That is *not* the starting point for pension reform in the UK. In this country, the state pension system is seen by many to have become too ungenerous, particularly for those currently in the labour market on modest earnings, who used to be able to rely on the greater generosity of occupational pension schemes. A significant part of the policy agenda for the UK is how to rebuild a more robust state pension system as the bedrock around which individuals can make their own provision.

If there is one thing that does unite all countries, when addressing the challenges facing their pension systems, it is the objective of increasing labour-force participation rates and the effective age of retirement, for the same reasons as in the UK. This approach is strongly supported by key international institutions such as the OECD. The European Union's Lisbon agenda has an explicit target for increasing employment rates for older workers, and the UK, like other EU member states, is required to legislate against age discrimination by 2006, which is one instrument for helping to raise employment rates for older workers.

Each country has the same menu of policy options for increasing labour force participation rates and increasing the effective age of retirement. It is helpful to group these under four headings:

- sharpening *incentives* through the pension, tax and benefit systems;
- providing *support* through active labour market programmes, learning opportunities and other support services;
- tackling *barriers* that result from attitudes towards the capabilities of older workers and discrimination against them, which can be manifested in such practices as mandatory retirement ages; and
- sending clear *signals* about how retirement ages are expected to evolve, which is particularly important for thinking about what to do with the state pension age.

The following analysis is centred on the UK policy debate, with appropriate lessons from the experience of other countries deployed where they add some value. Warnings are also flagged up on some key concerns of which policy-makers need to be aware.

Incentives

The pattern of incentives that might help support higher employment rates for older workers is a natural starting point, because part of the policy agenda in many countries has been about trying to reverse some of the incentives that were put in place to encourage early labour market withdrawal in the first place. This has been a particular feature of policy in the Netherlands for example, reflecting the especially generous early retirement packages that had been available (Riel 2005, Riel et al 2003).

In the UK, the Government has brought forward several measures designed to sharpen the incentive to stay in work longer:

- the earliest age from which a non-state pension can be taken will increase from fifty to fifty-five by 2010;
- from April 2006, people will be able to carry on working for the same employer while drawing an occupational pension, which should facilitate part-time working;
- people have been able to draw an increased state pension for each year over the state pension age that they delay claiming their pension, but these enhancements are being increased and people will now be able to take them as a lump sum; and

- the minimum age at which people can receive the minimum Pension Credit Guarantee will be raised from sixty to sixty-five between 2010 and 2020, as the state pension age for women rises.

The enhancements to the state pension, if claiming it is postponed, are similar to those in the Swedish pension system, both before and after its reform in 1999. However, in 2000, less than three per cent of older workers in Sweden drew their more generous pension after the age of sixty-five, leading the OECD to conclude that it was not clear whether the enhanced incentives introduced in the 1999 reforms would, in practice, greatly affect retirement decisions (OECD 2003b).

It is one of the key insights of the economic evaluation of pension reforms that the pattern of impact of these kinds of incentives can be complex and uncertain, the more so the more complex the pension system and its interaction with other elements of the tax and benefits system. In the UK context, the OECD has questioned the effectiveness of current and proposed arrangements, in light of the extensive role played by means-tested benefits (OECD 2004a). Any increased state pension entitlements will be taxable and will be taken into account for Pension Credit, Housing Benefit and Council Tax Benefit. It is unclear whether the incentives for lower-income people to work longer will be significantly enhanced. It is possible that these enhancements will benefit most those who were intending to work longer anyway, or who have other sources of income on which they can rely, or can take advantage of moving to a lower tax rate, so the dead-weight element of these initiatives could be high.

One aim of the incentives in many countries is to encourage a more 'flexible retirement', so that people do not have to move straight from full-time employment to full-time retirement, but can mix part-time employment with partial receipt of a pension, from the state or from their employer. The key empirical issue here is whether such incentives help people who would have exited the labour force entirely, to remain active in part-time employment, or whether they encourage people, who would have continued to work full-time, instead to switch to part-time employment. In this latter case, overall labour input in the economy falls. This is precisely the opposite of what is required, but there are real fears that in Sweden, for example, recent pension reform might have exactly that effect (OECD 2003b).

The most significant issue in the pattern of incentives facing older people, in terms of their labour force participation, is the interrelationship between the pensions system and the system of support for people with disabilities or a long-standing illness. Of great concern is the possibility that, if entitlements to draw pension benefits early are tightened up, some people may switch to drawing disability benefits instead, unless that system is also working effectively to promote rehabilitation and labour market

participation. In countries such as Sweden, where they might claim to have introduced a successful pensions reform, the issue of tackling low levels of labour market participation due to sickness and disability is seen as unresolved (Palmer 2000, 2005). In the Netherlands, inactivity due to sickness and disability is seen as one of the main challenges in public policy (Riel et al 2003, Riel 2005). The sharp increase in the proportion of Australians drawing the Disability Support Pension from the early 1980s through to the mid-1990s mirrors trends in the UK very closely, as do the subsequent attempts to tighten eligibility criteria (King 2005).

In the UK, this issue can be illustrated in a number of ways. In 2002, two-thirds of men aged fifty-nine were still in employment. Of the remainder, only a small proportion was classified as unemployed. One in eight had retired, but one in five was inactive due to sickness and disability. Only after sixty does the proportion of older men who are retired begin to outnumber the proportion inactive due to sickness and disability. After sixty-five, the proportion inactive due to sickness and disability falls away, as the same people are now classified as retired; a long duration on disability-related benefits has, in effect, provided a transition into retirement. The same portrait of the role of disability benefits can be drawn in other countries. For example, in Germany, rates of inactivity due to sickness and disability for men and women in their late fifties are similar to those in the UK (Borsch-Supan et al 2001).

This illustrates the vital importance of policies that join up in terms of the way that they treat older people and those who have significant health problems, including active labour market policies.

Support

The UK Government has had two particularly relevant active labour market programmes, or 'New Deals': for the over-fifties and for disabled people. Both are generally acknowledged to be the least well evaluated of the various active labour-market programmes the Government has established, the least well resourced and probably the least effective. Between 1997-98 and 2003-04, £100 million was spent on the New Deal for Disabled People and £60 million on the New Deal for the Over-50s, the combined total representing about six per cent of total spending on all the New Deals over this period (Table 4.3, HM Treasury 2005). People aged over fifty have also benefited from the other programmes; particularly the one aimed at adult jobseekers. Rigorous evaluation has enabled some positive conclusions to emerge about the impact of the New Deals aimed at young people and lone parents, but the same evidence base is not yet available in relation to the over-fifties and disabled people (Robinson 2005). It is generally thought that the New Deal for the Over-50s has played little role in the relative improvement in employment rates for older workers since 1993 (Disney and Hawkes 2003). Some

elements may have been effective (for example the return-to-work credit) and have given clues to the design of future policy.

The National Audit Office (NAO) evaluation of measures designed to promote the employment of older workers pointed to the challenges facing the combined employment and benefits agency in the UK, Jobcentre Plus, as its focus has switched from unemployed people to inactive people (NAO 2004). Important to the effectiveness of the agency in helping disadvantaged job-seekers is the quality and capacity of the personal advisers, who provide them with supporting services. In two out of three Jobcentres visited, staff turnover was very high, with forty-six per cent of staff in one centre having less than six months' experience. Most advisers felt that their training was insufficient to enable them to provide an adequate assessment and advisory service for older people.

A key issue for employment policy in the UK is how Jobcentre Plus will be resourced so that it can play a significant role in helping to achieve the eighty per cent employment-rate target, through its programmes to help older workers and those inactive due to sickness and disability. The full evidence base on the effectiveness of the flagship 'Pathways to Work' pilot programme, aimed at helping disabled people into the labour market, will become available in 2006. Early indications have been positive, and the stated intention is to roll the programme out nationally if it is shown to be successful. It is on the success of this type of initiative that many hopes are pinned.

There are some in-built biases against older people in the learning system that are widely acknowledged, reflecting the greater priority given to education and training for children and young people. For example, student loans are only available to people under fifty-four, based on the argument that people over that age may not work long enough after their period of learning to pay back the costs. The logic of this kind of reasoning might be seen to be more and more questionable if the goal of policy is to increase the length of working lives. Older people are significantly less well qualified, on average, though this is one example of a 'cohort' effect that should help boost employment rates in the future: as better-qualified cohorts age, and replace older cohorts in the labour force who did not benefit from improved learning opportunities when they were younger. The difficult public policy issue here is that the priorities for learning policy lie elsewhere: Tony Blair's top three priorities are almost certainly schools education, early-years education and higher education (with the participation target relating to eighteen- to thirty-year-olds), not learning opportunities for older people.

The Government has given high priority to giving people more information to help them make better-informed choices over their retirement options. Central to this approach are combined pension forecasts, which set out what people can expect from their state and occupational pension entitlements. The intention is for those people whose potential income in

retirement might be quite low to be 'empowered' into doing something about it. Part of this 'empowerment' might be the sobering realisation that they will need to work longer.

Barriers

Learning might be one obvious area where commonly held, but probably fallacious, attitudes to the capacity of older people might be a significant barrier. The other obvious area is attitudes among employers. One thing that will unite the public and private sectors is the need for employers to think about how they might change the way they organise work to support the older members of their workforce, and to eliminate the sharp cliff edge between work and retirement. We are likely to see more organisations thinking about how to facilitate colleagues shifting to part-time or other forms of flexible working, or taking on different forms of work. This is an agenda to which the unions could very constructively contribute.

One way of shifting attitudes is to legislate. Age discrimination legislation is already in place in Australia and the United States and, in 2001, the Swedish government introduced a law giving employees the legal right to stay in the workplace until the age of sixty-seven, though, as the OECD points out, it is unclear why the age of sixty-seven was chosen (OECD 2003b). However, in all countries there is recognition that such legislation has to be part of a wider approach to changing attitudes to the older workforce. In the UK, this is manifested in the Age Positive campaign, designed to help change employer attitudes towards recognising the benefits of an age-diverse workforce.

The UK Government has been engaged in a long process of debate over how to respond to the age strand of the 2000 European Employment Directive. Starting in summer 2005, it was consulting on the draft regulations ahead of legislation that would come into effect in October 2006. This legislation will outlaw all retirement ages below sixty-five, except where they can be objectively justified, with a new duty on employers to consider requests to work longer. This is designed to set what the Government describes as a 'national default retirement age' of sixty-five. The legislation will be reviewed in 2011. Some have argued that, by not setting this age higher from the start, the Government has missed an opportunity to send a clear signal about the desirability of working longer.

Signals

The state pension system provides powerful signals to individuals and employers that impact on their practices and decisions. The mandatory retirement ages set by employers, for example, tend to cluster around the state pension age. In the UK, the expected retirement ages of individuals

also cluster around the state pension age, even when these same individuals claim they are not relying on the state pension to sustain them in retirement (Gosling and Lewis 2005).

The clearest signal that could be sent by the state would be to raise the age at which you can draw the state pension. This is occurring at the moment in the United States where, from 2005, the full social security pension will only be available from the age of sixty-six, rising to sixty-seven by 2022. The state pension age is currently rising for women in Australia, with the age having risen from sixty to 62.5 between 1995 and 2005, before it rises to sixty-five by 2013. In the UK, the state pension age for women will rise from sixty to sixty-five between 2010 and 2020.

It is widely anticipated that these increases in the state pension age in Australia and the UK will drag up labour-force participation rates for women in their wake. However, although the Australians are midway through their process of equalising the pension age, there is, as yet, no clear evidence of any impact on female labour-force participation rates (King 2005). To the extent that the average age of retirement has been rising in Australia for men and for women, this is more a function of the overall strength of the labour market and, for women, the 'cohort effect', as better-qualified cohorts of women age and replace older, less well-qualified cohorts (King 2005). In the Netherlands, the same two factors lie behind the relative improvement in labour-force participation rates for older workers, along with the phasing out of subsidised early retirement and stricter criteria for claiming disability benefits (Riel 2005). In neither Australia, the Netherlands, nor the US is there any intention among policy-makers to raise the state pension age further.

One problem in relation to the apparent clarity of the signals that can be sent by the state pension age is that it can be undermined by other features of the pensions system. In the US, workers can elect to receive state pension benefits from the age of sixty-two. In 2001, fifty-four per cent of men and fifty-eight per cent of women began receiving benefits at age sixty-two, and about three-quarters of both men and women began to draw benefits before age sixty-five (Diamond and Orszag 2004). Benefits taken earlier than the 'normal retirement age' in the US are reduced, but the adjustments are intended to be roughly 'actuarially fair': any reductions and increases are intended to ensure that people receive, on average, roughly the same lifetime benefits, regardless of the age at which they first claim benefits. The American system is markedly inferior to the UK system, in which you cannot take the state pension early, and the benefits of taking the state pension later will, in theory, be greater, though, as we have seen, the empirical impact of such incentives is unclear.

In the Netherlands, the social partners are potentially able to offset the impact of reforms to the state pension system, for at least part of the population, by changes to the pensions packages negotiated through collective

bargaining. This is likely to mean that retirement at sixty, at seventy per cent of previous earnings, will remain an option for many Dutch workers, the effect of which could be reinforced by the introduction of a tax-favoured individual savings account – or ‘life-course scheme’ – which could be used to fund up to three years of early retirement (Riel 2005). On the other hand, occupational pensions in the Netherlands are, like public sector pensions in the UK, switching away from final salary to average salary schemes, with the result that people may reach their sixties with much less generous pension pots than expected, which may force them to retire at a later age. All of this is not very transparent to the Dutch people.

In Sweden, it will be possible for people to begin to draw the notional defined-contribution element of their state pension from the age of sixty-one. Low earners will need to wait until they are sixty-five before they can draw the minimum pension that is guaranteed. There are real concerns that Sweden’s apparently radical pensions reform, which attracts so much interest in the UK and elsewhere, missed the opportunity to provide clearer signals about the desirability of extending working lives. It has been suggested that the minimum age in Sweden for drawing part of the state pension may have to be raised from sixty-one to sixty-five, and the minimum age for the guaranteed pension from sixty-five to sixty-seven, indicating just how far the reforms in Sweden may not, in fact, have delivered a stable settlement (Palmer 2005).

In none of the countries observed is there any clear evidence that the reforms have had, or are expected to have, a significant impact on labour-force participation rates or the effective age of retirement. The clearest signal that the UK Government has sent out is its intention to raise the normal pension age for most workers in the public sector from sixty to sixty-five by 2013. There could be no clearer signal about the need to work longer. These intentions have, of course, produced a vociferous backlash, with the threat of industrial action.

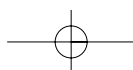
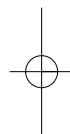
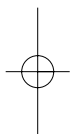
One of the key impediments to raising the state pension age is the perceived inequity between different social classes. In the late 1990s, life expectancy at age sixty-five stood at 16.8 years for men from non-manual backgrounds, but 14.6 years for men from manual backgrounds (Donkin et al 2002). For non-manual women, life expectancy at sixty-five stood at 19.8 years, and for manual women, 17.4 years. Since the early 1970s, life expectancy has risen for men and women from all backgrounds, but it has risen faster for those from non-manual backgrounds, with the social class gap growing, especially for women. As a result, any increase in the state pension age could be seen as inequitable.

Surprisingly, in ippr’s qualitative work social class did not figure large in the discussions (Gosling and Lewis 2005). In respect of the pensions framework and suggestions that the state pension age could rise, participants were likely to be disgruntled regardless of their background. The fact that richer



people live longer than the less well off provoked little significant comment, even from those likely to die soonest. Where class emerged in the discussions, it crept in through the back door: with people commenting that it was unfair that some should work from age sixteen, while graduates would often work only from their early twenties, with graduates seen as more likely to retire earlier.

What is clear from this qualitative work is that any government that raised the state pension age would be punished for it, by people from all social backgrounds. Both from explicit comments and through insinuation, it was clear that politicians are just not trusted with this issue. This raises the key issue of the crisis of legitimacy that makes pensions reform so difficult in any country.



6. The transparency of reform

Pensions reform will only have a significant impact on people's behaviour and their expectations if the implications of that reform are well-understood. However, the impact of pensions reform is often deliberately obscured by policy-makers to limit the political damage that might ensue. It is possible to get away with this in pensions policy, because the impact of any changes that will affect today's workers when they retire may only become obvious to them when they are at, or approaching, retirement.

It took many years for people in the UK to understand the impact of sharp reductions in the value of the State Earnings Related Pensions System (SERPS), introduced in the 1980s. The main feature of the pension reforms introduced in Germany in 2001 was a sharp reduction the value of state pension entitlements for future retirees, but this was deliberately downplayed by the government in order to minimise its unpopularity for introducing such reforms (Borsch-Supan 2004). As the aim of the reforms was to encourage people to make more of their own provision, to compensate for the declining generosity of the state system, obscuring its main feature will perversely have dampened its impact on changing people's expectations and behaviour. The real fear of a political backlash has persuaded the Dutch government not to tamper with the generosity of the state pension system (Riel et al 2003).

In Sweden, there was strong cross-party support for the pension reforms that were introduced in 1999 (Palmer 2005), in contrast to the Netherlands, for example, where that consensus has been sorely lacking in recent years (Riel 2005). However, another feature of the Swedish pension reforms, that appeals to many observers, is the building of an explicit link between the pension that an individual will receive and life expectancy for the cohort that individual belongs to. While this may have raised people's general understanding of the link between incomes in retirement and life expectancy, it is not clear that individuals fully understand the likely implications for themselves in a way that has impacted, or will impact, on their expectations or behaviour.

It is far from clear, in other words, that the Swedish system sends clear signals. It is simply very difficult for someone in the middle of their working life to think about the likely life expectancy of the cohort they belong to, which will then determine the generosity of the state pension they will receive. It is much more likely that, as Swedes approach the age at which they can begin to draw state pension benefits, they will become aware of what those benefits are likely to be and will then have to adapt their behav-

our accordingly. At this stage it may be difficult to alter savings behaviour in time for this to have a big impact. Much more likely is that Swedes may, at this point, realise how much lower their retirement incomes are likely to be and will, therefore, be forced to 'choose' to postpone their exit from the workforce so that they can build a more generous pensions pot. As the OECD has emphasised, the main incentive to work longer, in the new pensions system, comes from the fact that is simply less generous than the old system (OECD 2003b).

This scenario is not very far away from the kind of 'choices' the current pensions system in Britain is likely to force on many middle-income workers as they begin to approach the state pension age. Only at this stage might they fully realise that the combination of a relatively ungenerous state pension and their own, possibly inadequate, private provision will require them to work longer or face an income in retirement that is inadequate. It is this push factor, combined with the pull from a hoped-for continuation of a relatively tight aggregate labour market, that is expected to boost labour-force participation rates.

This puts into stark perspective a key problem that policy-makers have to face up to. The incentive for any government is to allow the current workforce to wake up to the consequences of an inadequate pensions system when they approach the age at which they would like to retire, and find that their plans are not in fact feasible. At this stage, the likely political backlash will be faced by a future government. A government that signals to the workforce today that they will need to work longer, and backs it up with action, such as planning to raise the state pension age at some point in the future, risks a political backlash now. Better to leave the system alone with all its complexities and opacity and let people muddle through. The Government's commitment to establish a system that people understand is, therefore, quite revolutionary, for they will need to understand that working longer in the context of increased life expectancy must be a significant part of the solution.

If raising the state pension age is to be one of the key options for signalling how working lives need to evolve, policy-makers in the UK face a very real difficulty in relation to timing. One of the complaints made by public-sector workers is that the rise in the normal pension age to sixty-five has been rather sprung on them with too little notice. The rise in the state pension age for women to sixty-five between 2010 and 2020 was signalled through the relevant legislation in 1995, giving a fifteen-year-plus period of notice. In its proposals for raising the state pension age to sixty-seven, ippr argued that this would need to take place between 2020 and 2030, if a more generous basic state pension was to remain affordable, at a time when the demographic bulge in terms of an ageing population would be at its greatest (Brooks et al, 2002). If a fifteen-year-plus period of notice were to be given, this would require the change to be signalled in 2005.

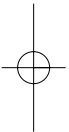
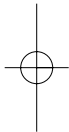
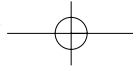
The reason for stressing this is that there is a very respectable argument for saying that the Government should concentrate on providing incentives and support and tackling barriers to raise labour-force participation rates and the effective age of retirement, and leave the issue of the state pension age to another day. However, if the issue is left for too long, either people will feel that they have not been given enough notice of such a significant change, or the rise will have to come later than the decade when it might be needed most. The other problem is that we cannot be sure that the combination of improved incentives, enhanced support and a more rigorous tackling of barriers to working longer will prove effective in the absence of very explicit signals about the need to raise the effective age of retirement.

The intriguing political challenge for the Government is to try to sell a deal whereby a significantly *enhanced* basic state pension is linked to receiving that pension later in life, for workers reaching sixty-seven by around 2030. To restate again, the nature of the pension reforms that have been imperfectly signalled in other countries is that they feature a *reduced* state pension alongside an expectation that people will also be working longer. This is the one sliver of hope that the reform process in the UK might be a little less hard to manage than in other countries.

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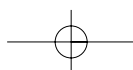


PART 2

TRUST NO ONE?

PUBLIC ATTITUDES TO RAISING
THE AGE OF RETIREMENT

TIM GOSLING AND MIRANDA LEWIS



Executive summary

This report, detailing a series of focus groups conducted in spring 2005, deals with people's attitudes to retirement and working later. It clearly shows a number of trends and contradictions in the way that people think about pensions and retirement. It also provides evidence of considerable hostility to working and receiving the state pension later than sixty-five.

It seems likely that many people base their expectations of retirement on the experiences of family and friends. They expect to retire either at the same time as their parents did, or preferably before, and to get sick and die in a timescale that is not radically different from the previous generation.

They are inclined to distrust data on improving health and life expectancy, but it is not clear whether this is part of a general distrust of official information, or a specific response to media campaigns about risks to health, or both. In addition to this, the groups reinforced our existing knowledge that people are disinclined to trust employers (public and private sector: 'moving the goalposts'), the financial services industry (Equitable Life, endowment mortgages, pension mis-selling) and politicians (just about everything).

To a very great extent, this explains why people see the years between sixty-five and seventy as 'protected time'. After seventy, many expect their health to begin to deteriorate. Other than the self-employed, who often claimed to enjoy their work, and a vocal minority who thought working longer would help stave off physical and mental decline, there was limited appetite for working longer. The pertinent issue here seemed to be 'choice' versus 'coercion' in working longer. The ability to choose when to leave full-time work or 'wind down' to part-time employment, rather than have this process determined by government, was important to many people.

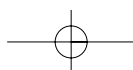
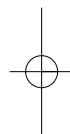
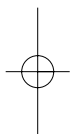
Many have contradictory attitudes to the state pension. People claim not to be intending to rely on it, but data shows that expected retirement ages cluster around current state pension ages, something the focus groups supported. People also react angrily to suggestions that the state pension age may have to rise to accommodate demographic pressures. This suggests that either people are unsure about what their sources of income in retirement may be, or they are intending to rely on the state pension more than they are likely to admit.

Social class did not figure large in the discussions. In respect of the pensions framework and suggestions that the state pension age could rise, participants were likely to be disgruntled regardless of their background. The fact that richer people live longer than the less well off provoked little significant



comment, even from those likely to die soonest. This should concern progressives. Where class emerged in the discussions, it crept in through the back door: people commenting that it was unfair that some should work from age sixteen, while graduates would often work only from their early twenties. If anything, graduates were seen as more likely to retire earlier.

Any government that raised the state pension age would be punished for it. Consensus is needed across the political spectrum, but there could be a problem with legitimacy. Both from explicit comments and through insinuation, it was clear that politicians are not trusted with this issue.



1. Introduction

Public attitudes to raising the age of retirement

This paper addresses a number of issues related to how people feel about working or retiring later. It reports the results of a series of focus groups conducted in March 2005, and contains a short discussion of available qualitative evidence, intended to place the discussion undertaken in the groups in context.

Working longer was one of three options identified by the interim report of the Pensions Commission in 2004, to ensure that the pensions system will continue to provide decent incomes in retirement. In the past, ippr has suggested that the state pension age may have to rise in order to fund more generous entitlements and place the pensions system on a sustainable footing (ippr 2002). This paper explores public attitudes to some of the issues raised by these policy options.

Specifically we set out to explore:

- when people expect to retire, what factors influence this and how far they base their retirement expectations around receipt of the state pension;
- whether people are aware of the forthcoming equalisation of state pension ages between men and women, which is due to take place between 2010 and 2020;
- how people would react to a later state pension age, set at sixty-seven for both men and women;
- how people felt about the fact that life expectancy is, on average, rising and whether this impacts on how they think about their retirement; and
- whether people feel it is fair that life expectancy varies significantly according to social class and whether they feel that changing the state pension age is unfair in this context.

This paper sets out some of the available qualitative data in this area, taken largely from relevant Department for Work and Pensions (DWP) research reports, and then moves on to discuss the focus groups in detail, before outlining how this information might impact upon policy.

Qualitative research

There are two main sources of material for qualitative work on public attitudes to pensions. Work commissioned by the pensions industry tends to focus on aspects of the pensions framework that are not directly relevant to this paper. Academic sources and work commissioned by the DWP tend to be more relevant.

The first section of this report draws heavily on a number of DWP research reports and work by the Centre for Risk and Insurance Studies (CRIS) at the University of Nottingham (O'Brien et al 2005). It is intended to set the subsequent focus-group work in context.

In particular, significant use is made of data taken from 'Pensions 2002: Public attitudes to pensions and saving for retirement' (Mayhew 2002). This is one of the most accessible surveys dealing with attitudes to retirement. It is particularly relevant to these focus groups as it deals directly with how people plan for retirement and their expectations.

The qualitative data was collected through the National Statistics Omnibus, with the fieldwork conducted between 18 March and 10 April 2002. From a sample of 3,000 addresses drawn from Royal Mail sources, the Office for National Statistics carried out 1,794 interviews with one individual over the age of sixteen per household. The data was weighted to ensure the sample was representative.

Methodology and focus group composition

ippr decided to conduct focus groups in order to build up a more detailed picture than that afforded by existing survey data about attitudes to raising the effective age of retirement. Prior to designing the groups, ippr carried out a review of the available literature, upon which we also based the discussion guide.

ippr conducted eight focus groups. Each of these contained between four and six people. Groups were facilitated by trained moderators from ippr's People and Policy team. A standardised discussion guide was used. Participants completed a survey at the beginning of each focus group. The sample is too small to rely on as robust survey data, but it has provided a useful tool with which to check our results against other research.

ippr hypothesised that attitudes might vary according to age, social class and gender. We therefore subdivided the groups along gender lines and also according to age and social class. Groups took place in four locations

in order to ensure that results were not skewed by geographical particularities. Their composition was as follows:

Group 1: female, 25-40 years old, BC1, London

Group 2: male, 41-55 years old, C2DE, London

Group 3: female, 41-55 years old, C2DE, Croydon

Group 4: male, 25-40 years, BC1, Croydon

Group 5: female, 25-40 years, C2DE, Birmingham

Group 6: male, 41-55 years, BC1, Birmingham

Group 7: female, 41-55 years, BC1, Brighton

Group 8: male, 25-40 years, C2DE, Brighton

Standard definitions of social class

A: Upper middle class: Higher managerial, administrative or professional

B: Middle class: Intermediate managerial, administrative or professional

C1: Lower middle class: Supervisor or clerical and junior managerial, administrative or professional

C2: Skilled working class: Skilled manual workers

D: Working class: Semi and unskilled manual workers

E: Those at the lowest levels of subsistence: State pensioners and others with no other earnings

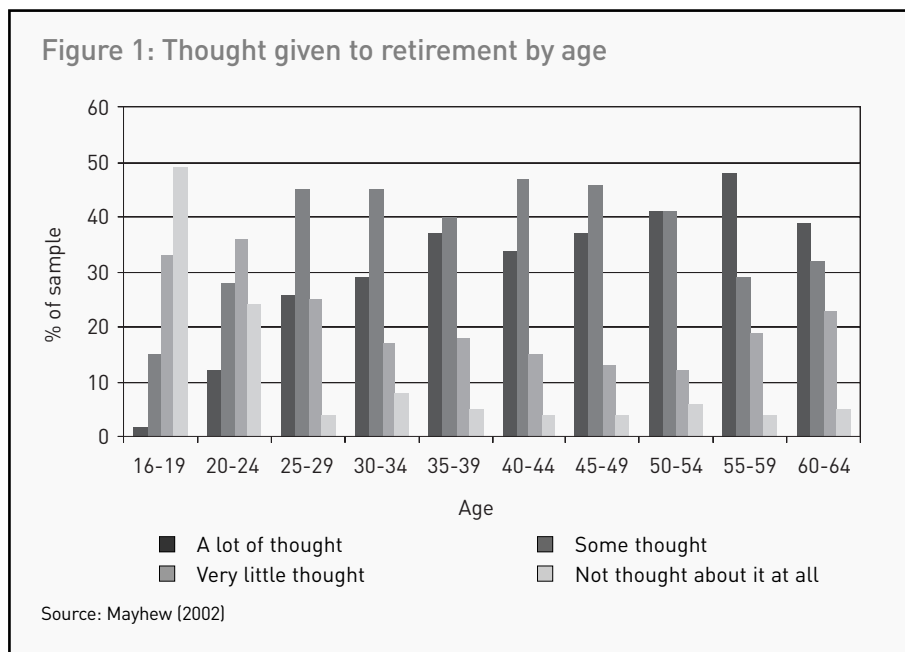
Source: Opinion Leader Research

Participants were recruited by an accredited market research recruitment agency, and were offered a small incentive to attend. They were screened to ensure that each of the participants was not likely to be mainly dependent on a partner's pension in retirement. This was to make sure that we sought the opinions of people who are actively concerned with planning their retirement, or who are likely to be largely dependent on the state pension and any additional benefits. The focus group results were written up and analysed for key trends by the research team.

2. Survey research

Thought given to retirement

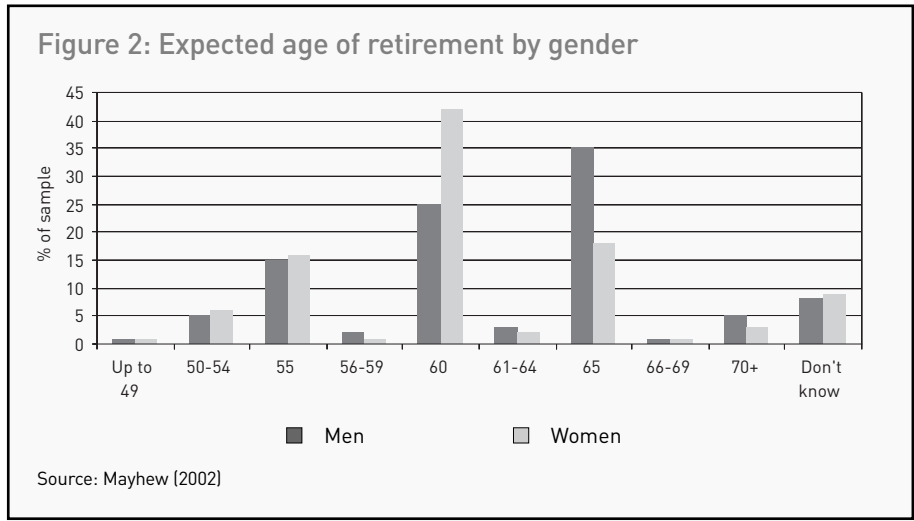
Qualitative data on expectations of retirement shows some relatively clear trends, which are, in some cases, entirely intuitive and unsurprising, and in others, less so. In general, people surveyed think more about their prospects for retirement as they age and approach retirement: as shown in Figure 1. Proportions having given the matter 'very little thought' or 'not having thought about it at all' fall over time, while others rise over the same period. Significant minorities, though, appear to have given the issue 'very little thought', even as retirement approaches.



Expected age of retirement

Figure 2 shows that expectations of retirement age tend to cluster around the state pension ages, although significant minorities of men and women expect to retire at the state pension age of the opposite sex. This appears to be an area where people find it convenient to think of their retirement planning in terms of round numbers. It also seems probable that many people gear their age of retirement to that of their partner.

Few anticipate working past the age of sixty-five and the data suggests that those who intend to are primarily the self-employed. This does not mean, though, that what people anticipate happening will subsequently come to pass. It may be that the expectations of some of the sample prove inaccurate, particularly as people give more thought to their retirement as they age (see Figure 1).



Expected source of income in retirement

It is clear from the qualitative data that a majority of people do not intend to rely upon the basic state pension in retirement. Only twenty-one per cent of the survey group intend to rely on either their or their partner's state pension.

Table 1: Expected sources of income in retirement

Source of Income	Percentage
Own pension	68
Basic state pension	20
SERPS	0
Occupational pension	33
Personal pension	14
Stakeholder pension	1
Partner's pension	10
Basic state pension	1
SERPS	0
Occupational pension	7
Personal pension	2
Non-pension	13
Don't know	9

Source: Mayhew (2002)

Figure 3 shows expected main sources of retirement income and expected age of retirement, relative to state pension age. In conjunction with Table 1, it seems clear that the majority who have made provision for their own retirement, or that of their partner, aim to retire at or before the state pension age. Those who are uncertain about their retirement prospects or are long-term unemployed are more likely to see themselves being dependent on the state.

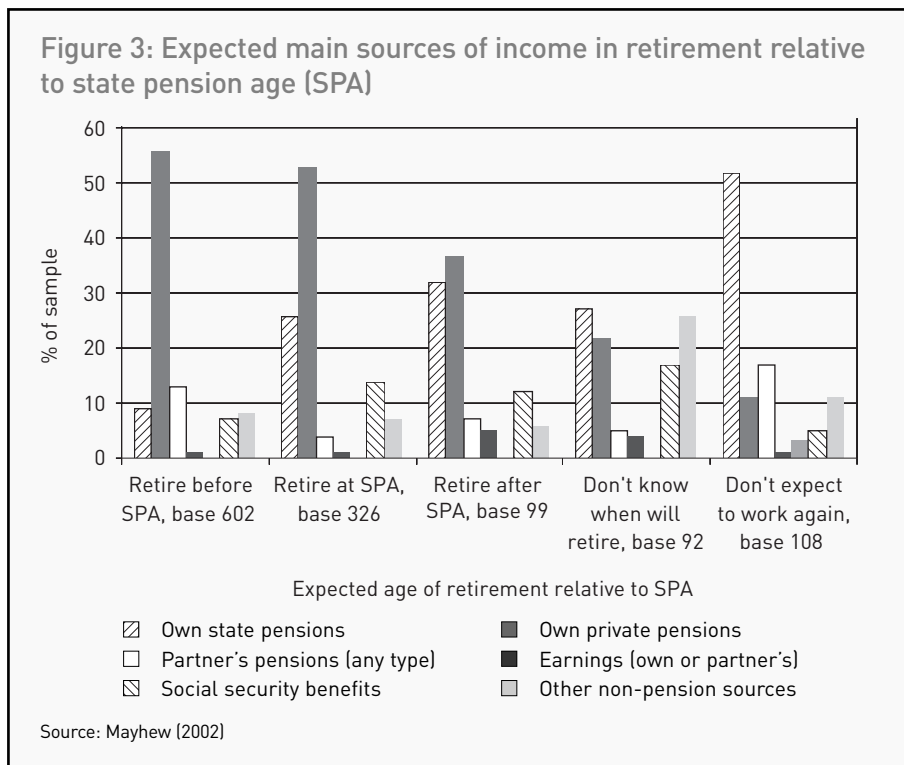


Table 2 shows the actual sources of income upon which pensioners depended in 2003/04. A direct comparison with Table 1 and Figure 3 is not possible, but it seems likely that people underestimate their likely dependence on the state pension and/or means-tested benefits, and overestimate their dependence on other sources of income. This research did not explore why this is, but it should perhaps be borne in mind when considering discussions about the state pension in focus groups.

Table 2: Source of pensioners' incomes as a percentage of total income, 2003/04

	Single pensioners	Pensioner couples
Gross income	100%	100%
Of which:		
- Benefit income	61%	42%
- Occupational pension	23%	31%
- Personal pension income	2%	4%
- Investment income	8%	10%
- Earnings	5%	12%
- Other income	1%	1%

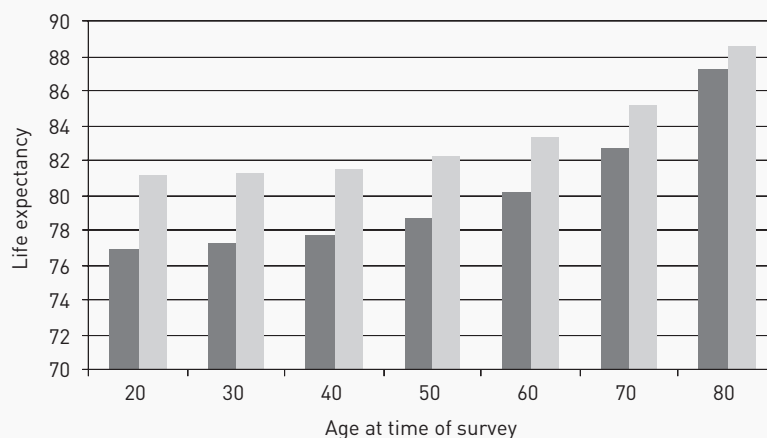
Source: DWP (2005)

People's expectations of longevity

The estimates made by people of their own lifespan tend to differ from those made by actuaries. Accounts of by how they much differ, and the methods used to report these differences, also differ. O'Brien et al (2005) used data reporting individuals' own estimates of their life expectancy and compared it with the forecasts provided by the Government Actuaries Department (GAD). The results are shown in Figures 4 and 5.

The data makes it clear that men, on average, underestimated their life span by 4.62 years and women by 5.95 years. It is clear from the charts that, perhaps unsurprisingly, younger people have a less clear idea of how long they will live than older people. Furthermore, the authors found that people who have a better understanding of their actual life expectancy are more likely to have a private or stakeholder pension (O'Brien et al 2005).

Figure 4: Male reported life expectancy and GAD longevity projection

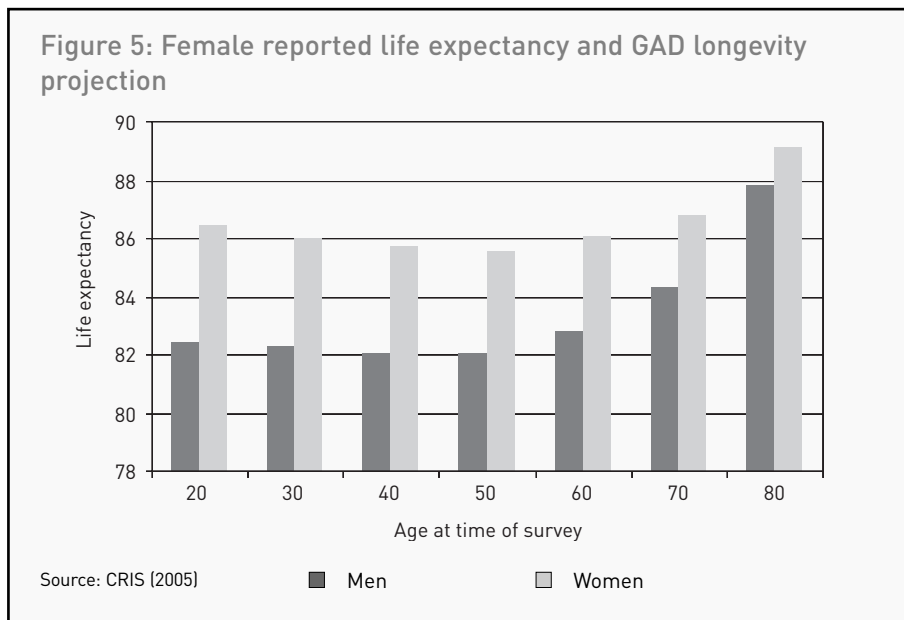


Source: CRIS (2005)

■ Men □ Women

Banks et al (2004) use different methods to comment on similar issues. The authors show that men and women underestimate their chances of attaining a particular age, with women particularly likely to underestimate their actual life expectancy. The probability of a sixty- to sixty-four-year-old woman reaching the age of seventy-five is greater than eighty per cent. Female survey respondents within that age bracket expected, on average, only a sixty-five per cent chance of reaching that age.

It is not clear from this analysis whether younger people share these beliefs, as the survey does not take into account those under fifty. It is not implausible, however, as the differential between reported life expectancy and actual life expectancy at fifty to fifty-four for men and women is almost as significant as for other, older cohorts.



Working longer

Eurobarometer (2005) has conducted research into which options for pension reform Europeans find most palatable. Across Europe, the most popular option for reform was to 'contribute more' (thirty-four per cent), with rejection of all the options presented in second place (twenty-two per cent), 'work longer' in third place (seventeen per cent) and 'reduce entitlements' in fourth (thirteen per cent). A small minority opted for a combination of all three (eight per cent), with six per cent 'don't knows'. The authors comment that, in the UK, raising contributions is significantly more popular than any of the other options and is more popular than in other European nations.

3. Focus groups

General attitudes to retirement

There was little common ground between the participants in terms of their attitudes to retirement planning and how far they had considered it. Some had quite detailed plans for retirement, others had barely thought about it. It was clear that the decisions people take depend very highly on individual circumstances and, while there were some trends and indicators that were common, it is quite difficult to make meaningful generalisations.

There were few cases where the material from the focus groups explicitly contradicted the qualitative data cited earlier. In general, the groups tracked the data quite closely. For instance, older participants were significantly more likely to have a more developed view about when they might retire and to have more substantial plans.

While it was expected that there would be differences of opinion between different social groups, these were not necessarily present. Instead, opinions voiced within the groups were often quite similar across social classes. Where differences of opinion on class lines were clear, they tended to focus obliquely on class: for instance, questioning whether it is fair for graduates to retire at the same age as those who have worked since age sixteen. This said, there was surprisingly little resentment of those in higher income groups who might be richer, likely to retire earlier or healthier.

In the survey completed by participants prior to the discussion, C2DE participants were more likely than BC1 participants to cite the state pension as their main probable source of income in retirement. There was, though, little difference between these two groups' criticism of the state pension during the discussion.

People tended to think more about current than future responsibilities. Both men and women mentioned family responsibilities in respect of this, but women were more likely to mention caring responsibilities, while men mentioned having to work later in order to meet the costs of university, for example.

Where younger people were making preparations for retirement, they were more likely to be as part of a company pension scheme. In some cases this had clearly removed the responsibility for decision-making from them. These tended to be the higher income groups or those working in the public sector.

Property was seen by many as a safer investment than pensions. It was not clear, though, how many of the participants were actually acting on this belief. This point is picked up in qualitative research conducted for the

Financial Services Authority (2002). Mayhew (2002) suggests that, at most, thirteen per cent of people are expecting to derive the bulk of their income from non-pension sources, and the majority of this was expected to come from renting out property.

Role of the state pension and benefits

In respect of the state pension there is a significant level of consistency between the qualitative material and the focus groups. Notably, many participants did not think that the state pension would be that valuable to them in retirement, and hence did not plan to rely on it. A substantial proportion felt that it was of too small a value to be of use to them. Some comments made were derisory, others tended to regard it as a bonus on top of their existing plans:

Everyone knows it won't be worth much.

Woman, 41-55, Croydon, C2DE

My mother has worked most of her life here and she thinks the state pension is rubbish. She is lucky she has her savings and a bit of property.

Woman, 25-40, London, BC1

This was balanced, though, by the participants' general feeling that the state pension was worth less than it actually is. Only those near to retirement really got close to how much it is worth, but even when participants were told how much it is worth, they often did not think much of it.

In the majority of groups there was a vague sense that the state pension would eventually be phased out and not replaced. In most cases, one participant would mention this and then others would either agree or not dissent; it was often as though this was a commonplace opinion. Sometimes, it was put forward that the state did not have the money to continue to pay for it. Other times, the surrounding narrative seemed to be one of general decline, from which the state pension was not exempt.

Of course, this sat in tension with the less commonly expressed view that the state was adequately resourced to deliver decent pensions, but that it had the wrong spending priorities, had wasted money or otherwise lacked competence.

Hedges (1998) found similar conclusions to the above, but argued that people thought about the supposed erosion or withdrawal of the state pension differently, according to age. The under-forties expected it to dwindle in value, disappear or be limited to the very poorest. Older participants in those groups expected to receive the state pension but felt that it might not be there for the younger generation. ippr saw some evidence of these strands of opinion, but not in the clear-cut way that the DWP focus groups expressed their opinion.

Hedges (1998) also outlined more positive views of the state pension, which were not raised directly in ippr's focus groups. That said, we encountered no criticism whatsoever of the principle of the state pension, merely criticism of its current state. This is, perhaps, due to the different focus of the groups. Hedges identified significant support for the state pension, stemming from its perceived security (it will not go bust) but also the fact that it does not need to be understood fully in order to get the most out of it. This is mentioned as it suggests another level of complexity to people's thinking about the state pension and, perhaps, helps explain some of the adverse responses received during discussions about raising the state pension age, which are detailed later in this paper. Similarly, some of the material dealing with the state pension was seemingly contradicted later in the groups. Again this is detailed in the section dealing with raising the state pension age.

Specific comments were made about the perceived unfairness of means testing. This tended to be the lens through which the Pension Credit was mentioned, if it was mentioned at all. Where they were concerned, participants tended to argue that means testing penalised those who worked hard. A typical reaction was that:

This country does not reward those who are on the verge of coping.

Woman, 25-40, Birmingham, C2DE

This linked into a broader undercurrent in some of the groups relating to two things. Firstly, there was a feeling that taxes had risen and were too high, but without improvements that might justify the situation. In some cases, there was the feeling that Government had the money but that it had other priorities, such as funding asylum seekers, and that better pensions were a matter of will and reprioritisation of spending. Secondly, there was a sense that the country did not value or reward the efforts of those who were working hard and barely getting by. This ties in with the feeling that means testing benefits the feckless and, by extension, penalises those who have made modest provision for their own futures, although the sentiment seemed broader than that. In some cases, and not just among the lower income groups in the sample, this generated significant resentment.

Raising the state pension age for women to sixty-five

There was a degree of knowledge about forthcoming changes to the state pension age for women. Both men and women were likely to be aware of the changes, with older participants the most likely to know where they stood.

This is largely consistent with the qualitative data which shows that fifty-nine per cent of all survey respondents knew about the future increase in women's state pension age (Murphy 2004). This varied significantly by age, with those closest to retirement most knowledgeable. Seventy-three per cent

of respondents aged forty-five to fifty-four knew, as against thirty-six per cent aged sixteen to twenty-four (Murphy 2004). There was little significant variation by gender.

In general, there was consensus that making the state pension age the same for men and women was fair. Where there was discontent, it was over where equalisation should occur. Some argued that the state pension should have been made equal for men and women at sixty, while others argued that a mid-point should have been found between sixty and sixty-five. It is not clear whether the participants suggesting this felt that this was feasible.

State pension age equalisation

As a result of measures contained within the Pensions Act (1995), the state pension age for women will rise from sixty to sixty-five between 2010 and 2020. This will affect all women born after 5 April 1950, as shown in the table below. Approximately 1.8 million women will be affected by the phasing in of equalisation.

Table 3: State pension age equalisation

Date of birth	State pension age
Before 6 April 1950	60
6 April 1950-5 April 1951	Between 60 & 61
6 April 1951-5 April 1952	Between 61 & 62
6 April 1952-5 April 1953	Between 62 & 63
6 April 1953-5 April 1954	Between 63 & 64
6 April 1954-5 April 1955	Between 64 & 65
After 5 April 1955	65

As with other areas of discussion about longevity and fairness, there was little discontent about whether it was fair for the state pension age to be equal, as women live longer. To an extent perhaps, the groups were prepared to set the course of nature outside the bounds of what was, or was not fair.

Where there was disagreement over the principle of equalisation, it tended to focus on women's roles and responsibilities. Whereas those who did not disagree with equalisation tended to see women as wanting greater equality both inside and outside the workplace, and hence also having to accept the downsides of equality, those who disagreed saw it differently. Those with a more traditional conception of women's roles, particularly relating to the family, were more likely to argue that women worked harder than men and hence deserved an earlier retirement. Both men and women argued this.

Retiring later

The main lens through which retiring later was discussed in the groups was the prospect of raising the state pension age. The discussion then tended to roll into whether it was fair to work longer to fund a longer retirement, and a discussion of longevity more generally. Longevity is dealt with specifically later in the paper.

While the majority of those in the groups stated they did not intend to rely on the state pension in retirement, there was significant hostility to suggestions that the state pension age might have to rise in response to changing demographics. This varied from feelings of subtle betrayal or resignation about 'shifting the goalposts' to depression and outright anger. In general, the discussion tended to focus on dissatisfaction with aspects of current or future arrangements, rather than looking at whether the policy case for change is reasonable. This section focuses more, therefore, on participants' discontent than the implications for policy.

Some, though, felt that the level of the pension was so low that movement of the state pension age would not affect them.

Wouldn't bother me, I'm not expecting much anyway.

Man, 41-55, Croydon, C2DE

This was not a typical reaction. A more commonly expressed sentiment was:

*This is a bit cr*p ... you paid in your taxes, all through your life ... they keep shifting the goalposts.*

Man, 41-55, Croydon, C2DE

Many said, though, that they had no intention of relying on the state pension. If this was accurate, it might be expected that participants would be less concerned with the prospect of raising the state pension age. Responses should be more like the former and less like the latter.

Distrust of Government and its motives was a common theme in some of the groups. Some felt that politicians and civil servants are adept at ensuring that they will have comfortable retirements, funded from taxation, while others face less generous arrangements, or have to make more significant individual provision.

Similarly, some argued that they are likely to pay more in National Insurance contributions (NICs), or other taxes, than they will receive in benefits, hence the proposal to raise the age is unjustified. A related criticism was that people who have paid in the same level of NICs will receive fewer benefits, should the state pension age rise.

This strand of thinking is related closely to the 'pot model' of thinking about collectively funded pensions, which came out of focus groups recorded in Hedges (2005). Broadly speaking, many of the participants in

those groups thought of pensions as a pot into which they paid through the course of their working life, and from which they received funds in retirement. Hedges points out that this is quite similar to the way a savings bank operates, and that people are likely to think about it in quite an individualised manner. That is to say that, whether they think of the pot as an individual account or as a general fund, individuals see themselves as not depending on anyone else for their pension (Hedges 2005).

Lastly on this theme, there was a feeling that a rise was 'inevitable but not reasonable'. In some cases, participants regarded the Government's motivations as divorced from their own. There was a strong feeling from particular individuals that Government could be strongly self-interested and, perhaps, downright capricious in the way it changed policy. Individuals felt angry but resigned to this.

There was also some significant discontent about the different ages at which participants had started work. Some, mainly, but not all, from the lower socio-economic groups, had worked since age sixteen. They felt that it was unfair for them to work later, while others might only have started work at age twenty-one or twenty-two, after finishing university.

As this paper mentioned earlier, there were few overt class-based points or distinctions made during the course of the groups. Indeed, where class was raised overtly, in relation to longevity, participants were not often concerned.

The groups had little truck with international comparisons where they were raised, and were, in general, uninformed about the situations in countries they cited as evidence. There was a strong 'grass is greener' feeling: that other countries had fewer problems and better solutions, rather than facing common demographic problems. While substantial discussion in this vein was rare, it was exemplified by one individual who cited Germany as a model to aspire to.

Others were particularly concerned about the labour market effects of working later. These concerns tended to fall into two categories. Firstly, worries were expressed about ageism and whether, for that or other reasons, there would be enough jobs for older workers. Secondly, some felt that, if people stayed in the workforce longer, younger people would be denied the opportunity to advance in their workplaces. These issues were not mentioned often, but were present in more than one group.

A minority of participants accepted that, due to the demographic pressures cited, the state pension age would have to rise. They were unusually accepting of the policy case for a later state pension age but there are two qualifications to this that need to be drawn out. Firstly, this group felt that, while the case for a later state pension age might be good, they would still be inclined to punish a government that raised it. Secondly, they did not consider there to be any real differences between the main political parties on this issue.

Choice

Choice was one of the most common words to be mentioned in relation to working longer. One of the most frequent ripostes to suggestions that the state pension age might have to rise, or that people might have to work later, due to demographic pressures, was that such a rise would limit the choice of the individual to retire earlier. This seems at odds with the comments of many participants that they did not intend to rely on the state pension, or that it would not affect the timing of their retirement.

Similarly, a minority expected to retire at around sixty or sixty-five, although they wanted to retire earlier. They expressed an intention to work beyond what they regarded as typical retirement ages, based largely on either a desire to stave off boredom, or to stave off mental decline. Typically this was thought of as being part-, rather than full-time employment.

I employ a number of people who have retired. I trust them. I can see myself doing that.

Man, 25-40, Brighton, C2DE

This group tended either to be self-employed or to be intending to shift from more intensive work into something less testing. While they might have intended to work later, though, this did not mean that this group would approve automatically of top-down attempts to encourage this kind of behaviour. This was, for the majority, a matter of personal preference.

It depends how fulfilled you are, my mother retired for six months and then went crazy. She's back part-time.

Woman, 25-40, London, BC1

The common theme here is that many feel that they have a right to choose when and how to retire and that has primacy over the needs or wishes of Government. In general, they were unwilling to be coerced, and part of the negative reaction to proposals for a later state pension age might be attributable to this. Given the lack of trust and significant disquiet with the Government and the pensions industry this is, perhaps, not surprising.

Longevity and health

This section covers three issues: comments made by participants about how long they feel they are likely to live in retirement and how healthy they feel they will be; how they viewed the data they were presented with; and whether they connected the data to possible policy choices.

The focus groups do not add anything in terms of people's thinking about how long they might live in terms of raw numbers, but flesh out some of the data cited earlier and help suggest why people consider cut-off points at age sixty, sixty-five or seventy to be of such importance to them.

Many of the participants had quite fixed views on some of the topics of discussion. For instance, it was clear that many thought about issues of health and longevity in terms of round numbers and cut-off points. This is broadly consistent with the data cited earlier, which showed that intended dates for retirement tend to cluster around ages sixty and sixty-five, for both men and women. On the basis of the discussion, it was clear that, for most participants, their intention to retire at age sixty or sixty-five was, in their minds, not influenced by the state pension. Male and female state pension ages have clearly developed other associations than just the age at which people may draw the state pension.

Attitudes to different ages in relation to health were quite sharply delineated, with many participants considering there to be very significant differences between ages sixty, sixty-five and seventy. Broadly speaking, the groups felt that, at age sixty, people were able to carry on their lives as they had been previously, and many felt that modern sixty-year-olds were more likely to be in good shape than their parents. Age seventy, though, was viewed in a rather different light. Many participants felt, or implied, that this was the cut-off point after which health began to fail, and a comfortable lifestyle with it. Hence, there was often a desire to defend the years between sixty and seventy, and, particularly, the years between sixty-five and seventy.

Sixty-seven is very close to seventy, I don't know how many good years you've really got left after that ... you can actually get fairly unwell after age seventy; arthritis, all those things, begin to affect you.

Woman, 25-40, London, BC1

It's like you work until you are sixty-seven then you retire and pop your clogs. It's quite depressing when you think about it.

Woman, 25-40, London, BC1

This discussion was often conducted in terms of 'good years', meaning years in which a comfortable middle-aged life could be led, prior to the onset of poor health. Participants tended to worry about this to quite a great extent and seemed to feel, often informed by first- or second-hand experiences, that once ill-health set in, it would not be reversed. This led to a suspicion in some groups that, while they might be prepared to accept that people are living longer, these additional years were not going to be good years.

Perhaps unsurprisingly, participants were in no hurry to discuss when they thought they might die. Where mortality was mentioned, it tended to be the death of people who had either retired and then died immediately (often cited by those motivated to work later) or in order to contradict the data presented by the facilitator. Or it tended to be the deaths of friends or family, which the participant used as a reference point to frame their own thinking about how long they might live.

In some of the groups there was particular scepticism of the use of data to justify policy decisions or show that people might be likely to live longer.

I just don't believe it.

Woman, 41-55, Croydon, C2DE

In some of the groups, there was a general feeling that data and averages were an inadequate way of capturing people's experiences, particularly with matters as weighty as illness and death. Participants tended to point out that there are two sides to an average and many people would fall on the 'wrong' side. Many had first- or second-hand experiences of illness and premature death, which they were more than willing to share. These were viewed as being valid as the data.

In some cases, there was an outright refusal to believe that people are living longer and are healthier. Again, the participants cited personal experiences, typically to do with friends or relatives, to contradict the trends put forward. In this instance, there was often the feeling that those in the group might be healthy but that the younger generation were less so. The influence of media reporting of binge drinking and the 'obesity epidemic' was evident here.

In short, many in the groups were disinclined to take the information put forward at face value. Attitudes ranged from surprise through to healthy, questioning scepticism, to outright rejection and disbelief.

Longevity differential for poor and rich people

The participants were presented with evidence suggesting that richer people were more likely to live longer than working-class people, and invited to consider whether, with that in mind, it was fair to raise the state pension age.

Many were surprised by the facts with which they were presented, particularly when they realised that they were in the cohort likely to die soonest. Despite this surprise, people seemed to find this more plausible than the data suggesting that longevity was increasing, although they were often curious as to why this particular differential exists between rich and poor.

Even when participants realised they were in the most disadvantaged group, this did not provoke militancy, and participants were often quite resigned to the inequality. More common reactions included simple acceptance of such inequalities as a fact of life and, in one case, blame on the grounds that longevity is determined, in the minds of the participants, by personal choices such as diet.

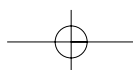
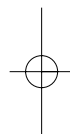
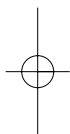
In general, the groups thought about this issue in a very practical way. Unsurprisingly, there were few suggestions as to how the system could be made fairer for those who would, on average, die younger. Where there were suggestions, these tended to circulate around the possibility of means testing the state pension for the rich. At points, when this was suggested, oth-



ers in the groups pointed out that the rich had also worked for their state pension and hence were entitled to it.

It is unlikely that this issue will generate public displeasure with a later state pension age. Indeed, from this angle, the concern for progressives should be the absence of concern observed in respect of such a fundamental inequality. Unless, as is the case in the United States, the issue of fairness is removed from the arena of class and is tied to an issue with greater traction, such as race, other factors are far more likely to determine the public's attitude to a later state pension age.

The question, from the angle of fairness, is not whether a later state pension age is feasible politically, but whether it is compatible with progressive values. Other negative attitudes to working later are likely to be much more significant.



4. Policy conclusions

Working longer will be unpopular. Popular conceptions of retirement are entrenched, the vast majority of men and women express an intention to retire before age sixty-five, with most clustering at sixty or sixty-five. There was significant scepticism that the UK is becoming healthier and living longer, and, even when these facts were accepted, people did not automatically accept that they make change necessary. There was little feeling in the groups that a longer retirement would have to mean a different attitude to retirement saving.

The years between sixty-five and seventy are considered to be especially valuable. Some participants may be willing to work part-time during these years in order to try and stave off decline in their health, while there is more willingness, in general, to work later among the self-employed. For the majority, though, these years are particularly important as they seem to be the part of retirement during which a comfortable life can be led, before the onset of infirmity. People may be living longer but they do not necessarily believe it, or do not believe they will live longer and be healthier.

There is some level of knowledge of state pension age equalisation. The groups do not throw up any evidence that contradicts the qualitative data in this area. It would seem that a more significant problem than lack of knowledge about equalisation of state pension ages is a more profound ignorance about the state pension, and the real part it may play in funding people's retirements. People tend to undervalue it, assume that it will not figure large in their retirement arrangements, or assume that it will be phased out gradually.

People do, though, become angry at any suggestion that the state pension age may rise. This indicates that they may not really believe some of the opinions set out above, or that they intend to rely on the state pension more than they let on, or that many are lacking knowledge, and are distrustful.

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