Phoenix Insights

An intergenerational contract

Policy recommendations for the future of the state pension

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Content

Summary of key recommendations

1. Building trust, engagement and understanding of the state pension	The next state pension age review should include public deliberation and engagement to create buy in and trust in the system. Long-term decisions should be scrutinised by an independent body like a new Pension Commission.
2. Balancing fairness, sustainability and simplicity in eligibility	The state pension should remain non-means tested and linked to average life expectancy, but it requires supplemental support in the wider social security system to help people manage changes. The next state pension age review should combine both a review of age as well as the uprating system.
3. Ensuring the state pension system supports those most in need	Increase uptake of Pension Credit for those eligible through targeted local level outreach and uprate it in line with the state pension triple lock. Introduce a bridging benefit through Universal Credit equivalent to Pension Credit for people at risk of poverty one year before their state pension age. Allow early access to a pro-rated payment equivalent to state pension for adults of any age with a terminal illness.
4. Supporting good work for more, for longer	Create a £300m Sustainable Work Fund to engage and support employers and workers, to create opportunities for better, healthier and more sustainable working lives for all ages, through a major boost to lifelong learning, interventions such as mid-life MOTs, workplace health, flexible working and careers advice.
5. Promoting personal saving for those who can	Improve the coverage and effectiveness of AE to help people to save more for their retirement alongside the state pension system.
6. Funding any changes to the state pension system in a balanced way	Whenever state pension age increases, invest the equivalent of 20% of the fiscal savings to create opportunities for better work and help those most in need to bridge the transition to higher state pension ages.

Introduction

The state pension plays an essential role in the lives of millions of people in the UK. It is the biggest single part of the social security system and currently half of pensioners derive nearly two-thirds (64%) of their income from benefits relating to the state pension[1]. It is also an important part of an intergenerational social contract, helping to reduce poverty in old age, paid for from contributions from people in working age. It has been serving this function for 75 years, and yet it is a topic that many people are not actively engaged with. We last had a large-scale public debate on the topic with the Pension Commission chaired by Adair Turner from 2002 to 2006. Despite two recent independent reviews of state pension age, there has been relatively little public engagement on the subject.

We believe it is important that the public has a proper understanding of the issues and a discussion about the future of the state pension before any changes are made. But just as importantly, policy makers and politicians need to listen to and act on the views of the public to create a common understanding and shared ownership. Phoenix Insights have undertaken a year-long project, undertaking original research, public polling and engagement to prompt debate on the issue, and explore how we can continue to ensure that the state pension is fit for purpose in the 21st Century. Recently the government outlined plans to conduct another state pension age review within two years of the next parliament, which provides further opportunity to have this conversation. This report sets out policy recommendations, as well as raising questions for the future.

Our research

To better understand public views and attitudes to the state pension, we commissioned polling from YouGov[2] in 2022 and a large-scale public deliberative project undertaken by the Policy Institute at King's College London ('King's') in early 2023. King's conducted two public workshops in London and Birmingham, with 50 participants at each location, to understand public perceptions of what a suitable state pension means for retirement today and in the future[3]. We found that people ideally see retirement as being a time of independence and freedom, especially regarding health and finances, and a time to be connected to social networks and undertake activities that provide meaning. People felt that the state pension plays a crucial role in providing a basic standard of living, but living comfortably in retirement also requires personal savings. While many are disengaged with the state pension system, once informed of the fiscal and demographic context they are open to exploring changes to ensure the system's long-term sustainability and fairness. The workshops were followed up by a roundtable composed of policymakers and stakeholders to develop policy recommendations that balance public demand and technical challenges.

Policy context – the state pension in the 21st century

We have already seen policy and legislative changes to the state pension in the first two decades of the 21st century. The Pension Commission (2002-06) envisioned a dual system of a simple flat-rate state pension and an incentivised workplace pension. Their recommendations led to the introduction of automatic enrolment (AE) and a new state

1 Pensions Policy Institute, Briefing Note Number 125 – Longevity Inequality. (2020)

2 Phoenix Insights, Reaching a certain age: Public attitudes to state pension. (2022)

3 The Policy Institute at King's College London, The future of the state pension. (2023)

pension (nSP). This saw a return to the Beveridge vision of a non-means tested, contributory, flat-rate pension; and the launch of AE is a clear demonstration of the policy intent for the state pension to complement private savings instead of a single source of retirement income on its own.

With an ageing population and growing numbers of state pensioners, we have seen further rises to state pension age for both men and women, as well as policies such as the removal of the Default Retirement Age, aimed at extending working life. The combination of an increasing state pension age and reduction in working-age benefits has also led to a higher-risk of pre-retirement poverty, especially for those who may face barriers to working for longer.[4] At the same time, expenditure on the state pension will likely continue to increase with an ageing population[5]. Alternative funding might be needed to ensure the system's fiscal stability. Against this backdrop, the two independent state pension age reviews in 2017 and 2022 both recommended an acceleration of state pension age increase and a supplementary package of alternative protections.

Summary of recommendations from previous independent state pension age reviews

	Cridland report (2017)	Neville-Rolfe report (2022)
Acceleration of the state pension age's increase to 68	Between 2037 and 2039	Between 2041 and 2043
Fixed proportion of adult life in receipt of the state pension	32.87%	Up to 31%
Uprating model and expenditure	• Removing the triple lock in the next Parliament • Uprating of the State Pension should be held to the earnings link	• A limit on state pension-related expenditure of up to six per cent of GDP, either through changes to the state pension age, eligibility rules or uprating
Selected policy recommendations	• Support a Statutory Carers' Leave programme • For older workers, the conditionality in Universal Credit could be flexed to allow part time working • Allow access to a means-tested pensioner benefit a year before State Pension age from the rise to 68 • Mid-Life MOT to provide workers with holistic advice	• Explore the possibility of an early access scheme whereby workers who meet certain qualifying criteria can access state pension early at an actuarially reduced rate • Government scheme to accredit businesses displaying best practice to supporting older workers and ensuring access to workplace adjustments / trainings

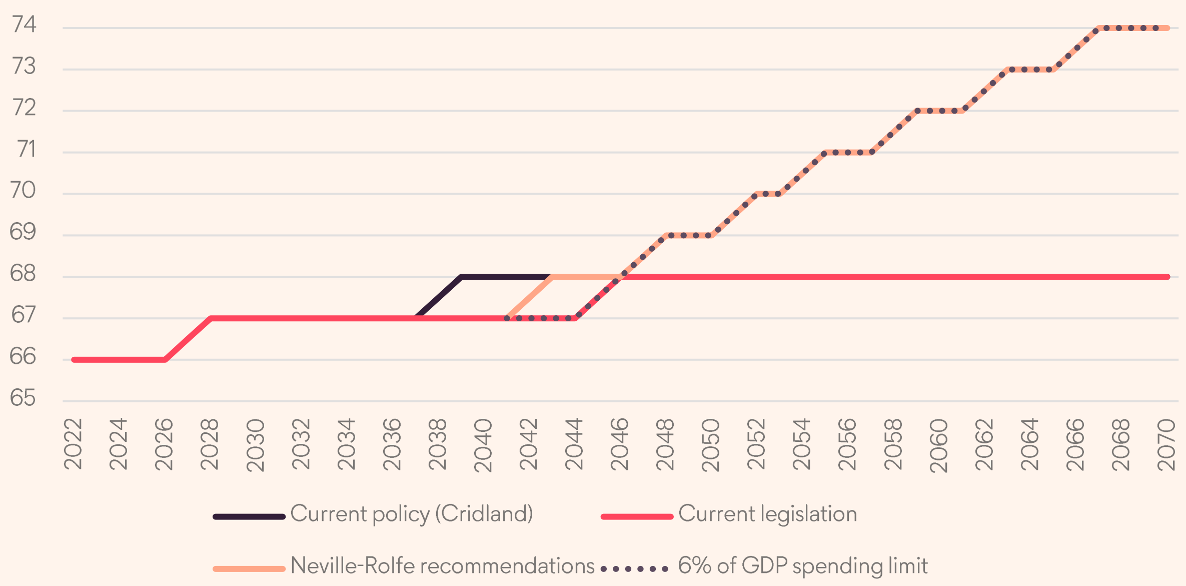
4 IFS, The history of state pensions in the UK: 1948 to 2010. (2010)

5 Government Actuary's Department, Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2020. (2022)

The Neville-Rolfe review also recommended accelerating the state pension age rise to 68, which has not yet been legislated due to uncertainty in life expectancy trends following Covid. If implemented together with another proposal, a 6% GDP expenditure cap, it could lead to sharp increases in state pension age from the 2040s (Figure 1). This would lead to rises in state pension age of six years over a 20-year time frame, so that a 30 year-old today would have a state pension age of 74. This would most likely not be matched by increases in life expectancy, or people's ability to work for longer. The review also suggested other options, such as removal of the triple lock, that could reduce the pressure to increase state pension age.

Figure 1

State Pension age timetables according to different proposals



Source: Commons Library report

The Secretary of State for Work and Pensions, Mel Stride, also noted[6] that a decision on the acceleration in state pension age will likely be necessary in the next parliament. He requested the next state pension age review to be brought forward to within two years of the next parliament to ensure the public will have at least 10 years to prepare for any changes. There is currently no certainty on how or when this will happen, but the next government will have important decisions to make to balance state pension's suitability, fairness and fiscal sustainability.

Principles for change

Through our work with the public, we have seen that when people are engaged in discussions on the state pension, many see issues in terms of its current sustainability or fairness and are more open to desire for changes to the system. This report outlines a summary of potential changes that could be considered today as well as for any future state pension review.

6 The Guardian, UK will have to raise retirement age after election, minister says. (2023)

We believe that any changes or reforms need to be:

- **Effective**: providing a basic level of income in retirement as a baseline for most people, to prevent poverty and act as a safety net for the changing demographic make-up of the country. All this must be balanced in terms of fiscal sustainability as part of the wider social security system.
- **Trusted**: the state pension system needs to be simple and understandable, consistent and predictable, and involve transparent decision making. This is to ensure that people have a clear understanding of their role and responsibility and can prepare adequately for their future.
- **Fair**: a system that is inclusive within generations in addressing inequalities as well as providing a shared responsibility between generations. There also needs to be a balance and feeling of reciprocity between those who pay into and those who receive the state pension.

Considering these principles, in the following chapters we have set out policy recommendations focused on the following themes:

1. **Building trust, engagement and understanding of the state pension** – We found many felt distrustful of the government's ability to make long-term and sustainable decisions about the state pension, as the issue is too politically sensitive. This leads to a lack of confidence in the state pension's availability in the future particularly among younger people.
2. **Balancing fairness, sustainability and simplicity in eligibility** – There is inequality in terms of fairness of outcomes from the current system. Life expectancy inequality means that some of those who have paid in throughout working life never end up receiving the state pension. Those with poorer health and who earn less in their working life, also have lower life expectancies and so receive less financially in total compared to those who live longer.
3. **Ensuring the state pension system supports those most in need** – There are continued health and economic inequalities in terms of who is able to weather rises to the state pension age, increases in pre-retirement poverty and a widening gap between working age and pension benefits.
4. **Supporting good work for more, for longer** – There is a mismatch between people's ability and desire to work for longer, and the reality of the labour market. People need support, encouragement and pathways from government, employers and intermediaries to create a new model of better work for longer.
5. **Promoting personal saving for those who can** – There is a persistent savings and knowledge gap between what people want and expect in retirement and what a minimum flat-rate state pension offer can provide. Enabling private saving in conjunction with the state pension must be an important part of the blend, but we also know there are significant savings gaps.
6. **Funding changes to the state pension system in a balanced way** – It is in the interest of government, employers and individuals to help people make the transition, if and when, the state pension age rises. We need a balanced approach to funding this which is intergenerationally fair and sustainable.

1. Building trust, engagement and understanding of the state pension

As far as I'm concerned, when you simply say that, reminding me that the people, the people working today are paying for, paying for my pension. When I was working, I was paying for the ones before isn't it, so, that's the pattern, don't make me feel guilty!

'Future of the state pension' workshop participant – Female, Birmingham

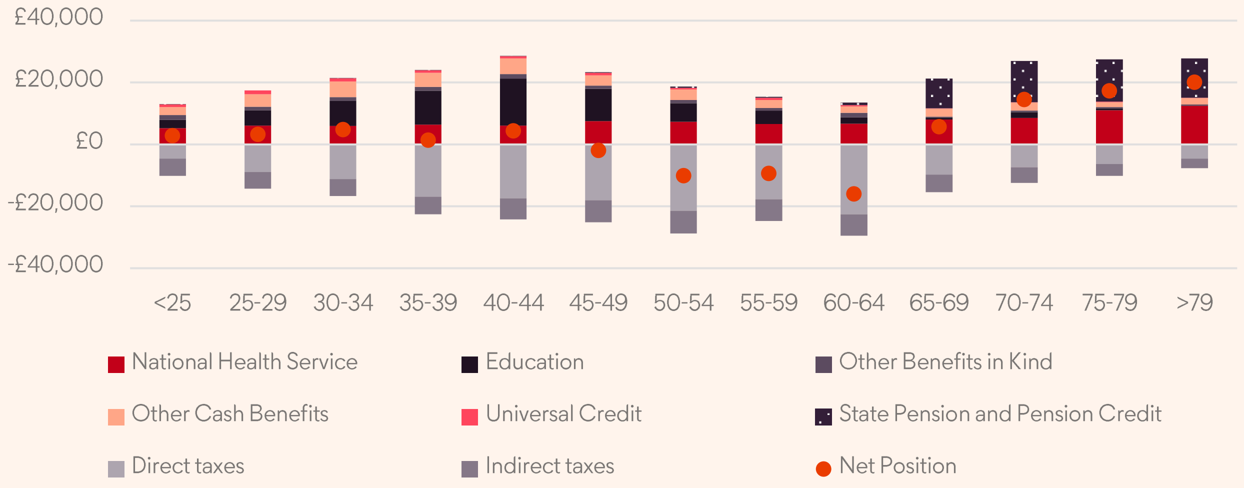
Our evidence shows high levels of disengagement and a lack of trust in the state pension system, particularly among younger age groups. We also see low levels of knowledge of what the state pension is, how it is paid and how it works. These misconceptions, lack of trust and disengagement undermine the role of the state pension as an intergenerational social contract. The state pension is something that matters to people of all ages, whether you are contributing to it through national insurance or hope to receive it one day in the future. Building understanding and trust in the system is an essential first step in making the state pension fit for the 21st Century.

The state pension is part of an intergenerational social contract

The state pension plays an important function in redistributing resources across the life course. It provides a transfer of income from younger age groups who on average, are more able to work to older age groups who are less able to. Unlike the NHS, education or any other major form of public spending, almost all the costs to the individual are felt earlier in life and all the benefits accrued later on. This is illustrated in Figure 2, where those aged 45-64 are net contributors to the tax and benefit system and those aged 65 and over are net recipients (driven largely by receipt of pension benefits, but also increased use of NHS and reduced tax contributions). Using a 'pay as you go' approach, the state pension's funding is reliant on a social contract with younger generations paying for older generations, on the promise that they will then in turn be supported by future workers.

Figure 2

Effects of taxes and benefits by age of household reference person, financial year ending 2021, UK



Source: Office for National Statistics

Different expectations and misconceptions of the state pension

Our YouGov polling shows that the public have a range of different views of what the state pension is for. Different potential options of for the purpose of the state pension, all had high levels of agreement:

- Ensuring everyone has a minimum level of income in retirement (87%).
- Supporting older people who are unable to work (82%).
- Returning money to people that they paid in during their working lives (74%).
- Allowing people to do things other than work in their older age (73%)

Participants in the deliberative workshops also consistently defined the state pension as a form of financial support from the government that ensures pensioners achieve a 'basic' standard of living in retirement, in lieu of a salary. What the public think might not always align with what policy makers intend. Across both workshops participants tended to display low levels of knowledge about the state pension as well as overestimating their understanding. In discussion, they frequently struggled to explain basic aspects of how the system worked, which sometimes caused embarrassment and concern. Features participants found difficult to explain included: the number of years of national insurance contributions needed to achieve the full state pension, the factors which make you ineligible for the state pension, the amount of money you receive from the state pension, what the triple lock is, and, to a lesser extent, the difference between the state pension and a workplace pension.

Participants' lack of knowledge was further revealed by misconceptions about the state pension, the most prominent being the belief that each person's national insurance contributions are kept in a personal pot, ready for them to access when the reach state pension age.

However, discussing the policy did increase people's interest in the subject. Participants were keen to find out more about the system and expressed more affiliation towards reforms once becoming more knowledgeable. They see providing transparent and clear communications about pensions a responsibility of the state as well as employers, due to the role of workplace pensions.

Lack of trust in the future

Accountability and fairness are important to the public. Participants in our research felt the government needs to be more open and transparent about how the state pension works, and the reason for reforms when they occur. There were participants who expressed a lack of trust in government to make impartial decisions. Decisions around state pension were sometimes seen to be made based on political risk rather than long-term public interest. They would like to see an independent body established to oversee changes to state pensions instead, so decisions will not be influenced by political agendas.

Participants under the age of 60 in both workshops were especially suspicious of the state's ability to maintain funding for the state pension whereas those above this age and with retirement in their sights tended to feel more confident that they would be able to claim what they expected to be entitled to.

Worryingly, in our YouGov polling, we found many people felt the state pension might not be there for them in the future. Half of people under the age of 50 believe that 'there probably won't be a state pension by the time they retire'. Also of concern is the fact that one in five (19%) of people aged 50 to 64 also agree with this statement, at a time when many may be wanting to make more concrete financial plans for their later lives.[7]

Recommendations

Public discussion in long-term policy decision

- Public deliberation should be included in the next state pension age review to improve the transparency of the process and public buy-in for the final decision. Deliberation sessions should have a clear scope to decide how long-term sustainability of the state pension should be achieved, obtain public consensus on where trade-offs are needed (e.g. increasing state pension age vs. lowering the value of state pension/adjusting the uprating system). Different deliberative approaches, for example citizens' assemblies, similar to the Climate Assembly UK, could be used to

7 Phoenix Insights, Reaching a certain age: Public attitudes to state pension. (2022)

- Explore creating an independent pension commission or another long-term decision-making body for pensions, and ensuring cross-party consensus when important decisions are made.

Communications about state pensions

- On top of the Neville-Rolfe report's recommendation to inform individuals of their state pension age via letters at least 10 years in advance, the government should also consider working with the pension industry to include this information as part of the wake-up packs which are sent every five years from individuals' 50th birthdays. In this case they will have a more holistic view of their total entitlement and saving progress.
- There should be more frequent, varied, and engaging communications with the public on the state pension throughout the life course. For example, in the future Pensions Dashboards should include warnings and reminders to check for gaps in NI record and potential top-up deadlines, and state pension age changes once it is decided.

2. Balancing fairness, sustainability and simplicity in eligibility

I don't really know much at all. I thought when you retire everyone is entitled to the pensions. I don't know why … I thought this is what happens.

'Future of the state pension' workshop participant - Female , Birmingham

Provide a minimum level for all

As well as acting as a transfer of income between different age groups, the state pension provides a redistribution of income within age cohorts. By providing a minimum basic level of income for most people it provides a safety net and is one of the most effective safeguards against poverty in the social security system. This has a clear benefit for those avoiding poverty, and reduces other costs to the state associated with poverty, such as worsening health, social care and housing.

Keep it simple

Our research with King's found that people felt that eligibility for the state pension needs to remain simple, understandable, transparent and deliverable. For the most part people wanted and expected the state pension to be set at a universal age and for it to provide a basic minimum in retirement.

Early access or differentiation of state pension age based on individual circumstances (e.g., based on health, geography, or occupation) were explored as part of our deliberative work. People were concerned that early access could lead to unintended consequences, and for that reason only supported early access in very specific circumstances – those who can no longer work for health reasons, due to the physical demands of their role, or those with caring responsibilities.

It is administratively complicated and costly to give everyone their own individualised state pension age based on their specific circumstances. There is also potential that proxies such as where people live or the job that they do could be manipulated, with people changing jobs or moving home to access early state pension. All these things point to a single age of access based on contribution.

Most people do not think the state pension should be means tested

Our work with King's found that means testing the state pension was not a popular approach, with participants expressing their concern that it would 'punish' people who had worked hard to amass wealth and save money for retirement during their working life. While people largely did concede that the wealthy were unlikely to need the financial support they received from the state pension, they felt that providing the required years of national insurance contributions should entitle a person to receive their state pension, regardless of other assets they had at their disposal.

This was also reflected in our YouGov polling with half of people (51%) opposed to the idea of income and wealth being considered when calculating how much state pension is received, one in three (34%) supporting the idea, and 14% answering 'don't' know'. In many ways means testing has previously been trialled in the UK through the former earnings-related state pension, which devalued the basic state pension and discouraged private savings.

People recognise that an ageing population effects the fiscal sustainability of the state pension

Workshop participants of the King's research expressed concern about the sustainability of the state pension in the long term due to increased life expectancy, and a reducing ratio of workers to pensioners.

Participants were generally supportive of maintaining the triple lock both to bring up the adequacy of the state pension as well as to support future pensioners. However, there was also a question from stakeholder participants about how sustainable the triple lock may be in the long run. The ratcheting effect, of uprating the state pension by the highest of earnings, inflation or 2.5% also created a stark divide between the pension and working age benefit systems, leading to feelings of intergenerational unfairness. When the triple lock was first introduced in the June 2010 Budget it was not forecasted to be as costly. With the economic situation and affordability changing, both the Work and Pensions Select Committee[8] and Cridland report recommended scrapping the triple lock by 2020. Commentators have also suggested that other forms of average earnings-indexation, coupled with the state pension at least always rising with inflation, could be another option.[9] An important question remains what the right stage to consider any change would be, both in terms of the adequacy of the level as well as making it politically palatable.

Age is currently the 'least worst' criteria for eligibility

Participants largely felt raising the state pension age in line with the country's life expectancy was the best option for determining access. However, they also had concerns about unequal life expectancy levels across the country, unanticipated events that undermine the accuracy of 'average life expectancy,' a person's physical and mental ability to work to retirement age and employment shortages for young jobseekers were all considered as factors in need of addressing if the state pension age was to increase in line with life expectancy. Changes to state pension age also need to reflect large life expectancy rises that occurred in previous decades, not just the current direction of travel.

Recommendations

A non-means tested system based on age and contribution

In line with the public's understanding, the state pension needs to provide a minimum level of income, and remain non-means tested. Due to the benefit of keeping things simple (in terms of understanding and planning), a single age of eligibility remains the 'least worst option'. We therefore recommend that it is important to

8 House of Commons Work and Pensions Committee, Intergenerational Fairness. (2016)

9 Carl Emmerson, How to fix the pensions triple lock but still protect pensioners from high inflation. (2022)

maintain the state pension as a non-means tested benefit which is as universal as possible, with age being the main qualifying criteria. However we also recognise that this exacerbates inequalities inherent to the system, which need to be addressed through other aspects of the social security or labour market systems.

The state pension should be fixed to a proportion of average adult life in retirement, not a proportion of GDP

The Neville-Rolfe review recommended a cap on state pension spending at 6% of GDP. While the fiscal sustainability of the system as whole is an important factor, such a cap would create significant issues in terms of intergenerational fairness and leave people retiring in the second half of the 21st Century with extremely high and quickly rising state pension ages. Transparent data and assumptions should be shared with the public to facilitate informed discussion before any decisions are made.

3. Ensuring the state pension system supports those most in need

> If you're too sick to work, or if you've got a chronic health condition, then you should be able to access your pension earlier, especially if you've worked and paid into it.
>
> *'Future of the state pension' workshop participant - Female, London*

A universal state pension system creates inequalities

Raising the state pension age without mitigations will widen inequalities between those able to work for longer and those who can't. Rates of ill health do increase, ageism in recruitment still exists, and not all jobs are sustainable at older ages. For those who cannot afford to save more or work longer, for example due to caring duties and ill-health, there needs to be measures to protect them from pre-retirement poverty before they reach state pension age.

While many of us are living longer, not everyone experiences this in the same way. Inequalities in life expectancy mean that some people never see a 'return' in the form of a state pension as they do not live long enough to receive it. Most people do not reach the current state pension age in good health. Only women in the top 30% and men in the top 20% least deprived parts of England would currently reach a state pension age of 68 in good health.[10] Health inequalities and a rising universal state pension age will leave many people in poor health facing real adversity in continuing to work and live in a decent way up to their state pension age.

Bridging the gap between working age and pensioner social security systems

Increasing the state pension age means more people will need to rely on working-age benefits to bridge the gap if they are not able to work up to their higher state pension age. Working-age benefits for low-income households are substantially less generous than the benefits available to those above state pension age. For example, a single healthy low-income pensioner could get a maximum weekly income from pension credit of around £183. In contrast the equivalent individual aged below the state pension age would be entitled to less than half that amount (£77 per week of Universal Credit) and would be required to seek work. Even those in such ill-health that they are placed in the support group of Employment Support Allowance (ESA), and no longer required to seek work on the grounds of ill-health, still receive significantly less than is available to an equivalent individual aged above the state pension age.

This difference in benefit generosity has been highlighted as a significant driver of the increase in poverty among those aged 65 following the increase in the state pension age from 65 to 66. Cribb and O'Brien (2022) found that being under rather than over the state pension age at age 65 increased the probability of being in absolute poverty by 14 percentage points – more than doubling the poverty rate from the pre-reform baseline of 10% to 24%. There is reason to be concerned that increases in poverty for future state pension age rises could be even greater. Based

10 Office for National Statistics, Annual Population Survey for 2011 Census.

on the analysis of our Longer Lives Index, there are likely to be more people who are unable to work at 67 or 66 than is the case at 65, and the gap between working age benefits and pension generosity will likely widen over time without a change in policy direction.[11]

Pension Credit helps address later life poverty but is underclaimed

As recorded in the King's research, the government's policy intent is that Pension Credit, instead of the state pension, should be viewed as the 'safety net' in preventing later life poverty. Given its means-tested nature, having access to pension credit would automatically also allow for access to other benefits such as housing benefit and council tax discounts for those over state pension age with a low income, creating a 'passport' effect.[12] But not all those eligible for Pension Credit are aware or have the same understanding of the policy intent. Current estimates show Pension Credit is underclaimed by £1.75bn annually.[13] This should be better communicated or advertised to the public, especially to those who will be impacted, so they can make informed decisions on their retirement date and financial arrangements. Local areas should also follow the lead of age-friendly community networks in running Pension Credit uptake campaigns to promote uptake.[14]

The state pension as something you receive at the end of your life when you are less able to work

> It's a bit unfair, if it is 35 to get the state pension, you work 34 years and then pass away. It should all go to your other half; it should go to your children.
>
> *'Future of the state pension' workshop participant - Female, London*

While it is important to maintain a simple and understandable single age for the state pension, the worst cases of inequality that this system creates should be addressed. There is an issue of unfairness for people who have paid into the National Insurance system but who did not live long enough to reach state pension age. For many people the state pension is seen as something that you received at the end of your life when you were less able to work.

Our YouGov polling shows that three quarters (74%) of people believe that a key role of the state pension is to return money to people that they paid in during their working lives. This rises to 83% of people with a disability or long-term health condition. People want to feel they are getting something back out of a system that they have paid into. This is in line with the 'benefit in return for contributions' model built into Beveridge's original concept of the state pension as part of the welfare state.

11 Phoenix Insights, Understanding the implications of the state pension age review. (2023)

12 The future of the state pension. (2023)

13 Policy in Practice, £19 billion of income related benefits goes unclaimed each year. (2023)

14 The Centre for Ageing Better, How-to guide: Running a Pension Credit uptake campaign

We believe that reforms to the system should be made to support those with the ultimate health inequality in the form of a terminal illness. Marie Curie have called for terminally ill people of any age, with a life expectancy of less than twelve months, to be entitled to claim the amount of nSP indicated by their NIC record. Someone who had made the full 35 years of qualifying NICs would therefore receive the full nSP amount. If they had made fewer contributions, they would receive a lower level of state pension. The proposals also call for early access to Pension Credit for those on lower incomes.

Opinium polling shows that 76% of the public would support such a proposal which would dramatically impact people who would otherwise get nothing from the state pension. Two-thirds of terminally ill people rely on benefits as their main or only source of income and analysis from the University of Loughborough shows that adopting this policy would lift 8,600 people out of poverty each year. This would nearly halve the poverty rate among working age people with a terminal illness from 26% to just 14% - in line with the rate of poverty among pensioners. Implementing this policy is estimated to cost £114.4 million per year (0.1% of the annual state pension budget).[15]

Recommendations

Increase uptake and uprating of Pension Credit

While uprating of state pension is protected by triple lock, there is no similar mechanism for pension credit and the revaluation is at discretion of the DWP. Given its importance to protecting individuals from absolute poverty, we propose that triple lock should also apply to ensure it remains at a suitable level.

Bolster existing Pension Credit uptake campaigns to ensure that it is received by as many people as possible who are eligible. Current estimates show Pension Credit is underclaimed by £1.75bn annually, which would help those in most financial difficulty following state pension rises.[16] Local Authorities in London who use existing data to actively target those likely to be eligible show a return on investment of £200 for their local residents and economy for every £1 spent.

Make universal credit more generous one year before state pension age

The Cridland review proposed a new bridging benefit equivalent to pension credit for those with low savings, with a work limiting health condition, or caring responsibility, and estimated this would cost £150m per year in 2017 prices, which would equate to roughly £190m in 2023.[17] For administrative reasons and efficiency, we propose offering a more generous universal credit payment for those a year before of their state pension age instead. Future state pension reviews should consider whether more than one year of

15 Marie Curie, Dying in Poverty: Improving financial support for terminally ill people with the cost of living. (2022)

16 £19 billion of income related benefits goes unclaimed each year. (2023)

17 Independent Review of the State Pension Age: Smoothing the Transition. (2017)

early access is required, as well as reviewing disability and sickness benefits and work search requirements for those within five years of state pension age.

Include a payment equivalent to the state pension in the Social Security (Special Rules for End of Life) Act 2022

Allow early access to a weekly payment equivalent to the state pension to support adults of any age with a diagnosed terminal illness. Paid at the equivalent rate to the state pension and pro-rated depending on the individual's National Insurance contributions. Also allow early access to Pension Credit for those on low incomes who would eligible. This would play an important role in preventing poverty and alleviating financial and emotional stress for individuals and those around them at the end of their lives. It would also meet the 'something for something' criteria, reflecting what has been contributed through NICs. We propose that to avoid perpetuating the misconception that individuals have their own National Insurance 'pot', that a benefit such as this should be called a Terminal Illness National Insurance payment, instead of an early access to the state pension.

4. Supporting good work for more, for longer

> If you had more space around your 9-5 to do flexible working hours, you'd have a better working life. If you had flexibility across a 25 year period where you have been able to take time for family members or for yourself .
>
> *'Future of the state pension' workshop participant - Female, Birmingham*

Raising the state pension age does not automatically lead to people choosing to work for longer

While age is less of a barrier to work for some, ageism continues to be a factor in the job market, and poor health and caring responsibilities limit people's ability to work. Our analysis with Frontier Economics shows that the state pension age has limited influence on people's decision on their retirement age. Many people evidently want or need to retire before the state pension age, and this may limit the extent to which they are able or willing to work longer in response to an increase in the state pension age.[18] Our YouGov polling also showed that fewer than one in ten (9%) of people believe that age should be the main factor determining when someone stops working.

Most people are not currently in work in the year before they reach state pension age. There is a mismatch between people's ability and desire to work for longer, and the reality of the labour market. People need support, encouragement and pathways from government, employers and intermediaries to create a new model of better work for longer. With further rises in state pension age already timetabled, and with a workforce continuing to adjust to a post-pandemic labour market, the need to support people to be in sustainable work has never been greater. This is to help people to save more for their retirement, as well as continuing to pay National Insurance contributions to fund the state pension system.

Lifelong learning

Being able to access lifelong learning and upskill when needed helps people to progress, earn and save more, and boosts the UK's wider economic growth. Approximately 30.5 million UK workers lack the full suite of skills they will require in 2030 to perform their jobs well.[19] Despite this, our previous research shows that:

- The majority of people thought that the government needs to do more to help people build on their skills throughout their career (70%) and retrain and upskill throughout their lives (67%)
- Over half of businesses (53%) thought that the government is not doing enough to support on-the-job training.
- 69% of businesses hadn't offered their employees any formal training over the last 12 months[20]

18 Understanding the implications of the state pension age increase. (2023)

19 Phoenix Insights, Never too late to learn. (2023)

20 Phoenix Insights, Never too late to learn. (2023)

Lifelong learning requires a flexible delivery model which works around caring responsibilities and other needs (including disabilities and poor physical/ mental health) that does not make older learners in this setting feel like they're 'back in a classroom'. We need to review the language used when discussing learning opportunities for adults of different ages. Words such as 'apprenticeship' and 'internship' have strong associations with low pay and 'starting at the bottom' – rephrasing opportunities to lean on preferences for framing such as 'upskilling, 'retraining' and 'on-the-job training' will help give midlife and older people more confidence to engage with learning that meets their career needs. People also need additional financial support and access to good quality training that will have a good chance of improving their career prospects. Our research has shown that many people in mid-life are deterred from learning for financial reasons, and do not want to take on additional debt to fund it. Some have called for a Skills Levy, instead of an Apprenticeship Levy, to support improving the design and accessibility of these programmes.

Career changing

The Gatsby Foundation estimate there are 11 million adults in England who could benefit from careers advice or guidance. Our research on 'Careers Advice for Longer Lives' highlights that when asked what actions adults aged 16-75 have taken about their careers in the last 6 months, 40 per cent of adults have not done anything. The most common actions that were taken were to think about future options for themselves, to have conversations with family and friends about their future options and to look for information online.

Awareness of careers information and advice services is low and is lowest among older age groups. Only around a fifth of adults say they have heard of the National Careers Service, UCAS Careers Advice or the UK Careers Fair. Despite these low levels of action and low awareness, when invited to think about it we found that 68 per cent of adults would be interested in getting information about their options in relation to work and yet the same proportion (44 per cent) had never thought about getting careers advice previously.[21] We need better career advice for all ages, to help people to map out and take action in their working life to prepare for a retirement and a state pension age that is likely to be different from previous generations.

Good work and flexibility to make jobs more sustainable for all

We need to further promote good quality flexible working opportunities across sectors and occupations that don't currently support them. Flexible working is the one workplace practice that older workers say that they value more than any other. The right to request flexible working from day one is an important first step, but we also need to embed this culturally within employers, managers and recruiters. Phoenix insights have previously called for unpaid carers to access a minimum of 5-days statutory paid leave, in addition to the one-week unpaid leave proposed within the Carers bill. This should be taken as a first step towards re-valuing unpaid care work. We also call for employers to receive guidance on best practice for menopause at work policies and available support interventions.[22]

21 Phoenix Insights, Careers advice for longer lives. (2023)

22 Phoenix Insights, Caught in a Gap – the role of government in enabling women to build better pensions. (2023)

Recommendations

Create a Sustainable Work Fund

To support a range of initiatives that promote better longer working lives, including:

- Occupational health aimed at conditions most prevalent with longer working lives.
- High quality independent careers advice for all ages, to help people navigate career change opportunities.
- Investment in flexible lifelong learning that is promoted to and meets the needs of employers and workers of all ages.
- Showcasing and promoting different models of work, such as job shares, career changes and progression at all ages.
- Further testing and expansion of holistic mid-life support and guidance such as mid-life MOTs – to help people think about their work, wealth and wellbeing,

Employer campaigns and engagement

We need a culture shift in how employers support age-inclusive workplaces. This is to combat ageism at work, avoid age being a barrier to people being in the job they want, and unlocking productivity gains for employers and the economy. The Neville-Rolfe report recommended promoting a government scheme for business accreditation of best practice, including to improve businesses' commitment to retain older workers and ensure workplace adjustments are available for those who need them. Existing initiatives such as the Centre for Ageing Better's 'Age-friendly Employer Pledge' or the 'Careers can change' campaign can be a key part of building momentum with employers.

Other than the demand for career advice and guidance from employers, the King's findings and our previous research[23] both suggest that employees also expect to receive communications regarding pensions from them because of their role in AE. Mid-life MOT provided by employers will be an efficient tool and should be encouraged to support employees to holistically plan for career transition based on their health and financial needs. Consideration should be given to tailoring the guidance to individual needs, such as caring responsibilities and menopause. The government should also work with employers on providing reliable information about pension credits and the state pension through these tools.

23 Caught in a Gap – the role of government in enabling women to build better pensions. (2023)

5. Promoting personal saving for those who can

> I've been thinking that we've been talking about the pension as a cushion. I'd say it's more of a chair in which we sit, but the cushion is the private pensions and other things, which will make it a bit easier to sit on that chair.
>
> *'Future of the state pension' workshop participant - Male, London*

Personal saving must complement the state pension for most people in retirement

There is a persistent savings and knowledge gap between what people want and expect in retirement and what a minimum universal state pension offer can provide. Enabling private saving in conjunction with the state pension must be an important part of the blend. Participants in King's research tended to agree the standard amount of state pension received was not adequate to live comfortably in retirement and that a workplace pension, private pension, or additional assets such as property were required to supplement it.[24]

This echoes our previously findings in the YouGov polling. Slightly more people believe that it is individuals themselves (43%), as opposed to the government (39%) who should be mainly responsible for ensuring that people have enough to live on in retirement. Interestingly, only 6% of people believe it is employers who should play the main role. However, we see some difference depending on income, with those with a household income of under £20,000 more likely to say that it is government's responsibility (47%) rather than an individual (34%), compared to those with a household income of over £70,000 who are more likely to say responsibility lies with the individual (52%) than government (30%).

AE has been a huge success story, but now needs to go further

The introduction of AE means the public is not only encouraged but is incentivised to save on top of the minimum provided by state pension. It will continue to play an important role to supplement the state pension, if the replacement rate of the latter remains low or the state pension age further increases. Through the King's research we saw a strong consensus that individuals should share the responsibility to pay for their retirement, including to contribute to a workplace pension. There was also clear support for AE to be expanded to cover more workers to support personal saving among lower earners. We will need to regularly review whether the coverage and inertia (i.e. minimum contribution rate) of AE is sufficient, as well as encouraging saving above the legal minimum to achieve a more suitable replacement rate for their own lifestyle.

24 The future of the state pension. (2023)

Many still underestimate what they will need to save for retirement

Despite AE has been launched for over a decade, there are still gaps in public's knowledge about the need to save to afford a good standard of living in their later life. 40% of 18 to 24-year-olds and 30% of 25 to 49-year-olds agree they would 'rather have a good standard of living today, than save for retirement', compared to 20% of 50 to 64-year-olds and 12% of over 65s[25]. Our research has also shown that there are 4.6 million people who expect an income in retirement of less than the PLSA minimum retirement living standard, and a further 12.4 million people not on track to reach their retirement expectations[26]. These all shows that the introduction of AE does not guarantee informed saving decisions, especially when the saving habit is built on inertia.

Recommendations

Expanding AE's coverage

- Lowering the age threshold to 18 years old and earning threshold to £0 so lower earners, who are also more likely to be not on track to meet their retirement goal, could benefit from the initiative.
- To support employees who need to opt out because of short-term financial needs, considerations should also be given to allowing employer-only contributions during the opt-out period and shortening re-enrolment period from 3 years to 1 year.
- Eventually, contribution rate should be increased to 12% to ensure better saving level for individuals. We recognise the challenge that it might pose to smaller employers and lower earners, and are working on further research to understand the right conditions to do so.

Improve financial engagement and communications

- In the years leading up to any national rise in state pension age we need an effective, timely and targeted communications and engagement campaign for the age cohorts who will be affected first. This is to allow people to prepare and make any necessary changes to work or savings patterns as early as possible.
- Promote the use of pensions dashboards once they are launched, so the public can get a holistic view of their saving progress as well as state pension entitlement. Signposting to supporting services should also be encouraged, including to financial advice.
- Promote the use of the MoneyHelper pensions guidance service.
- Commit to a timeline to review the regulated financial advice and financial guidance boundary, as proposed in the Edinburgh Reforms, so that a larger proportion of the population can access reliable and tailored financial support. Further engagement from Government and FCA with

25 Reaching a certain age. (2023)

26 Phoenix Insights, Great Expectations. (2023)

stakeholders will be needed to balance consumer needs and appropriate protections.

Ensure savings can be accessed when needed

- At the moment, normal minimum pension age (NMPA) is set to be 10 years before state pension age.[27] For most, this will effectively be the minimum age to be able to access their pensions and have means to support retirement. However, attaching NMPA to SPa without considering the effect of healthy life expectancy and individual needs on people's ability to stay at work could risk pushing more people into pre-retirement poverty. Unlike life expectancy, there has been no significant change to UK's healthy life expectancy between 2015 to 2017 and 2018 to 2025.[28] We propose reviewing the 10 years assumption together with the next state pension age review to ensure a long-term approach.
- Combining short-term saving and long-term saving has been seen as a useful way to nurture healthier saving habits and incentivise savers to do both.[29] These hybrid products could exist in different forms, but some are facing more regulatory barriers than others, for example those relying on default enrolment with opt-out option. The government and regulators should explore how to enable a lower-cost market to emerge through reviewing current legislation and regulatory barriers.

27 HM Treasury, Freedom and choice in pensions: government response to the consultation. (2014)

28 Office for National Statistics, Health state life expectancies, UK: 2018 to 2020. (2022)

29 Nest Insight. Workplace sidecar saving in action. (2023)

6. Funding changes to the state pension system in a balanced way

It is in the interest of government, employers and individuals to help people make the transition if and when state pension age rises. We need a balanced approach to funding this which is intergenerationally fair and sustainable.

Recommendations

Whenever state pension age increases, invest the equivalent of 20% of the fiscal savings to support people to make the transition

The equivalent of 20% of any fiscal savings made by raising the state pension age should be targeted through direct support and public spending to:

- Support opportunities for better, longer and healthier working lives for all.
- Mitigate impacts on those most imminently impacted by the transition to a higher state pension age, or most disadvantaged by the current system.
- Support those facing the greatest barriers to work in the years leading up to state pension age, whether that is for health reasons, redundancy or caring responsibilities.

If this mirrored the savings made the last time that the state pension age was raised (from 65 to 66) this would provide the equivalent of £1 billion for investment, and still provide 80% savings to the Exchequer. These activities (particularly the support for workers in midlife on) would provide further fiscal net benefit through higher tax income and lower benefit payments associated with better and more sustainable work in people's 50s and 60s. If the UK were to match the over 50s employment rate of top performing OECD countries, this would boost GDP per capita by 6.7%.[30]

Allocation of this funding would need to be carefully considered but could cover proposals made in this report, including:

- £190m to provide a means-tested bridging benefit, equivalent to pension credit for those most in need, one year prior to state pension age
- £150m to allow early access to a Terminal Illness National Insurance payment to support people at end of life with a terminal illness, equivalent to the state pension and pro-rated depending on their own National Insurance contributions.
- £350m additional Pension Credit payments to those currently eligible. This is equivalent to 20% of the £1.75bn currently unclaimed, supporting those most at risk of later life poverty who are currently eligible to Pension Credit but do not claim it. The total will include £1.75m to deliver a targeted campaign using local data, mirroring the 200:1 rate of return on investment seen by London Boroughs.

30 OECD, Promoting an Age-Inclusive Workforce. (2021)

- £300m for a Sustainable Work fund to engage and support employers and workers, to boost opportunities for better, healthier and more sustainable working lives for all ages, through lifelong learning, workplace health and careers advice.
- £10m to communicate and engage the public on any changes to the state pension and other outlined proposals.

Conclusions and questions for future

> This goes back to a bugbear of mine about trying to use the state pension to be the solution to all things. It is only part of the system; we've got to look at the system overall. If we want carers to be paid better, lets pay them better. If people can't work for medical reasons, well, let's have proper sickness benefits. I just I think trying to make the state pension some universal solution to everything. It's not really what it's for.
>
> *'Future of the state pension' expert roundtable participant - Male, Financial sector*

Building trust

The state pension is part of an intergenerational social contract, but our research shows that not everyone knows what they have signed up to, and many others are worried that the deal might not look so good when it is their turn to benefit. Around half of people under the age of 50 think that 'there probably won't be a state pension by the time they retire'. With more people living a 100-year life, we think it is crucial for people to be able to have more certainty about what their later lives may bring and how to plan for it.

We have found high levels of misconceptions, such as beliefs that everyone has their own 'pot' of national insurance and a lack of understanding of what is needed to get the full state pension. It is important for the public to understand the policy, but equally it is essential for policy makers and politicians to understand the public. People expect the state pension to provide the basics, either to give you a minimum to live on in retirement or to act as a building block for your own savings. We need any future reviews to fully involve and take seriously people's expectations.

Eligibility

We think that many of the fundamentals of the state pension should remain in place, that it is as universal as possible and that it is non-means tested. While everyone ages differently, and there are inequalities in health, geography, income and jobs, for now at least we believe that age is the 'least worst' criteria for determining eligibility. This simplicity matters, as people need to know in good time what their state pension age will be and to be able to plan for it. But this raises questions for the future about whether *age* as opposed to *need*, will always be the over-arching criteria for eligibility. And how a system such as the state pension that effectively creates a Universal Basic Income (but only for people of a certain age) will interact with other changes in work and welfare in the 21st Century.

How will we define who is most in need of support in the future?

A system that is more universal means that those in better health and in good jobs, are more able to work up to a higher state pension age. They are also set to live longer and so receive the state pension for more years. That unfairness needs to be addressed in other parts of the system. We need to bridge the gap between the working age and pensioner social security systems, by helping people struggling in the years before state pension age and by boosting uptake of Pension Credit for those at risk of poverty in retirement.

Our recommendations also address one of the most extreme outcomes of health inequalities, that people who are diagnosed with a terminal illness should be able to access an equivalent to state pension at younger ages. This fits with people's feelings of fairness and reciprocity - that the state pension is for people at the end of their lives who are less able to work, and it is for people to draw on having paid into the system. An extension of this policy could address other health and life expectancy inequalities. Could a future system guarantee everyone at least six months of state pension in line with their national insurance contributions, even if they do not live up to their state pension age? A lump sum equivalent to six months of state pension (pro-rated to NICs) could be bequeathed to the estate of someone dying before state pension age, or left as a legacy to a chosen charity. This would fit the contributory principle of the state pension (providing something for national insurance contributions made), help to counter life expectancy inequalities, and allow people to leave a financial legacy who otherwise may not be able to. As those with lower life expectancies are also more likely to be on lower incomes, this could provide an intergenerational transfer that improves social mobility. If bequeathed to the next generation, it would also be received at a younger age than the UK average for an inheritance (currently 61) and so received at a time in life that is crucial for repaying student loans, getting on the housing ladder or covering childcare costs.

What will the future of work look like?

How, where and when we work needs to change to reflect the realities of longer lives. Raising the state pension age does not automatically lead to people choosing to work for longer. Following our research into the post-Covid Great Retirement, we know that we need to make work more attractive and doable at older ages.[31] Lifelong learning, opportunities to switch careers, and helping to prepare in mid-life will all become increasingly important. This can be targeted to help people make the transition to the potential 725,000 additional jobs in the drive to Net Zero[32], as well as to meet the impacts of artificial intelligence on the world of work. We also need good work and flexibility to make jobs more sustainable and desirable for longer, and support those working with health conditions or caring responsibilities. Boosting employment opportunities will help individuals but is also fundamental to employers, the economy, and to help fund the national insurance system.

How can we close the savings gap?

We also need to address the worrying savings gaps facing many groups. Many still underestimate what they will need to save for retirement. For most people personal investment in pensions or savings must complement the state pension, especially when state pension age is expected to continue to increase. While AE created saving pots for

31 Public First and Phoenix Insights, Beyond the Great Retirement. (2023)

32 Climate Change Committee, A Net Zero workforce. (2023)

many, it does not guarantee adequate saving or good retirement outcome. Savers will need to better understand the options within their pensions and across different saving products, as well as making informed decumulation decisions during retirement. At the same time, there are also those who cannot benefit from AE, such as lower earners and self-employed. Further incentives, more accessible advice and guidance services and innovative new saving vehicles will all be important to support people to meet their saving needs. In the coming decade, pensions dashboards will bring new engagement opportunities, data insights, and possibility to integrate pensions into Open Finance. Initiatives such as the Living Pension, which builds on the Living Wage campaign will also be significant. It will be important to fully utillise these changes and make long-term saving simpler for all.

How can we make funding the system fair and sustainable for all generations?

With the UK facing serious challenges in terms of productivity, growth and how best to direct public spending, we need a balanced approach to funding any changes to the state pension. We understand that the state pension age has increased and may need to again in the future, but we believe that when it does the equivalent of a small proportion of the savings to government need to be reinvested to achieve better outcomes for all. Ultimately if this helps the UK meet the best performing OECD countries in terms of over 50s employment rates there is the potential to boost GDP per capita by 6.7%, more than the total amount currently spent on all pensioner benefits.[33]

33 OECD, Promoting an Age-Inclusive Workforce. (2021)