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By email: pensions.investment@dwp.gov.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to DWP's call for evidence on the Second State Pension Age Review.

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK. The emphasis of our work is on activities that are regulated by the FCA, however we also look at the impact on consumers of activities that are not directly within but are still relevant to the FCA's remit.

We are therefore responding to this consultation on the basis that its proposals are relevant to the FCA's regulatory and policy activities in the pensions sector.

The Panel welcomes the opportunity to respond to the Government's ambition to ensure that all relevant metrics are considered when setting the age of entitlement to State Pension age in the future.

As mentioned in Baroness Neville-Rolfe's introduction, the State Pension age will impact most consumers at some point in their lives and therefore it is important that the State Pension age considers both the current economic climate and where possible forward looking economic trends.

The state pension age may have less bearing on consumer decisions however needs to be well considered as:

- Consumers fall in and out of vulnerability – this may affect how they interact with their pension
- The state pension age is still material in setting expected retirement dates and judging in mortgage durations
- The state pension age also impacts income protection and other insurance related decisions
- Consumers' working lives are much less predictable, meaning there needs to be intra and inter-generational support above the state pension age for those who would otherwise face hardship

The Panel does wish to respond to each question posed however has included responses to questions it can best answer. Our responses to the questions posed in the consultation are included at Annex A below.

Yours sincerely,

Wanda Goldwag

Chair, Financial Services Consumer Panel

Questions

3.1 Intergenerational fairness

As people are living longer, how do we ensure the costs of State Pension are shared fairly across generations?

What factors relating to intergenerational fairness should be considered when determining the State Pension age?

The Panel have pulled together a list of key drivers of intergenerational differences:

- Ageing population
- Low interest rates
- Rising house prices
- Changing nature of employment
- Changes to student funding

Whilst these differences do not strictly speaking relate to retirement age or pensions, they all could affect consumers readiness for pension, contribution levels to pension and the way they interact with their pension. In turn, these should be considered when determining the state pension age.

Is it reasonable to give people a fixed period of notice for State Pension age changes, and if so what period?

Consumers, regardless of their age should be given notice of any changes in their pension. The Consumer Panel are strong advocates for consumer education and empowerment and believe there should be regular touch points with pension providers and their customers, this way customers will know when they are due to reach pension age and if as they plan their future there is a change in that predicted date

3.2 Changes in the nature of work

How have changes to the types of jobs people do affected working lives?

The Office for National Statistics reported that the number of people employed with no set guaranteed working hours had risen by 100,000 to 1.8 million over 12 months¹. Whilst the impact of zero-hour contracts may not be felt immediately, there may be repercussions affecting later life. As zero-hour contracts are generally associated with lower wages, some of these workers may not be automatically enrolled into their workplace pension.

When on a zero-hour contract, earnings can vary from week to week, this can make retirement planning more difficult. When paying into a pension, the amount that a consumer on a zero-hour contract can afford would vary in accordance with their pay for that period. This adds an element of uncertainty into retirement planning.

Fluctuating income is far from a zero-hour contract issue and has become the new normal style of working for a significant number of working age consumers. Nest insight² indicates that even before the pandemic, over 60% of Nest members had earnings that varied significantly from pay period to pay period with joint Resolution Foundation and Lloyds Banking Group research³ also highlighting the significant growth in pay period to period income volatility.

The Panel would encourage this review to consider this matter further.

¹ <https://investmentsense.co.uk/helping-younger-generations-plan-for-retirement-on-a-zero-hour-contract/>

² <https://www.nestinsight.org.uk/impact-of-covid-19-blog-series/>

³ <https://www.resolutionfoundation.org/publications/irregular-payments/>

What are the anticipated future changes to the workplace? How could this impact on people's working lives?

The workplace is expected to change significantly in the next 20-30 years. The demand for digital skills has grown by over 60%⁴ in the past several years and by 2028, employees are expected to use avatars, language software, conversational interfaces, and real-time dialect translation to work and speak with team members.

Covid-19 has both accelerated and given rise to new trends and changes in the workplace. The short-term consequences were sudden and often severe for consumers with the introduction of furlough and many becoming redundant during a short, highly stressful, period.

The most obvious change to the workplace due to Covid-19 was the dramatic increase in employees working remotely, this has prompted a large change in the geography of work as evidenced by a recent report from Mckinsey⁵. It is difficult to know at this stage what affect, if any, this would have on people's working lives and therefore their pension.

What factors do people consider when making decisions about when to retire?

3.3 Sustainability and affordability

What is the most sustainable and affordable way of managing the cost of State Pension in the longer term? What are the advantages and disadvantages of potential options?

3.4 Metrics for setting State Pension age

Is it reasonable for people to expect a fixed proportion of their adult life in receipt of State Pension?

It is reasonable for people to expect a fixed proportion of their adult life in receipt of state pension. This however will depend on their circumstances.

Are there options for taking account of differences in circumstances when setting State Pension age in the future? What are the advantages and disadvantages of these options and how could they operate within the current pensions framework?

How can we best take into account the sensitivity of life expectancy projections when considering an appropriate State Pension age for the future?

Are there other metrics which are relevant or more suitable to help determine State Pension age in the future, and if so, what metrics?

What factors do other countries consider when determining State Pension age?

The Panel would like to draw attention to the following within different countries in the world⁶:

⁴ <https://www.gartner.com/smarterwithgartner/6-ways-the-workplace-will-change-in-the-next-10-years>

⁵ <https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19>

⁶ <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/journals-and-magazines/social-policy-journal/spj33/33-what-influences-retirement-decisions-p11-125.html>

- New Zealand's workforce is ageing, as they face the challenges of population ageing, governments in developed countries such as New Zealand are considering how to increase labour-force participation by older workers to discourage early retirement.
- The National Strategy for an Ageing Australia argues that workforce participation in older life will be necessary to sustain economic growth.

According to sources, there is a widespread belief that initiatives to enhance workforce participation by older workers will have advantages for workers themselves, their employers and society and a whole.

The Panel have come up with a list of factors that they believe should be taken into consideration at retirement:

- Health status
- Financial circumstances
- Work-life balance
- Caring and unpaid work opportunities

According to data obtained on New Zealand, the most important influences are personal or "pull" factors, such as health and wanting to do other things. The study made reference to the difference in considerations for each gender with women more likely than men to give importance to health of family members and whether their partner is about to retire. Women were found more likely to consider their employers' policy than males.

As such, the Panel suggest that further considerations are made to the difference in men and women to ensure a consistent outcome.

3.5 Additional information

Do you have any other comments which relate to the Terms of Reference of this review, that you wish to share?

The Panel would like to highlight a report from the House of Commons on the Gender Pension Gap⁷. Although estimations vary, the difference in retirement income between men and women is larger than the gender pay gap. The Panel would recommend consideration of these issues, especially gender related, when conducting this independent review.

⁷ <https://researchbriefings.files.parliament.uk/documents/CBP-9517/CBP-9517.pdf>