

The impact of longevity on pension projections

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Impact of longevity on pension projections

Higher than expected life expectancy:

- Would increase spending on state pensions
- Could increase or reduce income from private pensions
- Would increase spending on means-tested benefits

About the PPI models



- Aggregate model, based on the labour market, for BSP, SERPS/S2P and private pensions
- Distributional model, based on the Pensioners' Incomes series, for Pension Credit and income distributions
- 'Static' analysis – no behavioural changes assumed in saving or working

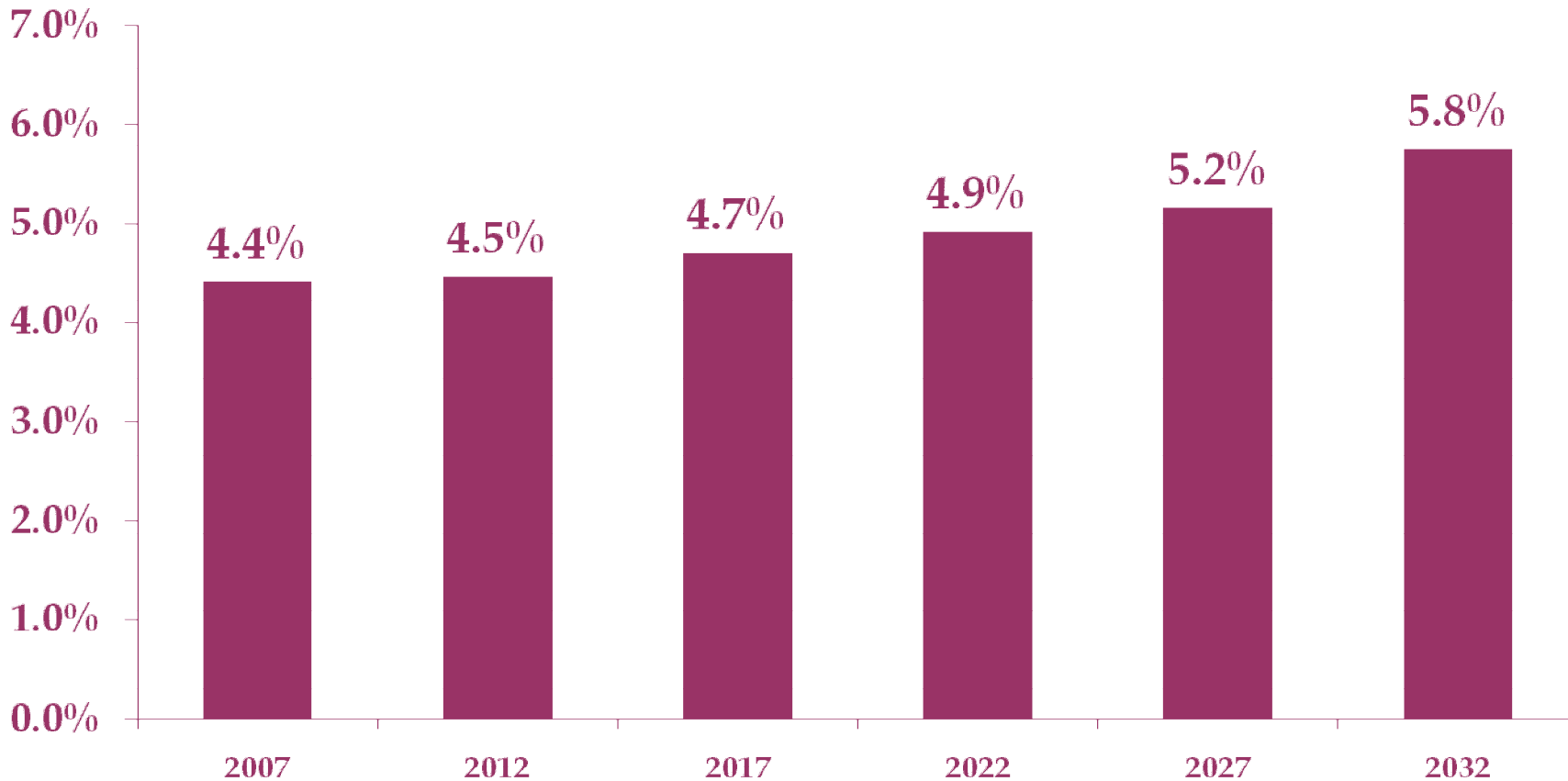
The Baseline projections

- Government spending on state pensions increases as the numbers over pension age increase and pensions become more generous
- Income from private pensions increases initially, but starts to fall back as DB is replaced by DC
- Spending on Pension Credit falls as it is made less generous and more people receive better state pensions

Spending on state pensions is projected to increase

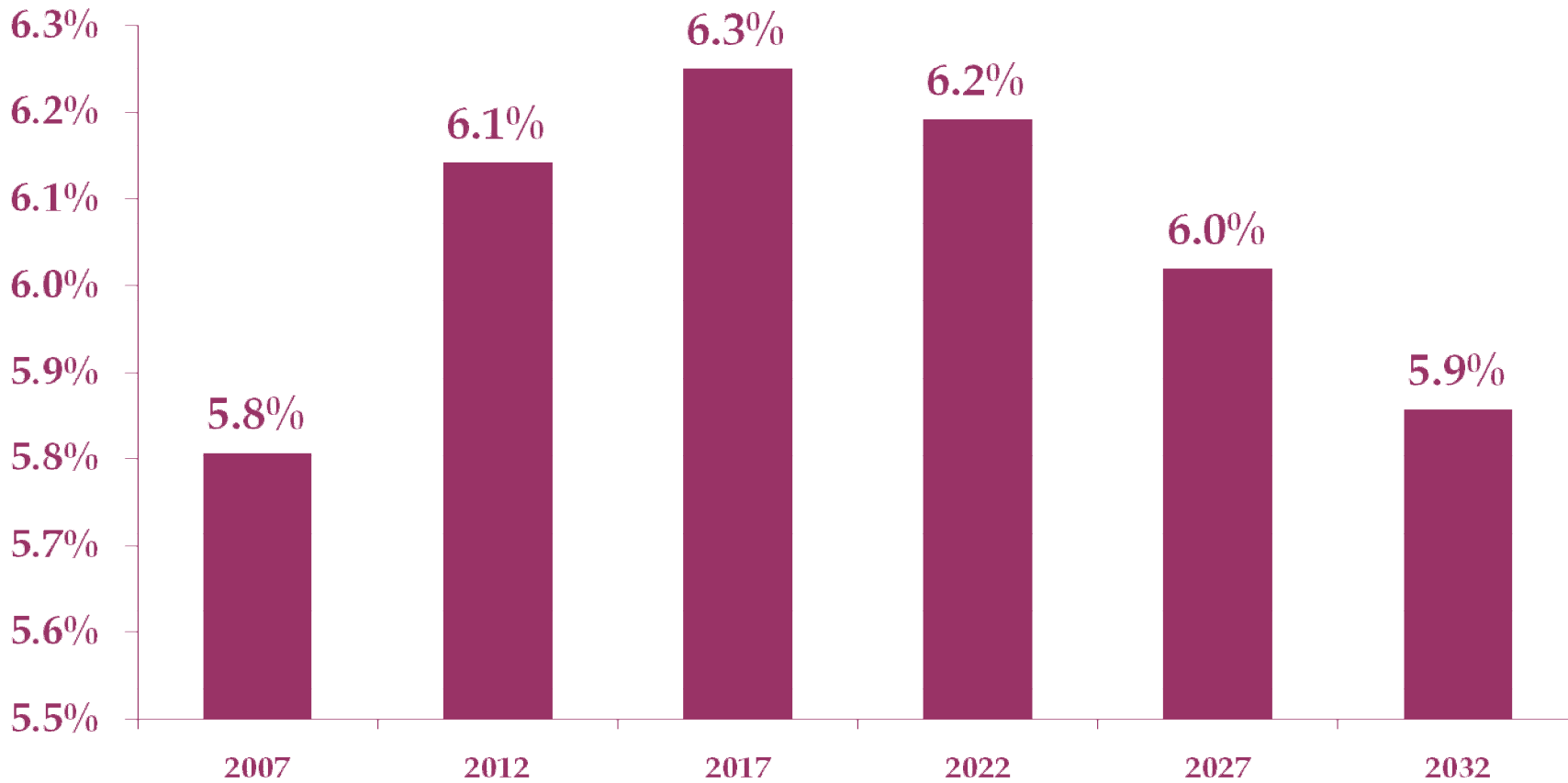


Government spending on pensions (Basic state pension, SERPS/S2P, Pension Credit and other benefits), % GDP, baseline projection



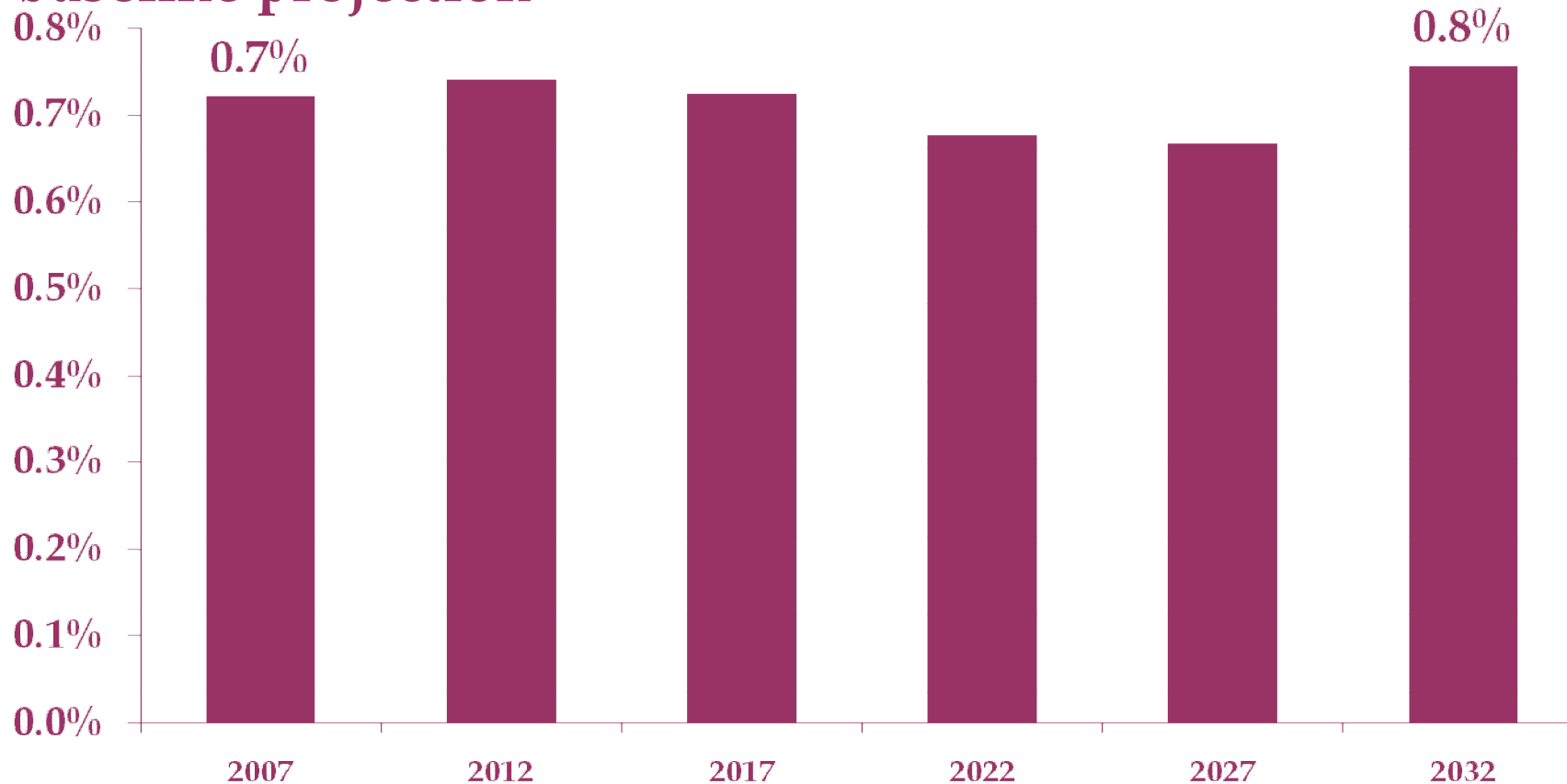
Income from private pensions rises then falls

Income from private pensions, % GDP, baseline projection



Means-tested benefit expenditure increases slightly in the long term

Government spending on Means-tested Benefits (PC, HB, CTB) for pensioners, % GDP, baseline projection

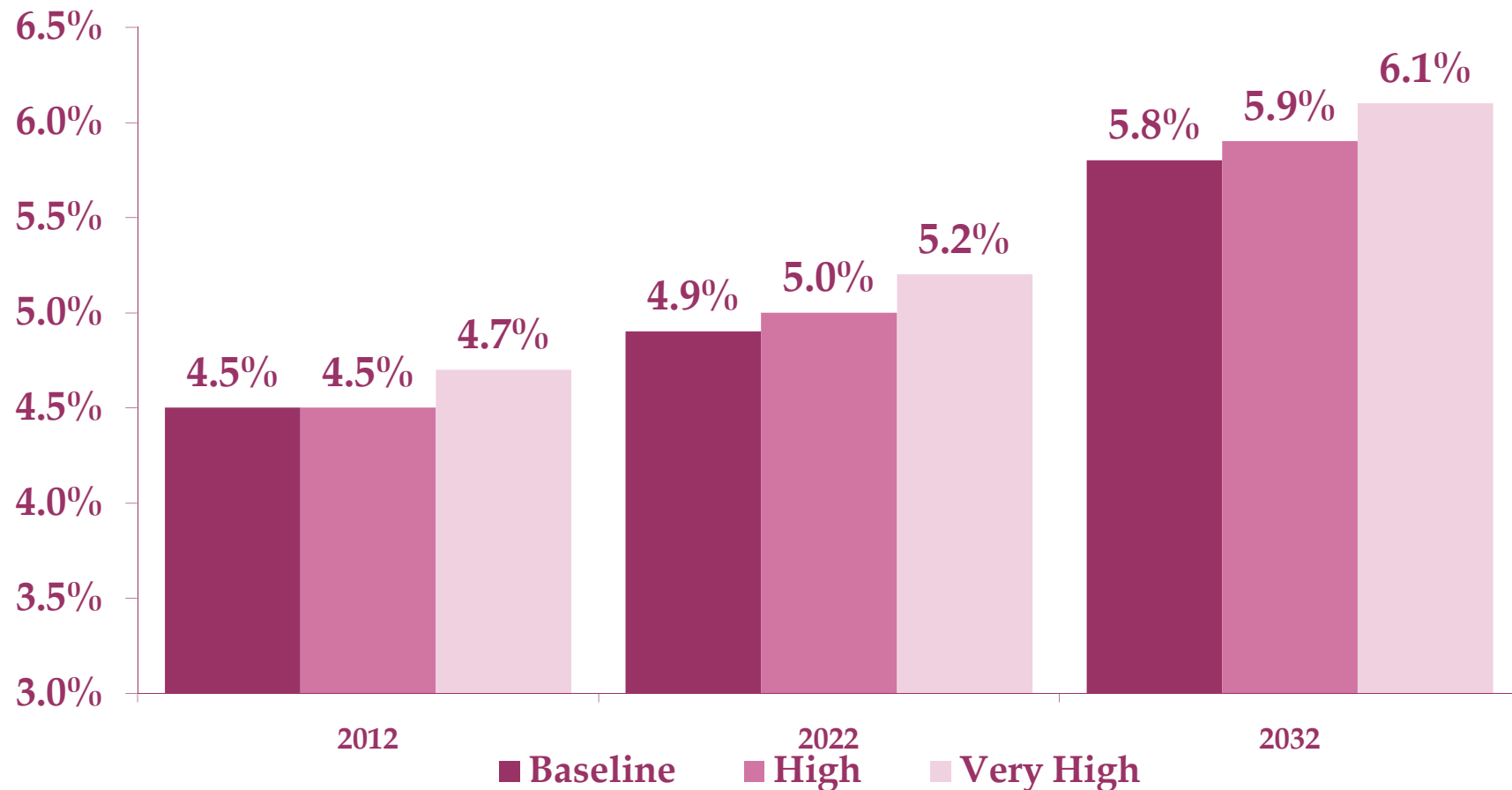


Higher life expectancy increases state spending

- Individuals receive the same levels of state pension as in the baseline
- But they receive pensions for longer

Higher life expectancy increases state spending

Government spending on pensions (Basic state pension, SERPS/S2P, Pension Credit and other benefits), % GDP

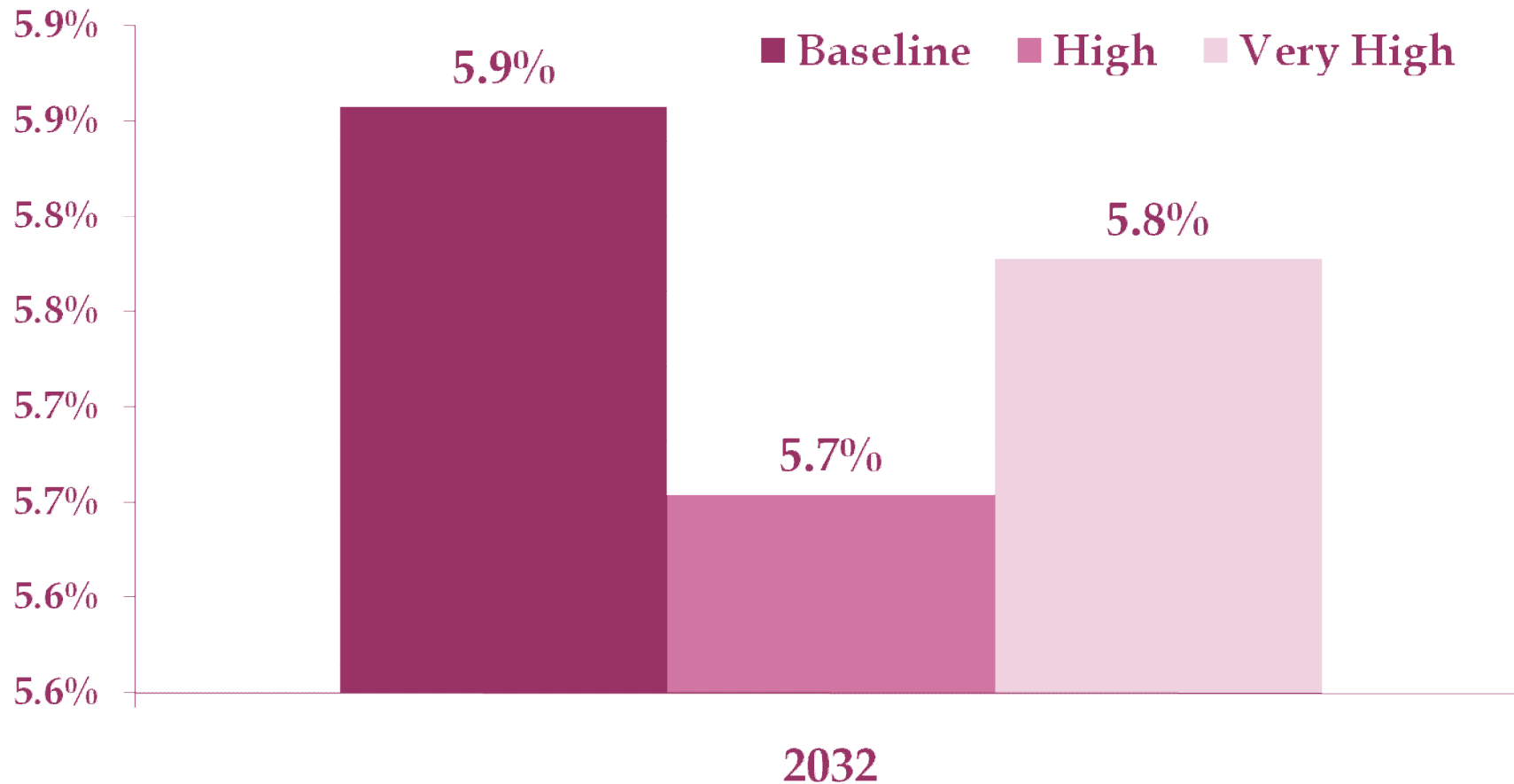


Higher life expectancy can increase or decrease private pension income

- People live longer and receive pensions for longer
- DB pension pay outs are unaffected for individuals, but increase overall as they are paid for longer
- But DC pension pay outs would be lower for individuals if annuity providers ‘know’ about higher life expectancy – overall impact is ambiguous

Higher life expectancy can increase or decrease private pension income

Income from private pensions in 2032, % GDP

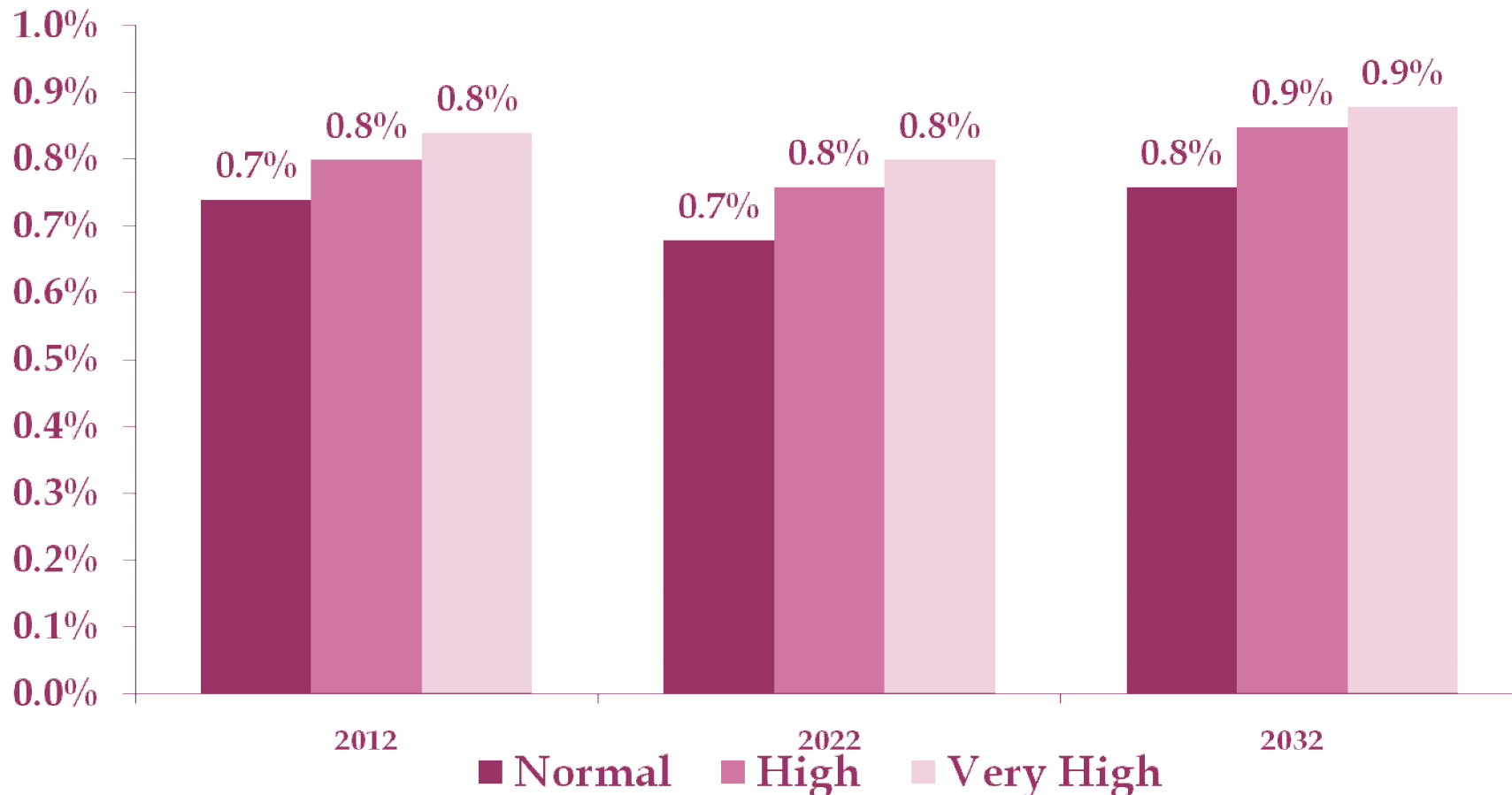


Higher life expectancy increase spending on means-tested benefits

- Although more state pension is paid, individuals do not see higher state pensions
- Some state pension income in payment is still uprated in line with prices
- Private pension income may be lower for individuals
- Older pensioners are more likely to have low income and be eligible for means-tested benefits

Higher life expectancy would increase spending on means-tested benefits

Government spending on means-tested benefits (PC, HB, CTB) for pensioners, % GDP



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Higher life expectancy increases state spending

Government spending on pensions, means tested benefits and long-term care, % GDP

