The Pensions Review

IFS Comment

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How aware are people of next year's state pension age increase?

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The state pension age (SPA) – the age at which individuals can first receive their state pension – is one of the most important features of the UK pension system. Increases for both men and (in particular) women during the 2010s have left the state pension age at 66 since 2020. But in a year's time, it will start to increase again in monthly increments from 66 to 67 for anyone born after 6 April 1960. Those born after 6 March 1961 will have a SPA of 67 (with a further legislated increase to 68 due to start in 2044, though it is possible this will be brought forward).[1]

This comment examines to what extent those currently approaching their SPA – especially those affected by the imminent increase from 66 to 67 – are aware of what their pension age will be. This is important because knowing one's state pension age is crucial for financial and retirement planning. The vast majority of those reaching SPA who have spent their whole working life in the UK receive (at least) a full new state pension, which is currently £230.25 a week, a substantial amount for all but those on the very highest incomes. For current pensioners, on average the state pension makes up about 44% of overall income. As has been widely discussed in relation to previous increases in the state pension age, people whose understanding is inaccurate may make choices that are different from the ones they would have made had they possessed the correct information.

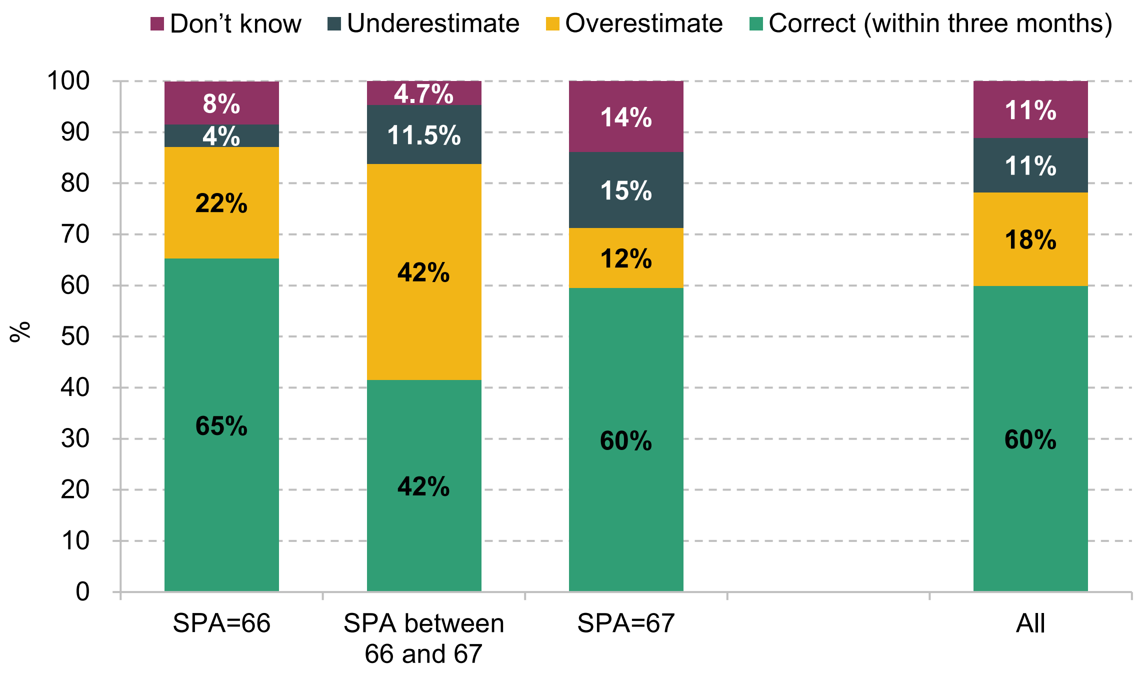
Can people approaching pension age accurately report their SPA?

Figure 1 shows data on how well people know their state pension age, based on questions answered as part of the English Longitudinal Study of Ageing.[2] Examining people born between 1955 and 1965 (aged 55–65) who were interviewed between 2021 and 2023, the chart splits them into three groups based on their legislated SPA – those whose SPA was 66, those whose SPA is between 66 and 67 and those whose SPA is 67. At the time of the survey, the first group was on average two years away from SPA, the second group around six years away, and the final group was on average eight and a half years away from SPA.

[1] For more detail on the state pension age increases, see https://www.gov.uk/government/publications/state-pension-age-timetable/state-pension-age-timetable. To check your own state pension age, see https://www.gov.uk/state-pension-age.

[2] Most of the analysis follows from previous analysis by Crawford and Karjalainen (2020).

Figure 1. Knowledge of state pension age, for people born between 1955 and 1965



Note: Sample of people born between 1955 and 1965, who were aged 55–65 at the time of the interview (2021 to 2023).

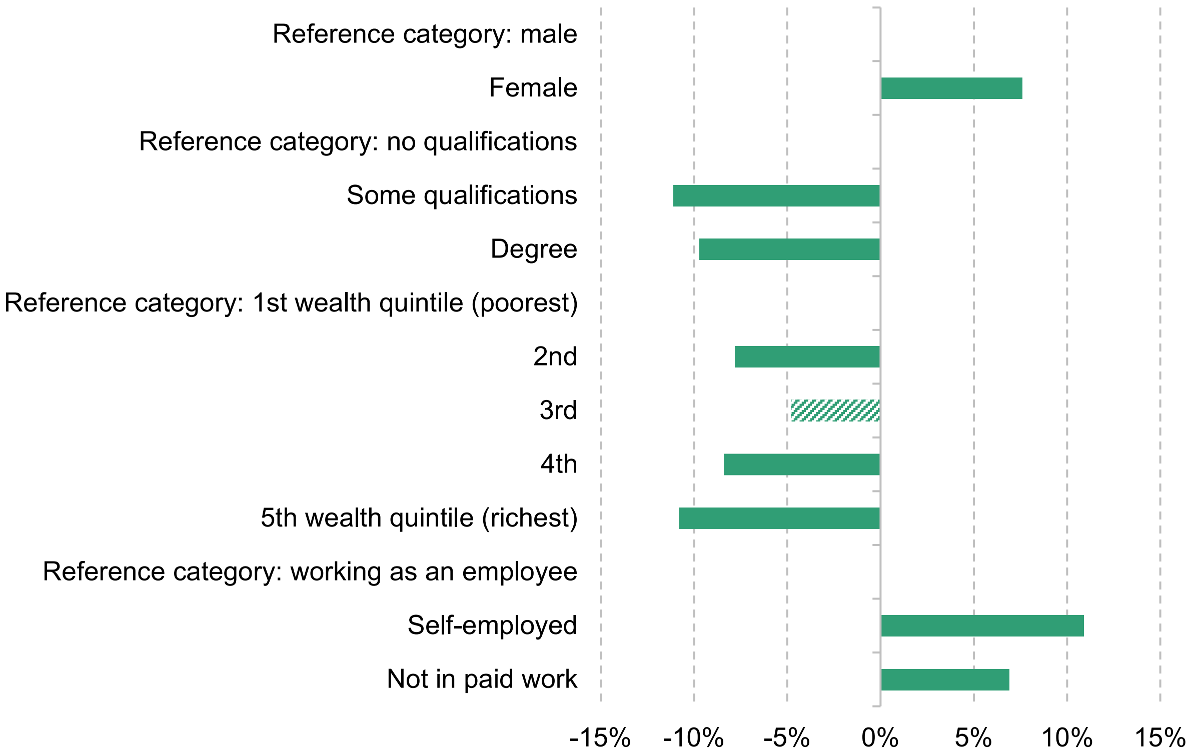
Source: Author's calculations using ELSA Wave 10 data.

The chart illustrates that overall around 60% of respondents accurately identified their SPA within three months, while 18% overestimated it, stating that their SPA was higher than it actually is. The groups of particular concern may be the 11% who did not know their SPA at all and the 11% who underestimated it (i.e. their actual state pension age is higher than they expect it to be). Together this means that more than one in five people (22%) have knowledge gaps that can lead to them making possibly poor decisions about their savings or when they retire.

When comparing the three different groups, those with SPA between 66 and 67 have worse knowledge of their SPA – 42% correctly report it. Interestingly, people in this group are more likely to overestimate (42%) rather than underestimate (12%) their SPA, meaning they are more likely to think their SPA is higher than it actually is. In total, one in six (16%) of this age group either underestimate or do not know their SPA. While this is a minority of the group of people whose state pension age is between 66 and 67, this translates to around 130,000 people.

Certain groups of people are especially likely either to underestimate or to be unaware of their SPA. We find that this is more likely among women, those with lower qualifications, those with lower levels of wealth, the self-employed and those not in paid work, as shown in Figure 2. For example, people in the top-wealth fifth (quintile) are 11 percentage points less likely to be unaware or underestimate their SPA than those in the bottom-wealth fifth, and people not in paid work are 7 percentage points more likely to be in this group than those working as employees. This suggests that people who may already be less financially secure are more likely to face additional financial risk because of their incorrect understanding of their state pension age. This is particularly worrying given that the state pension is a particularly big component of retirement resources for these groups.

Figure 2. Selected characteristics associated with underestimating or not knowing SPA



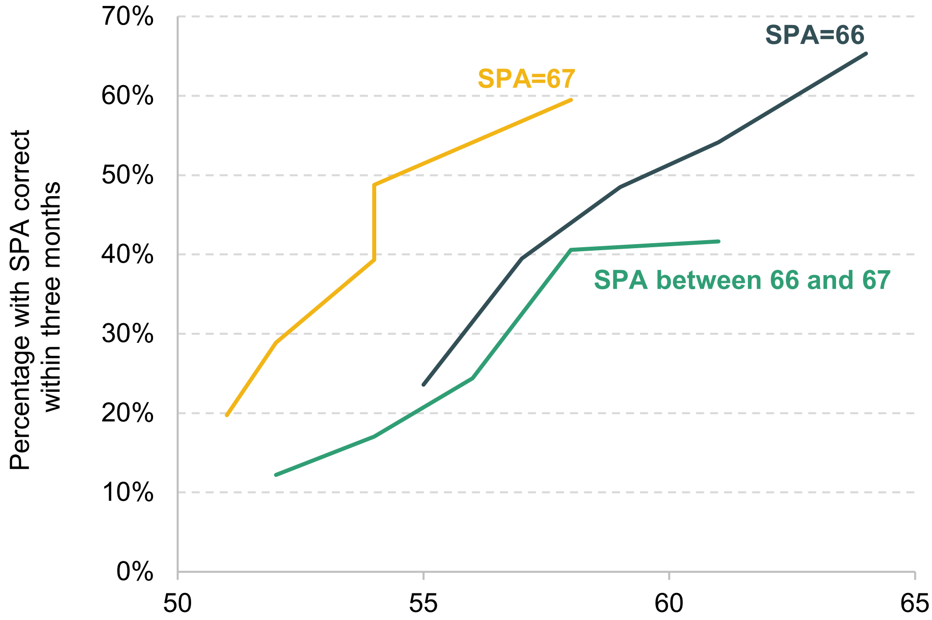
Note: Average marginal effects from a probit regression where the outcome is whether a person is unaware of or underestimates their SPA. The bars can be interpreted as a percentage point difference in the likelihood of being unaware or underestimating SPA, compared with individuals in the reference category. Solid bars indicate the effects are statistically significantly different from zero at the 5% significance level. Also controls for a cognitive ability proxy score, distance from SPA, couple status, private pension membership, housing tenure, income quintile and whether person has any limitations on activities of daily living (ADLs).

Source: Author's calculations using ELSA Wave 10.

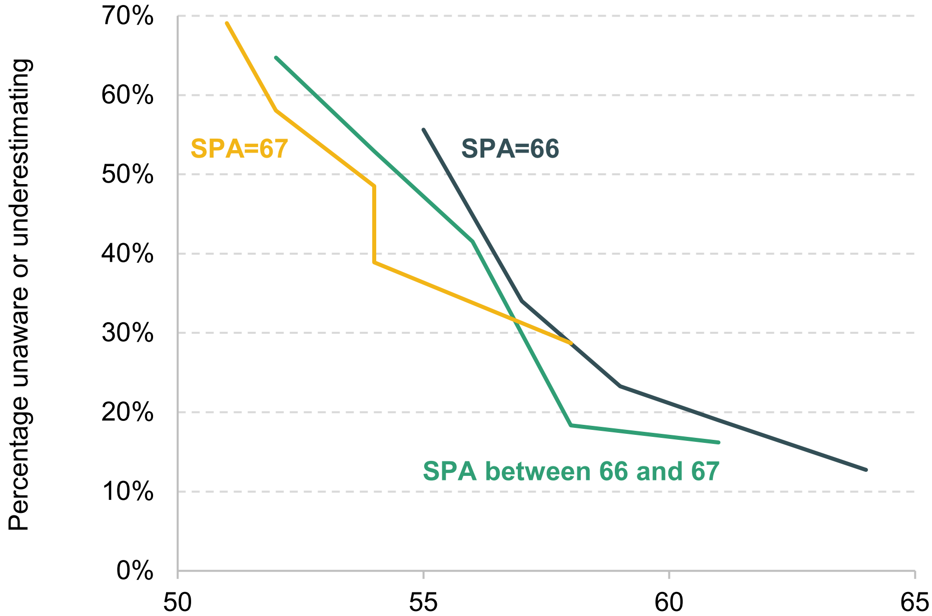
Figure 1 shows that those closer to their SPA had, on average, the most accurate understanding of their SPA. To examine the extent to which people's understanding of their SPA increases the closer they get to it, Figure 3 shows how correct understanding of SPA develops over time among the same three groups.

Figure 3. SPA knowledge by age

Panel A. Percentage reporting SPA correctly (within three months)



Panel B. Percentage underestimating or not knowing SPA



Note: Sample of people born between 1955 and 1965. SPA=66 – born 1955 to early 1960; SPA between 66 and 67 – born April 1960 to early March 1961; SPA=67 – born March 1961 to 1965.

Source: Author's calculations using ELSA Waves 6–10 data.

Panel A shows the percentage of each group who can accurately report their SPA (within three months), by age. It illustrates that knowledge improves dramatically as people get closer to their SPA: for those with a SPA of 66, accurate reporting rose from nearly a quarter at age 55 to around two-thirds for those in their mid 60s. Those with a SPA between 66 and 67 show a similar pattern over time, and individuals with a SPA of 67 are more likely to be accurate than earlier groups were at the same ages.

Again we may particularly worry more about those who do not know their SPA or underestimate it. Panel B of Figure 3 presents results for prevalence of underestimating or not knowing their SPA, showing that while over 60% of people in their early 50s underestimate or report not knowing their SPA, this figure drops steadily to below 20% for those in their early 60s, as they approach the SPA. Overall, while knowledge improves over time, it is far from complete even for those in their mid 60s.

Conclusion

Around two-thirds of individuals in their early-to-mid-60s accurately report their SPA as 66, although for those whose SPA is between 66 and 67 this is lower at two-fifths. However, there is a minority of people who either underestimate or are unaware of their SPA – this is the case for 16% of those with a SPA between 66 and 67, equivalent to around 130,000 people.

This gap in awareness is concerning because it can lead to financial risks. Many people in their late 50s and early 60s make consequential decisions around when to retire, how much to save, and how and when to draw down on their wealth. Some of those people may therefore be making these critical decisions based on incorrect assumptions about when they can start claiming the state pension. And for most, the state pension will represent a large part of their retirement resources.

Given the risks associated with any unexpected delays to the receipt of the state pension, clear and timely communication of any future increases in the SPA is important. We have previously suggested that the government should write to people around their 50th birthday setting out their currently legislated or likely SPA, and that it should guarantee not to make changes to state pension age for anyone within 10 years of reaching it. This would help give people confidence about when they can expect to receive a state pension and facilitate financial planning in the run-up to retirement.