The CSR and its impact on pensions. Will we have to work longer for less?

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Leandro Carrera *explains how the government measures will have a significant impact in our pension system and why further changes may be expected.*

The government spending review contains many measures that will affect current and future retirees significantly. The most important change is that the State Pension Age (SPA) will increase to 66 for both men and women by 2020, much sooner than under the former Labour government's plan of making it happen by 2026. Currently, the SPA for women is 60 and for men is 65. By 2018 women's SPA will be equalized to that of men to 65 and then they will both raise to 66 by 2020. The government is also planning to bring forward proposals for further increases in the SPA. The measure is expected to produce savings of £3 billion by 2020 and it will affect everyone who was 57 years of age as of 6th April 2010. Across industrialised countries, governments have already increased or are planning to increase the SPA to adjust to it to the fact that people are living longer. However, a higher retirement age will affect those with inconsistent career trajectories or women, who tend to exit the labour market earlier than men. As some experts note and we have anticipated in earlier posts, the increase of the SPA should be accompanied of measures to improve flexible retirement in order to still provide an adequate pension.

The government is also expecting to save around £1.8 billion in the cost of public pension schemes by 2014-15. While the Review states that the government will remain committed to some kind of defined benefit pension, it will certainly look to increase employee contributions progressively in order to reduce the cost of maintaining these schemes. As anticipated in a previous post, we may well expect further changes such as a switch to career average instead of final salary for the calculation of the pension benefit and raising the retirement age in these schemes in line with the SPA. The change to career average may be fairer in that the system will not continue to benefit senior public servants disproportionally, since they tend to retire on much higher salaries than when they started their careers. However, for the average public worker these changes may mean having to work longer for a similar or even lower pension benefit.

Another measure that may have a potential regressive effect is the freezing of the savings credit award within pension credits for four years from 2011-12. Currently, this award is paid to those aged over 65 on modest incomes who have some retirement savings in addition to their State Pension and amounts to £20.52 per week for a single pensioner and £27.09 for pensioner couples. The measure is expected to affect around 1.8 million households and produce savings of £330 million by 2014-15.

The government will go ahead with the plan, introduced by the previous Labour administration, of auto-enrolling low and mid income workers who are currently not offered a pension by their employer into a low cost scheme of individual accounts. The system called NEST (National Employment Savings Trust) will start to be rolled out from 2012.

On a slightly more positive side, the government will maintain free eye tests, bus passes, prescription charges and licenses for the over 75s. Winter fuel payments will also be maintained.

In sum the changes introduced by the government will continue to change pension provision as we know it. Moreover, we may well expect more significant changes during this government's tenure.

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