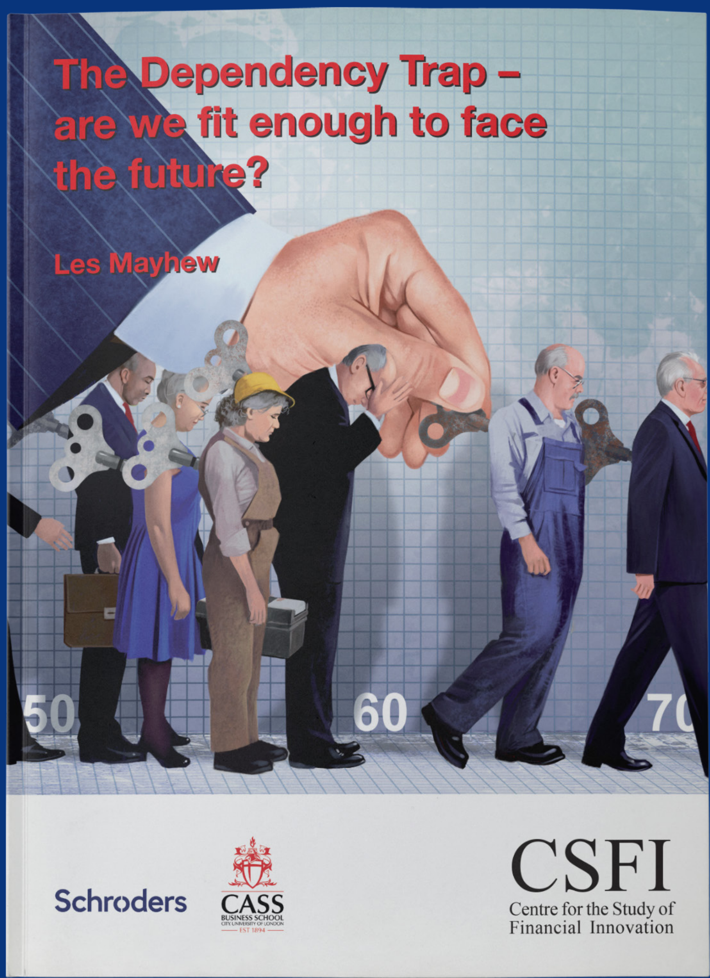
Healthy, wealthy and wise

How fresh government policies and innovative financial services can tackle the economic costs of increasing longevity.

Key points

- People are living longer but the UK government's policy of increasing the state pension age (SPA) is unlikely to solve the country's economic challenges.
- A new CSFI study, supported by Schroders and Cass Business School, reveals that for many people the ability to work falls dramatically after the age of 50 due to illness or long-term disability.
- To reduce dependency on welfare, public policy should focus on keeping the nation economically active in later life by promoting better health.
- New economic policies to boost productivity and a more flexible tax regime could also help.
- The financial services industry can contribute by providing people with realistic information and advice as well as innovative products.



People are living longer and spending a larger proportion of their adult life in retirement than in the past. As the number of those who receive the state pension increases, the UK economy is in danger of falling into a situation where the proportion of the population relying on state benefits compared with those of working age rises to an unsustainable level.

The government is responding in two ways. First, by increasing the SPA, which is set to reach 68 between 2037 and 2039, seven years earlier than planned. Second, by shifting responsibility for retirement planning towards individuals and companies. Under the Pensions Act 2008, every employer in the UK must now put their qualifying employees into a private pension scheme, known as auto-enrolment.

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However, these two policies do not reach the heart of the issue. Although there have been substantial increases in employment levels for people over 60, participation rates are still too low. According to the report's author, Professor Les Mayhew, of Cass Business School, the nation's capacity to work after the age of 50 falls dramatically due to poor health.

There are two implications of the reduction in economic activity as people age. At an individual level, many struggle to plan financially for the unexpected or save enough for retirement. At a national level, this puts greater pressure on taxpayers to cover the cost of providing welfare for those unable to work.

As life expectancy continues to rise and the number of people in receipt of the state pension increases, the government must create a sustainable system that is protected for future generations. This analysis suggests the country will not be able to afford to pay the state pension under the existing framework unless more people continue working well into later life.

A fresh approach

Solving these issues requires fresh thinking from public policymakers and new ideas that reflect modern life. The financial services industry can also contribute by providing clear advice, innovative products and digital tools that help people manage their finances over their lifetimes and make informed decisions.

- **Improve the nation's health.** Illness and disability are the main causes of economic inactivity, which is why public policy should focus on promoting better health. For example, measures to reduce the amount of sugar people consume could lower rates of obesity and diabetes, which are major causes of long-term illness. Fewer family members would then be unable to work due to caring commitments, which would also boost employment levels.

- **Introduce new economic policies.** To raise private retirement income and tax revenues, the government needs to boost incentives to remain in employment, improve economic activity for older age groups and raise productivity rates. The abolition in 2011 of the default retirement age of 65 is one example of how removing barriers to working for longer can be successful.

- **Tackle the gender gap.** Although the gender gap continues to narrow, the average lifetime earnings of women are significantly lower than for men. Child-raising years create an earnings shortfall and fewer women reach senior positions, which affects their pension prospects. One solution would be to allow a working partner to contribute to a non-working partner's pension fund, with tax relief.

- **Provide better information.** Many people collect a variety of pension schemes during their careers, which can lead to confusion. Guides and a bespoke calculator would help to determine if you're on track for a sufficient pension pot, need to increase contributions or delay retiring. Realistic forecasts of likely pension income could encourage people to start saving earlier.

- **Give clear advice.** Comparison websites have made it easier to access financial products, yet individual circumstances vary enormously – hence the need for some tailored advice. A "mid-life" MOT could encourage people to seek guidance at a crucial time, helping them with decisions such as whether to access their pension savings when they reach 55.

- **Offer innovative products.** There is an opportunity for the financial services industry to develop products that are better suited to the circumstances of people at different stages of their lives. For example, care annuities could help to offset the loss of income for the "sandwich generation", where people are unable to work due to overlapping care responsibilities for children and elderly parents.

Conclusion: The future of work and retirement

With the government's finances under increasing strain, public policymakers must strike a balance between raising taxes to pay for welfare and limiting the financial burden on working families. This issue is likely to remain in the spotlight as the millennial generation faces additional financial pressures, including paying off student debts and saving up a deposit to buy a home.

As the CSFI study shows, improvements in public health lie at the heart of creating a sustainable retirement system that is fair to all generations. The challenge is for public policymakers and the financial services industry to respond to the economic and social challenges presented by an increasingly ageing population.

The research was carried out by Professor Les Mayhew, of Cass Business School, for the CSFI and Schroders.

The dependency trap

You can find a more detailed analysis about the economic impact of rising longevity in the CSFI's publication **The dependency trap: are we fit enough to face the future?**

Public policymakers, financial services professionals and anyone with an interest in the economic costs of increasing longevity will find the report provides a fresh perspective on the issues as well as potential solutions.

http://www.csfi.org/publications-2/