

The Intergenerational Foundation’s response to the Third State Pension age review: independent call for evidence

To: State Pension Age Review – Independent Report

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent charitable think tank researching fairness between generations. IF’s guiding principle is that policy should be fair to all – the old, the young and those to come.

Introduction

Since our inception in 2011, the Intergenerational Foundation (IF) has argued that intergenerational fairness must be at the heart of the policymaking process. We therefore welcome the opportunity to respond to the Third State Pension Age Review.

Rising longevity is something to celebrate. More people are now living longer lives thanks to higher living standards, medical advances, and healthier lifestyles. But an ageing population also creates significant challenges. A smaller share of the population in work will tend to place downward pressure on economic output, and a rising old-age dependency ratio will add to the strain on the public finances. These pressures come at a time when the UK already faces high deficits, rising public debt, low growth, and stretched public services.

At the same time, inequalities between generations have also grown. IF research has shown that government spending has increasingly been skewed towards older generations.¹ Over the past two decades, for example, per-person spending on pensioners has risen by 55% in real terms, compared to just 20% for children. The gap in overall government spending between children and pensioners has widened by 170% in real terms. Over this period, pensioner poverty has almost halved, while child poverty remains stubbornly high.

Younger generations are being asked to carry an increasingly unfair burden. They face stagnant wages, unaffordable housing, large student debts, and fewer public services and benefits, while funding more generous transfers for older generations. This situation is neither fair nor sustainable.

¹ Conor Nakkan, *A Growing Divide: Two Decades of Intergenerational Unfairness*, 2025, <https://www.if.org.uk/wp-content/uploads/2025/05/A-growing-divide-two-decades-of-intergenerational-unfairness-interactive.pdf>.

Restoring a fairer distribution of benefits and burdens between generations must therefore be a political priority. The State Pension plays a central role in this. As this submission argues, reforms to the State Pension age (SPa) are an essential part of a broader reform strategy to place the State Pension system on a fair and sustainable footing for younger and future generations.

Life Expectancy

a) What are the advantages and disadvantages of linking State Pension age to life expectancy?

Since the State Pension was introduced in 1948, life expectancy has increased dramatically. In 1948, a 65-year-old could expect to live for around 13.5 more years.² By 2025, a 66-year-old man can expect to live for a further 19.2 years, while a woman of the same age can expect 21.8 years. Over this period, average life expectancy at SPa has already increased by over 50%. Looking ahead, by the middle of this century, these figures are set to increase to 21.1 and 23.7 years.

These demographic trends will play a significant role in driving the growth in State Pension spending. According to the OBR's central long-term projection, State Pension spending is set to increase from around 5% of GDP today to 7.7% by the early-2070s.³ Of this increase, around 1.6 percentage points is due to demographic factors. Put differently, based on OBR forecasts that the tax-to-GDP ratio will reach around 40% by that time, spending on the State Pension is set to rise from roughly 13% of total tax revenues to almost 20%.⁴

Given this context, linking the SPa to life expectancy could help constrain the growth in State Pension expenditure over the coming decades. The OBR estimates that the already legislated increases to SPa will collectively reduce State Pension expenditure by around 1% of GDP by the early-2070s.⁵ If a link to life expectancy was designed such that it brought forward these increases, then the potential savings from these reforms would be even larger.

Indeed, as will be discussed further below, there are strong grounds for bringing forward emergency increases in the SPa within the next few years. Partly, this would correct for the long period between 1948 and 2010 when the SPa remained unchanged despite substantial gains in life expectancy. But it may also be necessary to prevent a sharp deterioration in the public finances, given the scale of the UK's debt and the continued rise in borrowing costs.

² DWP, *State Pension Age Review*, 2017, <https://assets.publishing.service.gov.uk/media/5a82dd6740f0b6230269d1c0/print-ready-state-pension-age-review-final-report.pdf>.

³ OBR, *Fiscal Risks and Sustainability*, 2025, https://obr.uk/docs/dlm_uploads/Fiscal-risks-and-sustainability-report-July-2025.pdf.

⁴ OBR, *Fiscal Risks and Sustainability*, 2024, <https://obr.uk/frs/fiscal-risks-and-sustainability-september-2024/>.

⁵ Ibid.

Raising SPa in line with life expectancy would also likely deliver wider economic benefits. Evidence from past reforms shows that when the SPa rises, employment rates among older people rise as well.⁶ Moreover, higher employment rates at older ages boosts tax receipts and increases GDP.⁷

Finally, establishing a clear link to life expectancy can also provide a coherent, rules-based mechanism that reduces the scope for ad-hoc decision-making about SPa. Such a link could depoliticise the process of setting and updating the SPa, ensuring that decisions are informed by the best available demographic evidence. Several OECD countries, such as the Netherlands and Denmark, have already adopted such mechanisms, demonstrating that longevity-linked pension ages can be both workable and effective.

The main disadvantage of this approach is that gains in life expectancy are unevenly distributed across the population. In practice, a universal increase in SPa would hit some groups harder than others. People in more deprived areas, those from lower socio-economic backgrounds, and manual workers in physically demanding jobs tend to have shorter life expectancies and fewer years of healthy life after 65. For these groups, raising the SPa could be regressive, effectively requiring them to work longer for a shorter (and often less healthy) retirement.

However, it would be possible to mitigate some of these consequences. For example, the government could increase the value of working-age benefits for older people unable to stay in employment before SPa, expand access to disability benefits for those approaching SPa, and modestly increase the generosity of means-tested pensioner benefits. Targeted early access could also be allowed for those with long contribution histories or who have worked in narrowly defined hazardous occupations.⁸ Taken together, these measures would ensure that linking SPa to life expectancy improves fiscal sustainability while protecting those least able to extend their working lives.

b) How would linking State Pension age to life expectancy impact upon intergenerational fairness?

Some might argue that linking SPa to life expectancy would be unfair to currently younger generations. Unlike their parents or grandparents, most of whom could access the State Pension in their early-to-mid 60s, today's younger cohorts may not receive the State Pension until their late-60s or even early-70s. On this view, raising the SPa will mean that younger people are unfairly being asked to contribute for longer while receiving less in return.

⁶ Jonathan Cribb et al, *The Effect of Increasing the State Pension Age to 66 on Labour Market Activity*, 2022, <https://ifs.org.uk/publications/effect-increasing-state-pension-age-66-labour-market-activity>.

⁷ David Freyman, *A Wellbeing Cost-benefit Analysis of Raising the State Pension Age*, 2024, <https://cep.lse.ac.uk/pubs/download/occasional/op066.pdf>.

⁸ OECD, *Pensions at a Glance*, 2023, https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/12/pensions-at-a-glance-2023_4757bf20/678055dd-en.pdf.

But this argument overlooks the context of rising longevity. Linking SPa to life expectancy does not necessarily mean that younger generations will have shorter retirements, nor that they will receive the State Pension for fewer years. If longevity continues to improve as projected, a higher SPa could still leave younger cohorts with retirements at least as long as their parents', and potentially with similar or greater periods benefiting from the State Pension.

Seen in this light, linking SPa to life expectancy actually promotes intergenerational fairness. It helps to maintain a stable balance across birth cohorts between years spent working and contributing taxes, and years spent receiving the State Pension.

By contrast, not linking SPa to longevity would be more intergenerationally unfair. In this scenario, each successive generation of pensioners would likely spend longer benefiting from the State Pension, funded by a shrinking working-age population. Younger and future taxpayers would shoulder an ever-growing burden to support successive cohorts of pensioners enjoying ever-longer retirements.

That scenario would exacerbate the already skewed distribution of public resources between young and old in the UK. IF's research has shown that over the last two decades, real social protection spending per pensioner has increased by 34%, while per-child spending has fallen by 10%.⁹ These trends are largely driven by rising expenditure on the State Pension and declining spending on child-related benefits. Linking SPa to life expectancy would help prevent these kinds of age-based inequalities from widening any further.

Sustainability

c) What role, if any, should State Pension age have for managing the cost of the State Pension in the longer term?

Raising SPa is one of the most direct ways to respond to rising longevity. It ensures that as people live longer lives, more of those years are spent in work rather than in retirement, helping to constrain the growth of pension spending and sustaining economic output. It is also transparent: each cohort contributes in line with the number of years they can expect to live, rather than placing ever-rising costs on future taxpayers.

But SPa reform is not, itself, sufficient to put the State Pension on a sustainable footing. Most of the large baby-boomer cohort is already over or near SPa. This cohort will add significantly to expenditure over the coming decades regardless of future SPa increases. In other words, raising SPa is essential for the medium to long term, but it cannot entirely prevent the fiscal pressures arising in the next few decades.

As such, if we want to place the State Pension system on a sustainable trajectory, other levers are equally important. Reforming the triple lock is the most obvious starting point. Since its

⁹ Conor Nakkan, *A Growing Divide: Two Decades of Intergenerational Unfairness*, 2025, <https://www.if.org.uk/wp-content/uploads/2025/05/A-growing-divide-two-decades-of-intergenerational-unfairness-interactive.pdf>.

introduction in 2011, the triple lock has ratcheted the State Pension upwards faster than both earnings and inflation. The OBR now estimates that the policy will cost an additional £15.5 billion a year by 2029–30.¹⁰ This is nearly three times higher than the £5.2 billion originally forecast at the time of its implementation.

The triple lock is not only unsustainable but also unpredictable. OBR analysis also shows that triple lock uprating adds significant volatility to long-term spending projections. In fact, their modelling suggests that if macroeconomic volatility remains at post-2010 levels, State Pension spending could rise to 9.1 per cent of GDP by the early 2070s.¹¹ In this scenario, almost a quarter of all tax revenues would be spent on the State Pension.¹²

Second, introducing modest means-testing for affluent retirees could reduce entitlements where they are least needed. For example, better-off pensioners with significant private pensions, or other incomes and assets could see reduced State Pension entitlements, freeing up resources for those most in need. A possible reform pathway would be to move closer to the Australian Age Pension system. In Australia, the government guarantees a minimum retirement income but adjusts payments according to income and assets. As a result, Australia expects its Age Pension spending to fall from 2.3% of GDP in 2022–23 to just 2.0% by 2062–63.¹³

Third, broadening the contribution base would ensure that better-off older people continue to contribute fairly. At present, people above SPa do not pay National Insurance Contributions on their income, even if they are still working. This exemption is increasingly out of step with longer working lives: many people now remain in some form of paid employment well into their late 60s and early 70s.¹⁴ As such, this reform would spread the burden of adjustment more evenly, bring greater consistency between generations, and help to relieve some of the pressure on younger and working taxpayers who currently bear a disproportionate share of the system's financing.

d) What are the advantages and disadvantages of using State Pension age to manage the cost of the State Pension in the longer term?

The key advantage of SPa reform is that it directly addresses one of the main underlying drivers of rising costs: longer life expectancy. As noted, raising SPa also has wider economic

¹⁰ OBR, *Fiscal Risks and Sustainability*, 2025, https://obr.uk/docs/dlm_uploads/Fiscal-risks-and-sustainability-report-July-2025.pdf.

¹¹ Ibid.

¹² This figure (23%) is based on the assumption that the tax burden would be 40% of GDP in the early 2070s, see OBR, *Fiscal Risks and Sustainability*, 2024, <https://obr.uk/frs/fiscal-risks-and-sustainability-september-2024/>.

¹³ Australian Treasury, *Intergenerational Report*, 2023, <https://treasury.gov.au/sites/default/files/2023-08/p2023-435150.pdf>.

¹⁴ ONS, *People Aged 65 Years and Over in Employment*, 2022, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/peopleaged65yearsandoverinemploymentuk/januarytomarch2022toapriltojune2022>.

benefits: when the pension age rises, employment among older people rises too. By keeping older workers economically active, higher SPa can boost GDP, tax receipts, and individual incomes.

However, there are some disadvantages. The fiscal savings accrue only gradually, meaning that they do relatively little to offset the costs of the baby-boomer bulge. Uniform increases in SPa can also be blunt and regressive, falling hardest on those with shorter lives and poorer health. And without labour-market reforms (such as promoting flexible work and retraining) some older people will be unable to remain in work until the higher SPa, forcing them to rely on disability or unemployment benefits.

e) What other factors relating to sustainability should the Government consider when determining State Pension age? What are the advantages and disadvantages of using these factors?

One important (and typically overlooked) sustainability factor is the annual growth rate of State Pension expenditure. In 2005–06, the State Pension cost around £86 billion (in 2025–26 prices).¹⁵ Twenty years later, in 2025–26, it is estimated to cost around £146 billion (also in 2025–26 prices).¹⁶ This means that, over the last two decades, spending has grown by a total of almost 70% in real terms, or an average annual real growth rate of about 2.7% per year. In nominal terms, State Pension spending has increased by a total of 186% over this period, representing an average annual growth rate of 5.45% per year.

Without reform, State Pension expenditure will grow significantly faster than the overall economy over the next few decades. One option would be for the government to adopt an annual “sustainable growth target” for overall State Pension spending. For example, aiming to keep long-term pension spending growth broadly in line with nominal GDP growth, or nominal GDP growth plus a modest margin (such as 0.5%) to reflect demographic changes. SPa would then be one of several levers available to keep expenditure broadly in line with this sustainable path.

The advantage of such an approach is that it would provide a relatively clear fiscal anchor or objective, tying policy decisions to long-term affordability. Of course, the disadvantage is that spending can fluctuate for reasons unrelated to demographics. For instance, during recessions GDP growth slows while pension spending remains steady, making the ratio volatile. For this reason, IF believes the “sustainable growth target” should be used as broad guide rather than a rigid formula, with SPa primarily anchored to life expectancy.

¹⁵ DWP, *Benefit Expenditure and Caseload Tables*, 2025, <https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2025>.

¹⁶ Ibid.

Automatic Adjustment Mechanisms

f) What are the advantages and disadvantages of using Automatic Adjustment Mechanisms to make changes to State Pension age (i.e. if a certain factor changes, State Pension age is automatically increased or decreased as a result).

Automatic Adjustment Mechanisms (AAMs) provide a rules-based framework for adapting the State Pension age (SPa) to changes in life expectancy. They can reduce uncertainty, depoliticise decision-making, and reassure younger generations that the State Pension system will remain affordable as longevity improves.

Several OECD countries already use AAMs, typically pegged to life expectancy at a fixed reference age (60 or 65). Different designs reflect different trade-offs:

- Denmark reviews SPa every five years based on life expectancy at age 60. Expected retirement length is fixed at 14.5 years, so all future gains in life expectancy are absorbed into longer working lives. Changes are legislated with a decade or more of notice. This is the most fiscally responsible approach, but it could result in high pension ages for younger cohorts if longevity continues to rise.
- Netherlands ties SPa to life expectancy at age 65, with reviews carried out annually and at least five years' notice before any change takes effect. The formula raises SPa by eight months for each additional year of life expectancy. This system smooths adjustments but still leaves some gains in longevity as extra retirement time.
- Finland also uses life expectancy at 65, updating annually. Each cohort's earliest pension age is announced about 15 years before they retire, providing individuals with long planning horizons. Finland absorbs roughly two-thirds of longevity gains through higher SPa, allowing one-third to be enjoyed as longer retirement.

The advantage of such mechanisms is predictability: individuals and employers know how and when SPa will change, often with adequate lead times, and decisions are seen to follow robust demographic evidence. They can also help to keep retirement lengths broadly stable across generations, preventing the costs of ever-longer retirements being shifted onto younger taxpayers.

The drawback is rigidity. Strict one-for-one rules, such as in Denmark, imply pension ages rising well into the 70s for today's younger cohorts. More flexible models, like the Netherlands or Finland, may be less rigid but deliver smaller fiscal savings. For the UK, the lesson is that AAMs must be transparent, reviewed regularly, and accompanied by safeguards for groups least able to extend their working lives.

g) What factors could be considered for use in an Automatic Adjustment Mechanism, and why?

The key policy choice is how much of each gain in life expectancy should be absorbed by higher SPa, and how much should be passed on as additional retirement. Countries such as Denmark

have adopted a one-for-one model, meaning that each additional year of life expectancy at age 60 is offset by an extra year of work. This is the most fiscally responsible approach because it fixes the expected retirement span. By contrast, Finland and the Netherlands adopt a two-thirds model, meaning that for every three years of extra life expectancy at age 65, SPa rises by two years, with one year left as longer retirement.

For the UK, IF believes a two-stage approach is necessary. First, as noted above, the SPa has not kept pace with increases in life expectancy. If the expected period of retirement had been kept constant since 1948, the current SPa would be around 72 for men and 74 for women. At the same time, the UK's public finances have deteriorated significantly over recent decades. Public debt has almost reached 100% of GDP, and the UK currently faces some of the highest borrowing costs among advanced economies. It is also the fourth most indebted economy in Europe.¹⁷ Rising debt interest costs, persistent budget deficits, and weak growth have led several economists to warn that Britain could be approaching a debt crisis.¹⁸

Taken together, these substantial demographic and fiscal pressures provide strong reasons for an emergency increase to the SPa within the next decade. One option could be to increase the SPa to 70 by 2035. Based on the 2022 ONS cohort life expectancy projections, this would reduce the average period of retirement to around 16 years for men and 19 years for women. By contrast, under the currently legislated timetable, the average retirement period would be around 19 years for men and 22 years for women. While such reforms would undoubtedly be politically difficult, they may be a necessary part of a broader package of measures to prevent a future debt crisis.

Second, in the longer term, the Netherlands' two-thirds model should be implemented. Under this system, annual updates would set the SPa based on demographic evidence, with a 5-year notice period for any changes. This would provide clarity, deliver fiscal savings, and help prevent retirement periods from continuing to expand at the expense of younger taxpayers. But the two-thirds model also recognises that some of the additional years of life expectancy will likely be spent in poor health. As such, it accounts for the fact that healthy life expectancy tends to rise more slowly than overall life expectancy, ensuring that future reforms remain fair as well as fiscally sustainable.

Factors for setting State Pension Age

- h) What other factors do you think the government should consider when making decisions regarding State Pension age? What are the advantages and disadvantages of using these factors?**

¹⁷ Conor Nakkan, *Unsustainable, unpredictable, and unfair: The OBR highlights why the triple lock on the State Pension must go*, 2025, <https://www.if.org.uk/2025/07/15/unsustainable-unpredictable-and-unfair-the-obr-highlights-why-the-triple-lock-on-the-state-pension-must-go/>.

¹⁸ Gerard Lyons, *Breaking the Cycle*, 2025, <https://cps.org.uk/media/post/2025/uk-facing-genuine-risk-of-fiscal-crisis-without-immediate-action-says-senior-economist>.

The government should recognise inequalities within generations. Life expectancy and healthy life expectancy vary dramatically by class, region, and occupation. Attempting to set multiple SPAs based on these factors would be overly complex. However, these inequalities can be addressed through stronger bridging benefits for those unable to work until SPA, early access for those with very long contribution histories, and better support for people with disabilities or long-term health conditions.

Employment opportunities for older workers should also be considered. Without sufficient opportunities for reskilling or age-friendly work, some older people will be unable to stay in work until higher SPA. Raising the SPA without these kinds of complementary reforms risks pushing more people into involuntary unemployment and poverty.

i) Which of these factors (life expectancy, sustainability and other factors) do you think are most important for the Government to consider when making decisions regarding State Pension age, and why?

Life expectancy, fiscal sustainability, and intergenerational fairness should be the guiding principles. They capture the demographic reality of an ageing population and the need for fairness across generations. Other factors – health, employment, and intragenerational inequality – should shape how reforms are implemented, not whether they happen.

j) How might changes to State Pension age impact people differently? Which groups of people, regions or nations may be most impacted by changes to the State Pension age, and why?

As already noted, changes to SPA will not fall evenly across society. Manual workers and those in physically demanding jobs are far less able to remain in employment into their late 60s than white-collar professionals. People in poor health or with disabilities already face shorter and less healthy retirements. Regional inequalities compound this. Life expectancy in Scotland, Northern Ireland, and the North East is lower than in the South of England.

Gender is another dimension. Women typically have lower private pension savings due to interrupted careers and the gender pay gap. A higher SPA therefore falls more heavily on women, who tend to be more reliant on the State Pension.

For these reasons, mitigation reforms are also critical. The government should provide bridging benefits for people unable to work until SPA, allow targeted early access for those with long contribution histories or hazardous occupations, and strengthen disability and sickness benefits for older workers. Public health investment will also be essential to narrow the stark gaps in life expectancy between rich and poor regions.