Active aging: How can we avoid a dependency trap?

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Credit: AI-generated image (disclaimer)

New research from Professor Les Mayhew, Professor of Statistics at the Business School (formerly Cass) and Head of Global Research at ILC-UK has called on the Government to focus on incentivising healthier lifestyles from a young age to help curb the pension crisis and avoid a 'dependency trap'.

An aging UK population is expected to rise to 71 million by 2030 and 75 million by 2040, by which time it would include 18 million people above the age of 65—the previous state pension age for both men and women.

Government policy is to increase State Pension Age (SPA) to ensure that pension benefits and tax contributions remain in balance, whilst maintaining the value of the state pension by linking it to earnings and inflation.

The latest rise in SPA from October 2020 to age 66 is only a prelude to future planned increases to 67 in 2028 and 68 in 2037, but the research shows these may not be enough to stave off further increases before then.

The 'dependency (or support) ratio' – which the report defines as the population aged under SPA divided by those aged over—is shrinking irreversibly as the population continues to age.

The report argues the rule of thumb that workers should spend two thirds of their lives at work and a third in retirement becomes financially impossible to sustain, if an increasingly older workforce is incapable of working longer due to disability or long-term illness.

Professor Mayhew said the key to postponing future rises in SPA was to ensure 'active aging'—where adults led longer, healthier lives which would enable them to work for longer. Professor Mayhew said:

"Increases in UK life expectancy need to be matched by improvements in our ability to work for longer.

"Work capability currently declines from around the age of 50, which negatively impacts output and productivity long before pension age is reached.

"With no health improvement, a rising pension age will simply divert pension savings into supporting disability benefits and caring roles. Conversely, a healthier and more active workforce in later adult life would lead to a double benefit by also reducing the need for unpaid carers, who could in turn earn and contribute.

"The key is promoting healthier lifestyles in the workplace, at home and in the wider environment but it is a tough challenge."

There are wide variations in health across the country too. For example, the North East, South Wales and large parts of London show health life expectancy is fewer than 15 years from the age of 52, whereas many other areas show figures of more than 24 years of good health from this age.

These inequalities mean that up to one third of UK districts' health life expectancies fall short of already planned rises in SPA, and this will only worsen as SPA is further increased.

The research shows that just a five percent improvement in activity could keep SPA as low as 67 in 2040 instead of 68 as currently planned, while preserving the one-third principle.

However, if average activity rates were to decline due to ill health, SPA will need to increase at a faster rate than planned and could reach 70 by 2040 instead.

Professor Mayhew said that while urgent action was required, it is not too late if decisive action is taken now:

"Time is ticking for the Government to act if it is to prevent further rises during the next 20 years. The COVID-19 crisis has exposed the frailty of the present situation and should be a wake-up call for action.

"Ensuring more people can live healthily and work productively up to and beyond pension age, if necessary, is a strategic necessity and not an optional extra.

"The Government has set a target to improve healthy life expectancy by five years by 2030. This is the big conundrum, and it is not clear how it will be achieved—but it would make a big difference if successful."

More information: Leslie D. Mayhew. On the Postponement of Increases in State Pension Age through Health Improvement and Active Ageing, *Applied Spatial Analysis and Policy* (2020). DOI: 10.1007/s12061-020-09359-y

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