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The National Institute estimated that an increase of 1 year in the effective retirement age would save the government £13bn per year. However, since the participation rate of old workers is well below 100%, this requires an increase in the effective working age of 1 ½ years. This can only be achieved if people choose to work longer, and would require changes in benefits, state retirement ages and a campaign to persuade people that they need to work longer to restore their savings.

A simple advance of the retirement age for men and women by 1 year in 2016 will not achieve this. Indeed, if the age at which the minimum income guarantee becomes available (currently 60) is not increased at all, then the rise in the state pension age would have very little impact.

Moving the whole retirement schedule forward by one year, so that the retirement age for women rises to 64, that for men to 66 and the age at which people become entitled to the MIG will not, on its own be enough to give a 1 year increase in effective retirement age. Options which would enhance the budgetary impact are i) to raise the retirement age for women to 66 from 2016, ii) to raise the age at which the MIG becomes available beyond 61.

Ray Barrell will be presenting the macroeconomic aspects of this work at a conference organised by Age Concern and Help the Aged on 12th October. The paper is entitled “How to Pay for the Crisis or macroeconomic implications of extending working lives” and is available at <http://www.niesr.ac.uk/pdf/EWLfin.pdf>.

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For more information please contact

Ray Barrell on 020 7654 1925 or

Martin Weale on 020 7654 1945