SNP

SNP Westminster Parliamentary Group

Modelling the impact of changes to pension arrangements for women born in the 1950s who will lose out from the Pensions Act 2011

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Acknowledgements

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Executive Summary

The Pensions Act 2011 accelerated the timetable for increases in women's State Pension Age (SPA) in the UK. Women's SPA will rise from 63 to 65 between April 2016 and November 2018, and from 65 to 66 by October 2020. Around 2.6 million women are affected by these changes, of whom around 300,000 will have their SPA increased by 18 months. The Scottish National Party has commissioned Landman Economics to undertake an analysis of the costs and distributional impacts of a number of potential changes to pension arrangements for women born in the 1950s who will lose out from these changes.

This report models five different reform options for compensating women born in the 1950s who lose out from the accelerated increases in the SPA specified in the Pensions Act 2011. Five different reforms are modelled:

Option 1: Resetting women's pension age to 60

This option would reduce women's SPA back down to 60 – where it was before the increases in pension age in the 1995 Pensions Act began to take effect.

Option 2: Return to the timetable in the 1995 Pensions Act

This option restores the timetable specified in the 1995 Pensions Act (whereby women's SPA rises from 63 in March 2016 to 65 by April 2020, with no further increase to 66 until the mid-2020s).

Option 3: Slow the timetable for increasing women's pension age

This option maintains a rise in women's SPA to 66 but slows down the timetable so that women's SPA rises to 65 by April 2019 (instead of November 2018) and to 66 by April 2021 (instead of October 2020).

Option 4: Reduce the qualifying age for Pension Credit to 65 for a transitional period

This option keeps the timetable for increasing women's SPA to 66 as set out in the Pensions Act 2011, but lowers the qualifying age for Pension Credit to 65 for the period from November 2018 to April 2021. This compensates women aged between 65 and 66 on low incomes who would otherwise be adversely affected by the accelerated timetable for the rise in women's SPA to 66.

Option 5: Allow women affected by the increase in SPA to 66 to receive the State Pension at age 65 on an actuarially fair basis

This option would allow women affected by the accelerated increase in the SPA to claim the State Pension at age 65 but at a slightly lower rate than the full rate of State Pension (around 6 percent lower if the pension is claimed a year early).

The reforms are modelled using the Landman Economics tax-benefit model. This is a microsimulation model of the tax and social security system running on data from the UK Family Resources Survey dataset.

Table X1 shows the main results for each reform option in terms of the overall costings (summing across the years 2016-17 to 2020-21) and the impact on the number of pensioners in poverty under the relative and absolute Before Housing Cost (BHC) definition. The main report also contains graphs for the distributional impact of each reform option on the distribution of income for pensioners and across the whole population: these are not reproduced in the summary for space reasons but the main findings are described below.

Table X1. Main results for each reform option: Costs and poverty impact

Results	Reform Option				
	1: reset SPA to 60	*2: return to 1995 Act*	*3: slower increase to 66*	*4: reduce PC qualifying age*	*5: claim early, lower rate*
Total cost, £bn (2016-17 to 2020-21)	60.0	7.9	2.0	1.1	4.0
Change in pensioner poverty (000s):					
Relative BHC	+120	-10	0	-20	-10
Absolute BHC	-80	-30	-10	-20	-30

Option 1 (resetting women's SPA to 60) is extremely expensive at £60 billion total costs over the five tax years 2016-17 to 2020-21. The high costs of the policy, coupled with the fact that it goes against the grain of EU policy as well as the policy approach of successive UK governments (which is to encourage equalisation of pension ages for men and women) ensure that it is unlikely to be considered seriously as a policy option. However, it is still worth including in this report for the purposes of comparison with the other options. Distributionally the policy is relatively progressive, although it leads to a rise in relative pensioner poverty because the dramatic reduction in women's SPA leads to an increase in median household incomes.

Option 2 (returning to the timetable for increases in women's SPA set out in the 1995 Pensions Act, with women's SPA rising to 65 by 2020) is the second most expensive option at around £8 billion over the five years. This is not a trivial cost but neither is it prohibitively expensive on a per-year basis. This Option has the merit of completely eliminating the problem of accelerated increase in pension ages for women born in the 1950s by returning to a timetable set out two decades ago, which gives women much more time to adapt to the increase in SPA. It would then be possible to increase women's SPA to 66 at some later point in the 2020s. The reform is distributionally progressive for couple pensioners but less so for single pensioners,

with the biggest average gains for single pensioners in the middle quintile of the income distribution. The reform reduces relative and absolute pensioner poverty (although the impacts are relatively small).

Option 3 (slowing the timetable for the increase in women's SPA set out in the 2011 Act) has similar impacts to Option 2 but is less ambitious in that it mitigates, rather than solving completely, the problem of the accelerated increase in women's pension ages. The most extreme cases which emerged as a result of the 2011 Act (where women faced an additional wait of 18 months or more before claiming their pensions) disappear, but there are still a large number of women facing an increase of up to a year under this reform option. Nonetheless, the total cost of this Option (£2 billion over five years) is far lower than Option 2, so it has merit as a lower-cost alternative.

Option 4 (allowing women whose SPA is increased above 65 to claim Pension Credit aged 65) is an even cheaper option than Option 3, at only £1.1 billion over the five years (with almost all the costs incurred in 2019-20 and 2020-21). This Option also has very progressive distributional impacts (because Pension Credit is means-tested and so only available to lower-income pensioners) and results in modest reductions in relative and absolute pensioner poverty. The main drawbacks of the policy are that (a) it doesn't help women affected by the 2011 Pensions Act whose income is too high to qualify for Pension Credit, and (b) some low income female pensioners who are in a couple would be unable to qualify for Pension Credit under the rules for Universal Credit (which we assume will be fully rolled out by the end of 2018) because *both* adults in a couple need to be of pensionable age to qualify for Universal Credit.

Finally, **Option 5** (allowing women whose SPA is increased above 65 to claim the State Pension at age 65 at a reduced rate) is moderately expensive (although not unaffordable) at a total cost of £4 billion. Depending on future life expectancy of women who choose to take their pension early under this model – much, and perhaps all, of this cost would be recouped in later decades through lower weekly pension payments to women in the affected group. The distributional and poverty impacts are similar to Option 2, although less pronounced. This option is worth considering as an alternative to Option 2 which would recoup some (or all) of the costs over a longer period.

Introduction

The Scottish National Party has commissioned Landman Economics to undertake an analysis of the costs and distributional impacts of a number of potential changes to pension arrangements for women born in the 1950s who will lose out from the changes to women's retirement ages announced in the Pensions Act 2011. This report is the final report from the project.

The structure of this report is as follows. Chapter 1 provides the relevant background to the changes to women's retirement ages as implemented in the Pensions Act 2011, gives estimates of the number of women affected by the changes, and details new developments since 2011 – in particular the recent campaign by the WASPI (Women Against State Pension Inequality) group. Chapter 2 gives an overview of trends in women's pension ages in other European countries. Chapter 3 explains the specific reforms to the timetable for the increase in women's pension age which this report focuses on. Chapter 4 explains the methodology for the modelling work. Chapter 5 gives details of the results of the modelling. Chapter 6 discusses the policy implications of the results and draws conclusions.

1 Background

Changes to women's retirement ages in the Pensions Act 2011

Until 2010, the State Pension Age (SPA) was 60 for women and 65 for men. The Pensions Act 1995 introduced a timetable for the equalisation of the SPA at 65, phased in over ten years (from 2010 to 2020), with women's SPA reaching 65 in April 2020.

The Pensions Act 2007 introduced a timetable for further increases in the SPA for men and women from 65 to 66 between 2024 and 2026, and from 66 to 67 between 2034 and 2036.

Following the 2010 UK General Election, the Conservative-Liberal Democrat Coalition Government announced that it would bring forward the increase in the SPA to 66 in the light of increases in life expectancy since the 2007 Act. The Government initially said it would increase the SPA to 66 by April 2020. To enable this, it would accelerate the increase in women's SPA from April 2016 (when it would be 63) to reach 65 by November 2018 rather than April 2020. The increase would be phased in at a rate of three months' increase in the SPA every four months (considerably faster than the rate of increase of one month every two months in the 1995 and 2007 Pensions Acts).

When the legislation for the Pensions Act 2011 was before Parliament, concerns were expressed at the limited notice some women would get of an increase in the SPA which affected them and the extent of the increase in the SPA for these women compared to the timetable in existing legislation. In response to these concerns the Coalition Government amended the legislation in its final stages in Parliament to cap the maximum increase in pension age at 18 months, relative to the timetable in the 1995 Act. Women's SPA would still reach 65 in November 2018 but the increase to 66 would happen by October 2020 rather than April 2020. This improved the position (compared to the legislation as originally drafted) for women born between 6 January 1954 and 5 September 1954. They would otherwise have seen their SPA increase by more than 18 months and as much as two years in some cases.

Figure 1 below shows the changes made to the SPA for women between 2010 and 2035 under the Pensions Act 1995 (as amended by the Pensions Act 2007), the Pensions Act 2011 and the Pensions Act 2014 (which brings the increase in the SPA to 67 forward to between 2026 and 2028).

Figure 1. Increases in Women's State Pension Age from 2010 to 2036 as legislated in the Pensions Acts 1995, 2011 and 2014

State Pension Age for women 2010 to 2036

Pensions Act 2011

Pensions Act 1995 (as amended by Pensions Act 2007)
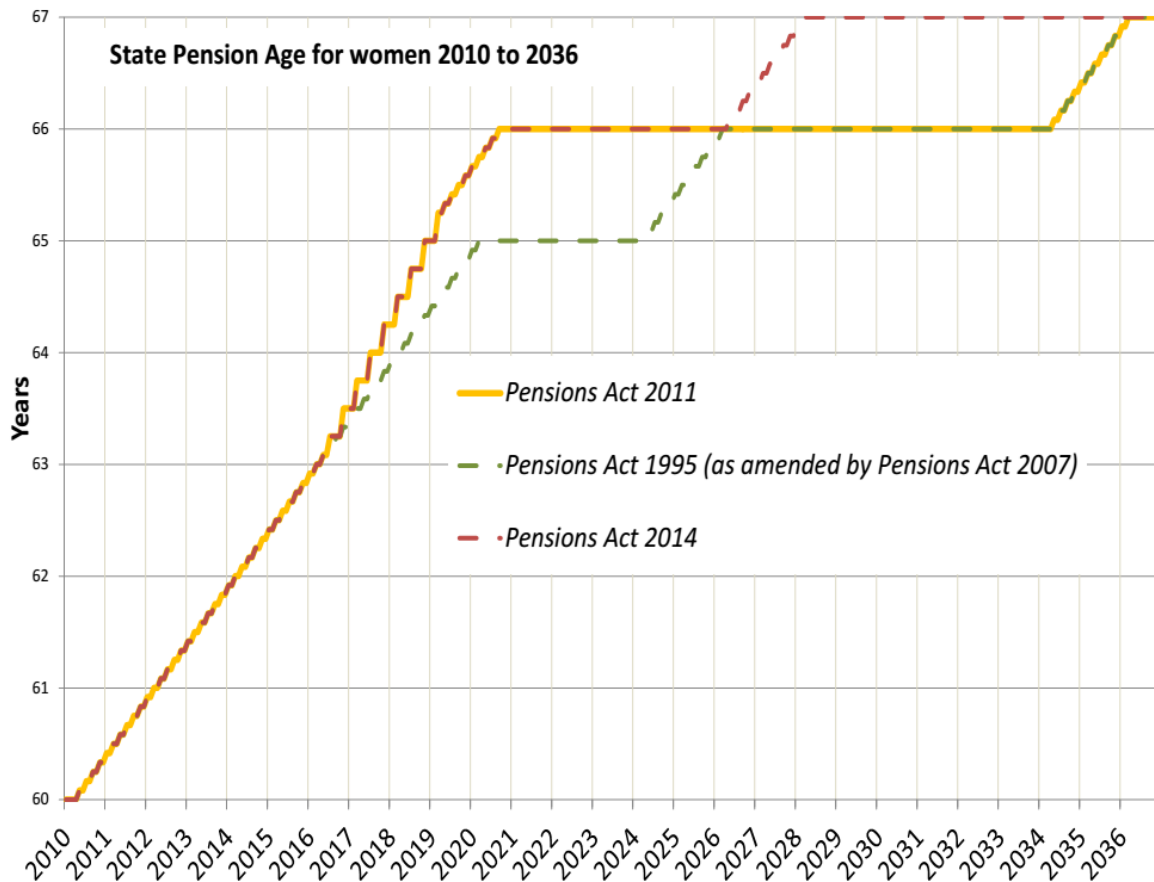
Pensions Act 2014

Source: House of Commons Library, *State Pension age increases for women born in the 1950s*, Briefing Paper No. CBP-07405, 24 March 2016.

Concerns about the impact of the changes to women's SPA in the Pensions Act 2011

The changes in the Pensions Act 2011 affected around 5 million people (2.6 million women and 2.3 million men[1]) born between 1953 (6 April for women, 6 December for men) and 5 April 1960 who will have to wait longer before they reach SPA. Of this number:

- An estimated 4.5 million people will have their SPA increased by less than a year;
- An estimated 500,000 women born between 6 October 1953 and 5 April 1955 will have their SPA increased by more than a year;

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[1] The source for statistics on number of women (and men) affected in this section is DWP's *Pensions Bill Impact Assessment*, November 2011, table 5.

- Around 300,000 women born between 6 December 1953 and 5 October 1954 will have their SPA increased by 18 months.

The campaign group WASPI (Women Against State Pension Inequality) has argued that women born in the 1950s suffered disproportionately from the plans introduced in the 2011 Act, and called on the Government to make fair transitional State Pension arrangements for 1950s women:

> *The 1995 Conservative Government's Pension Act included plans to increase women's SPA to 65, the same as men's. Women Against State Pension Inequality (WASPI) agree with equalisation but don't agree with the unfair way the changes were implemented – with little/no personal notice (1995/2011 Pension Acts), faster than promised (2011 Pension Act), and no time to make alternative plans. Retirement plans have been shattered with devastating consequences[2].*

WASPI's petition calling for the Government to "make fair transitional state pension arrangements for 1950s women" had over 180,000 signatures by the end of March 2016.

On 7 January 2016, the UK House of Commons voted by 158 votes to 0 in support of a motion from the Scottish National Party:

> *That this House, while welcoming the equalisation of the state pension age, is concerned that the acceleration of that equalisation directly discriminates against women born on or after 6 April 1951, leaving women with only a few years to make alternative arrangements, adversely affecting their retirement plans and causing undue hardship; regrets that the Government has failed to address a lifetime of low pay and inequality faced by many women; and calls on the Government to immediately introduce transitional arrangements for those women negatively affected by that equalisation.*

However, the Conservative Government which took office after the UK General Election of May 2015 has said that it has no plans to revise the SPA arrangements for women affected by the 1995 or 2011 Acts.

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[2] UK Parliament Petition – Make fair transitional state pension arrangement for 1950s women, https://petition.parliament.uk/petitions/110776

2 Reforms to pension ages elsewhere in Europe

European Community Directive 79/7 requires "the progressive implementation of the principle of equal treatment for men and women in matters of social security". It allows for differences in the statutory pension age, although this must be periodically reviewed and the Commission informed of the reasons for maintaining existing provisions[3].

The EU Social Protection Committee explains that most member states have mechanisms for a "gradual increase in the pensionable age as a part of an on-going trend to improve pension sustainability through later retirement and longer working lives and thus also contributing to pension adequacy." This is illustrated in Table 1 below.

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[3] EC Directive 79/7/EEC – *on the progressive implementation of equal treatment of men and women in matters of social security*, Articles 7 and 8.

Table 1. Pensionable ages in the EU, 2009-2020 and beyond

Country	2009		2013		2020		After 2020	
	Men	Women	Men	Women	Men	Women	Men	Women
Belgium	65		65		65		67 (in 2030)	
Bulgaria	63	60	63y8m	60y8m	64y3m	61y6m	65	
Czech Rep.	62	56y8m – 60y8m[i]	62y6m	57y8m – 61y8m[i]	63y10m	60y6m – 63y10m[ii]	67+ (in 2044)[III]	
Denmark	65		65		66		67 (in 2022)+[IV]	
Germany	65		65y2m		65y9m		65y10m-67 (in 2029)	
Estonia	63	61	63	61	63 (in 2016)		65 (in 2026)	
Ireland	65		66		66		67 (in 2021); 68 (in 2028)	
Greece	65	60	67	62	67		67+[V]	
Spain	65		65 – 65y1m[VI]		65 – 65y10m[VI]		65-67 (in 2027)[VI]	
France	60-65[VI]		61y2m		62-67[VI]			
Croatia	65	60	65	60y9m	65	62y6m[VII]	65 (in 2030), 67 (in 2031-2038)	
Italy	65y4m	60y4m	66y3m	63y9m[XVIII]	67		67+[V]	
Cyprus	65		65		65+[VIII]			
Latvia	62		62		63y9m		65 (in 2025)[IX]	
Lithuania	62y6m	60	62y10m	60y8m	64	63	65 (in 2026)[X]	
Luxembourg	65		65		65		65	
Hungary	62		62		64y6m		65 (in 2022)	
Malta	61	60	62		63		65 (in 2026)	
Netherlands	65		65y1m		66y8m		67+ (in 2021)[XI]	
Austria	65	60	65	60	65	60	65 (in 2024-2033)	
Poland	65	60	65y1m[XII]	60y1m	66y10m - 67	61y10m - 62	67 (in 2020)	67 (in 2040)
Portugal	65		65		66+[XIII]			
Romania	63y4m	58y4m	64y8m	59y8m	65 (in 2015)	61	65	63 (in 2030)
Slovenia	63	61	63	63y6m[XVII]	65			
Slovakia	62	55y3m – 59y3m[i]	62	57y6m – 61y6m[i]	62+[XIV]			
Finland	63-68[XV]		63-68[XV]		63-68[XV]		63-68[XV]	
Sweden	61-67[XV]		61-67[XV]		61-67[XV]			
UK	65	60	65	61y3m – 61y8m	66		67+ (from 2028)[XVI]	

Source: EU Social Protection Committee (2015), *Review of recent social policy reform – Report of the Social Protection Committee*, p35.

3 Modelled Reforms

This report models five different reform options for compensating women born in the 1950s who lose out from the accelerated increases in the SPA specified in the Pensions Act 2011. The reforms modelled are as follows:

Option 1: Resetting women's pension age to 60

This option would reduce women's pension age back down to 60 – where it was in 2010 before the increases in pension age in the 1995 Pensions Act began to take effect. This is the most radical option which would affect a much larger number of women than any of the other options assessed in this report (around 2.6 million women, according to ONS population projections for the year 2020). It is also much more expensive than any other option examined here.

Option 2: Return to the timetable in the 1995 Pensions Act

This option restores the timetable specified in the 1995 Pensions Act (whereby women's pension age rises from 63 in March 2016 to 65 by April 2020). The rise from 65 to 66 would be delayed until 2024 (as specified in the Pensions Act 2007).

Option 3: Slow the timetable for increasing women's pension age

This option maintains a rise in women's SPA to 66 but over a slower timetable than set out in the 2011 Act, as follows:

- Women's SPA rises from 63 in March 2016 to 65 by April 2019 (rather than November 2018 as specified in the 2011 Act);
- Women's SPA then rises from 65 in April 2019 to 66 by April 2021 (rather than October 2020 as specified in the 2011 Act).

Slowing the timetable in this way would mitigate the size of the increase in SPA for women born in 1954 – the group most badly affected by the changes in the SPA introduced in the 2011 Act – considerably.

Option 4: Reduce the qualifying age for Pension Credit to 65 for a transitional period

This option keeps the timetable for increasing women's SPA to 66 as specified in the Pensions Act 2011, but lowers the qualifying age for Pension Credit to 65 for the

period from November 2018 to April 2021. This option is designed to compensate women aged between 65 and 66 on low incomes who would otherwise be particularly adversely affected by the accelerated timetable for the increase in women's SPA from 65 to 66.

Option 5: allow women affected by the increase in SPA to 66 to receive the State Pension at age 65 on an actuarially fair basis

This option would allow women affected by the accelerated increase in the SPA to 66 to claim the State Pension at any time from age 65 onwards, but at a slightly lower rate than the full pension (which is currently £155.65 per week for the 2016-17 tax year, but is estimated to be approximately £177 per week in the 2020-21 tax year under current uprating rules)[4].

Women (and men) are already allowed to defer their claim for the State Pension, in exchange for receiving a higher rate of pension when they do claim. For the single tier pension which comes into affect in April 2016, the weekly pension payment increases by around 5.8 percent for each year that the pension is deferred. Effectively Option 5 as outlined here works exactly the same as deferral but in reverse – so we have assumed that a woman in the affected group who claims at age 65 rather than 66 would receive a weekly pension at a rate 5.8 percent lower than if she had waited until age 66 to claim.

The analysis in this report assumes that *all* women whose pension age is higher than 65 opt to claim their pension at age 65 at the lower rate. In practice, this is unlikely to be the case as some women would be likely to defer until the age at which they can claim the full State Pension, but assuming full take-up of early claims shows what the *maximum* fiscal impact of Option 5 would be.

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[4] The projected value for the state pension in April 2020 has been calculated using the OBR's forecast for the 'Triple lock' uprating formula in the March 2016 *Economic and Fiscal Outlook*, Table 4.1.

4   Methodology

The five reforms to women's SPA examined in this project are modelled using the Landman Economics tax-benefit model. This is a microsimulation model of the tax and social security system, which runs on data from the Family Resources Survey for 2012/13. Full details of the model specification are given in Appendix A.

The reforms are evaluated using the following criteria:

- the net cost to the UK Government (in terms of increased state pension payments or other benefits in the case of Option 4);
- the distributional effects (mainly for single and couple pensioners by income quintile, although the analysis also looks at the overall effects by household income decile);
- the impact on pensioner poverty.

The results are compared with a baseline scenario which is the timetable for women's pension age as currently set out in the Pensions Act 2011 (where women's SPA reaches 66 in October 2020).

The net costings are shown over a five year period, for the current tax year (2016-17) and the next four tax years (2017-18, 2018-19, 2019-20 and 2020-21). This allows an analysis of the cumulative cost of each option relative to the baseline scenario.

The distributional and poverty analyses of the results are shown for the 2019-20 tax year, mainly because this is the tax year when all five options have measurable effects. While Options 1 and 2 produce relatively large effects over all five years included in the modelling, Options 4 and 5 only become operative from November 2018 onwards, and Option 3 has relatively small effects in the 2020-21 tax year as the difference in women's SPA compared to the baseline scenario is not that large by then.

 The tax-benefit system used for the simulations includes all the changes announced in the July 2015 Budget, the 2015 Spending Review and Autumn Statement and the 2016 Budget as well as any changes announced by the 2010-15 Coalition Government that are scheduled to take effect at some point during the current Parliament.

The Landman Economics tax-benefit model is used to calculate net incomes for each individual family in the UK Family Resources Survey data under the baseline tax benefit system (which includes the timetable for increases in women's SPA set out in the 2011 Pensions Act and under each of the 5 options that we model). As explained in more detail in Appendix A, the main limitation of the Landman Economics tax-benefit model is that it is *static*; i.e. it assumes that the lowering of the

SPA (or in the case of Option 4, the reduction in the qualifying age for Pension Credit) has no impact on women's labour market behaviour. In practice this assumption is unlikely to hold as the change in the SPA is likely to alter incentives over when to retire and may lead to a reduction in labour supply. Research by the Institute for Fiscal Studies [IFS] in 2013 found that women's employment rates at 60 increased by 7.3 percentage points when the SPA increased to 61 between 2010 and 2012[5]. Hence the results reported in Chapter 5 below include an adjustment to the costings to take account of reduced employment rates for women whose pension age is decreased by the reforms. Appendix B of this report presents the net costings without the employment correction, for comparison purposes.

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[5] IFS, *Incentives, Shocks or Signals: Labour supply effects of increasing the female state pension age in the UK*, March 2013.

5   Results

Costings

Table 2 shows the costs of each of the five options modelled in the interim report for the five tax years from 2016-17 to 2020-21, and the cumulative costs of each reform option over the five year period. Due to the inherent uncertainty of the estimation process, results are reported to the nearest £0.1 billion only. Note that the costings are expressed in current (April 2016) prices, and include a correction for the impact of changing the pension age on women's labour supply (as explained in Chapter 4 above).

Table 2. Costs of each option for changing women's SPA, 2016-17 to 2020-21

Reform option	Costings (£bn, April 2016 prices)					
	2016/17	2017/18	2018/19	2019/20	2020/21	Total, all 5 years
1: Reset to 60	5.5	9.1	12.8	15.4	17.2	**60.0**
2: Return to 1995 Act	0.2	0.9	1.8	2.2	2.8	**7.9**
3: Slow timetable for increase to 66	0.1	0.4	0.6	0.6	0.4	**2.0**
4: Reduce PC qualifying age to 65	0.0	0.0	0.0	0.4	0.7	**1.1**
5: Allow women to take pension at 65 at lower rate	0.0	0.0	0.1	1.3	2.7	**4.0**

Note: costings include correction for employment impact of decreasing women's SPA. See Appendix A for details of methodology; See Appendix B for 'uncorrected' costings

Option 1, resetting the pension age to 60 (the status quo before the 1995 Pension Act), is by far the most expensive option at a total cost of £60 billion over the 5 years up to 2020-21. The reason for this high cost is that the policy affects far more women than any of the other options (all women aged 60 to 65 in 2020-21, whereas the other options only affect 65-year-olds). Thus, Option 1 is a particularly expensive option because it affects a much larger group of women than the group born between October 1953 and April 1955 whose SPA was raised by more than a year as a result of the 2011 Pensions Act.

Option 2 (returning to the timetable for SPA increase set out in the 1995 Pensions Act, with women's SPA set at 65 in the 2020-21 tax year) has a much lower total cost than Option 1, at just under £8 billion by 2020-21. The cost of Option 2 is lower than Option 1 because it affects a much smaller number of women than Option 1 – only around 500,000 women by 2020, compared to around 2.6 million women for Option 1).

Option 3 (slowing down the timetable for the increase in SPA to 66) is a still cheaper option, at a total cost of only £2 billion by 2020-21. Once again this is because Option 3 affects a smaller group of women than Option 1. Option 3 also has no ongoing costs compared to the baseline after the 2020-21 tax year because by April 2021, women's SPA reaches 66 under Option 3 (which is the same as women's SPA in the baseline scenario). By contrast, Options 1 and 2 lead to ongoing costs relative to the baseline because women's SPA is set lower in 2021-22 and subsequent tax years under each of these Options (60 for Option 1 and 65 for Option 2).

Option 4 (allowing women whose retirement age is above 65 in the baseline scenario to claim Pension Credit at 65) has total costs of just over £1.1 billion by 2020-21. Almost all of these costs are incurred in the 2019-20 and 2020-21 tax years, because women's pension age does not start to rise above 65 until November 2018.

Option 5 (allowing women whose retirement age is above 65 in the baseline scenario to claim their State Pension at a reduced rate) costs approximately £4.0 billion by 2020-21. As with Option 4, most of these costs are incurred in the 2019-20 and 2020-21 tax years. However, Option 5 affects a larger number of women than Option 4 (under the assumption used here, which is that all women in the affected group claim their pension at a reduced rate at 65 rather than waiting to the age of 66). By contrast, women in the affected age group in Option 4 are only eligible to claim Pension Credit if: (a) their family income is low enough to qualify for Pension Credit, and (b) if in a couple, if their partner is also old enough to qualify the couple for Pension Credit[6].

Appendix B shows the costings of each reform option *without* the correction for the employment impacts of changing women's SPA. In general, taking account of the employment impact adds around 5 percent to the net costs of each option, as a result of decreased employment arising from the lower state pension age (or in the case of Option 4, as a result of women on low incomes being able to claim Pension Credit at age 65 if their SPA is above 65). Thus, the employment impacts of changing women's SPA appear to have a relatively modest impact on the aggregate costs of each reform option.

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[6] The age qualification rules for Pension Credit are changing as Universal Credit is rolled out. Under the previous means-tested benefit and tax credit system for working age people, a couple was eligible for Pension Credit if at least one of the couple was at State Pension Age or above. Under Universal Credit, the couple will only be eligible for Pension Credit if *both* of them have reached SPA. This means that (for example) a 65-year-old woman with partner aged under 66 would *not* qualify for Pension Credit under Option 4 (as the analysis here for Option 4 assumes full roll-out of Universal Credit by the time Option 4 starts to take effect in November 2018, in line with the Government's current timetable of 2018 for completing the roll-out.

Distributional impact for pensioners

This section analyses the effects of the five reform options for single and couple pensioners by quintile of disposable income for the tax year 2019-20. The Landman Economics tax-benefit model assigns all families (including pensioner and non-pensioner families) to one of five quintiles depending on their net disposable incomes under the base tax-benefit scenario[7]. Pensioner families in the model are defined as any family with at least one adult aged 65 or over.

Figure 2 shows the average impact in weekly cash terms of each reform option for single pensioners in 2019-20. Option 1 and Option 2 both produce average weekly gains for this group of less than £1 per week in the lowest quintile, between £1 and £2 per week in the middle three quintiles, and around £3 per week in the top quintile. The average gains are the same for Option 1 and Option 2, despite the fact that Option 1 is much more expensive overall than Option 2 (as shown in Table 2 above). This is because the single pensioner group shown here *only includes women aged 65 and over*. Many women aged 60 to 64 in 2019-20 also benefit from reform Option 1 but these women are not included in the single pensioner group as defined here. The reasons that the average gain for pensioners is lower in the bottom quintile is that most pensioners in this part of the income distribution have little or no entitlement to a State Pension because they have made only limited National Insurance Contributions over their lifetimes. For pensioners in the top quintile the opposite is the case – most pensioners in this group have a full contributions record and benefit by the full amount of just over £170 per week (at 2019 prices).

Reform option 3 has a similar distributional pattern to Options 1 and 2 in that the biggest gains go to the top quintile of pensioners, but the gains are not as large because the number of 65-year-old women who benefit from Option 3 is smaller than for Options 1 and 2. By contrast, for Option 4 – where 65 year old women are eligible for Pension Credit despite the increase in SPA to 66 – the average gains for women in the bottom 3 quintiles are higher than the gains for women in quintiles 4 and 5. This is because Pension Credit is means-tested rather than based on previous contributions like the State Pension, and so there are relatively few pensioners in the top two quintiles eligible to receive it. Clearly, Option 4 is a more progressive reform, distributionally speaking, than Options 1, 2 or 3.

Option 5 – where 65-year old female pensioners can receive the State Pension at a slightly lower rate – has a very similar distributional profile to Options 1 and 3, but the average gains are slightly lower (because the rate which the pension is paid at is slightly lower).

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[7] Note that the net income measure used in the tax-benefit model is equivalised, i.e. it controls for family size. This is to take account of the notion that a family with a large numbers of adults and/or children in it needs a higher income to reach the same standard of living compared to a smaller family.

Figure 2. Average distributional impact of reform options in cash terms (per week) for single pensioners, 2019-20 tax year
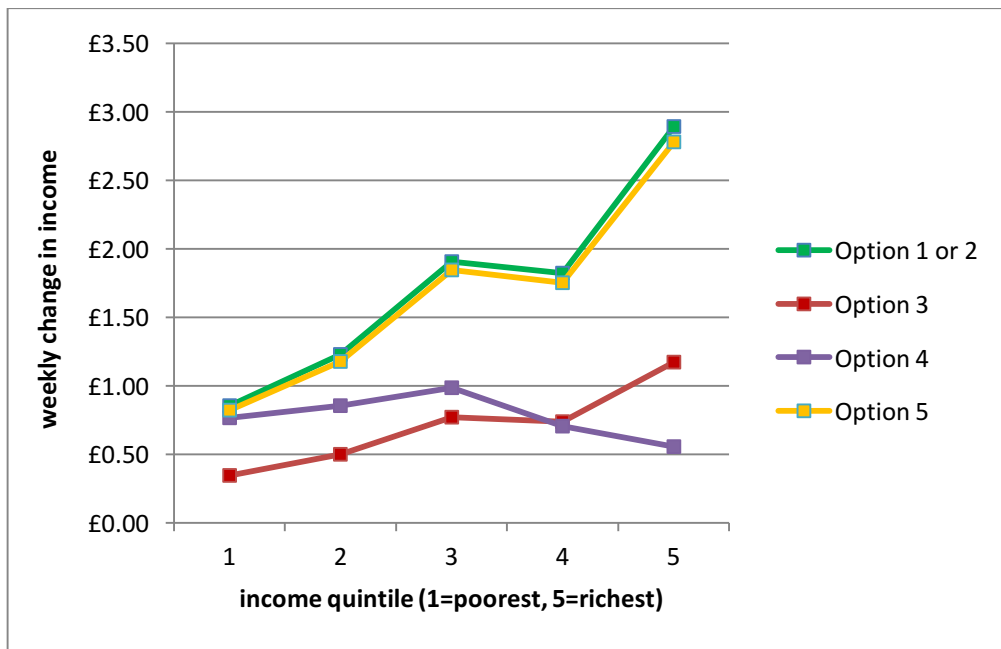

Figure 3 shows the cash impact of the reform options 2, 3 and 4 for pensioner couples, again by disposable income quintile. Option 1 (reducing women's SPA to 60) has been left off because it results in average gains that are much bigger than any other reform (ranging from around £10 per week in the bottom two quintiles to £30 per week in the top quintile)[8] and the resulting scale of the graph when option 1 is included makes it very different to see the distributional patterns for the other three options. Appendix C contains a version of Figure 3 with Option 1 included.

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[8] The reason that the average impacts of option 1 and option 3 for pensioner *couples* are different, whereas for single pensioners they were the same, is that the pensioner couple category is defined in the model as 'an adult couple where at least one adult is aged 65 or over'. This means that the category contains a lot of couples with a man aged 65 or over plus a woman aged between 60 and 64. These couples are affected by reform option 1 but not by option 3; hence the average gain in incomes from option 1 is a lot bigger than for option 3. For single pensioners this is not the case as eligibility for the group is defined only in terms of the sole adult's age and so women aged 60 to 64 are never in the *single* pensioner group.

Figure 3. Average distributional impact of reform options 2, 3 and 4 in cash terms (per week) for couple pensioners, 2019-20 tax year
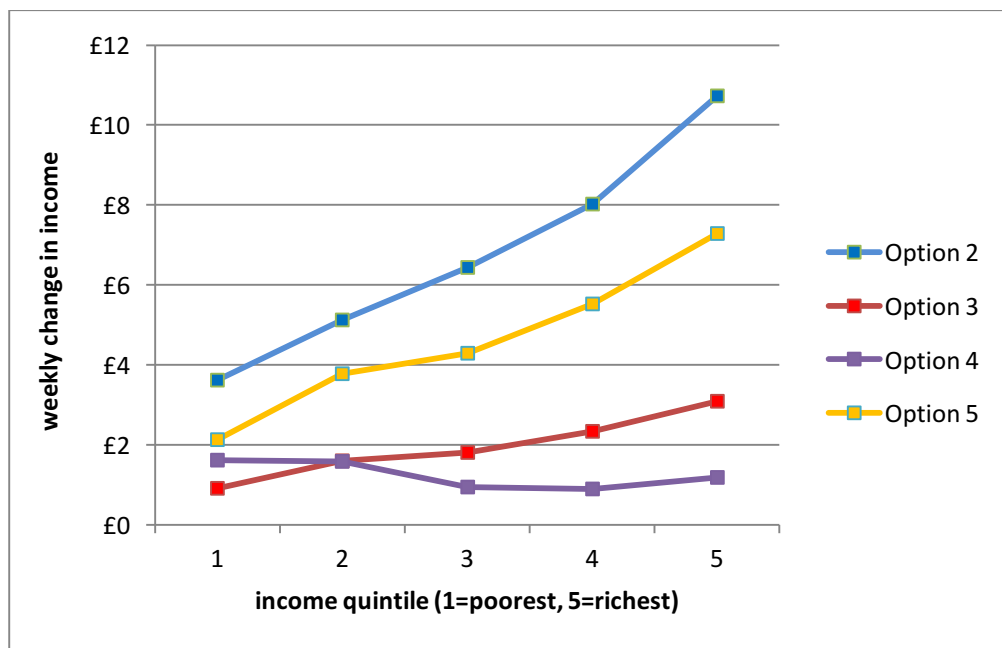
For reform option 2, the average cash gains for couple pensioners are higher, the greater the couple's income. Pensioners in the bottom quintile gain an average of just under £4 per week from option 2 compared to around £11 per week in the top quintile. The pattern of impact for Option 3 is similar but a lot smaller on average (with gains between around £1 per week for the lowest quintile and around £3 per week for the top quintile). Option 4 has a larger cash impact for the bottom two deciles than the top three deciles, with gains of around £1.80 per week for the bottom two deciles. Option 5 has a similar distributional pattern to Option 2 but the average gains are somewhat smaller (ranging from £2 in the bottom quintile to around £7 in the top quintile).

Figures 4 and 5 show the same changes in net incomes as Figures 1 and 2 but expressed as a percentage of net income rather than in cash terms. In Figure 4, the progressiveness of reform option 4 – lowering the qualifying age for Pension Credit – is much clearer, with single pensioners in the bottom quintile gaining by around 0.4 percent on average compared to less than 0.1 percent for the top quintile. By contrast, the distributional effects of options 1, 2 and 3 and 5 have an 'inverted U' shape, with the highest average gains in percentage terms for single pensioners in the middle quintile.

Figure 4. Average distributional impact of reform options 2-5 as percentage of net income for single pensioners, 2019-20 tax year
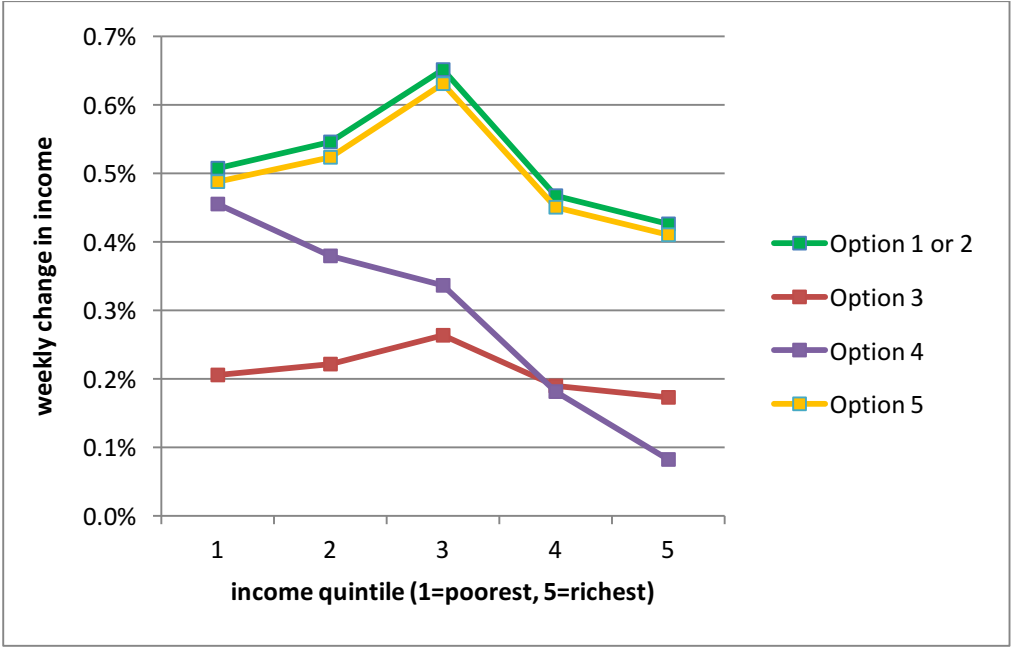

Figure 5 shows that for couple pensioners options 2, 3 and 5 are slightly more progressive than for single pensioners across most of the distribution, with the biggest gainers in percentage terms in the second income quintile (although the average gains in the bottom quintile are a lot lower in each case). Option 4 is strongly progressive across the distribution, with average gains of around 0.7% in the bottom quintile compared to only 0.1% in the top quintile. (Note that Appendix C contains a version of Figure 5 with Option 1 included for comparison purposes).

Figure 5. Average distributional impact of reform options 2-5 as percentage of net income for couple pensioners, 2019-20 tax year
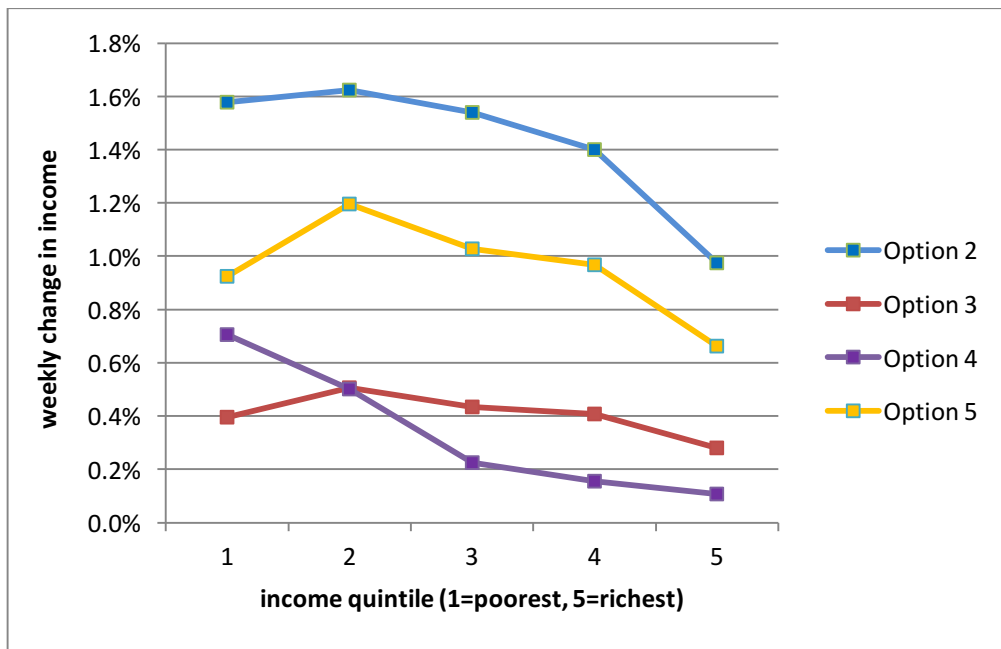
Impact across the whole income distribution

Figures 6 and 7 show the distributional impact of reform options 1 to 5 across the income distribution (by decile) across *all* households (not just pensioner households). These graphs are useful as they show the overall distributional effects of the reforms; especially given that Option 1 affects single women aged under 65 who were not included in Figures 2 or 4.

The results are shown as the average percentage change in each decile (similar to the results for pensioners by quintile group in Figures 3 and 5). Because Option 1 has a much larger distributional impact (up to 2 per cent of net income) it is shown separately, in Figure 6. The distributional impact in 2019-20 of reducing women's SPA to 60 is broadly progressive except for the bottom decile. The largest percentage gains are found in the second decile with average gains of 2.8 percent. Average gains in deciles 3 to 7 are around 2 percent; in the 8th to 10th deciles the average gains are smaller, with the top decile smallest of all at around 0.6 percent.

Figure 6. Average distributional impact of reform option 1 as percentage of net income for all households, by income decile, 2019-20 tax year
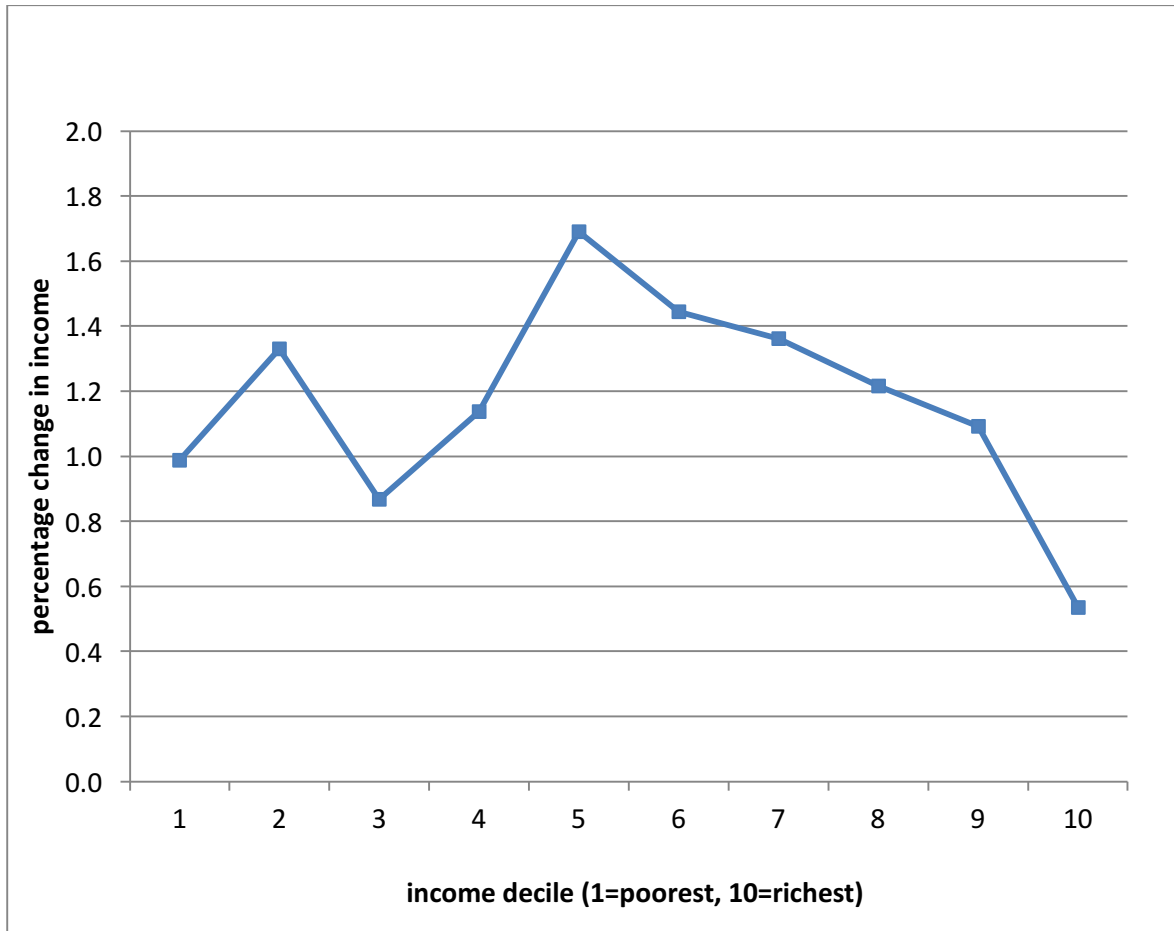

Figure 7 shows the decile impact of reform options 2, 3, 4 and 5 on a smaller distributional scale (up to 0.5 percent of net income). The impact of Options 2, 3 and 5 is largest in the middle of the income distribution, and is smaller in average percentage terms for the poorest and richest households. The impact of Option 4, not surprisingly, is more progressive, at least for households in decile 2 and above; the impact for households in decile 2 is smaller than for decile 3 (mainly because fewer pensioner households are located in decile 2) and for the bottom decile there is no impact at all (because almost no pensioners are poor enough to be in the bottom decile)[9].

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[9] Partly this is because the model assumes full take up of Pension Credit and other means-tested benefits (see Appendix A for full details of the methodology).

Figure 7. Average distributional impact of reform options 2, 3 and 4 as percentage of net income for all households, by income decile
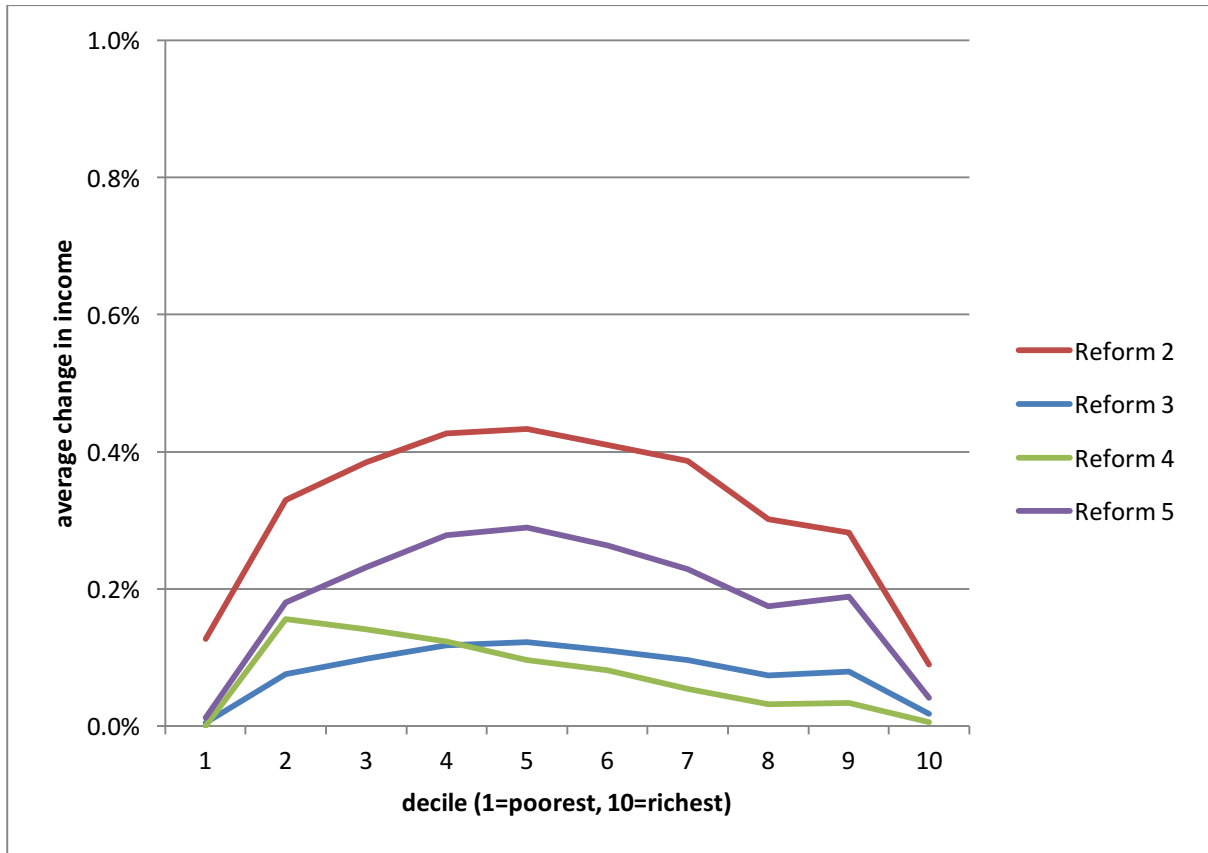
Impact of reforms on pensioner poverty

Table 3 shows the impact of the five reform options modelled for this report on pensioner poverty. Two different measures of poverty are featured:

- **Relative poverty**: defined as the proportion of pensioners living in households whose disposable income (correcting for family size) is below 60 percent of median household disposable income as projected in the 2019/20 financial year.
- **Absolute poverty**: defined as the proportion of pensioners living in households whose disposable income (correcting for family size) is below 60 percent of median household disposable income for the 2010/11 financial year (as uprated to 2019/20 using RPI inflation).

These are the standard measures of Before Housing Costs (BHC) poverty which feature in the UK Government's annual Households Below Average Income (HBAI) publication.

Table 3. Impact of reform options on number and percentage of pensioners in poverty in the 2019-20 tax year (relative and absolute)

Reform option	1: Reset to 60	2: Return to 1995 Act	3: Slow timetable for increase to 66	4: Reduce PC qualifying age to 65	5: Allow women to claim pension at lower rate at 65
Relative poverty: (below 60% of BHC median income in 2020/21)					
Change in number of poor pensioners (1000s)	+120	-10	0	-20	-10
Change in % of poor pensioners (ppts)	+0.9	-0.1	0.0	-0.1	-0.1
Relative poverty: (below 60% of BHC median income in 2010/11, uprated)					
Change in number of poor pensioners (1000s)	-80	-30	-10	-20	-30
Change in % of poor pensioners (ppts)	-0.6	-0.2	-0.1	-0.1	-0.2

Table 3 shows that Option 1 (resetting women's pension age to 60) would actually *increase* the number of pensioners in relative poverty by approximately 120,000, an increase of 0.9 percentage points. This is a consequence of the distributional patterns seen in Figures 1 and 2 earlier. The gains from Option 1 largely accrue to pensioners in the middle and (especially) the upper reaches of the income distribution. This increases median incomes and moves the poverty line upwards, meaning that a larger number of pensioners on low incomes fall below the line. On the other hand, Option 1 reduces *absolute* pensioner poverty (which is a fixed poverty line) by around 80,000, or 0.6 percentage points.

Option 3 (slowing the timetable for the increase in women's SPA to 66) does not have any significant impact on relative poverty, and reduces absolute poverty by only 10,000. Option 2 (returning to the timetable for SPA increase in the 1995 Pension Act) has only a small impact on relative pensioner poverty (reducing it by 10,000) but results in a slightly bigger reduction (of around 30,000) in absolute poverty. Option 4 (lowering the Pension Credit qualifying age for women) also reduces absolute poverty by 30,000 but additionally, reduces *relative* pensioner poverty by around 20,000 (0.1 percentage points). This reflects the earlier results where Option 4 was shown to be more progressive, distributionally speaking, than Option 3. Option 5 has almost identical impacts on pensioner poverty to Option 2.

6 Discussion and conclusions

This report has examined five options for policy reforms which would mitigate (or in some cases resolve completely) the problem of the accelerated increase in the State Pension Age for women born in the 1950s which was created by the 2011 Pensions Act, and which the WASPI campaign group has highlighted.

The main findings centre on **affordability**, **distributional impacts** and **poverty impacts**. In these conclusions, we examine each option in turn against these three criteria.

Option 1 (resetting women's SPA to 60) is extremely expensive at £60 billion total costs over the five tax years 2016-17 to 2020-21. The high costs of the policy, coupled with the fact that it goes against the grain of EU policy as well as the policy approach of successive UK governments (which is to encourage equalisation of pension ages for men and women) ensure that it is unlikely to be considered seriously as a policy option. However, it is still worth including in this report for the purposes of comparison with the other options. Distributionally the policy is relatively progressive, although it leads to a rise in relative pensioner poverty because the dramatic reduction in women's SPA leads to an increase in median household incomes.

Option 2 (returning to the timetable for increases in women's SPA set out in the 1995 Pensions Act, with women's SPA rising to 65 by 2020) is the second most expensive option at around £8 billion over the five years. This is not a trivial cost but neither is it prohibitively expensive on a per-year basis. This Option has the merit of completely eliminating the problem of accelerated increase in pension ages for women born in the 1950s by returning to a timetable set out two decades ago, which gives women much more time to adapt to the increase in SPA. It would then be possible to increase women's SPA to 66 at some later point in the 2020s. The reform is distributionally progressive for couple pensioners but less so for single pensioners, with the biggest average gains for single pensioners in the middle quintile of the income distribution. The reform reduces relative and absolute pensioner poverty (although the impacts are relatively small).

Option 3 (slowing the timetable for the increase in women's SPA set out in the 2011 Act) has similar impacts to Option 2 but is less ambitious in that it mitigates, rather than solving completely, the problem of the accelerated increase in women's pension ages. The most extreme cases which emerged as a result of the 2011 Act (where women faced an additional wait of 18 months or more before claiming their pensions) disappear, but there are still a large number of women facing an increase of up to a year under this reform option. Nonetheless, the total cost of this Option (£2 billion over five years) is far lower than Option 2, so it has merit as a lower-cost alternative.

Option 4 (allowing women whose SPA is increased above 65 to claim Pension Credit aged 65) is an even cheaper option than Option 3, at only £1.1 billion over the five years (with almost all the costs incurred in 2019-20 and 2020-21). This Option also has very progressive distributional impacts (because Pension Credit is means-tested and so only available to lower-income pensioners) and results in modest reductions in relative and absolute pensioner poverty. The main drawbacks of the policy are that (a) it doesn't help women affected by the 2011 Pensions Act whose income is too high to qualify for Pension Credit, and (b) some low income female pensioners who are in a couple would be unable to qualify for Pension Credit under the rules for Universal Credit (which we assume will be fully rolled out by the end of 2018) because *both* adults in a couple need to be of pensionable age to qualify for Universal Credit. So, while better than nothing, Option 4 would only be a partial solution to the problems caused by acceleration of women's SPA in the Pensions Act 2011.

Finally, **Option 5** (allowing women whose SPA is increased above 65 to claim the State Pension at age 65 at a reduced rate) is moderately expensive (although not unaffordable) at a total cost of £4 billion. It is also worth noting that – depending on future life expectancy of women who choose to take their pension early under this model – much, and perhaps all, of this cost would be recouped in later decades through lower weekly pension payments to women in the affected group. The distributional and poverty impacts are similar to Option 2, although less pronounced. This option is worth considering as an alternative to Option 2 which would recoup some (or all) of the costs over a longer period.

Appendices

Appendix A: The Landman Economics Tax-Benefit Model

Overview

Since 2009, Landman Economics has maintained a microsimulation model of the tax-benefit system. The model was originally developed for the Institute for Public Policy Research (and since 2011, the Resolution Foundation). All three organisations use the model to analyse the impact of tax and benefit reforms, and the model is also used by other organisations on a bespoke basis[10].

Currently the tax-benefit model uses data from the Family Resources Survey (FRS) to analyse the impact of direct taxes, benefits and tax credits and the Living Costs and Food Survey (LCF) to analyse the impact of indirect taxes. See Appendix D for more information on the FRS and LCF datasets. Note that the model can also use LCF to model the impact of direct taxes, benefits and tax credits in the same manner as for the FRS – this allows the impact of a package of direct and indirect taxes to be modelled on the same households, which is useful for looking at overall winners and losers from a set of reforms.

In the current project, because changes to the State Pension and Pension Credit do not involve any changes in expenditure taxes, only the FRS part of the model has been used.

Output capabilities

The information in the FRS allows payments of direct taxes and receipts of benefits and tax credits to be modelled with a reasonable degree of precision for each family in the surveys using either the current tax/benefit system which is in place at the moment, or an alternative system of the users' choice. For example, the user can look at what the impact of an increase in the income tax personal allowance would be. Using a 'base' system (this is often the actual current tax and benefit system, although the model can use any system as the base) and one or more 'reform' systems, the model can produce the following outputs:

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[10] For recent examples of empirical work using the Landman Economics tax/benefit model see H Reed and J Portes (2014), *Cumulative Impact Assessment*, Equalities and Human Rights Commission Research Report No 94 (http://www.equalityhumanrights.com/publication/research-report-94-cumulative-impact-assessment) and J de Henau and H Reed (2016), "A cumulative gender impact assessment of ten years of austerity policies", Womens Budget Group Briefing, March 2016. http://wbg.org.uk/wp-content/uploads/2016/03/De_HenauReed_WBG_GIAtaxben_briefing_2016_03_06.pdf

- Aggregate costings of each system (i.e. amount received by the Exchequer in direct taxes and National Insurance Contributions, and amount paid out in benefits and tax credits)
- Distributional impacts of reform system compared with base system (e.g. change in incomes in cash terms and as a percentage of weekly income in the base system). The distributional effects can be broken down according to several different variables, for example:
  - Income decile (ten equally sized groups of households or families, from poorest to richest according to equivalised disposable income);
  - Family type (single childless person, lone parent, couple without children, couple with children, single pensioner, couple pensioner);
  - Number of children (none, one, two, three, four or more);
  - Single adult and couples families by the numbers of earners (none or one for singles; none, one or two for couples);
  - Housing tenure type;
  - Gendered households (male adults only, female adults only, male and female adults);
  - Gendered earners (no earners, males earner(s) only, female earner(s) only, male and female earners;
  - Region.
- Proportions of exchequer savings/costs due to a particular reform or set of reforms paid for by/going to particular family types
- Average impact of reforms on the household incomes of particular types of individuals, eg children, working age adults and pensioners
- Winners and losers from a particular reform or set of reforms (grouped according to size of cash gain or size of percentage gain);
- Impact of reforms on overall inequality of disposable incomes (Gini coefficient);
- Impact of reforms on household and child poverty rates (using various definitions, e.g. proportion of children below 60% of median income);
- Changes in Marginal Deduction Rates (MDRs), i.e. the net gain to people in employment from an extra pound of earned income (which, for many individuals, will depend on income tax and National Insurance Contribution rates as well as the taper rates on means-tested benefits and tax credits);

Behavioural assumptions

The model produces distributional results on the assumption of *no behavioural change* between base and reform tax-benefit systems. In other words we assume that the gross income, employment status, hours of employment and consumption behaviour of each individual in the FRS is the same under each of the pension

reform options schemes analysed in the project. This is not a very realistic assumption – in reality we would expect individual labour supply behaviour to adjust in many cases in response to the changes in SPA. Hence, the results in Chapter 5 of this report include an adjustment to employment levels of women affected by the reduction in the SPA in each of the reform Options 1 through 5. Following research by the Institute for Fiscal Studies[11] on the impact of the increase in women's SPA from 60 to 61 in 2012, the assumption in this report is that women's employment levels increase by 7.3 percentage points for a given age when the SPA is moved upwards. Conversely, women's employment level is assumed to *fall* by 7.3 percentage points for women directly affected when the SPA is moved downwards in each of reform Options 1-5. So for example, in Option 3, women who would have to wait to age 66 to retire in the baseline scenario, but who are able to retire at age 65 under Option 3, are assumed to adjust their probability of being employed at age 65 *downwards* by 7.3 percentage points.

Model reweighting

Because the results are presented for tax years between 2016-17 and 2020-21 (inclusive), the Family Resources Survey data in the model are reweighted so that the grossing factors in the model correspond to the Office for National Statistics' projections of the number of men and women of different ages in the UK population for 2020. The reweighting is accomplished using an algorithmic process developed by Gomulka (1992)[12], implemented using the Stata *reweight2* command developed by James Browne of the Instititute for Fiscal Studies. The reweighting also uses changed employment totals for women of different ages to control for the adjustments in employment as a result of changing women's SPA (as explained above).

Eligibility for State Pension

The model calculates eligibility for State Pension using information from the 2012-13 Family Resources Survey on the amount of State Pension receipt for each person above SPA in the survey (the SPA for men in the 2012-13 tax year was 65, while for women it rose from 61 years and 61 years 6 months over the course of the year). The actual level of State Pension receipt in the data is compared with the value for the full Basic State Pension in the 2012-13 tax year (£107.45 per week). This is used

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[11] IFS, *Incentives, Shocks or Signals: Labour supply effects of increasing the female state pension age in the UK*, March 2013.
[12] Gomulka, J (1992), "Grossing-up revisited", in R Hancock and H Sutherland (eds), *Microsimulation Models for Public Policy Analysis: New Frontiers*, STICERD Occasional Paper, London: London School of Economics

to establish a "pension entitlement variable", defined for each pensioner in the FRS as:

P = [actual weekly pension received]/[£107.45].

For pensioners where $P>0$ but P<=1 (i.e. weekly pension received is *less than or equal to* £107.45), P represents the proportion of the basic state pension that they are entitled to under any given reform of the tax-benefit system.

For pensioners where $P>1$ (i.e. weekly pension received is *greater than* £107.45), P is set to 1 (i.e. full Basic State Pension entitlement) and the excess State Pension above £107.45 is assumed to be State Second Pension (S2P).

In the simulations for tax years 2016-17 to 2020-21, individuals whose retirement date is *before* April 2016 are assumed to have an eligibility for the Basic State Pension equal to (P x the level of the Basic State Pension in the relevant tax year). Any entitlement to S2P is added to this (after uprating to take account of increases in the value of S2P between 2012-13 and the relevant year.

Individuals whose retirement age is *in or after* April 2016 are assumed to receive the new Single Rate Pension (set at £155.65 in the 2016-17 tax year), with eligibility equal to (P x the level of the Single Rate Pension in the relevant tax year). S2P has been abolished for new claimants from April 2016 afterwards so any S2P eligibility for individuals retiring from this point onwards is ignored.

Working out retirement ages in the FRS

Because women's SPA increases from month to month under the baseline scenario and most of the reform options considered in this report, it is important to be able to calculate exact age (and therefore exact retirement date) for women in the FRS sample in order to calculate precise and accurate costings for each reform. Unfortunately the standard-issue version of the FRS does not include exact date-of-birth information for people in the survey (for confidentiality reasons.) For each person in the FRS, the information contained in the standard issue dataset is:

- date of interview
- age (in years)

In order to estimate costings and distributional effects of each reform option precisely, an additional module of the tax-benefit model was programmed specially for this project. This randomly assigns a date of birth to each adult in the survey (consistent with their date of interview for the survey). This is then "pushed back" by the required number of years to use the FRS data to simulate the male and female age distribution in each of the tax years being modelled in the project.

So, for example, assume that there is a household in the FRS with a 65-year-old woman interviewed on 1st July 2012 (during the 2012-13 interview round). This woman could theoretically be aged anywhere between 65 years exactly (if she was born on 1st July 1947) and 65 years 364 days (if she was born on 2nd July 1946). A date of birth is randomly allocated (say, for example, 8th September 1946). To use this FRS respondent as if she were 65 years old in the 2020-21 tax year, we require her to be born 8 years later (i.e. on 8th September 1954). As explained above, the sample is also reweighted by age so that the population totals for 65-year old women in the adjusted 2012-13 FRS match ONS projections for 2020.

Appendix B. Costings of reform options without corrections for employment impact of changing women's SPA

Table B1. Costings, not correcting for employment impacts, 2016-17 to 2020-21

Reform option	Costings (£bn, April 2016 prices)					
	2016/17	2017/18	2018/19	2019/20	2020/21	Total, all 5 years
1: Reset to 60	5.1	8.6	12.3	14.7	16.5	**57.2**
2: Return to 1995 Act	0.2	0.8	1.8	2.1	2.7	**7.6**
3: Slow timetable for increase to 66	0.1	0.3	0.6	0.5	0.4	**1.9**
4: Reduce PC qualifying age to 65	0.0	0.0	0.0	0.4	0.7	**1.1**
5: Allow women to take pension at 65 at lower rate	0.0	0.0	0.1	1.3	2.6	**4.0**

Appendix C. Additional graphs

Figure 3b. Average distributional impact of reform options in cash terms for couple pensioners – including Option 1
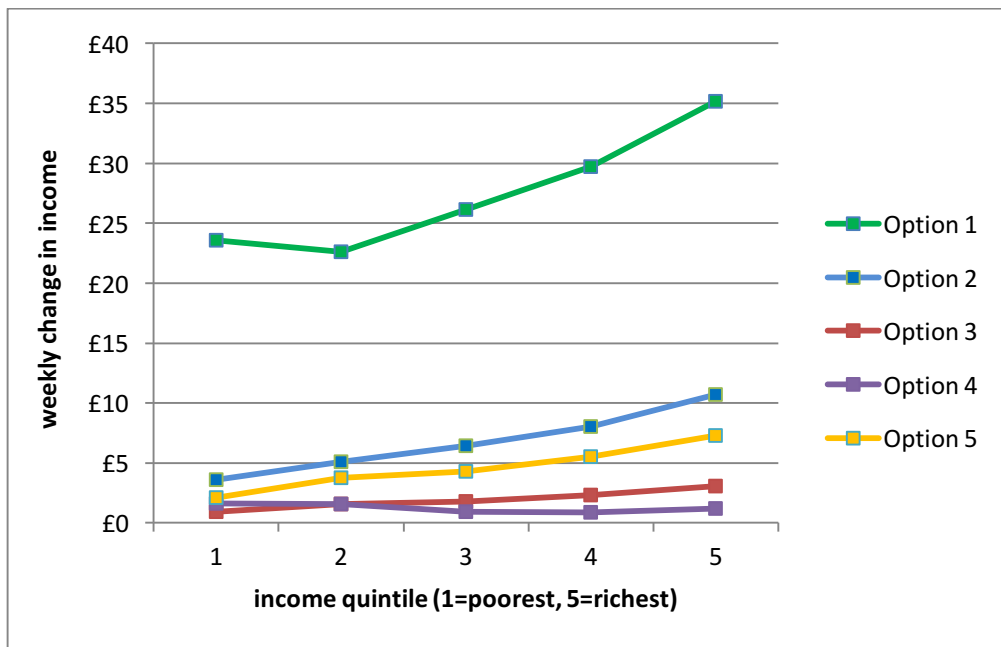
Figure 5b. Average distributional impact of reform options as percentage of net income for couple pensioners – including Option 1