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The new pensions landscape

Executive summary

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Executive Summary

In 2003, the PPI published the ***Pensions Landscape report*** which found that pensioners' incomes had risen since 1998 but inequality had increased. Both the state and employers were looking to reduce their pension commitments, making future pension incomes uncertain.

The pensions landscape has changed significantly since 2003, largely as a result of reforms which arose from findings of the Pensions Commission's reports.

It is not yet clear how these reforms will work together, and what the overall impact on individuals is likely to be. The PPI has therefore undertaken research to look at the potential impact of all of these combined reforms.

The new pensions landscape brings together existing and new PPI research to consider the likely outcomes for individuals as a result of the suite of reforms. Broadly, pensioner incomes are growing although recently retired pensioners may have higher incomes than later generations. The new State Pension and the triple lock are the policies which have had the most significant effect on boosting incomes. However, there are still 1.6 million pensioners in poverty.

Future cohorts may have lower levels of pension income than those recently retired, although pensioners are better off on average than they have ever been

- The policy environment since 2003 has generally improved the incomes of today's pensioners with the new State Pension and the triple lock in particular, boosting incomes.
- Different policies have had a differential effect on the selected individuals modelled in this report according to their characteristics.
- Broadly, individuals modelled who were aged 50 to 54 in 2010 (and therefore 56 to 60 in 2016) have lower projected retirement incomes, and a narrower range of pension incomes than those aged 55 to 64 in 2010.[1] This is because older individuals are more likely to receive more income from Defined Benefit pensions on average and because, due to lower State Pension ages (SPa), they are modelled to receive their State Pension for longer.
- Incomes in the middle of the income distribution are projected to increase more than those at the top of the income distribution.
- Men will continue to have higher retirement incomes than women, but women have experienced greater increases than men due to the pension landscape changes that took place between 2010 and 2016.

[1] This is the case under both the baseline scenario which models retirement incomes had the pension landscape changes between 2003 and 2016 not taken place, and the final scenario which assumes that they have.

Both automatic enrolment and the triple lock could increase retirement incomes while increases to State Pension age (SPa) could reduce retirement incomes

- The immediate impact of policy reforms since 2003 on the working age population are most apparent in pension participation levels arising from automatic enrolment, and the changes to the State Pension which affect both age of receipt and level of income.
- For those nearer SPa the triple lock has the most immediate effect of raising the level of State Pension income. Younger individuals may see significant effects from automatic enrolment but will have less certainty about the timing and level of their State Pension than older individuals.
- Automatic enrolment has reversed a trend of decreasing membership in workplace pensions but some groups continue to have more limited access, including those on incomes below the £10,000 earnings threshold and the self-employed.
- Increases to the State Pension age (SPa) decrease individuals' lifetime pension incomes relative to the baseline as a result of them starting to receive their State Pension later. However, SPa increases were designed to keep pace with increases in life expectancy. Therefore, some individuals will not receive less State Pension overall relative to previous generations, if they also have average or higher life expectancy.

In 2046, both the triple lock and the 2011 SPa increases will have influenced the proportion of GDP spent on state pensions

- Between 2016 and 2046 the proportion of GDP spent on state pensions is projected to increase from 5.3% to 7.2%. As well as the policy changes, demographic shift accounts for some of this increase.
- Over this time period the triple lock is projected to increase spending on state pensions by 2.3% GDP and the 2011 SPa increases are projected to decrease spending by 0.3% GDP.

The pension landscape in place from 2003 to 2016 has resulted in significant changes to the direction of travel for pensions, with a move towards the reduction of inequalities

- The research has indicated that future cohorts risk having lower incomes than those individuals who have recently retired. Concerns around the adequacy of retirement incomes and the long-term avoidance of pensioner poverty remain.

While incomes will be lower for those closest to retirement than for recent retirees, automatic enrolment could reverse this trend

- While the number and proportion of employees contributing to a pension have increased as a result of pension reforms, it remains much less certain that future retirement incomes will be as high as they are for recent retirees.
- The cohort analysis conducted as part of this report suggests that there are clear prospects for average retirement incomes of pensioners to fall as the cohorts closest to SPa retire over the next 10 years. However, automatic

enrolment should make this less likely for younger cohorts, depending on contribution levels.

1.6 million pensioners are still living in poverty

- Despite the increased incidence of younger pensioners working and the triple lock, an estimated 1.6 million pensioner households continue to live in relative poverty, defined as having less than 60% of UK median household income[2]; this is more commonly single women and older couples.

The pensions landscape implies clear priorities for the direction of travel of policy

- In many respects, the policy reforms of the past 13 years appear to have addressed many of the concerns raised in the 2003 PPI report. This is in no small part due to the focus on the principles set down by the Pensions Commission which called for an understanding of what pension, the state, the individual and their employers respectively need to provide, as well as the development of incentives to save that are beneficial and will remain relatively stable over time. Continuing to focus on these principles, and in particular, ensuring that there is no reversal to the progress being made through automatic enrolment, will be important.

Many policies have not yet had time to embed

- This project shows that many policies could significantly affect retirement incomes. Over the next few years policy-makers may wish to look closely at individuals', employers' and industry's behaviour. In order to fully understand the impact of policies there will need to be further research, monitoring and evaluation.
- However, this research cannot be definitive due to the large around of uncertainty surrounding the pensions landscape, in particular the way in which individuals respond to reforms.

[2] https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/poverty-definitions.pdf