

Introduction

Now that the Government has set out its principles for reform of the state pension system and is seeking consensus¹, it is a good time to take stock of the reform proposals currently on the table.

Since the publication of Briefing Note 16, which this note updates, the PPI has identified increased consensus around certain pension reform issues.

Proposals on the table

The PPI has mapped the proposals made by 31 organisations. These include all those originally reviewed in Briefing Note 16, along with additional insurers, business and employee groups (the organisations are listed in a presentation available on the Briefing Note 18 page of the PPI website).

This analysis has been drawn from organisations' most recent policy documentation, the majority of which is their response to the Pensions Commission's First Report².

As with the previous stocktake, this analysis provides a snapshot and should not be over-interpreted: it is intended to highlight the current flow

of opinion on pension reform.

First tier

Momentum for reform has clearly intensified. Nearly all of the organisations agree that state pension reform is required, with 30 proposing changes to the state first tier. The majority of these want to see the state foundation provide at least £105 a week (the level of the current Guarantee Credit) and to be indexed to earnings. Of the 5 organisations that wish to keep the current level (£79 a week), 3 propose the introduction of earnings indexation.

There is a growing interest in the citizen's or universal pension. 14 organisations are in favour, with 5 prefer-

ring the current type of foundation pension based on how many national insurance contributions have been paid by or credited to the individual. A further 11 call for review of eligibility or do not express a view (Chart 1). In the PPI's last stocktake there was an even split between the citizenship and the contributory models.

Second tier

Since the last stocktake, consensus has emerged that the State Second Pension (S2P) and contracting-out need reform. No organisation is proposing keeping them as they are (Chart 2).

In the last stocktake, there was a higher proportion of 'don't knows' on S2P and contracting-out. Now or-

Chart 1: Number of proposals for different reforms to the state first tier

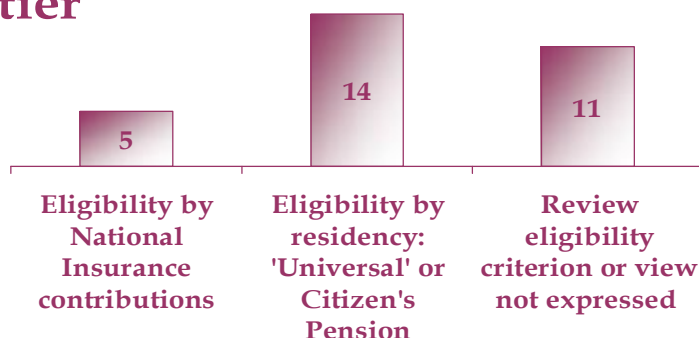
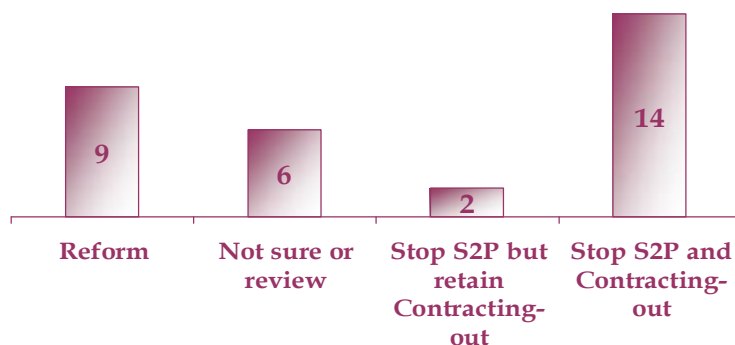


Chart 2: Number of proposals for the State Second Pension



organisations have polarised into either reforming or abolishing the system, but there are different reasons evident for reforming. The focus for some organisations is to retain S2P as a supplement for low earners and carers; the focus for others is to retain contracting-out.

It is also worth noting that nearly all organisations involved with occupational pension funds propose abolishing contracting-out, but organisations involved in providing personal pensions make different proposals.

Other issues

The Pensions Commission's First Report has invigorated the debate on compulsion, which is touched on by all the proposals. With only 3 organisations favouring compulsory private pensions through an employer, consensus is emerging around the need to encourage voluntary saving. The increase or redistribution of tax incentives is advocated by over half of the organisations.

The financing of pension reform improvements continues to be a relatively neglected issue. However, raising state pension age is mentioned in many of the proposals, with 17 organisations in favour and 9 against.

Questions remaining

How to best deliver a strengthened foundation pension, based on either the contributory or citizenship models, remains a crucial factor for achieving consensus. Whether to retain S2P as well must also be decided, and therefore, the future of contracting-out.

Of all the 31 organisations surveyed by the PPI, all acknowledge the disadvantaged position of women compared to men. Such resounding concern demands further exploration of possible solutions.

This analysis shows that although differing views regarding the role of the state are still present, it is possible, through further detailed work, to draw out similarities. This is particularly important now that consensus has been achieved on the necessity of state pension reform.

The PPI Stocktake analysis of pension reform proposals is available in more detail on www.pensionspolicyinstitute.org.uk. It will be updated as new proposals are made, and we welcome input.

For more information on this topic, please contact

Alison O'Connell

020 7848 3751 alison@pensionspolicyinstitute.org.uk

www.pensionspolicyinstitute.org.uk

¹ DWP (2005) *Principles for reform: The national pensions debate*

² Pensions Commission (2004) *Pensions: Challenges and Choices*, London. The Stationery Office