

Introduction

Pension reform looks inevitable in the UK. When the Government produced a Green Paper in 2002, despite their intended focus on **private** pensions, most major organisations said reform of the **state** pension system was needed.

Now the Pensions Commission has confirmed the diagnosis of worsening pension provision, most organisations will be reviewing their pension policy proposals to make submissions to this consultation process.

It seems a good time to take stock of the pension reform proposals already on the table, see how far consensus goes, and identify the critical issues left to tackle.

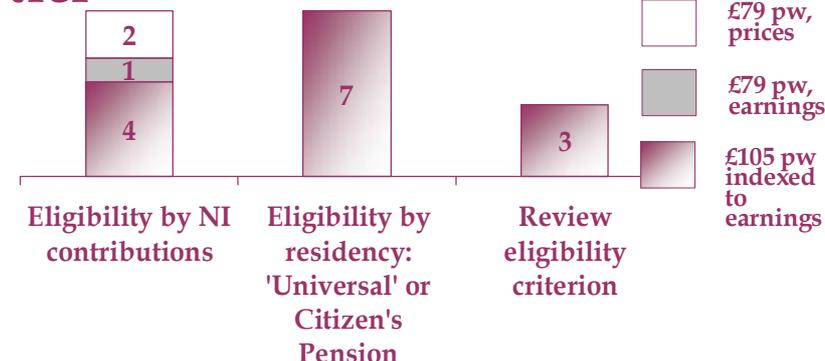
Proposals on the table

The PPI has mapped the proposals made by 17 organisations, including the three main political parties, pensioner, business and employee groups, and others with a major interest or expertise in pensions.

With any small analysis of this type, it is hard to 'weight' each proposal in any meaningful way.

This snapshot should not be over-interpreted: it is intended to shed some light on the cur-

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



rent state of thinking, and provide a baseline for tracking future trends.

One feature quickly becomes apparent: most proposals are 'wish lists'. Many are without detail or confusing on how the proposal could actually work in practice. Most have no costing, and do not attempt to prove whether they are feasible or affordable. This is not a criticism: the complexity of the system defeats many experts, and there is a lot of information unavailable outside government.

Consensus

All the proposals focus in

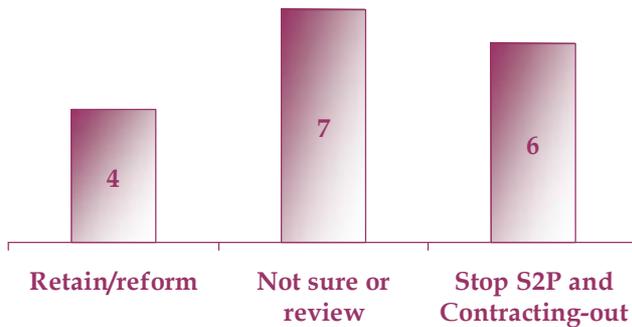
detail on the state first tier.

14 out of 17 want the state foundation to provide at least £105 a week (the level of the current means-testing threshold) and to be indexed to earnings (Chart 1). Two organisations propose instead keeping the current level (£79 a week) and price indexation, while one proposes earnings indexation from the current level.

On the type of state foundation pension, there is less consensus. Some favour a citizen's or universal pension, some favour the current one, based on how many national insurance contributions have been paid by or credited to the individual. Some are undecided.

The focus on the first tier con-

Chart 2: Number of proposals for the State Second Pension



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Ways of paying for pension reform improvements are discussed very little. Raising state pension age is mentioned in all the proposals, with 9 organisations in favour and 8 against.

Questions remaining

Any actual pension reform would need a great deal more work on practical transition arrangements, the impact on future pensioner incomes, and how to pay the likely costs of improvements.

firms that pension experts want above all a simple pensions system, with a straightforward adequate foundation preferably not requiring any other state top-up.

Areas of disagreement

Proposals are much less detailed on what to do with the state second pension and contracting-out (Chart 2). All but four of the proposals say they are reviewing or would stop the second tier (because they propose strengthening the first tier).

Perhaps the lack of detail on second tier proposals is because the complexity of the

system – including contracting-out - makes it very hard to analyse options.

There is even less detail and agreement on other elements of the pension system.

Only two proposals favour compulsory private saving; 14 are against. Informed Choice as a way of encouraging voluntary saving is mentioned by 9 proposals; rethinking tax incentives (to improve them, reduce them or reshape them) by 10. Better employment policies for older workers are recognised as important by 11 of the organisations.

But this analysis also shows some 'big picture' questions need to be tackled head-on before consensus can be achieved on any reform. There are different views about the role of the state: how much it should provide via a universal system, a contributory system or means-testing; how it should intervene in pension saving and how these roles should change as the population ages.

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.

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