

# Incentives to Save

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**20 February 2007**

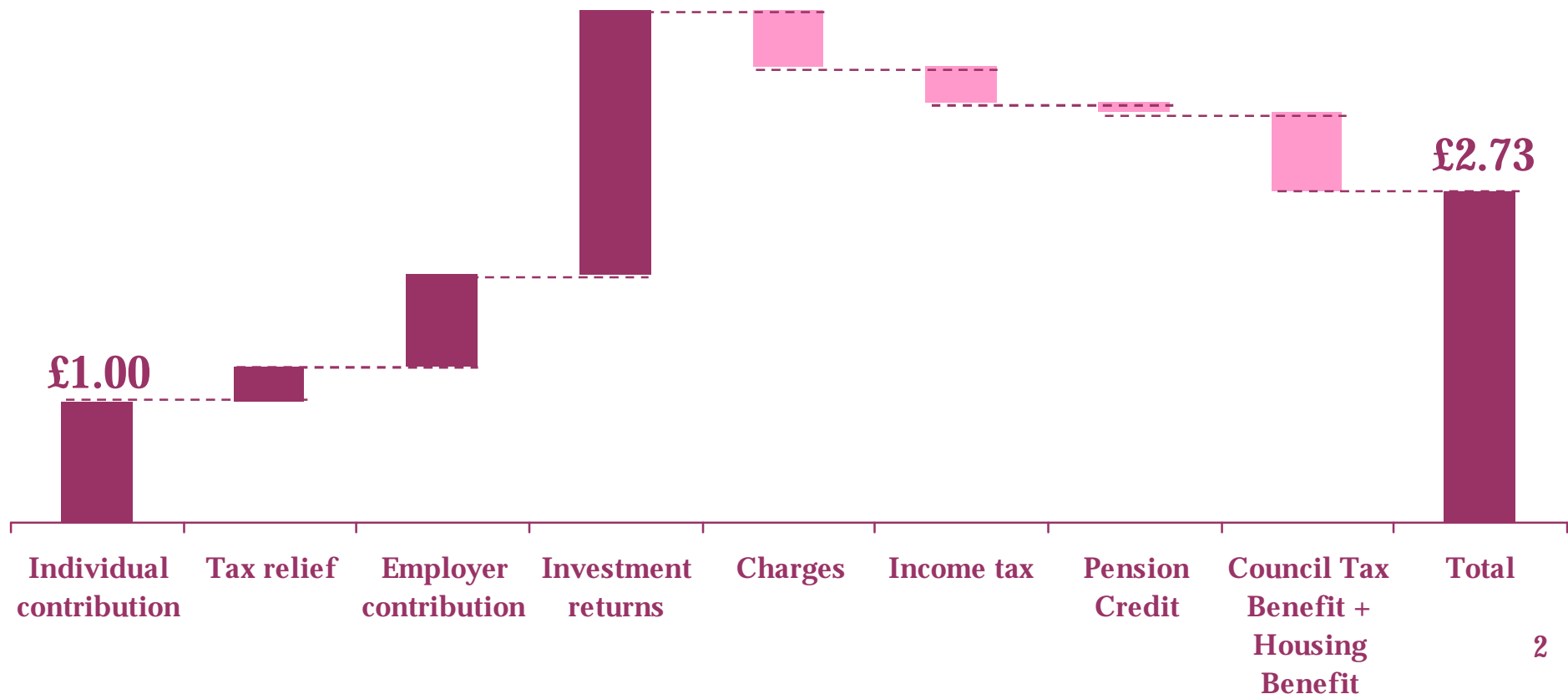
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# Agenda

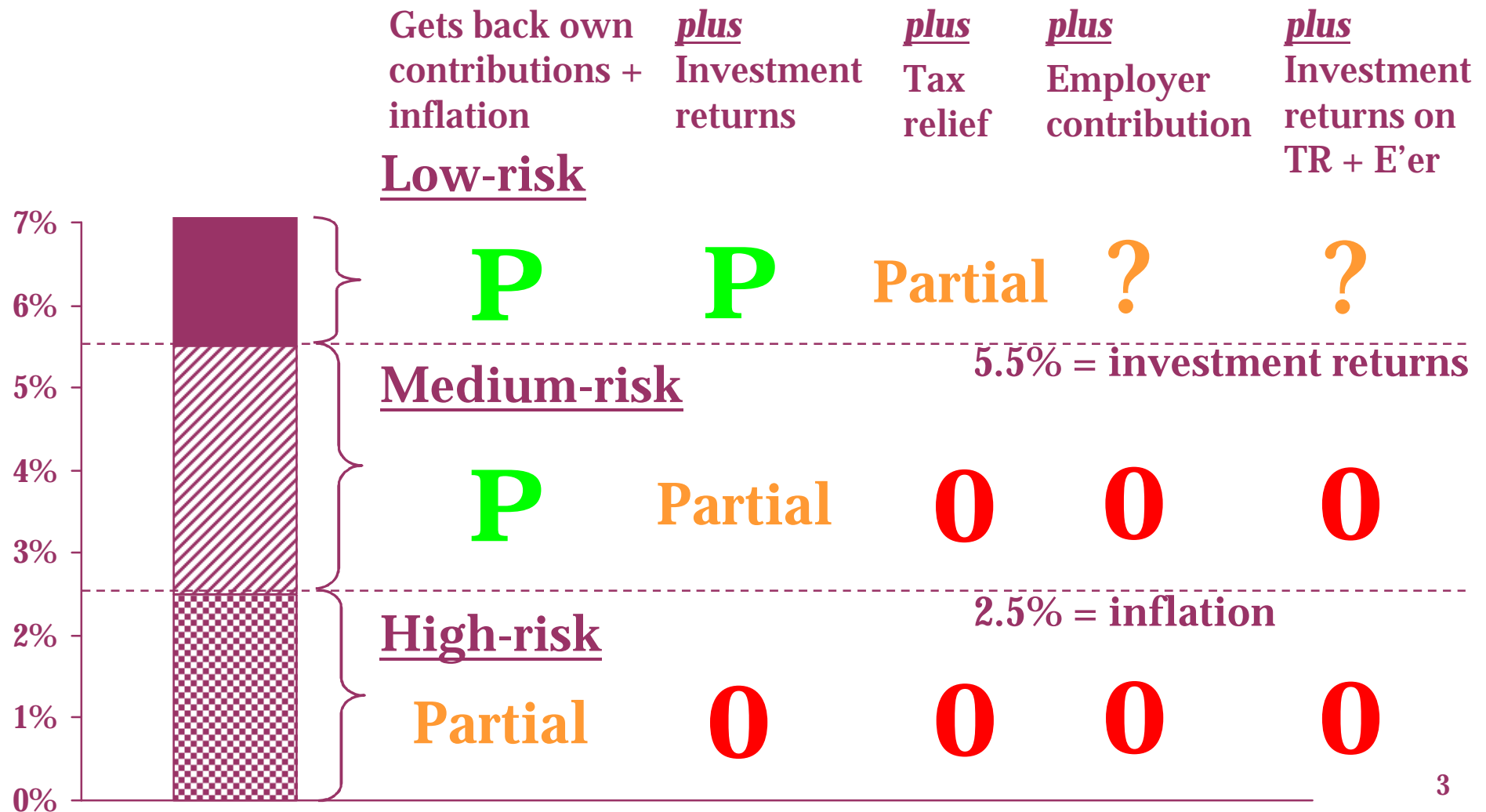
- **Incentives to Save**
- **Pension Credit Projections**
- **Conclusions**

# Many factors affect incentives to save

Value of saving in a Personal Account for a median-earning man with a full NI record aged 25 in 2012 for each £1 of contributions



# Three risk-categories are used, based on the IRR



**Low risk**

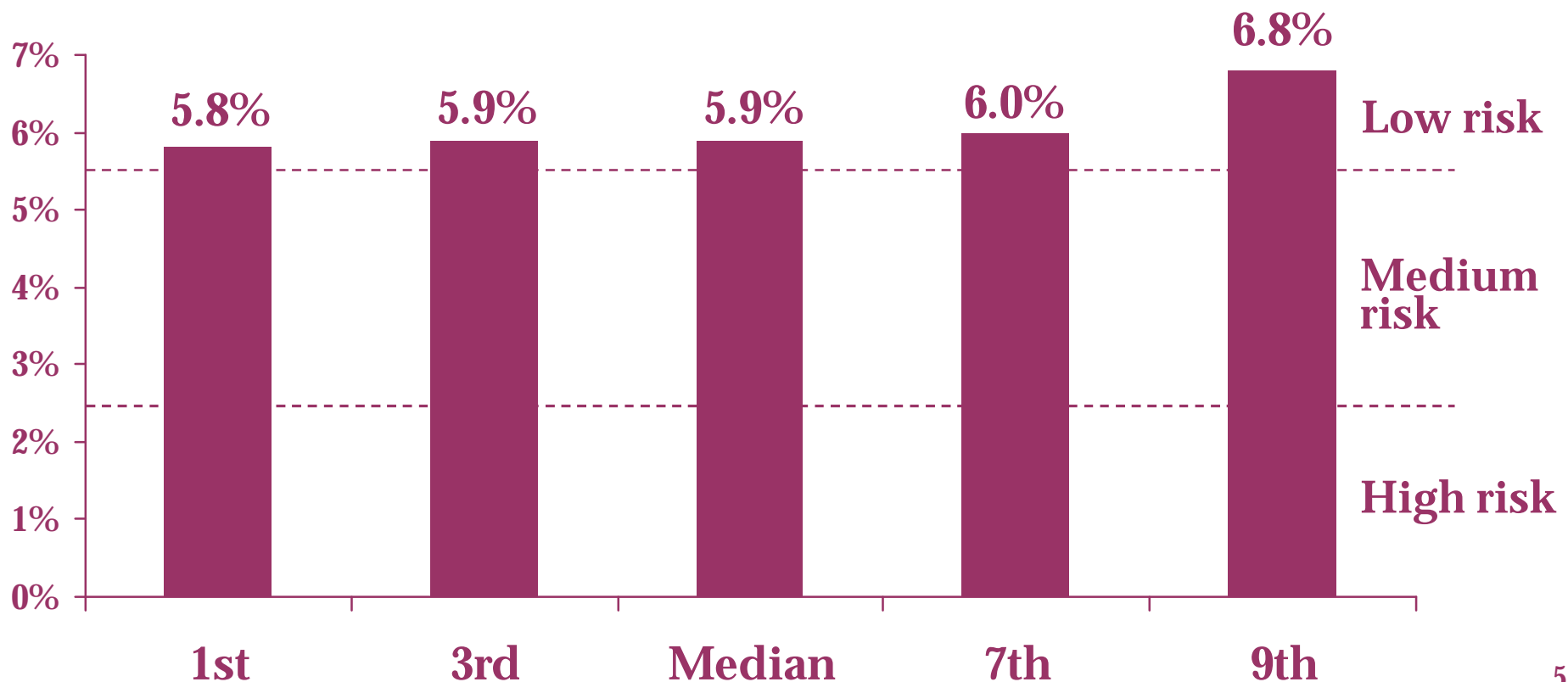
**Medium risk**

**High risk**

# Individuals in their twenties in 2012 with full working histories could be in the low-risk category



Estimated IRR for men with full NI records and no retirement saving other than Personal Accounts, aged 25 in 2012, by decile of the male earnings distribution



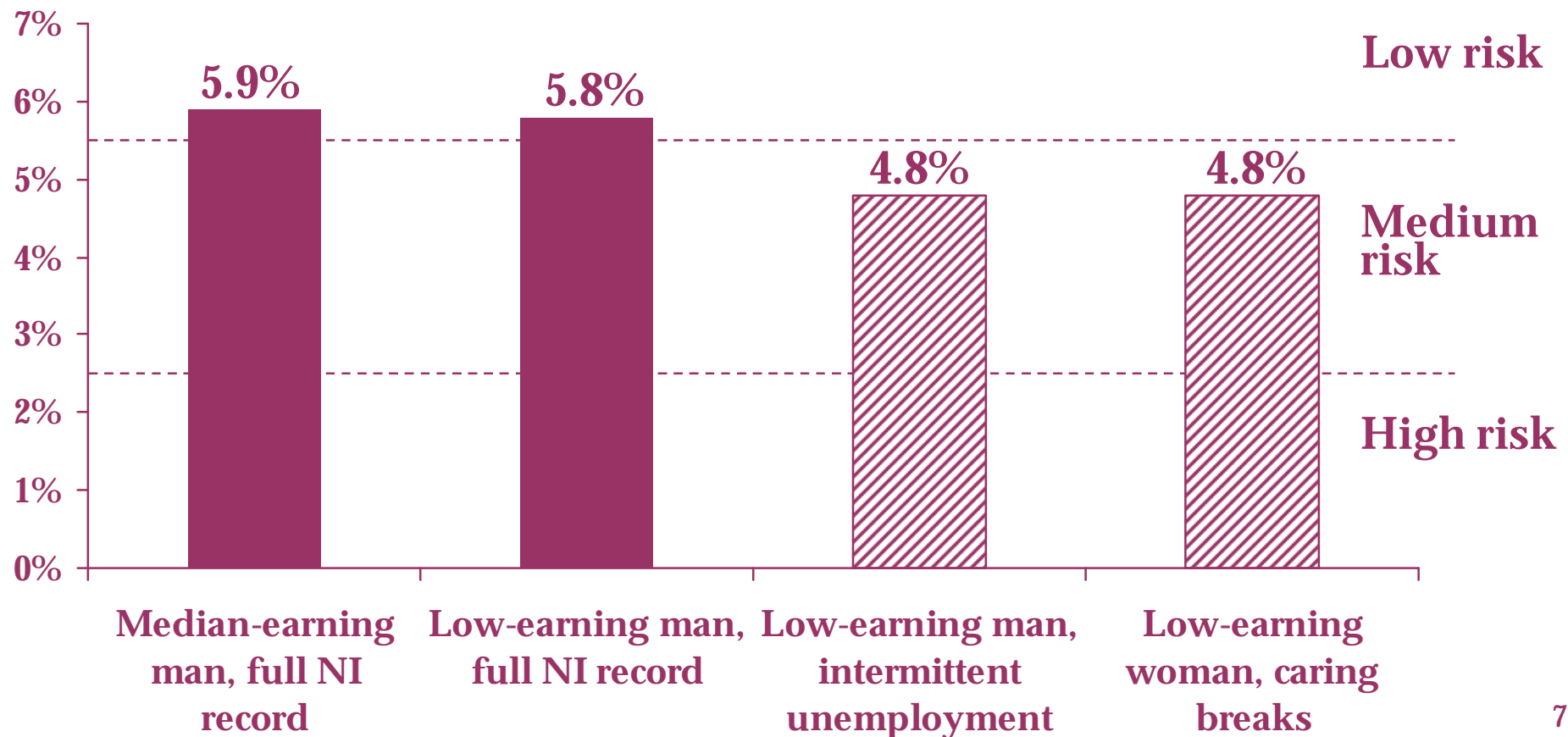
**Low risk**

**Medium risk**

**High risk**

# Returns can be lower for people with lower earnings and career breaks

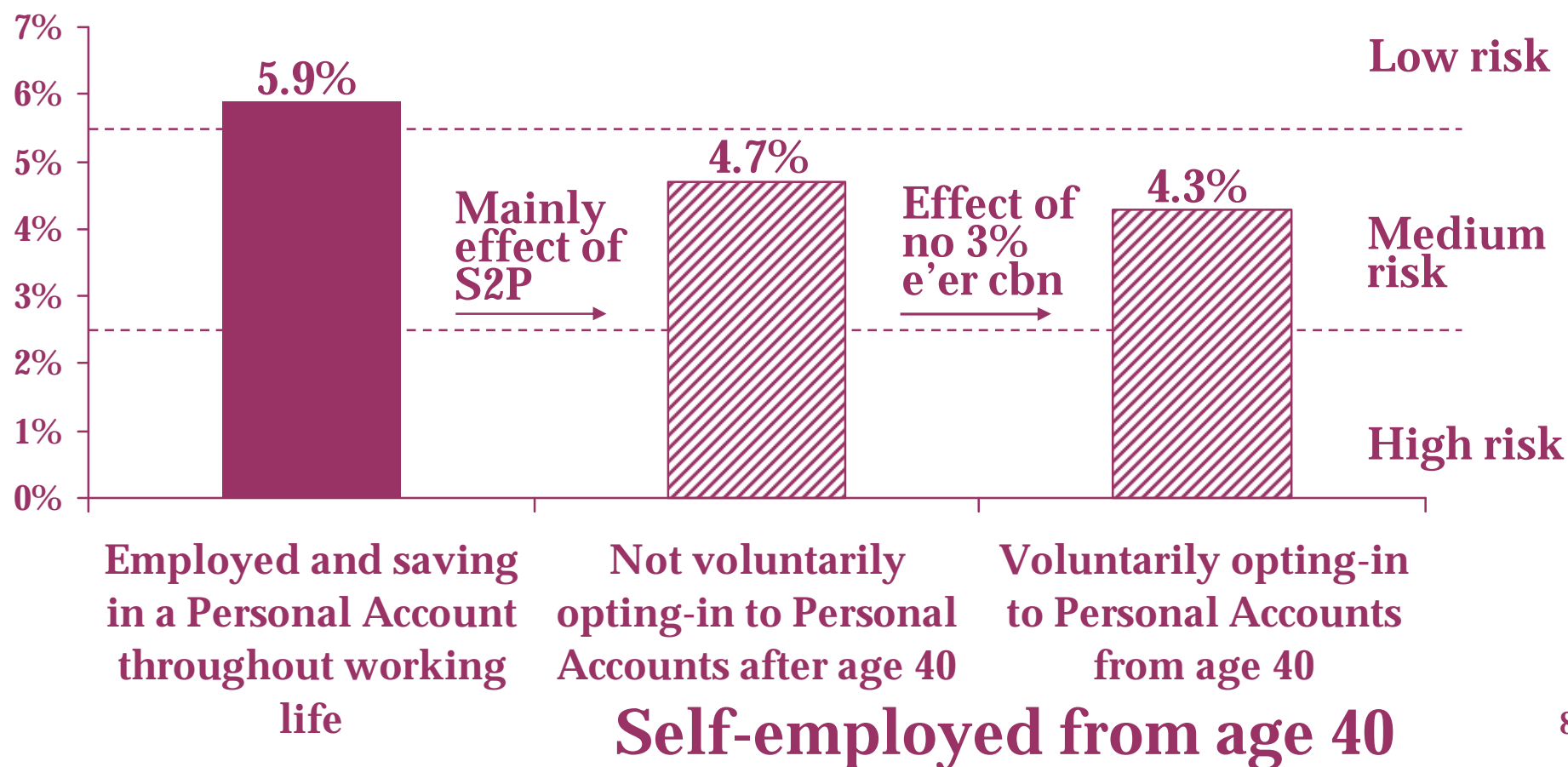
Estimated IRR for men and women aged 25 in 2012, for different levels of earnings and work histories





# Self-employment can lead to lower returns

Estimated IRR for median-earning men with full NI records and aged 25 in 2012, with no retirement saving other than Personal Accounts



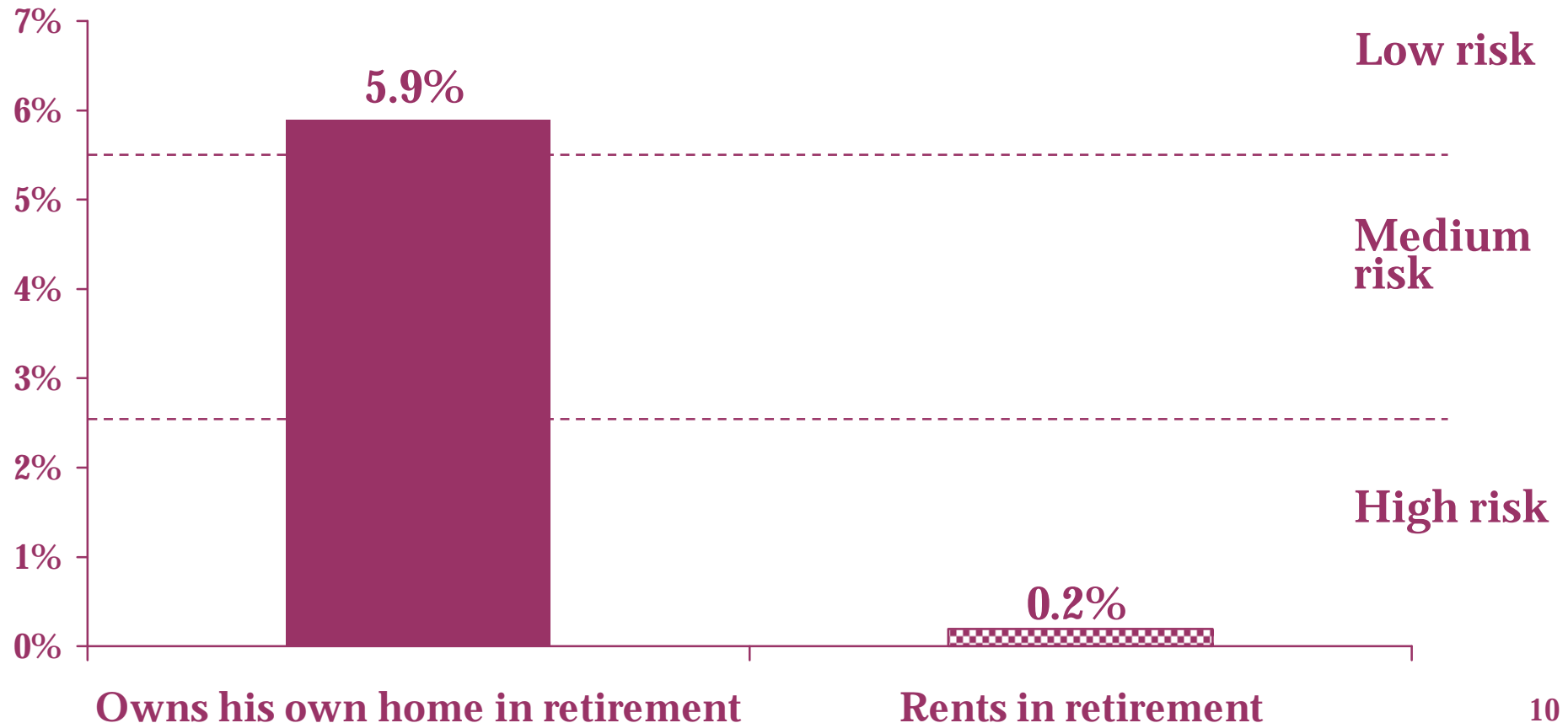
**Low risk**

**Medium risk**

**High risk**

# Renting in retirement can lead to very low returns

Estimated IRR for median-earning men with full NI records and aged 25 in 2012, with no retirement saving other than Personal Accounts



# Who is at risk?

- Low-risk: Single people in their 20s in 2012 who have full working histories
- Medium-risk:
  - Single people in their 20s in 2012 with low earnings and broken working histories – unless they have other savings
  - Single people in their 40s and 50s in 2012 with low earnings and full working histories
  - Single people in their 20s in 2012 who stay opted-in to Personal Accounts while employed, and then later become self-employed
- High-risk: Those who are likely to rent in retirement

# Projecting Pension Credit eligibility



Future eligibility to Pension Credit depends on projections of

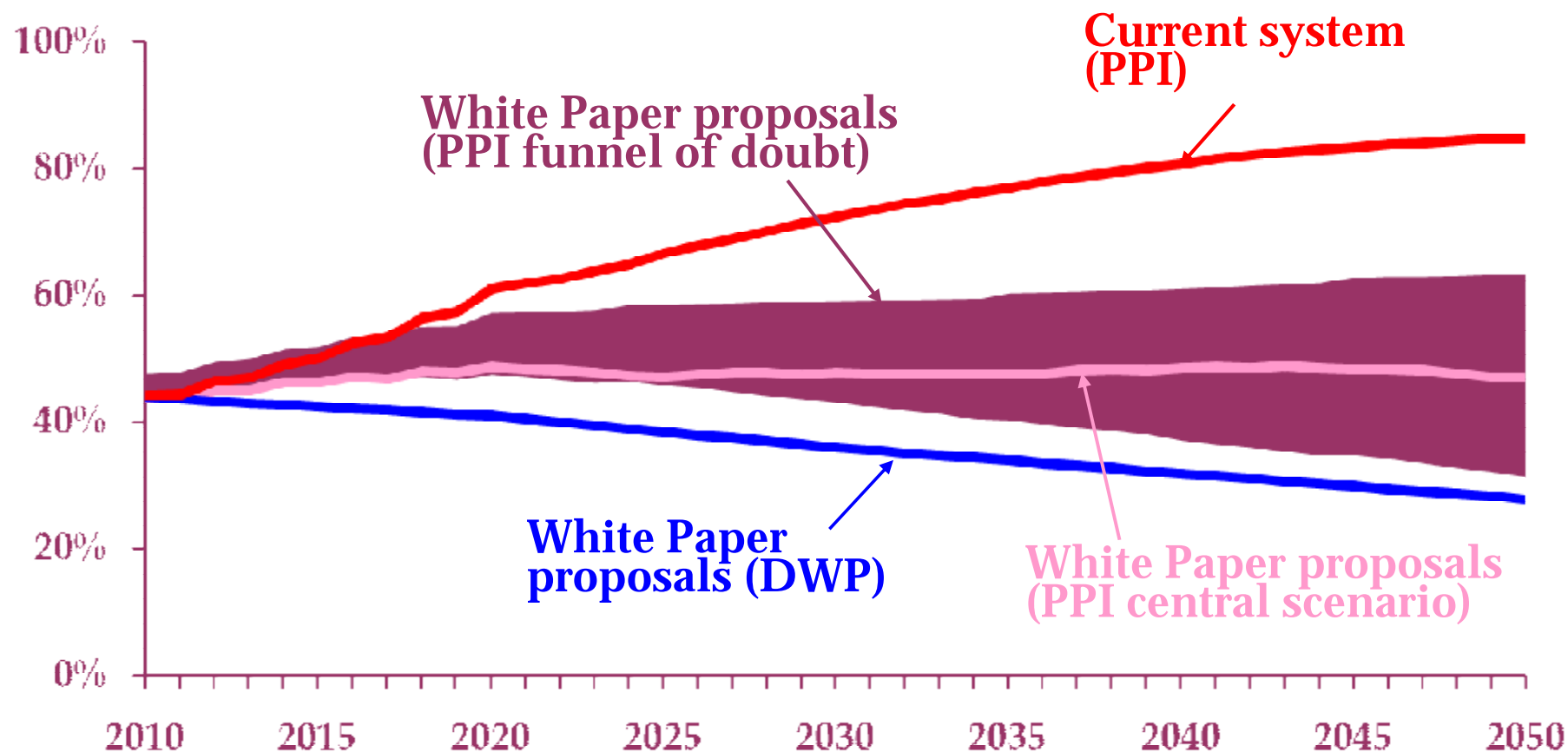
- BSP
- S2P
- Private pension
- Other income (savings/ earnings/ caring & disability premia)

Taking into account patterns of

- Labour market participation and earnings, caring, demographic changes, marital status, disability all over the next 50 years
- The latest 'known' level of Pension Credit eligibility for 2004/5 is 'between 43% and 48%'

# The future extent of Pension Credit is uncertain

Estimates of the future percentage of benefit units eligible for Pension Credit



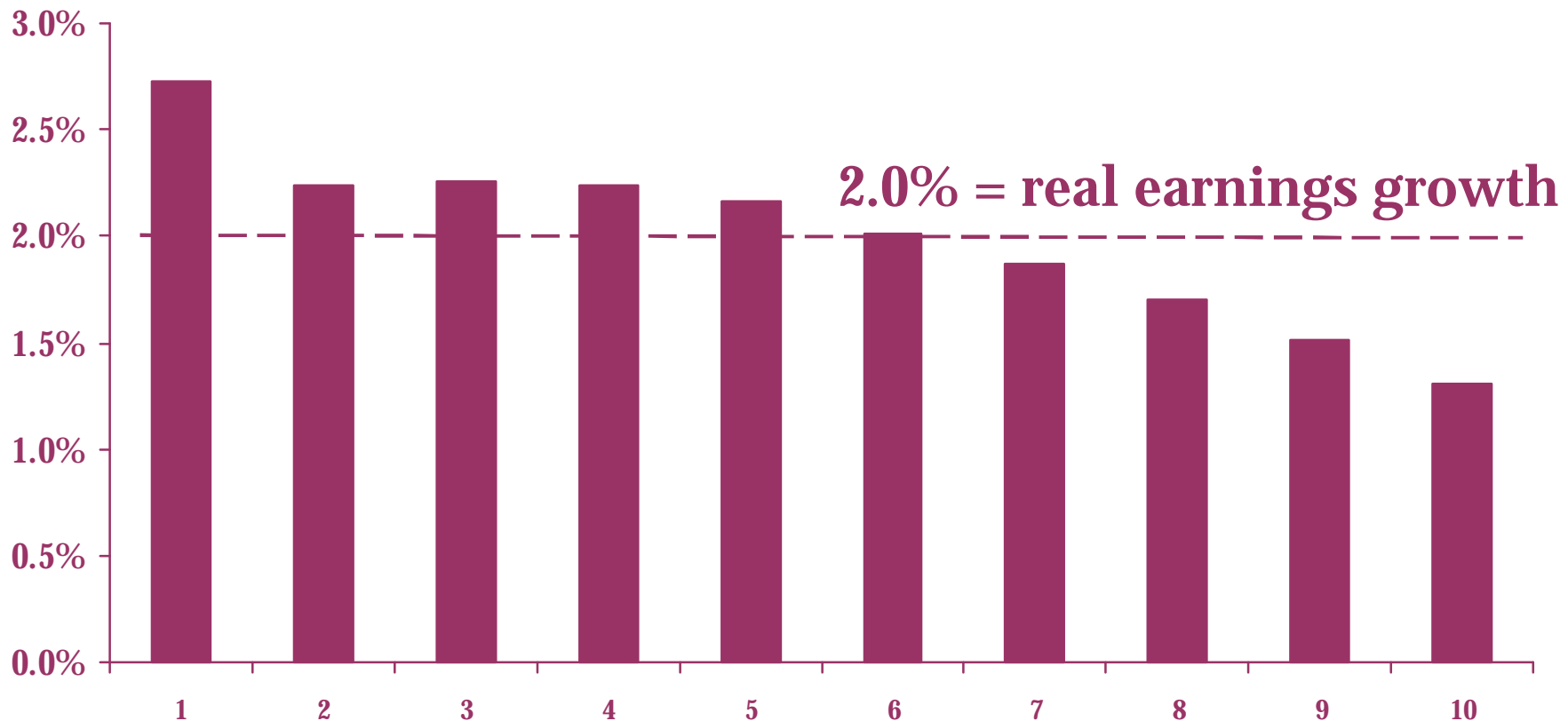
# PC Estimates – implied real growth rate assumptions



	<b>DWP</b>	<b>PPI Central Scenario</b>
<b>Income brought to account for PC</b>	<b>2.1%</b>	<b>1.8%</b>
<b>Of which:</b>		
<b>- BSP</b>	<b>2.0%</b>	<b>2.2%</b>
<b>- S2P/SERPS</b>	<b>3.7%</b>	<b>3.4%</b>
<b>- Private pensions</b>	<b>1.4%</b>	<b>1.1%</b>
<b>- Other saving</b>	<b>2.0%</b>	<b>2.0%</b>
<b>PC eligibility</b>	<b>28%</b>	<b>44%</b>

# Income is projected to grow faster at lower income levels

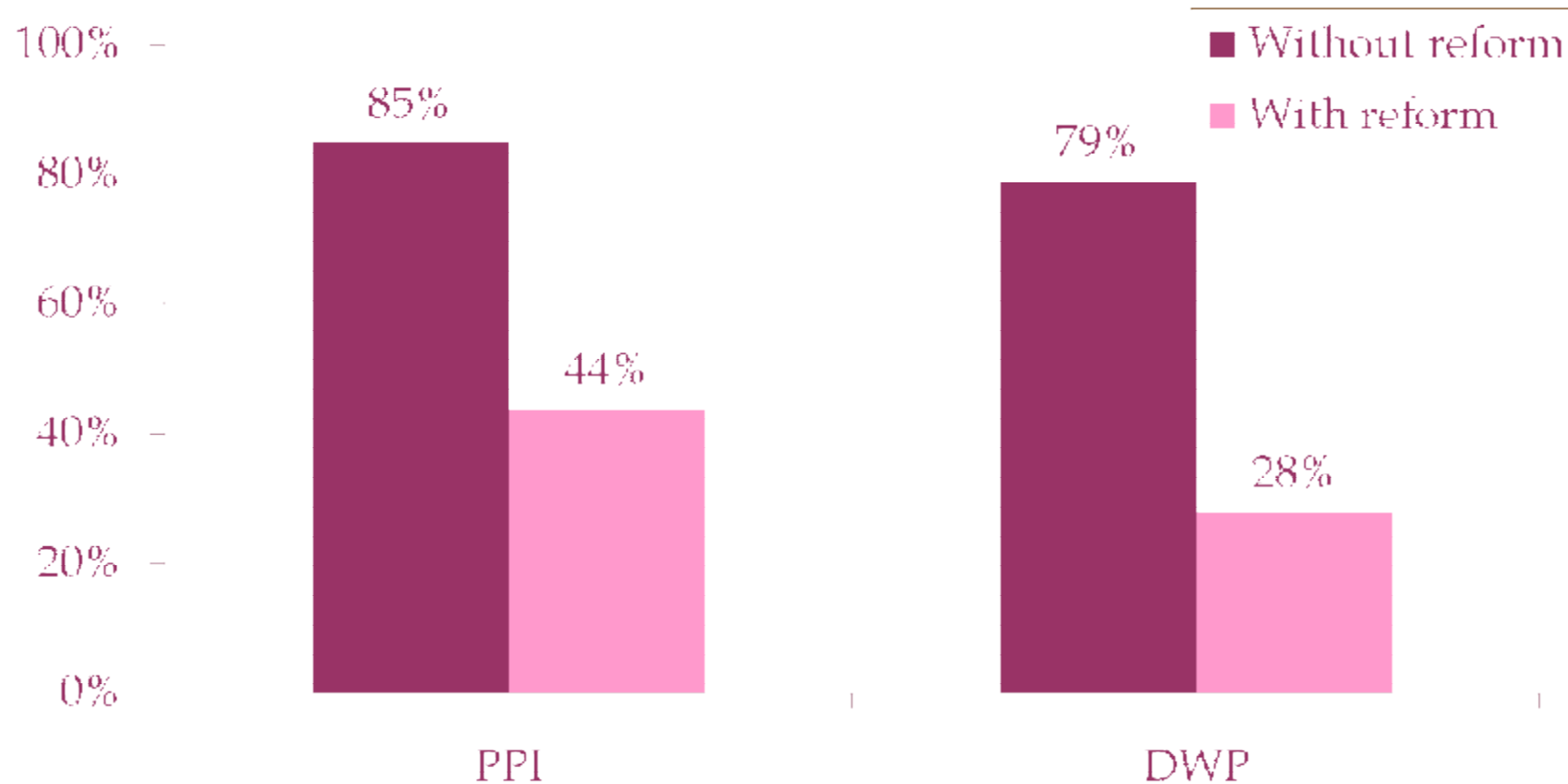
Projected average real growth rates of income brought to account for Pension Credit, 2004 to 2050, under the central scenario for the White Paper proposals, for benefit units in which the head is over 68, by decile group





# Eligibility for PC will be significantly lower due to White Paper reforms

Projected eligibility for Pension Credit in 2050, all pensioner benefit units



# DWP & PPI central projections (2004 – 2050)

	DWP Projections	PPI Central Scenario
2004	45%	46%
2010	44%	44%
2020	41%	45%
2030	36%	46%
2040	32%	46%
2050	28%	44%

# Eligibility by type of Pension Credit in 2050

	<b>DWP</b>	<b>PPI Central Scenario</b>
<b>Guarantee Credit Only</b>	<b>6%</b>	<b>13%</b>
<b>Guarantee Credit &amp; Savings Credit</b>	<b>9%</b>	<b>13%</b>
<b>Savings Credit Only</b>	<b>12%</b>	<b>18%</b>
<b>Total</b>	<b>28%</b>	<b>44%</b>

# Characteristics of those projected to be eligible for PC



In the PPI projections for 2050:

- Three-quarters of those eligible for PC are single rather than couples (compared to 90% single for DWP)
- Over half of single women are eligible (consistent with DWP)
- Older pensioners are more likely to be eligible for PC than younger pensioners (more significant an effect than the DWP)
- Around a quarter of eligible pensioners are entitled to a disability or caring premium (not as significant an effect as in DWP projections)

# PC eligibility:

- Projections of Pension Credit eligibility in 2050 are inherently uncertain, and in particular projections of those on GC only
- PPI and DWP projections both project a significant reduction in PC eligibility with reform (compared to no reform)
- It is essential to recognise that there is a range of plausible outcomes for PC eligibility
- There are some similarities in the characteristics of pensioners eligible in PPI and DWP projections but also some differences

# Conclusions

- Many factors affect incentives to save, not just Pension Credit
- Some groups see lower value from saving in Personal Accounts than others
  - Some older people (low earnings/ limited additional savings)
  - Low earners who don't qualify for credits
  - Self-employed
  - Renters

# Next steps?

- Can generic advice cover everything sufficiently?
- Is there a need for more radical solutions (e.g. not auto-enrolling some groups)?
- Should trivial commutation levels be changed?

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