

# Should earnings-related pensions be compulsory or voluntary?

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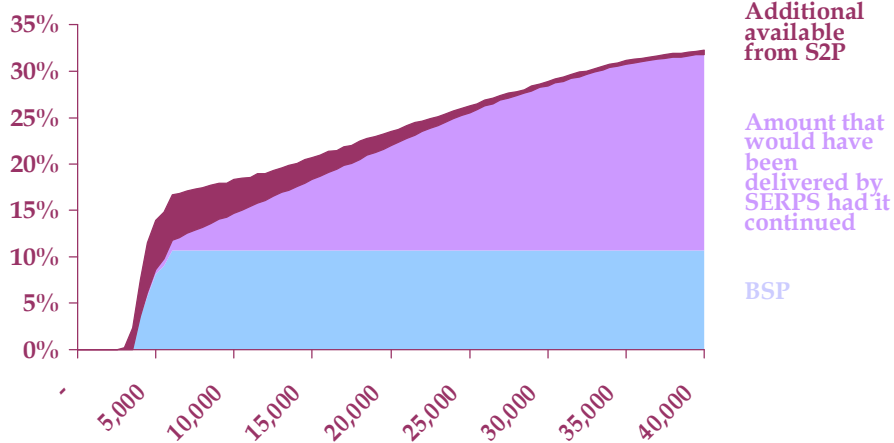
## Compulsory or voluntary?

- Compulsory earnings-related pensions are becoming less important in the current system.
- Compulsory earnings-related pensions are expensive and the benefits are disputed.
- Voluntary earnings-related provision on top of a better state foundation pension scheme might work as well as compulsory provision.

## S2P takes time to improve pensions at low income levels

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Pension entitlement on reaching SPA in 2024/5 as a proportion of NAE by constant annual earnings in 2005/6 earnings terms

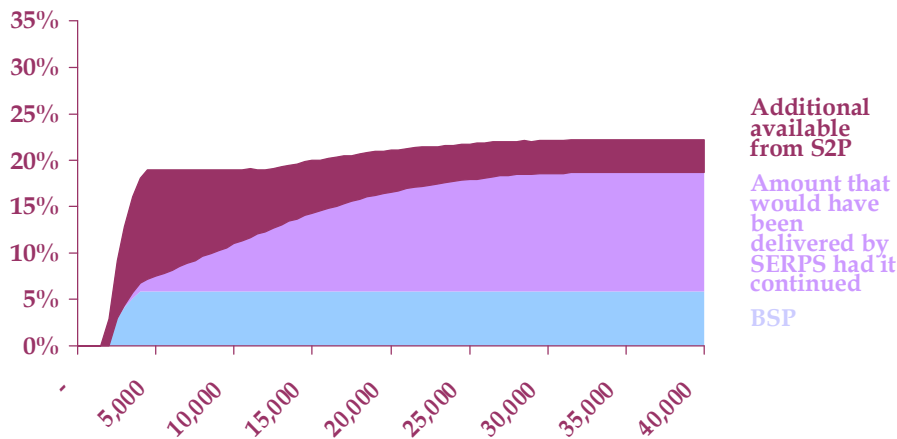


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## State pensions will be less earnings-related in future

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Pension entitlement on reaching SPA in 2054/5 as a proportion of NAE by constant annual earnings in 2005/6 earnings terms



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## What should the role of the state be?

1. Alleviation of poverty

2. Prevention of poverty

**Broadly  
accepted**

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3. Belonging and participation  
in the community

4. Continuance of economic  
status

**In  
debate**

## Compulsory earnings-related provision could:

- Minimise the risk of future disappointment.
- Save the state money.
- Encourage growth in the voluntary private pension sector.
- Provide a positive effect on the economy, along with a clear incentive to work.
- Maintain the status quo and avoid disrupting the existing pension provision framework.

# State pension reform is likely to be expensive

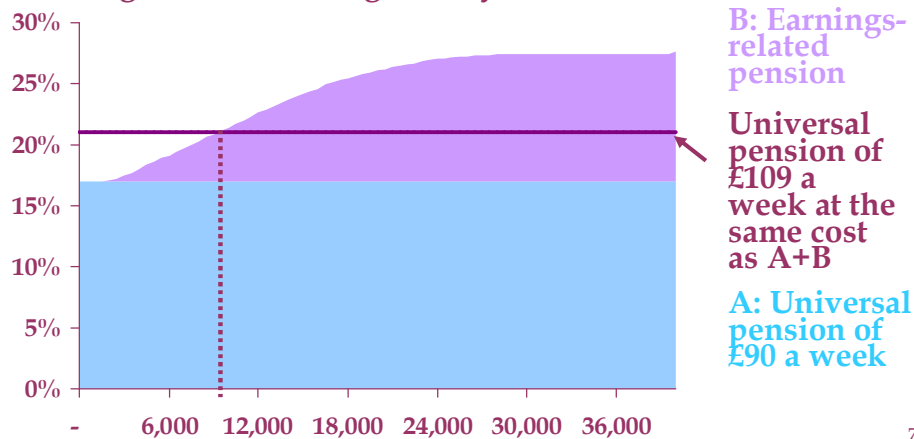
Estimated illustrative cost in 2040 of alternative state pension systems

	% GDP in 2040
Current system	6.5%
Flat-rate pension of £109 a week uprated in line with earnings <b>and an earnings-related pension</b>	9.5%
Simple flat-rate pension of £109 a week uprated in line with earnings	8.2%
Flat-rate pension of £90 a week uprated in line with earnings <b>and an earnings-related pension</b>	8.3%

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# A higher flat-rate pension is better for lower earners

Pension entitlement on reaching SPA in 2053/4 as a proportion of NAE by constant annual earnings in 2005/6 earnings terms, working for 40 years



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## A higher flat-rate pension means less means-testing

### Illustrative number of pensioners entitled to Pension Credit in 2040

	Number (proportion) of pensioners on PC in 2040
Current system	13 million (75%)
Flat-rate pension of £109 a week uprated in line with earnings <b>and an earnings-related pension</b>	0.5 million (5%)
Simple flat-rate pension of £109 a week uprated in line with earnings	1 million (5%)
Flat-rate pension of £90 a week uprated in line with earnings <b>and an earnings-related pension</b>	3 million (20%)

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## What should the role of the state be?

1. Alleviation of poverty
2. Prevention of poverty
3. Belonging and participation in the community
4. Continuance of economic status

Could undermine here



If do too much here

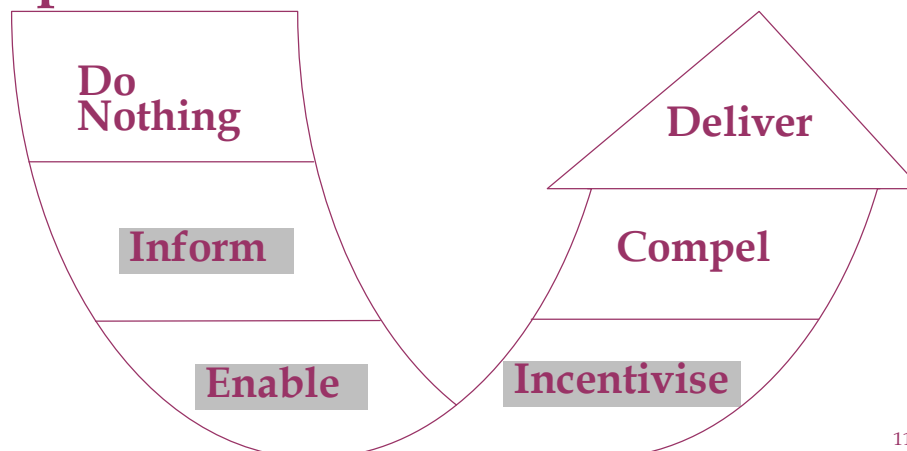
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## Some think compulsory earnings-related provision:

- Is unable to guarantee an adequate pension income.
- Could increase the need for means-testing and other Government costs.
- Could undermine voluntary private saving through added complexity, increased regulation and consequently higher costs.
- Would not have a significant impact on the economy.

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## Spectrum of options for state involvement in earnings-related pension provision



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# Questions for discussion

- Can the state afford to provide both poverty prevention and earnings-replacement?
- Is it more important for the state to prevent poverty for all, or is there an 'acceptable' level of poverty consistent with giving more resources to earnings-replacement?
- Would voluntary saving for earnings-replacement be easier with or without a compulsory earnings-replacement scheme?
- Could a revitalised voluntary system be good enough to improve upon the existing compulsory system?