



Should state pensions be contributory or universal?

Alison O'Connell

Pensions Policy Institute

Part of the *Shaping a Stable Pensions Solution* series
of seminars

14 July 2005

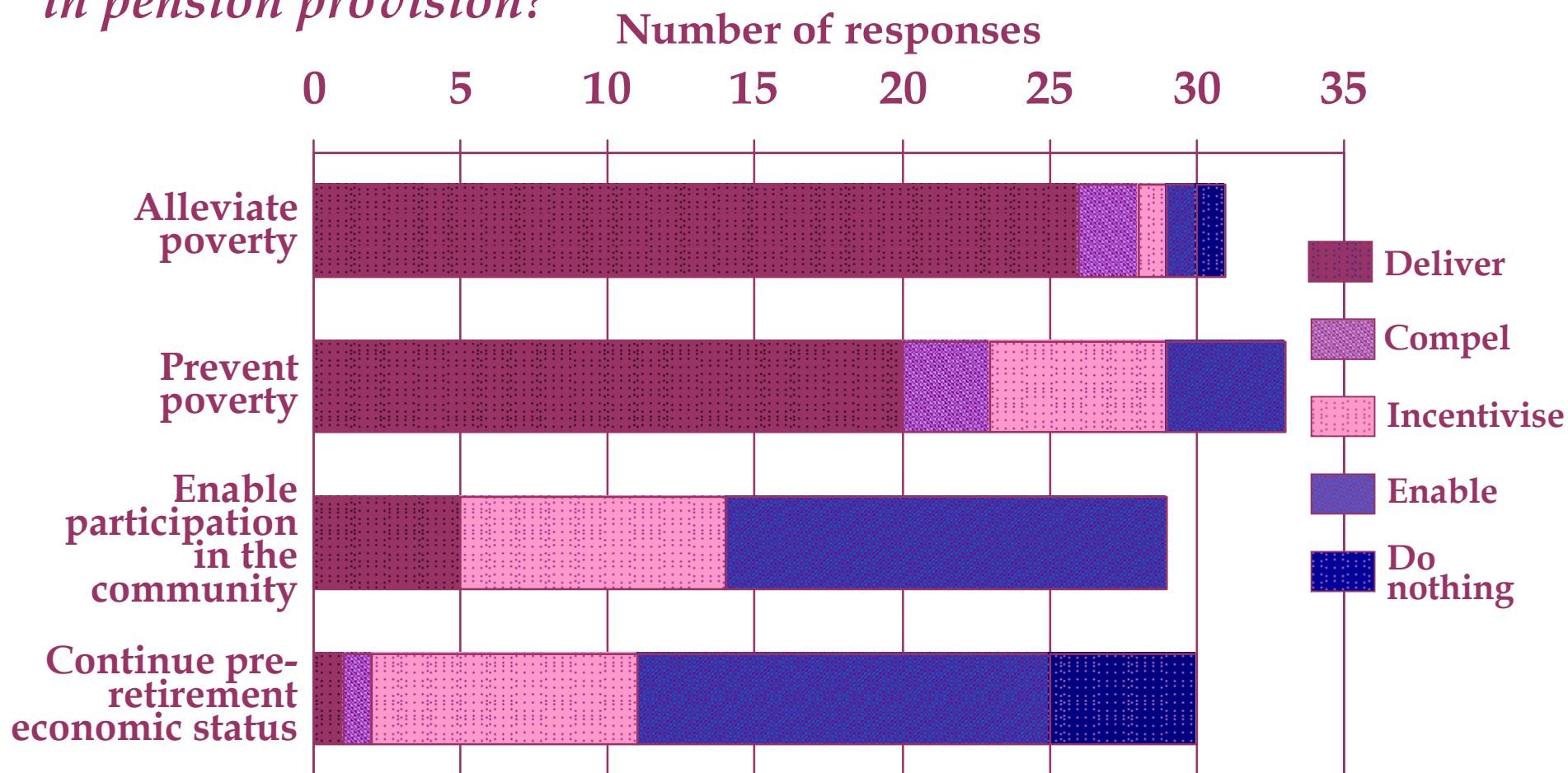
www.pensionspolicyinstitute.org.uk

The state should incentivise or enable retirement income above providing poverty prevention

PENSIONS POLICY INSTITUTE

PPI

What do you think should be the role of the state in pension provision?

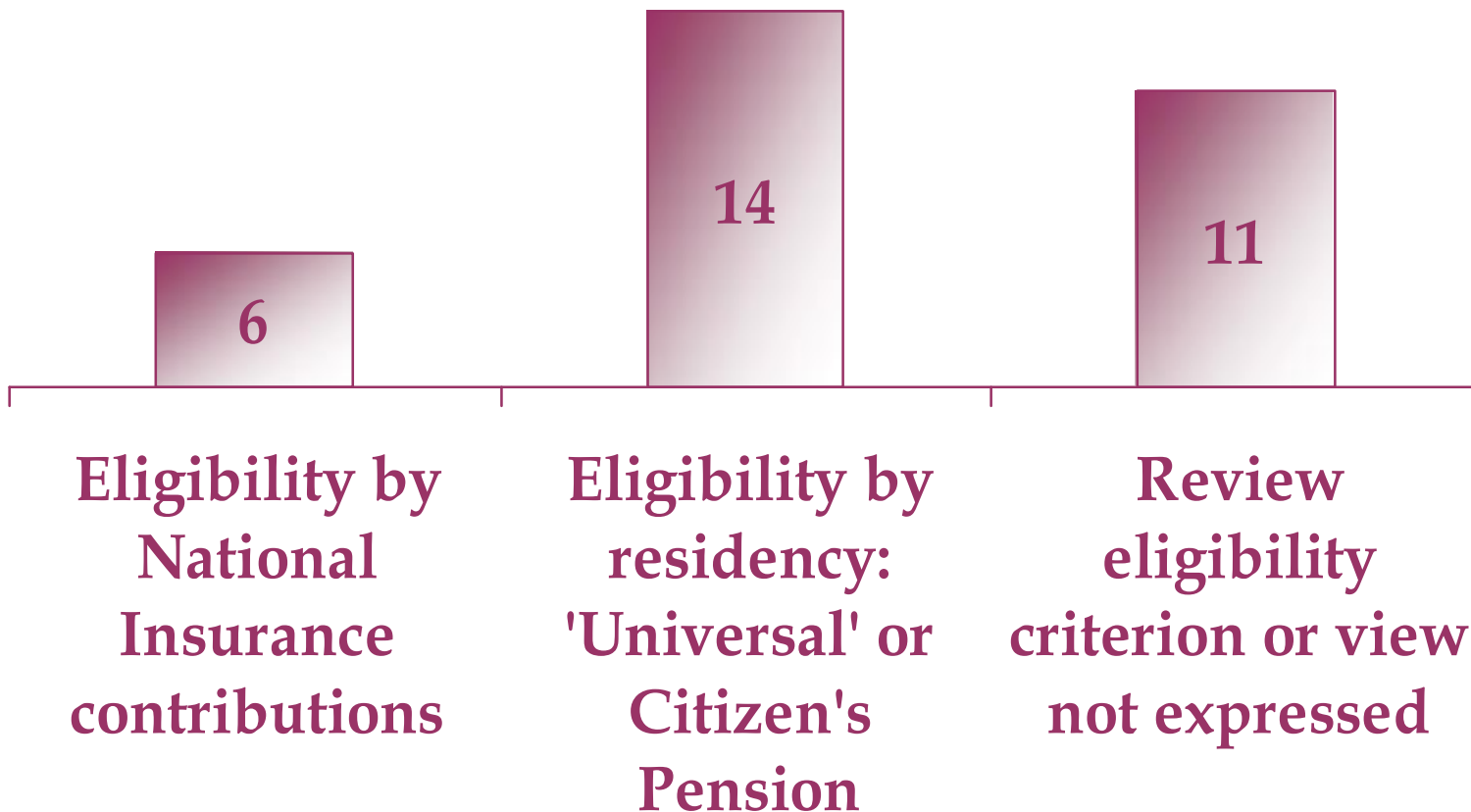


Current opinion favours universal

PENSIONS POLICY INSTITUTE

PPI

Number of proposals for different reforms to the state first tier



Evolution of state pensions debate



- Beveridge
 - ‘Adequacy for all’
- Joseph, Castle
 - Accrued rights
 - Reward for work
- Many reform proposals
 - Fairness to women
 - Simplicity
 - Contributory *principle*

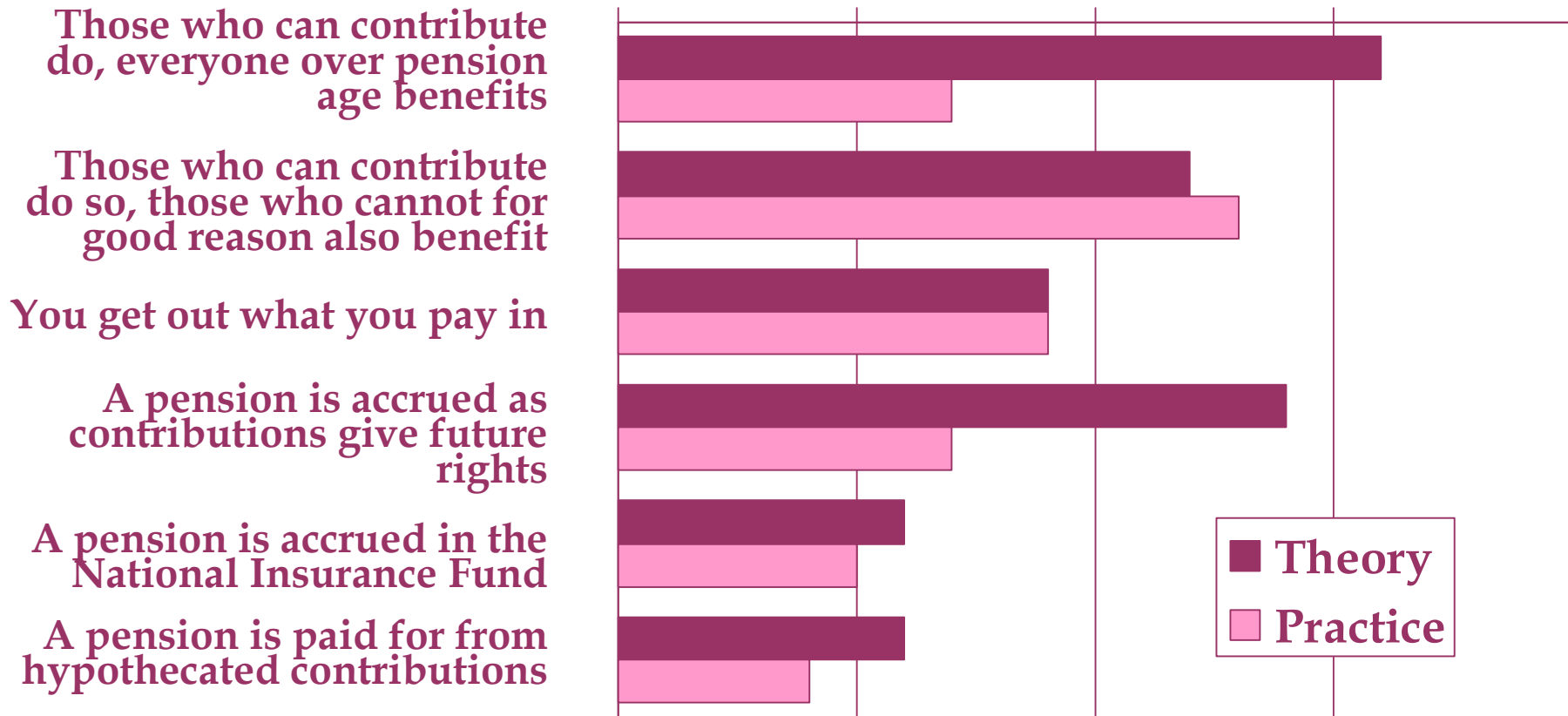
Experts describe the contributory system inconsistently

PENSIONS POLICY INSTITUTE

PPI

Number of responses: *What do you understand by the contributory principle in theory and how it works in the UK in practice?*

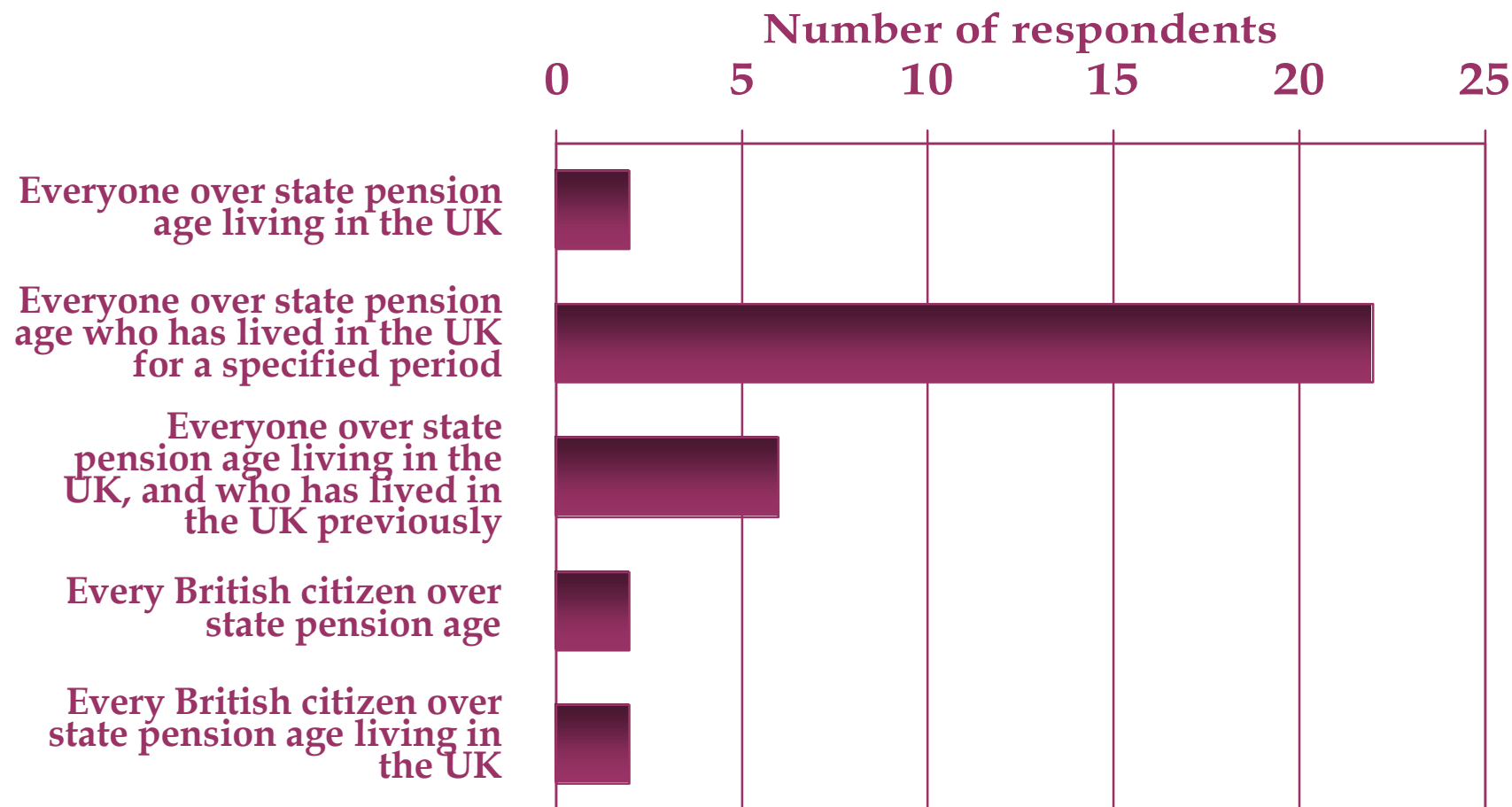
0 5 10 15 20



What do you understand by the citizenship or universal principle?

PENSIONS POLICY INSTITUTE

PPI



Contributory vs. Universal

1. Protection of rights against political interference: contributory better?
2. Improvements for women and others: modernised contributory good enough?
3. Fairness: Universal more appropriate?
4. Administration: will work well enough with modernised contributory?
5. Transition too risky?

Protection of rights against political interference

- A right to a unit of benefit is protected, not the value of that unit, as commonly believed about the contributory principle
...a useful myth for the population to believe in..?
- Can the ‘myth’ last?
- NI ‘fund’ could be ring-fenced and protected under both methods
- Simplicity of universal could be as good a protection

Universal more inclusive

People over SPA on Pension Credit:

- Now: ~50%
- After modernising contributory system: gradual fall to ~10-20%
- With universal: immediate fall to ~5%

Modernising the contributory system still leaves gaps

PENSIONS POLICY INSTITUTE



The number of working age people who contributed, were not credited or were credited-in to the BSP under the current system in the year 2003/4 compared with estimated figures under a modernised system

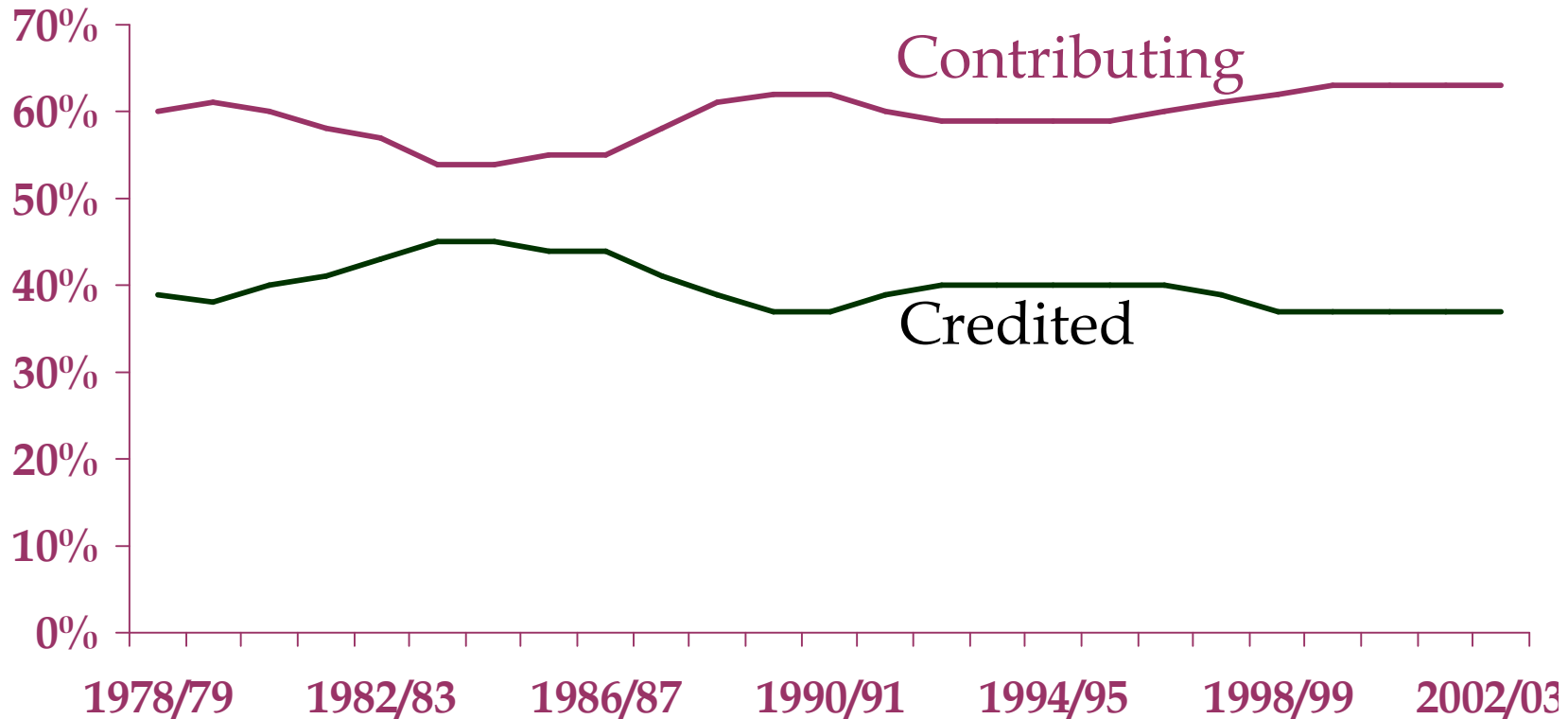
		Number of people (millions)		
		Contributing	Credited-in	Not credited
Current BSP	Men	13.5	2.5	2.0
	Women	10.5	4.0	2.5
	Total	24.0	6.5	4.5
<i>New data</i>		22.5	9.5	3.0
Modernised BSP	Men	13.5	3.5	1.0
	Women	10.5	5.2	1.3
	Total	24.0	8.7	2.3

The % contributing has been stable

PENSIONS POLICY INSTITUTE

PPI

The % of qualifying years that were gained by contributing or gaining any form of credit, by year



Administration and transition too risky?

- Defining residency not always clear-cut, for both contributory and universal
- For modernised contributory: weekly caring credits would be complex
- Simplicity gain from universal better the shorter the residency criterion
- Is it better the devil we know?

Evolution of state pensions debate



- Beveridge

- Joseph, Castle

- Many reform proposals

✓ 'Adequacy for all'

✓ Accrued rights

✓ Fairness to women

✓ Simplicity

- Reward for work

- Contributory principle

Contributory vs. Universal

1. Protection of rights against political interference: contributory better?
2. Improvements for women and others: modernised contributory good enough?
3. Fairness: Universal more appropriate?
4. Administration: will work well enough with modernised contributory?
5. Transition too risky?