

## **The Under-pensioned**

**Seminar 3 March 2004**

### **The Under-pensioned: Aims**

- **Identify the causes of low pension income**
- **Quantify the relative importance of different causes**
- **Investigate cumulative disadvantage**
- **Identify groups most likely to suffer from multiple disadvantage**

## The Under-pensioned: Method



- A model of hypothetical individuals – The Individual Model (IM)
- Historical and prospective, to look at impact of changing systems and individual characteristics
- Not a prediction, but a method of comparison under constant economic conditions
- Supplemented by cross-sectional evidence on specific under-pensioned groups

## The ‘Policy Stereotype’



- The policy stereotype works until age 65, in full-time employment, with private pension contributions and median earnings
- However,.....

## Most people are not like the policy stereotype



- More than half of the population are women, increasing to three-quarters of the population aged 75 or older
- One-quarter of the population are disabled
- Approaching one in ten people in the UK belong to ethnic minority groups
- Two-fifths of all workers are either self-employed, working part-time, or in temporary jobs
- One-quarter of women and one-fifth of men are expected to live into their nineties

## The main causes of low pension income

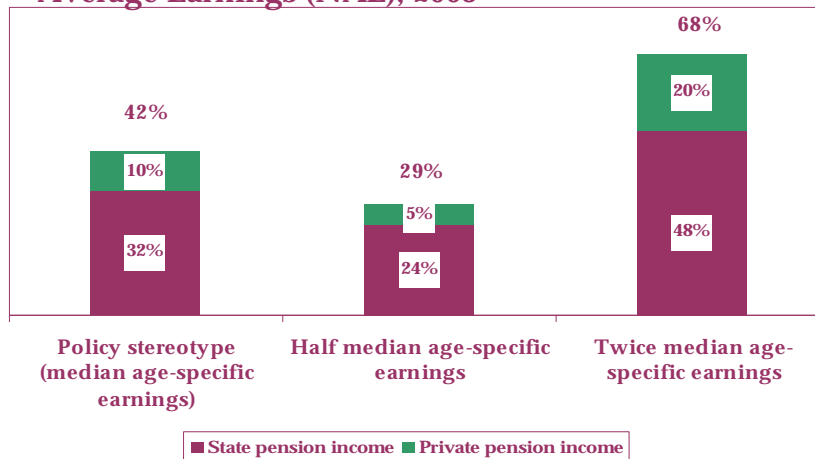


- Low earnings
- Time spent not in full-time work
- Irregular or low private pension contributions
- Early retirement (later retirement has a bigger impact on pension income)
- Living to very old ages

## Low earners receive lower pension income

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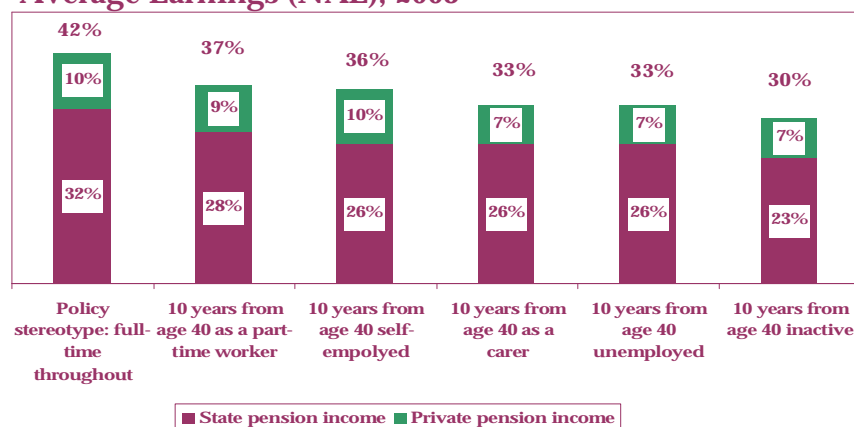
Pension income at age 65 as a proportion of National Average Earnings (NAE), 2003



## A 10-year change of employment status reduces pension income

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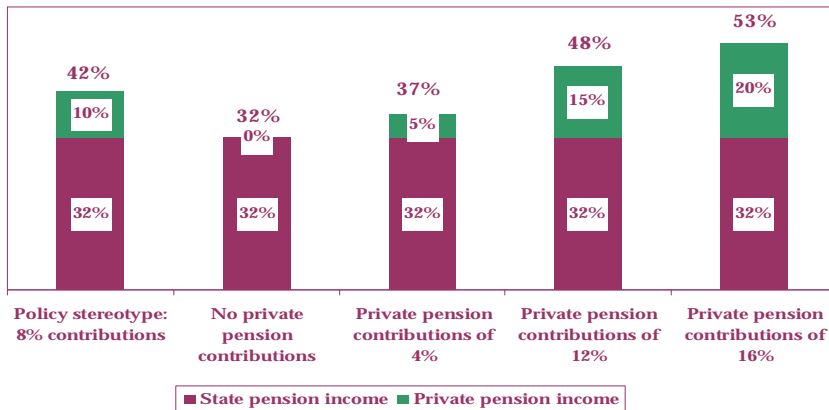
Pension income at age 65 as a proportion of National Average Earnings (NAE), 2003



## Lower private pension contributions lead to lower pension incomes

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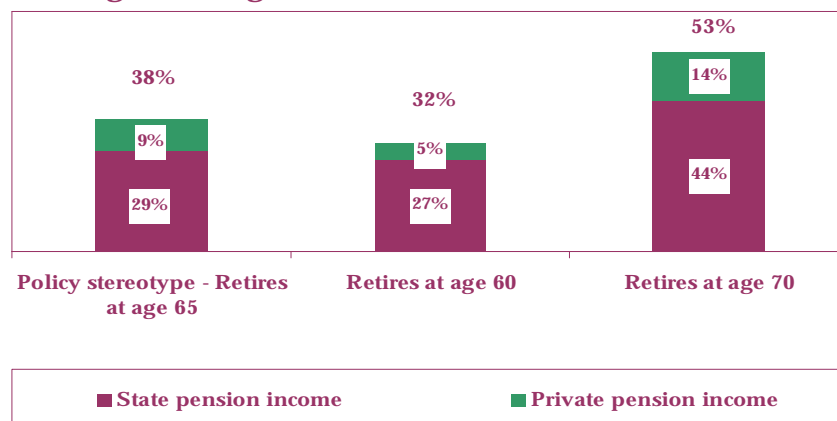
Pension income at age 65 as a proportion of National Average Earnings (NAE), 2003



## Later retirement increases pension income substantially

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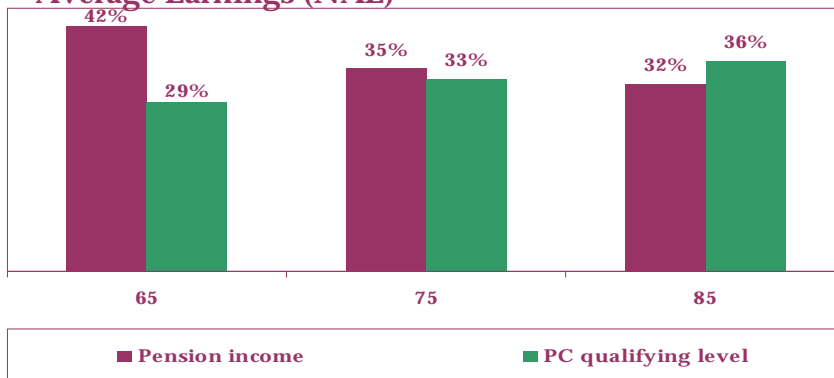
Pension income at age 70 as a proportion of National Average Earnings (NAE), 2003



## Individuals fall back onto Pension Credit during retirement

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Pension income of the policy stereotype (retiring at age 65 in 2003) at different ages, as a proportion of National Average Earnings (NAE)



## Disadvantage is cumulative

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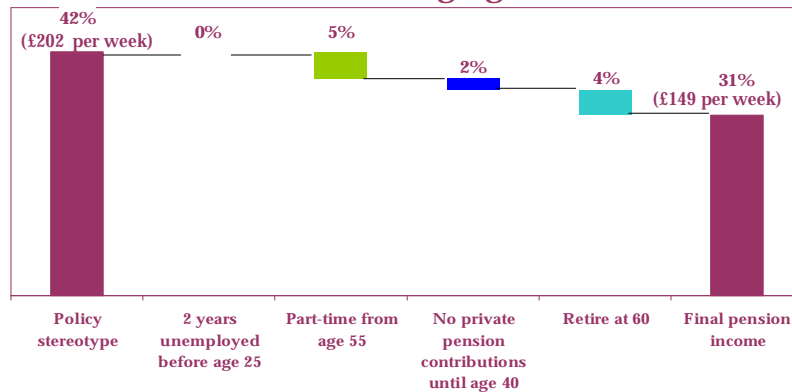
Many people suffer from cumulative disadvantage:

- Low earning individuals are more likely to have breaks from full-time employment; and
- less likely to have private pension provision

# Disadvantage is cumulative

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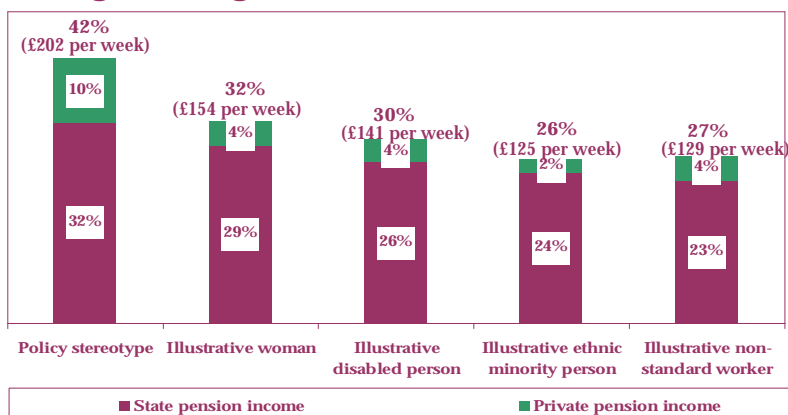
Pension income at age 65, as a proportion of national average earnings (NAE) for the policy stereotype retiring in 2003, and the effect of changing characteristics



# The extent of disadvantage for under-pensioned groups

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Pension income at age 65 as a proportion of National Average Earnings (NAE), 2003



## Recent reforms will not resolve the under-pensioned problem



- S2P includes new credits and more generous treatment of lower earners
- But S2P credits are not as generous as BSP credits
- As BSP declines in value, S2P credits act as a replacement rather than a supplement
- PC spreads further up the income distribution, and reduces disadvantage
- But PC also reduces the benefit of saving