

PENSIONS POLICY INSTITUTE

PPI

Shaping a stable pensions solution

How pension experts would reform UK pensions

Launch of the Final Report

29 March 2006

www.pensionspolicyinstitute.org.uk

Shaping a stable pensions solution

- 1 year
- 5 seminars
- 8 papers
- 79 experts
- 43 organisations
- 30 reform proposals

Majority view: 2 clear roles for the state



1. Deliver better on the one role that only the state can do - poverty prevention
2. Enable and incentivise the private sector to do what it does best – provide earnings-related pensions on a voluntary basis.

Majority view: Rationale

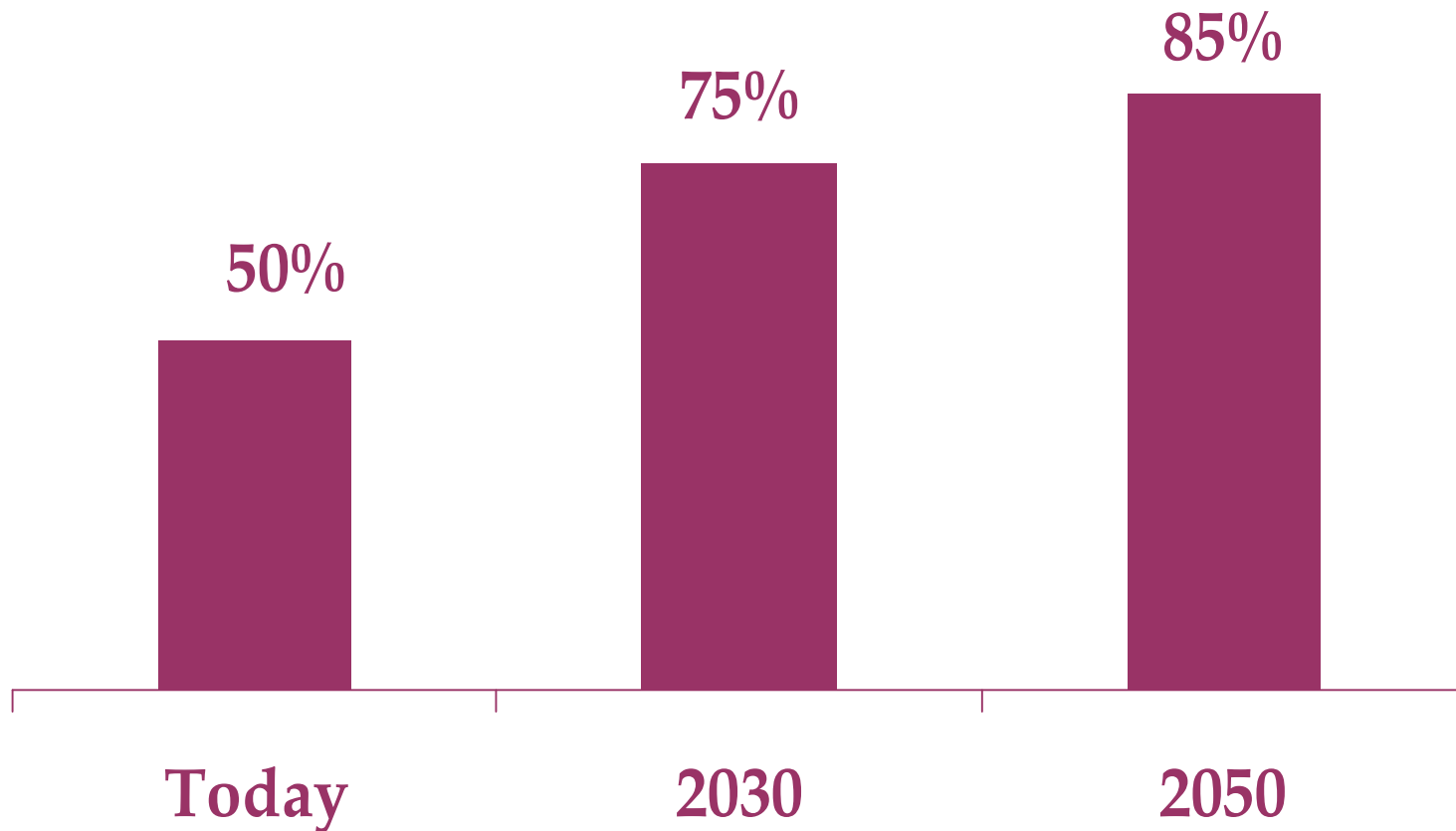
1. State pension has to guarantee against poverty in retirement
2. Extensive means-testing is not sustainable
3. Coverage of state pensions needs to improve
4. For earnings-related provision: voluntary (private) preferred over compulsory (state)
5. Working longer is key

More older people will be means tested

PENSIONS POLICY INSTITUTE

PPI

Proportion of pensioner households eligible for Pension Credit under current system, PPI estimate



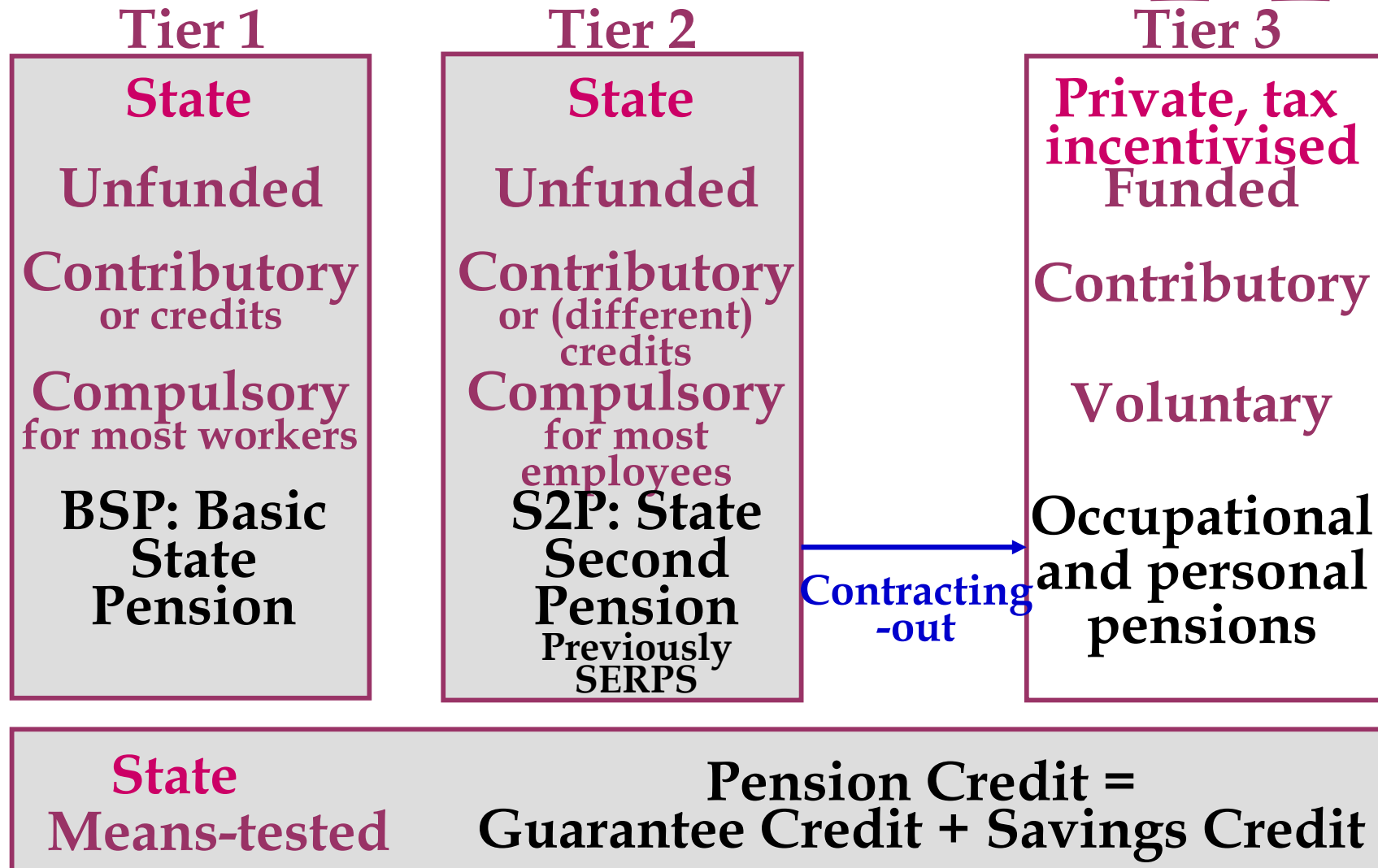
The Pension Credit take-up problem

	Take-up, 2003/4
Guarantee Credit only	69 - 81 %
Guarantee Credit and Savings Credit	63 - 73 %
Savings Credit only	36 - 46 %
All Pension Credit	58 - 66 %

Keeping the consensus solution stable

- Standing pension commission: research & advisory, making recommendations, setting policy?
- Permanent or regular?
- Accountability and transparency?
- Simplicity the best approach?

The UK pension system



The shape of the consensus solution

PENSIONS POLICY INSTITUTE

PPI

Tier 1

State

**Bigger
and
wider**

**BSP: Basic
State
Pension**

Tier 3

**Private, tax
incentivised**

Funded

Contributory

Voluntary

**Occupational
and personal
pensions**

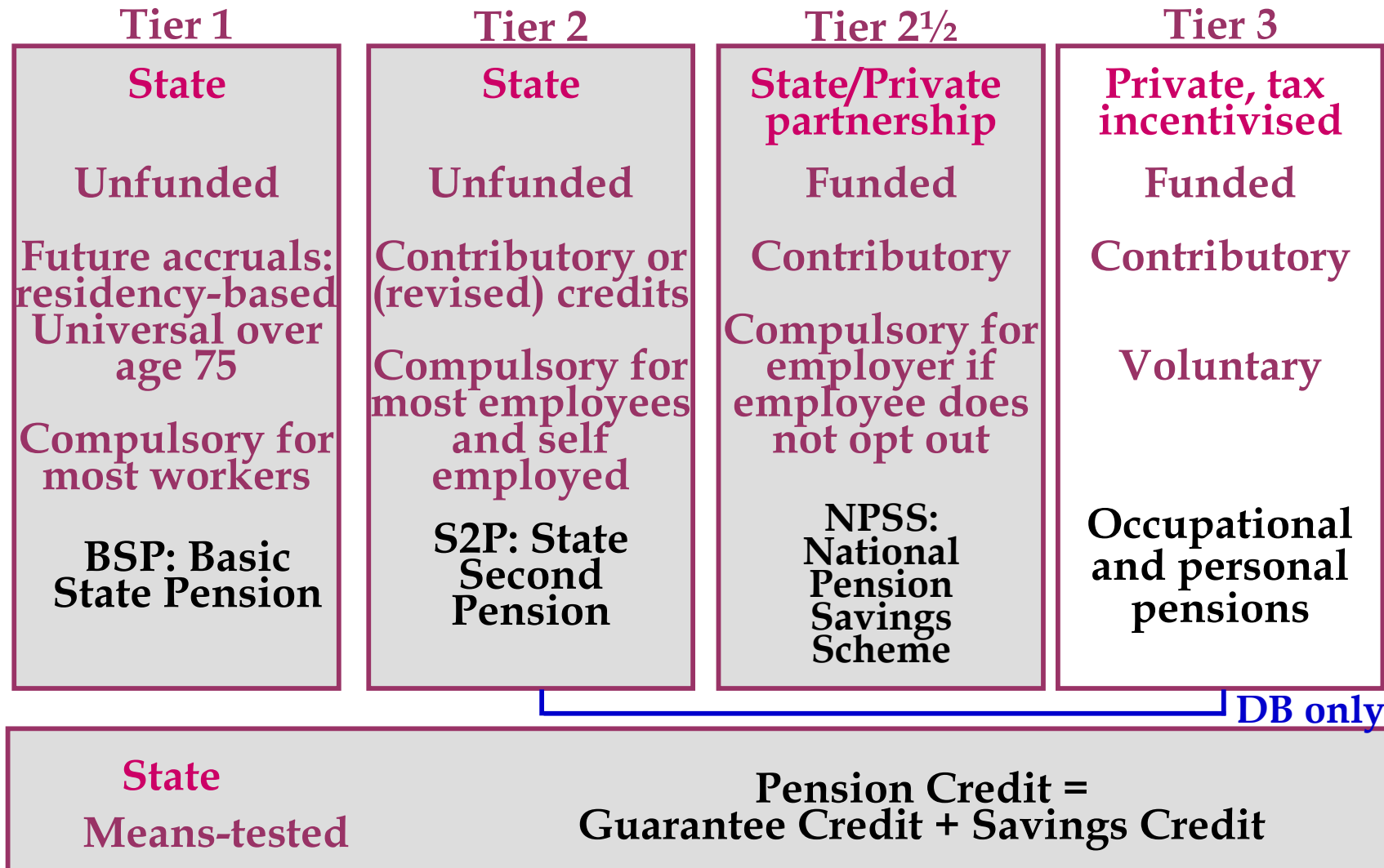
**State
Means-tested**

Smaller

Pensions Commission preferred approach

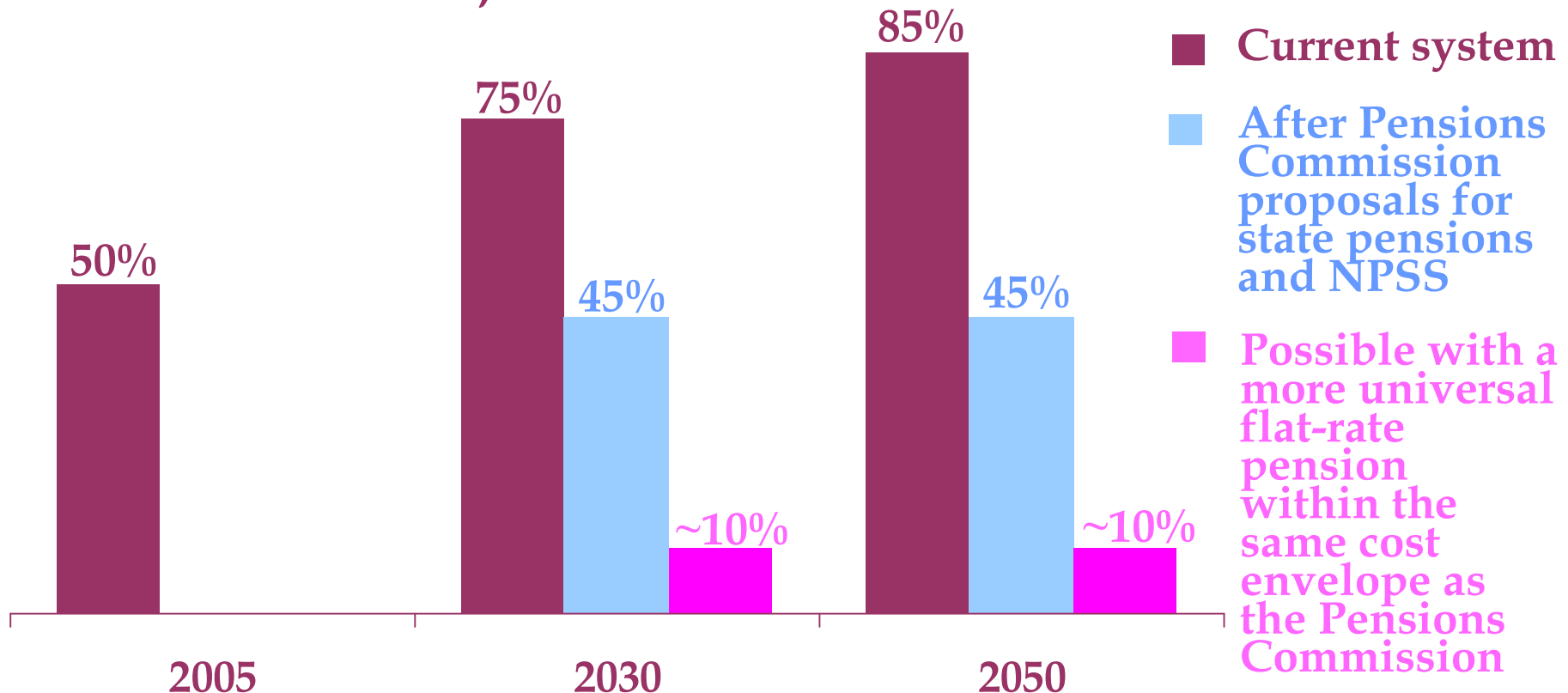
PENSIONS POLICY INSTITUTE

PPI



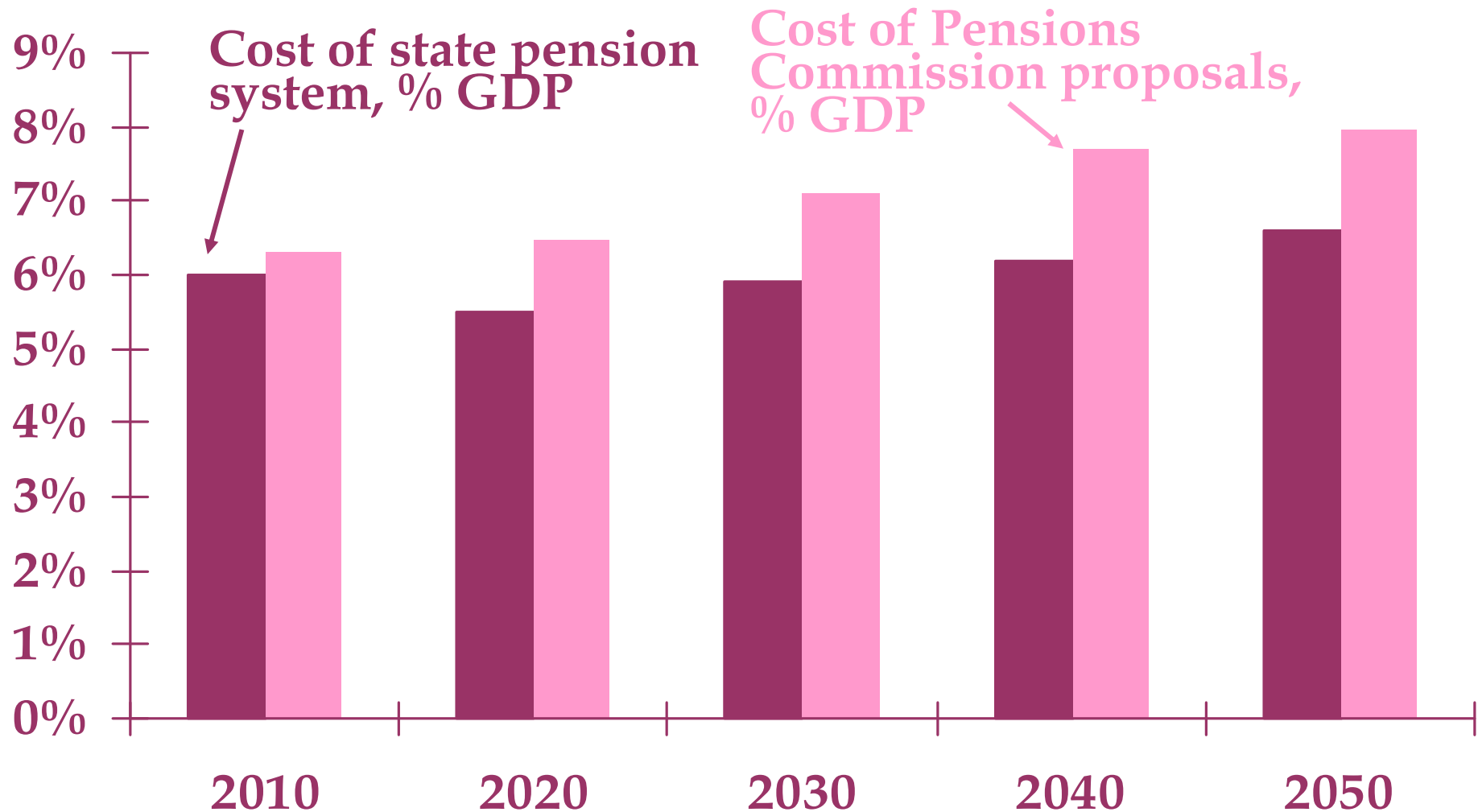
Means-testing could be reduced, but the Pensions Commission proposal maintains eligibility for Pension Credit at current levels

Proportion of 'pensioner benefit units' eligible for Pension Credit, PPI estimates



State pension costs will increase

PENSIONS POLICY INSTITUTE
PPI



Can we be bolder?

- Reduce current means-testing?
- Move to a flat-rate single pension quicker?
- Go further to equalise entitlement?
- Reform tax incentives?
- Look for ways of paying for better state pensions?