

The real issue is state pensions

In-depth research just completed by the independent Pensions Policy Institute (PPI) reveals that although today's pensions landscape looks better than yesterday's, a serious crisis is looming. If the UK is to avoid tomorrow's pensioners being worse off than today's, reform of state pensions is the priority.

The PPI's report - *The Pensions Landscape* - highlights unclear responsibilities for pensions that are storing up problems for the future. Government policy assumes individuals will do more to save towards their income in retirement. But the responsibilities of the state, employers and indeed individuals still remain largely undefined. The reality is many people are unable - or unsure of how - to act.

Alison O'Connell, Director of the PPI and joint author of the report said,
"Clearly there is no shortage of pension headlines at the moment. But behind the obvious short-term challenges lies a potential crisis of lower incomes that will be apparent only in the long-term.

At the heart of the issue are problems in the structure of state pensions. The Green Paper identified useful initiatives to do with private saving and working patterns. But our analysis shows that we also need debate - now - on what we want from state pensions in the future."

The Pensions Landscape shows that the average pensioner income has risen since 1997. The wealthiest fifth of pensioners are three times better off than the poorest fifth; the difference being made by private pension income. A quarter of pensioners remain in relative poverty.

The research could not identify any signs that future pensioners will be any better off than today's. Both the state and employers are reducing their long-term pensions commitment and there is no evidence that people are making up for this through their own pension or other savings.

Alison O'Connell continued,
"To build on government initiatives in other areas, we suggest an open review of future ambitions for state pension policy. This would help to resolve the problems of means-testing, ensure the state pension is robust in this era of increasing life expectancies, clarify the long-term cost to the state of pension provision and give private pensions the right role."

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Notes For Editors -

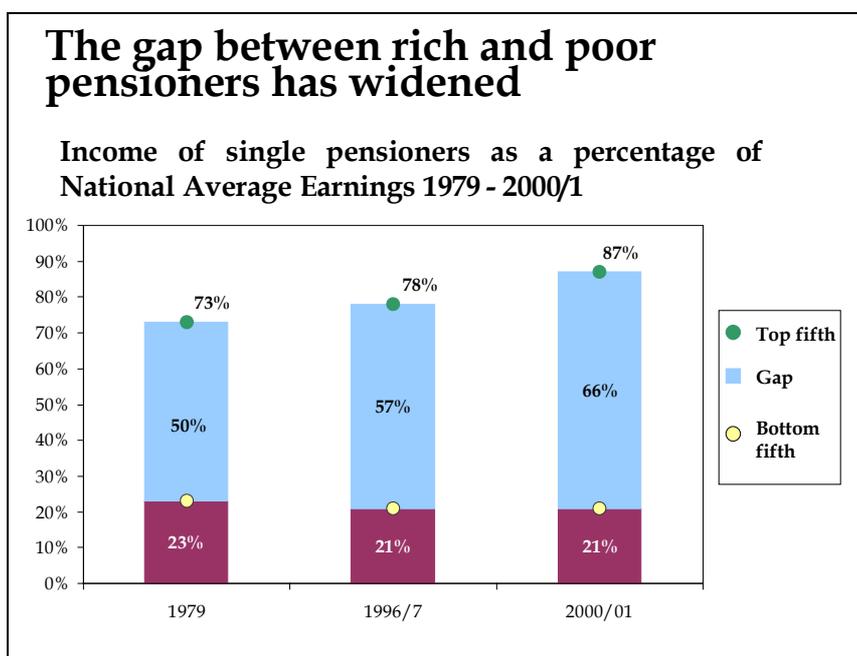
- A full summary of the report's conclusions is attached. A copy of the complete report, and information on the PPI can be found at: www.pensionspolicyinstitute.org.uk/. Copies can be obtained from the PPI on 020 7848 3744 or info@pensionspolicyinstitute.org.uk
- The PPI also publishes today a description of the UK's pensions system intended for people wanting to learn about UK pensions policy. *The Pensions Primer* is available at www.pensionspolicyinstitute.org.uk/.
- The PPI is an independent research organisation, focused on pension provision. Its aim is to improve information and understanding about pensions (state and private) through research and analysis, discussion and publication. 67 governors from a wide range of pension-related backgrounds support the Pensions Policy Institute.
- Alison O'Connell, Director of the PPI, trained as an actuary and has over 15 years experience in financial services and in pensions policy.
- Chris Curry, Research Director of the PPI, is an economist and has previously worked for the Department of Social Security (now the Department for Work and Pensions) and the Association of British Insurers.

The Pensions Landscape: Summary of conclusions

Today's pensions landscape looks better than yesterday's – on average. But pensioner poverty remains, and there are no signs that tomorrow's landscape will look any brighter. To avoid the risk that tomorrow's pensioners are worse off than today's, reform of state pension policy has to be debated.

Pensioners' incomes have risen, but so has the gap between the richest and the poorest.

- **Today's average pensioner is better off than yesterday's.** The average income for a single pensioner is £9,500 a year, or 44% of National Average Earnings (NAE). Most income comes from the state. Pensioners' incomes have grown faster than earnings on average, and so have improved relative to those of working age.
- **Private pension income makes the difference between rich and poor pensioners.** Occupational pension income is important for many pensioners; personal pensions and investments for fewer. Recent growth in private pensions has widened the gap between the richest and the poorest. The richest fifth of single pensioners now have annual incomes of £19,000 a year (87% of NAE), and the poorest fifth £4,600 a year (21% of NAE).
- **A quarter of pensioners are in relative poverty.** Typically, older pensioners are poorer, as are women, people from ethnic minorities and those who have been self-employed.

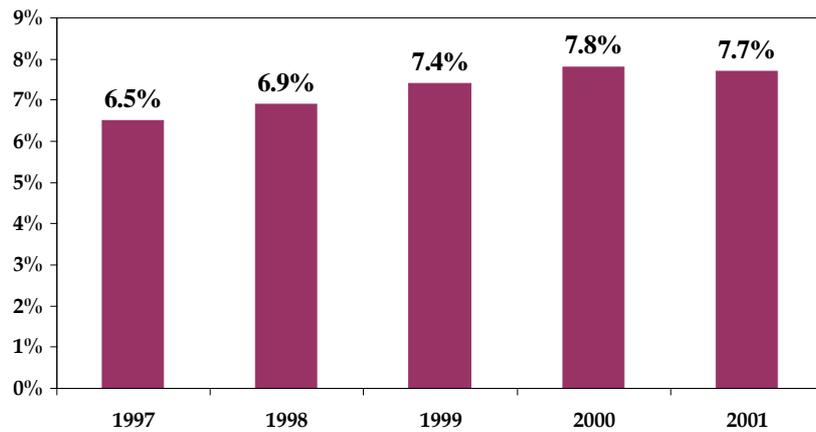


The make-up of pensioners' incomes will change but there are no signs that future pensioners will be relatively better off than the pensioners of today.

- **Both the state and employers are reducing their long-term pension commitment.** More people will receive state pensions in future. But state pension income per pensioner will fall relative to earnings, despite the earnings-linking of means-tested benefits. Employers are changing the type of provision offered, and reducing the amount contributed.
- **Today's pension saving behaviour seems unlikely to deliver more private pension income in future.** Total contributions to private pensions have stalled. Only a minority save in personal pensions. Pension saving is starting at later ages and tends to be irregular.
- **Pension alternatives are not widespread.** Most people do not have significant amounts of non-pension saving or investments. Those without pensions are less likely to have other assets. Housing is a significant asset for many, but is rarely converted into retirement income.

Private pension contributions per worker have stalled

Average contributions to non-state pensions as a proportion of National Average Earnings



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To avoid the risk that tomorrow's pensioners are worse off than today's, reform of state pensions policy should be debated now.

- **Problems of lower pension income will only become apparent in the long-term.** The average pensioner income will continue to grow in the short-term. But inequalities will increase if means-tested benefits are not taken up and if private pensions remain focused on higher earners - as is likely. More than one-third of future pensioners face being disappointed with their future retirement income.
- **The long-term problems are due to unclear responsibilities now.** Current policy assumes individuals will take more responsibility for pension provision. But the responsibilities of the state, employers and individuals remain largely undefined. Current initiatives address only some of these issues. Many people are unable - or unsure of how - to act.
- **The future cost to the state of current pension policy is not clear.** Current UK pensions policy constrains the cost of state pensions, meaning relatively less per pensioner. The *total* state budget for pensions in the UK will rise in future, although by how much is not clear. The right balance between the cost to the state of paying state pensions and the cost to the state of encouraging private pensions should be debated.
- **Reform of state pensions policy should be debated now.** Even though the average pensioner income may not worsen in the short-term, the long-term issues require a new solution to be debated now. The debate should start where the problems lie - with the structure of state pensions. In an ageing society, what state pension do we want and how much are we prepared to pay for it?

Why reform of state pensions policy should be debated now

- **The state pension system is needlessly complex - especially the interface with the private market**
- **The state pension system penalises the oldest pensioners**
- **It is doubtful that the state pension system can be sustained long-term**
- **More debate is needed on the state's role in pension provision**

