An evaluation of the White Paper state pension reform proposals

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An evaluation of the White Paper state pension reform proposals

- Quantitative analysis
- Policy implications
Quantitative analysis

- The proposed reforms are not expensive
- The impact on pensioner incomes is small
- State pension amounts are uncertain
- The extent of Pension Credit is uncertain
The proposed reforms are not expensive

Net change in Government finances from the White Paper state pension reform options compared to the current pensions system assuming contracted-out rebates are not used for other purposes %GDP and £bn, 2006/7 prices

-0.2%  0.0%  0.1%  0.1%  0.1%

2012: -3  2020: -1  2030: 2  2040: 10  2050: 10
The impact on pensioner incomes is small

- Higher income pensioners gain first
- Middle income pensioners lose from the Savings Credit squeeze
- In the long run the highest gains are for higher income pensioners
The impact on pensioner incomes is small

Illustrative weekly total after tax income of people over SPA in 2050 by decile of the income distribution, £ per week in 2006/7 earnings terms

<table>
<thead>
<tr>
<th>Decile</th>
<th>Current system</th>
<th>White Paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>110</td>
<td>115</td>
</tr>
<tr>
<td>3rd</td>
<td>140</td>
<td>135</td>
</tr>
<tr>
<td>Median</td>
<td>165</td>
<td>170</td>
</tr>
<tr>
<td>7th</td>
<td>205</td>
<td>210</td>
</tr>
<tr>
<td>9th</td>
<td>305</td>
<td>325</td>
</tr>
</tbody>
</table>
State pension amounts are uncertain

• The ‘near-universal’ BSP is only £75 a week
• There will still be gaps in S2P: 25% of working age people will not qualify for S2P each year
• It will take time for S2P to become high enough for full state pension at state pension age to reach £135 a week.
• Older pensioners will see state pension income fall below £135 a week as S2P is price uprated.
• As a result, the majority of individuals over state pension age will have state pension income of less than £135 a week in today’s earnings terms.
The future extent of Pension Credit is uncertain

Estimates of the future percentage of benefit units eligible for Pension Credit

- White Paper proposals (PPI funnel of doubt)
- Current system (PPI base case scenario)
- White Paper proposals (DWP)

[Graph showing the percentage of benefit units eligible for Pension Credit over time, with different scenarios represented.]
Shaping a stable pensions solution: 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.
Personal Accounts are planned as a package with low state pensions

Target income for an average earner as % NAE

- **Australia**: ~40%
- **Chile**: ~60%
- **Sweden**: ~60%
- **KiwiSaver in NZ**: ~41-50%
- **Max. 42%**

**Compulsory**

- **UK Personal Accounts**: Min. 33%, Max. 27%, 15%
Pre-Pensions Commission consensus principles on pension reform

1. Complexity
   - Simplify so easy to understand

2. Unequal outcomes
   - More equal coverage

3. Too high expectations of saving
   - Clarify role of the state vs. private saving vs. working longer

4. State pensions unsustainable
   - Higher state pension, less Pension Credit
Progress on consensus principles

1. Complexity
   No simpler state pension plus Personal Account complexity

2. Unequal outcomes
   Better over time

3. Too high expectations of saving
   Messages on both working longer and saving more... but actual outcome?

4. State pensions unsustainable
   Pension Credit still undermines foundation