

“Review of pension reform proposals confirms a consensus for getting the state foundation right” says Pensions Policy Institute

There is a clear consensus among pension experts that the first tier of state pensions should be the pension reform priority, a Pensions Policy Institute (PPI) analysis of the proposals made to date shows.

A more generous foundation pension from the state is advocated by most pension experts. The focus is on simplifying the foundation. The second tier of state, occupational and private pensions, and all the other elements of pension policy, get much less attention.

The PPI presented a ‘Stocktake’ of pension reform proposals at a seminar held today at their base in King’s College, London. They mapped the proposals made by 17 organisations, including the three main political parties, pensioner groups, business and employee organisations, and others with a major interest or expertise in pensions.

The highlights from the analysis are:

1. **All the proposals focus in detail on the state first tier.** 14 out of 17 want the state foundation to provide at least £105 a week (the level of the current means-testing threshold) and to be indexed to earnings. Two organisations propose instead keeping the current level (£79 a week) and price indexation, while one proposes earnings indexation from the current level.
2. **The proposals are more evenly split on whether the foundation pension should be based on citizenship (or ‘universal’) or on national insurance record.** 6 plump for citizenship; 7 propose keeping the current system, 1 suggests both and 3 are open minded.
3. **Proposals are much less detailed on what to do with the state second pension and contracting-out,** perhaps because the complexity of these elements makes it very hard to analyse options. All but four of the proposals say they are reviewing or would stop the second tier (because they propose strengthening the first tier).
4. **There is even less detail and agreement on other elements of the pension system.** Only two proposals favour compulsory private saving; 14 are against. Informed Choice as a way of encouraging voluntary saving is mentioned by 9 proposals; rethinking tax incentives by 10. Better employment policies for older workers are recognised as important by 11 of the organisations.

“As organisations work on their pension policy reform proposals for submissions to the Pensions Commission, we thought it would be helpful to take stock of where we are, and set up a system to track developments” said PPI Director, Alison O’Connell.

“There is almost unanimous agreement that state pensions should be reformed as a necessary first step to revitalising occupational and personal pensions. The PPI analysis shows that much more work needs to be done: many proposals describe the system that would be preferred, but the details of how to get there, and how to pay for it, are missing from most.”

Today the PPI also announced a major new initiative on pension reform they are to run jointly with the Nuffield Foundation. Throughout 2005, a series of seminars with pension decision makers will be held to discuss the most critical issues on the interface of state and private pensions. By involving many of the leading pension thinkers in the country, the initiative aims to make progress towards a consensus on what is possible.

“We are very pleased to be able to work with the Nuffield Foundation on such an important initiative” said Alison O’Connell. “It will complement other work such as the Pensions Commission’s remit on pensions savings, to provide a coherent overall perspective on the appropriate roles long-term for state and private provision”.

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Further details on the PPI’s pension reform stocktake analysis will be on www.pensionspolicyinstitute.org.uk

Notes For Editors -

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. The PPI has built up particular expertise in state pension reform over the last couple of years. It does not lobby for any particular reform, but works to make the pension policy debate better informed.

The grant awarded to the PPI by the Nuffield Foundation will enable a series of expert seminars discussing new research papers. The outcome is intended to be some well-debated ideas for shaping a stable pensions solution for the whole pension system, for the long-term.