The UK Pensions Framework 2022
Event Write up
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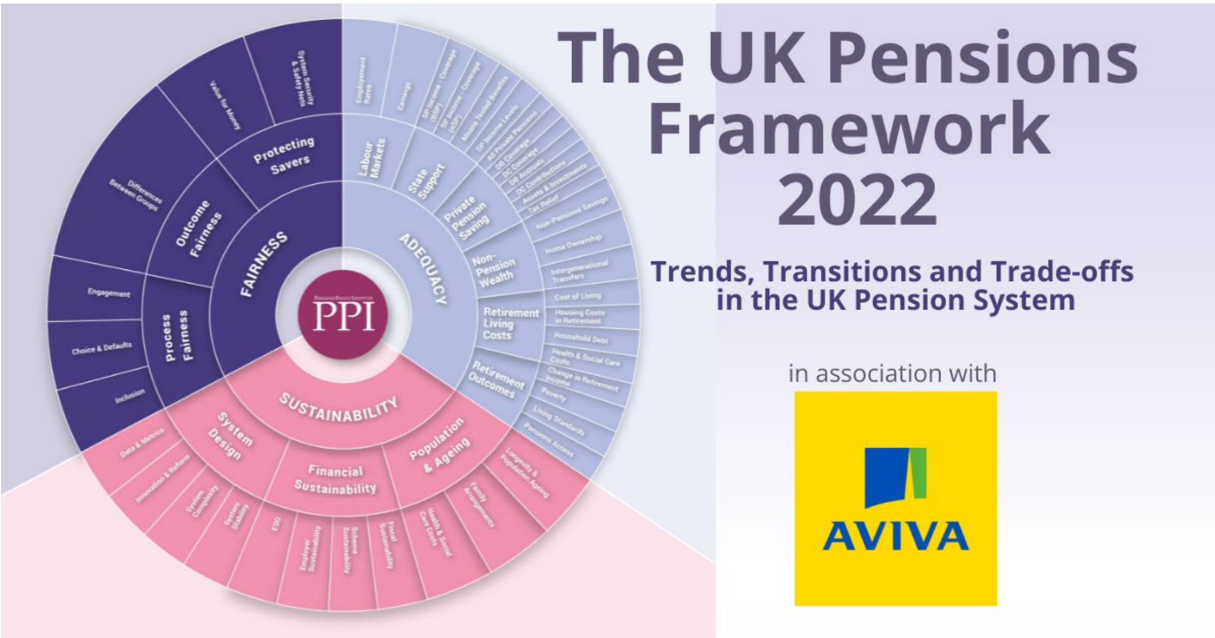
PPI Launch Event

The UK Pensions Framework 2022: Trends, Transitions and Trade-offs in the UK Pensions System



Launch event write up:

The Pensions Policy Institute held a policy seminar on Tuesday 29th November 2022 to launch The UK Pensions Framework 2022 edition: Trends, Transitions and Trade-offs in the UK Pensions System, in association with Aviva. The event was hosted by Aviva. The Pensions Framework is a strategic multi-year project that aims to support and inform long-term policy making in the UK pensions system. The report presents a holistic picture of how the UK pensions system is working, identifies the impact of changes in the economic and pensions landscape and highlights policy relationships and trade-offs.

Over 50 people attended the event, representing interests from across government and industry. Chris Curry (PPI Director) chaired the event.

Chris Curry, Director, PPI, gave a chair's welcome to the event and thanked Aviva for sponsoring the report. He welcomed everyone and introduced the lead researcher of the report.

Anna Brain, Policy Researcher, PPI, presented an outline of the report and the key components of the research findings. The Pensions Framework serves as a resource to look across the Pensions System and the changes and tradeoffs that occur in the landscape between the three key objectives of Adequacy, Sustainability and Fairness.

The Pensions Policy Wheel brings together the three objectives of the Pensions Framework and the smaller sections which make up each area of study. For example, within Adequacy, Labour Markets are measured by both employment rates and earnings. Whereas State Support is measured by state pension income, means tested benefits and state pension income levels. Whilst employment levels are high, earning growth has stagnated thereby indicating that there are challenges for Labour Market support for adequacy.

Responsibility for retirement risks, provision and system design is changing between the state, the employer and the individual. The negative impacts of transitions in the pension system and retirement incomes include under saving, low engagement, persistent income inequality, high levels of dependency on the State Pension and risks facing people who leave work before SPa. However, the positive impacts include financial sustainability, higher workplace pension coverage, higher employment at older ages and reductions in dependency on means-tested benefits. Many of the outcomes are driven by synergies and tradeoffs between system components.

The key policy findings include:

- Managing tradeoffs is essential to improving outcomes.
- The private pension system is very complex.
- There is low awareness that savings may not meet retirement needs.
- The role of adequacy is becoming Increasingly important.
- Evaluation of needs to take account of interactions between pensions and other policy systems.
- There are wide variations in the characteristics of and inequalities among older people.

Response from the sponsor: Michele Golunska, Managing Director, Wealth and Advice, The UK Pensions Framework is a useful analytic tool for the Pensions system and will be a valuable baseline to measure against. There have been major shifts in the economic landscape which have affected savers in the short term and in the long term. Recent economic events have also fueled anxieties over financial security, thus public advice is important for better decision making. The Pensions Framework will improve decision making and spur action to tackle the issues presented by the research. The analytic tool can also underpin major changes in UK pensions policy.

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Panel discussion/Q&A:

Chris Curry chaired the panel discussion and subsequent Q&A session. The panel discussion consisted of:

- **Professor Nicholas Barr FRSA**, LSE & PPI Governor.
- **Baroness Jeannie Drake CBE**, Labour Peer & PPI Governor.
- **Emma Douglas**, Aviva & PPI Governor.
- **Sir Steve Webb**, LCP & PPI Governor.
- **Anna Brain**, PPI

The remainder of the session was held under **The Chatham House Rule** and the views expressed do not necessarily reflect those of the PPI or panellists.

The following points were raised during the panel discussion:

- The Pensions Framework presents a multi-dimensional approach to the pensions system in the present and in the future.
- The Pensions Framework can highlight gaps: Ethnic minorities, women affected by low earnings limit.
- A strong state pension is essential to adequacy as DC income is not enough for most people in later life.
- Financial support is needed for SMEs in order for pension contribution rates to increase.
- Good retirement defaults are required as DB schemes are in decline.
- The pensions system should work well for busy workers, from whom we shouldn't necessarily expect engagement.

Q&A:

To what extent can we achieve a balance between fairness, adequacy and sustainability in the pensions system? To achieve a good balance between the three objectives, a holistic view of the pensions system is required. Before expecting higher contribution rates, SMEs need further economic support. Better trade-offs can be achieved through both scale and efficiency. There should be more action in the industry to ensure retirement needs are met, such as public advice on spending more wisely in later life. Post-retirement defaults are required, such as deferred annuities or CDCs, due to the decline of Defined Benefit schemes. However, the pensions system must not be looked at in isolation from the wider political landscape. Questions must be asked: How limited is state responsibility for the three objectives? How far should the state intrude? How much can the state provide with regard to expenditure? Finally, "fairness, adequacy and sustainability" mean different things for different people; a robust consensus could provide a better understanding of the three objectives.

Complexities in the private pensions system? The decline of Defined Benefit schemes coinciding with the rise of Defined Contribution schemes, has complicated the private pensions system. The introduction of Automatic Enrolment, although increasing retirement savings, has also birthed a small pots issue for providers. However, nudge-based policies have resulted in higher saving levels than when decisions were left to the individual. Thus, it is important to harness inertia.

Where are we at with DC investments? There is currently a lot of work taking place on DC investment strategies, and consultations with the government on regulatory barriers are in progress. The diversification of DC portfolios is an ongoing goal across government and industry, although default asset allocations have remained relatively unchanged over the past few years. Investments in illiquid assets such as infrastructure, private equity and venture capital come with high fees and do not always produce high returns. Consultations have been specifically focusing on exempting performance fees from the charge cap to facilitate illiquid investments. The question is how far the state should go in pushing trustees to invest in illiquid assets in the current economic climate.

Should we consider the wider economic picture? Before employing the Pensions Framework as an analytic tool, should we address the pervasive economic problems in UK society? Recent crises and new fiscal measures have resulted in major losses of wealth and higher taxes for most households. Major shifts in the economic landscape have dramatically affected retirement income over the last couple months and will continue to disrupt pensions savings in the near future. Campaigning for higher contribution rates, for example, might be a difficult political choice in consideration of these issues. Advance planning is required for contribution increases as they will affect the finances of businesses and individuals. Ultimately, investing in human capital is an essential element of increasing pensions savings.

How might each objective affect different groups? Can the Pensions Framework provide further breakdowns by gender, ethnic groups, age etc? The lack of publicly available data on certain groups poses difficulties for a more refined analysis, for example it may be difficult to measure adequacy for ethnic minorities. There was also difficulty in isolating individual characteristics within these groups.

What's next for the Pensions Framework? (Anna Brain, PPI): The next edition of the Pensions Framework will include policy simulations and what if scenarios.

Final remarks:

- Why force people to make decisions?
- There are uncertainties over the future, and it is very difficult for people to make retirement decisions. A default system is needed that works well for most people.
- The industry should consider future policy and unite around one big request for the government.
- Adequacy in the pensions system is currently the biggest issue.
- When arguing for improvement in contribution rates, consider the importance of maintaining the state pension.