

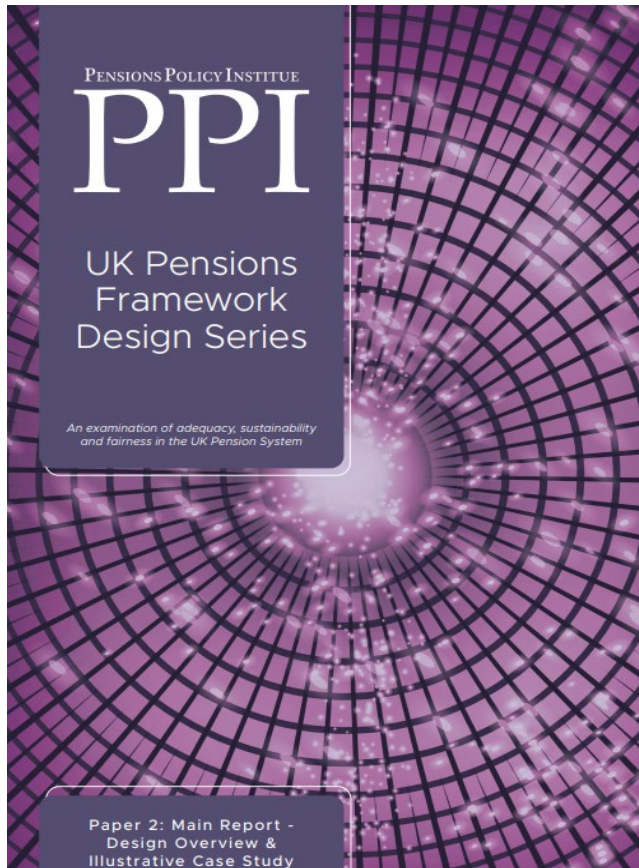
PENSIONS POLICY INSTITUTE
PPI



The UK Pensions Framework
Design Series
In association with Aviva

Today's Showcase Event

This showcase event is to launch the Design Series for the PPI's UK Pensions Framework



The UK Pensions Framework

In association with...



Key Findings

Pensions Policy Institute

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Anna Brain,

Research Associate

Pensions Policy Institute

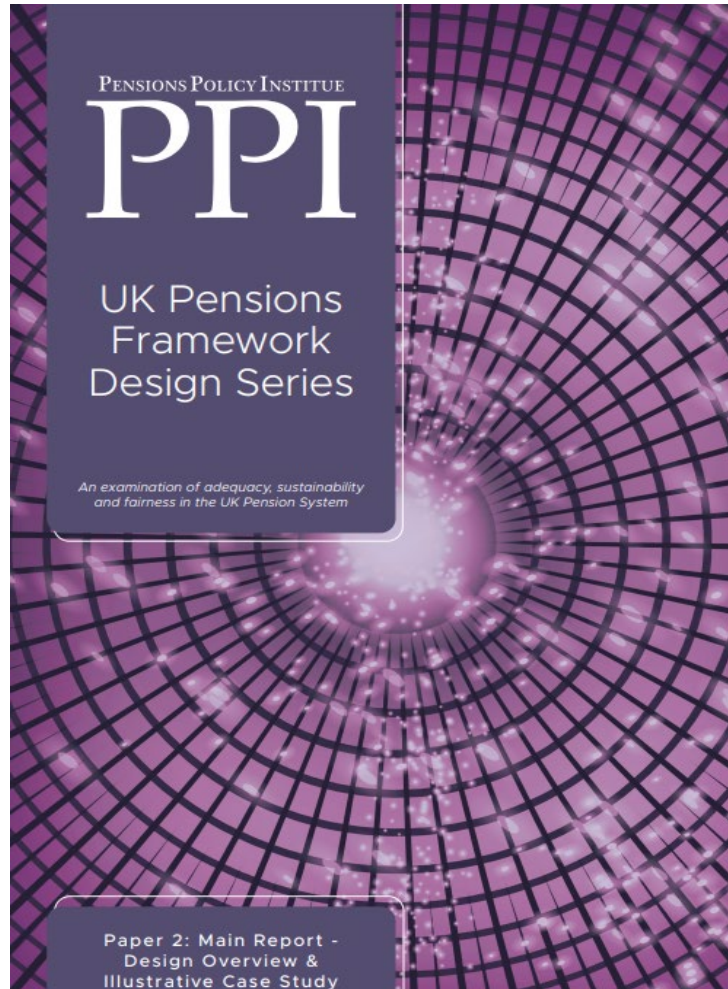
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Introduction



- **Background**
- **Structure & Design**
- **Content**
- **Case Study**
- **What Next?**

Background

- **What is missing from existing analysis of the UK Pension System?**
 - A single resource, tailored to the UK, that brings together information on factors that affect the performance of the pension system and provision of financial security in retirement
 - An integrated overview of issues, interdependencies and intersectional analysis

- **What is the UK Pensions Framework?**
 - An analytical instrument designed to provide a long-term overview of changes in the UK pension system and how it is evolving over time
 - Provides a range of indicators for tracking and comparing trends, patterns, risks, behaviours and outcomes in different population groups over time
 - Scope includes State and private pensions, as well as key non-pension considerations

How can the Framework support pensions policy?

1. Bring together the impacts of change from across the system

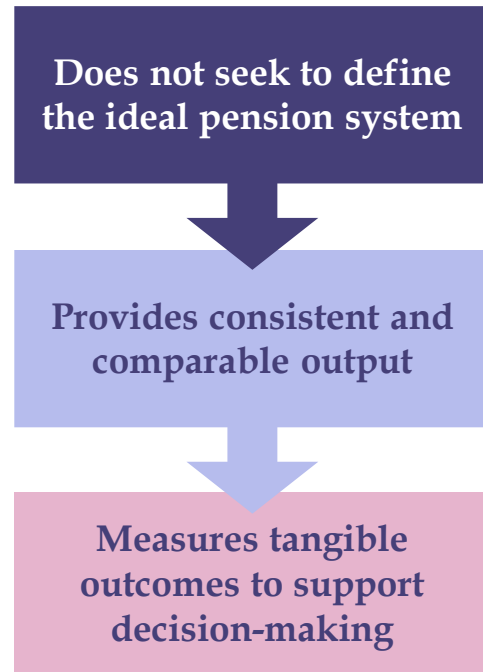
2. Examine impacts from the perspective of different actors

3. Track change over time or simulate the effect of potential change on the system

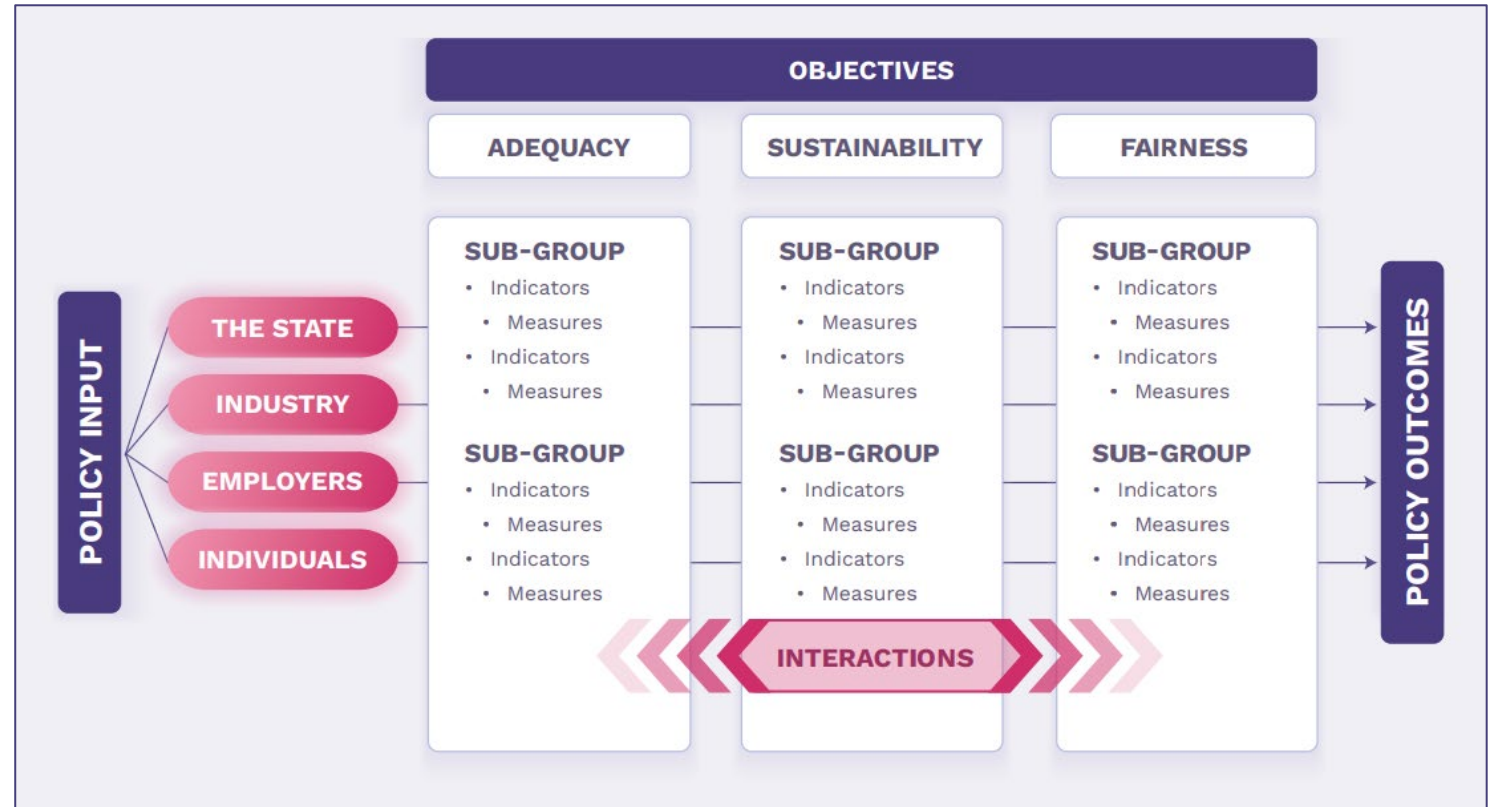
Develop picture of high-level strengths, weaknesses, risks and issues in the system, support coordinated policy consensus and design, and contribute to better outcomes in later life

Design & Structure

What are the design principles?



How is the framework structured?



Adequacy Content

Adequacy Indicators

• Labour Markets:

- Employment Rates
- Income and Earnings

• State Support:

- State Pensions
- Means-Tested Benefits

• Private Pension Saving:

- Coverage and Contributions
- Investments and Assets
- Tax Relief

• Non-pension Wealth:

- Non-Pension Savings and Inheritance
- Home Ownership

• Retirement Living Costs:

- Expenditure and Debt
- Social Care and Housing Costs

• Retirement Outcomes:

- Transitions and Decumulation
- Poverty
- Income and Living Standards

Adequacy: A clear and reliable system which enables people to plan for a retirement that provides them protection against poverty, some financial resilience, and the ability to maintain living standards from working into later life.

1. A **minimally acceptable level of income** and **protection against deprivation**
2. The income necessary to provide **continuity of living standards**
3. The **financial resilience** to withstand short-term financial shocks

Sustainability Content

Sustainability Indicators

- **Population and Ageing:**
 - Population Ageing
 - Family Arrangements
 - Health & Social Care
- **Financial Sustainability:**
 - Macroeconomic Indicators
 - Pension Age & Access
 - Employer Sustainability
 - Scheme Sustainability
 - Fiscal Sustainability
 - ESG
- **System Design:**
 - Regulation
 - Political Sustainability
 - Complexity
 - Innovation and Reforms
 - Data Adequacy

Sustainability: A system which is able to meet the needs of the present without compromising the ability of other people, stakeholders or generations to meet their own needs

1. Refers to the way in which risks that could compromise **affordability, stability, efficiency and integrity** are managed
2. Complex series of interactions typically result in **trade-offs with adequacy** objectives
3. Includes measures related to **financially material implications of ESG** in first edition, with possibility to extend to measures relating to wider sustainability goals in the future

Fairness Content

Fairness Indicators

Process Fairness:

- Inclusion
- Engagement
- Choice & Defaults

Outcome Fairness:

- Differences between population groups
- Differences between individuals

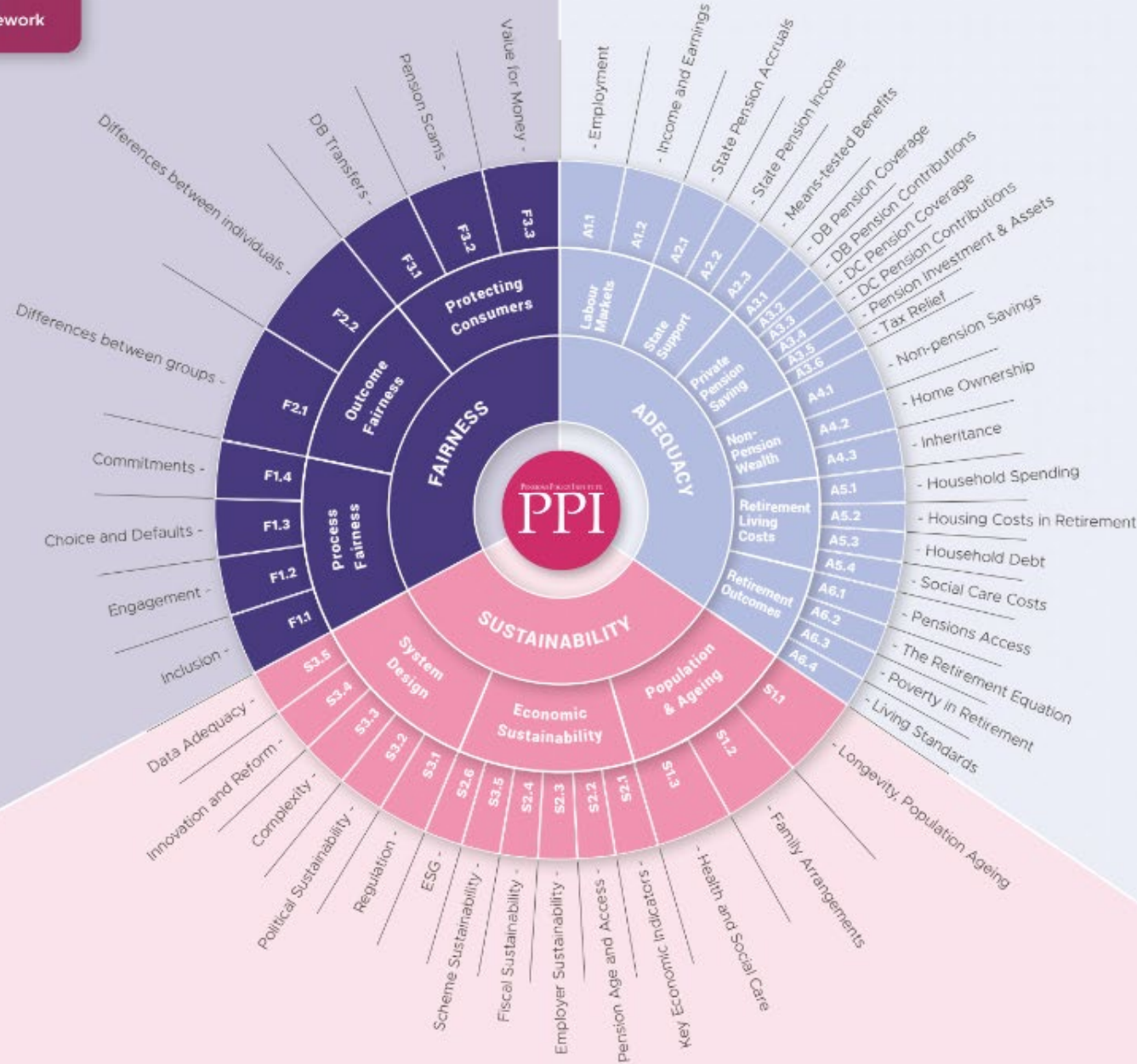
Protecting Consumers:

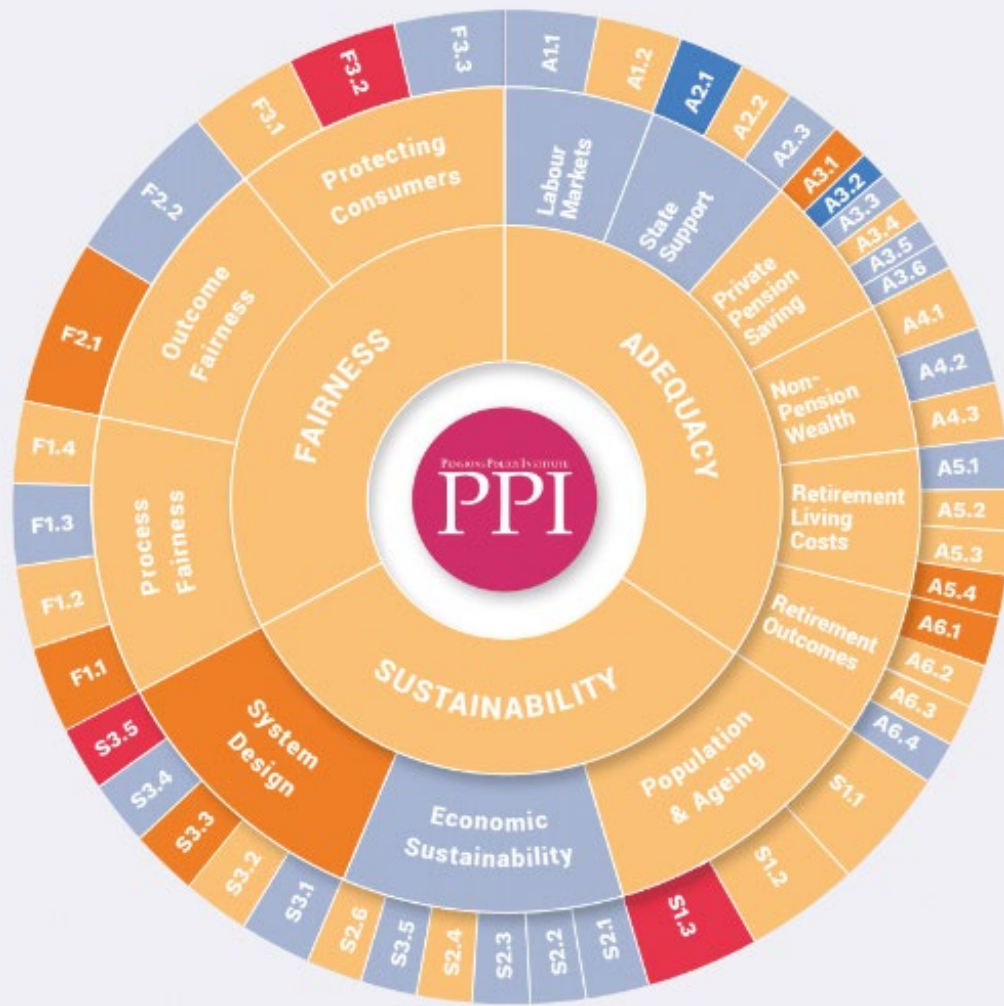
- Value for Money
- Pension Scams
- DB Transfers

Fairness: An inclusive system which engenders trust, provides fair benefits for all, protects people from risk in retirement and upholds the commitments that are made within and between generations.

1. Fairness is a balancing factor between competing objectives of adequacy and sustainability, which often require that **costs and benefits can be distributed unevenly** among different groups
2. Does not refer to equality in how costs and benefits are distributed. Derived from principles of **equality of opportunity** and **equality of outcome**
3. Means **different things to different people**, but those who believe they are treated fairly will have greater **confidence in the system**

Figure Ex2: A visualisation of the content of the UK Pensions Framework



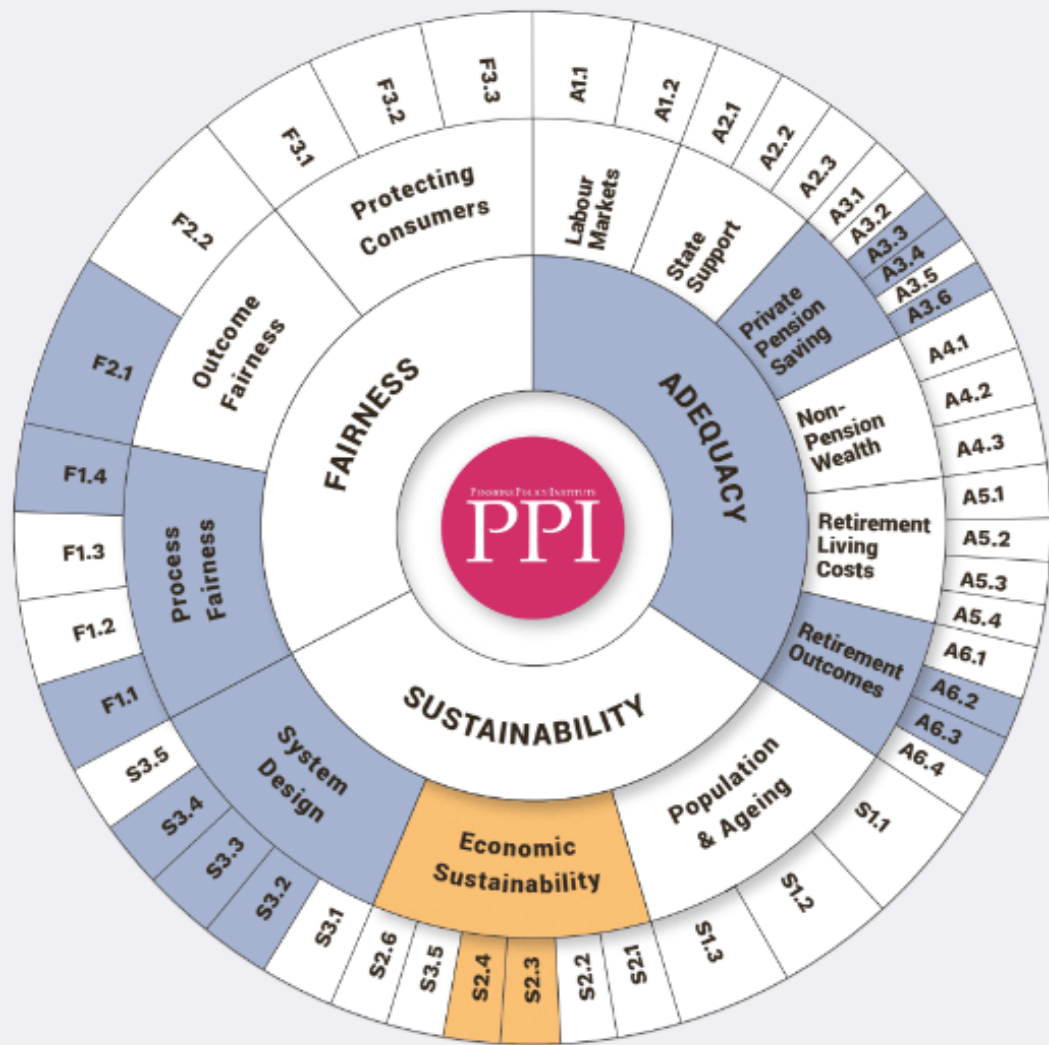


Case Study: Part 1

The case study is designed to simulate the potential effects of policy recommendations from the 2017 Automatic Enrolment Review.

A 2022 illustrative baseline analysis figure suggests that improvements in important measures of economic sustainability have somewhat compromised adequacy in recent years, resulting in uneven distribution of trade-offs across population groups and an increasingly complex system.

L6	Strong support for system objective with sustainable outcomes
L5	Good support for system objective with somewhat sustainable outcomes
L4	Somewhat supports objective, somewhat sustainable outcomes
L3	Somewhat fails to support objective with some prospects for improvement
L2	Poor support for objective with few prospects for improvement
L1	Fails to support objective with poor prospects for improvement



Case Study: Part 2

Simulated effects of the impact on framework indicators of proposals to remove the automatic enrolment LEL for contributions and qualifying age criteria.

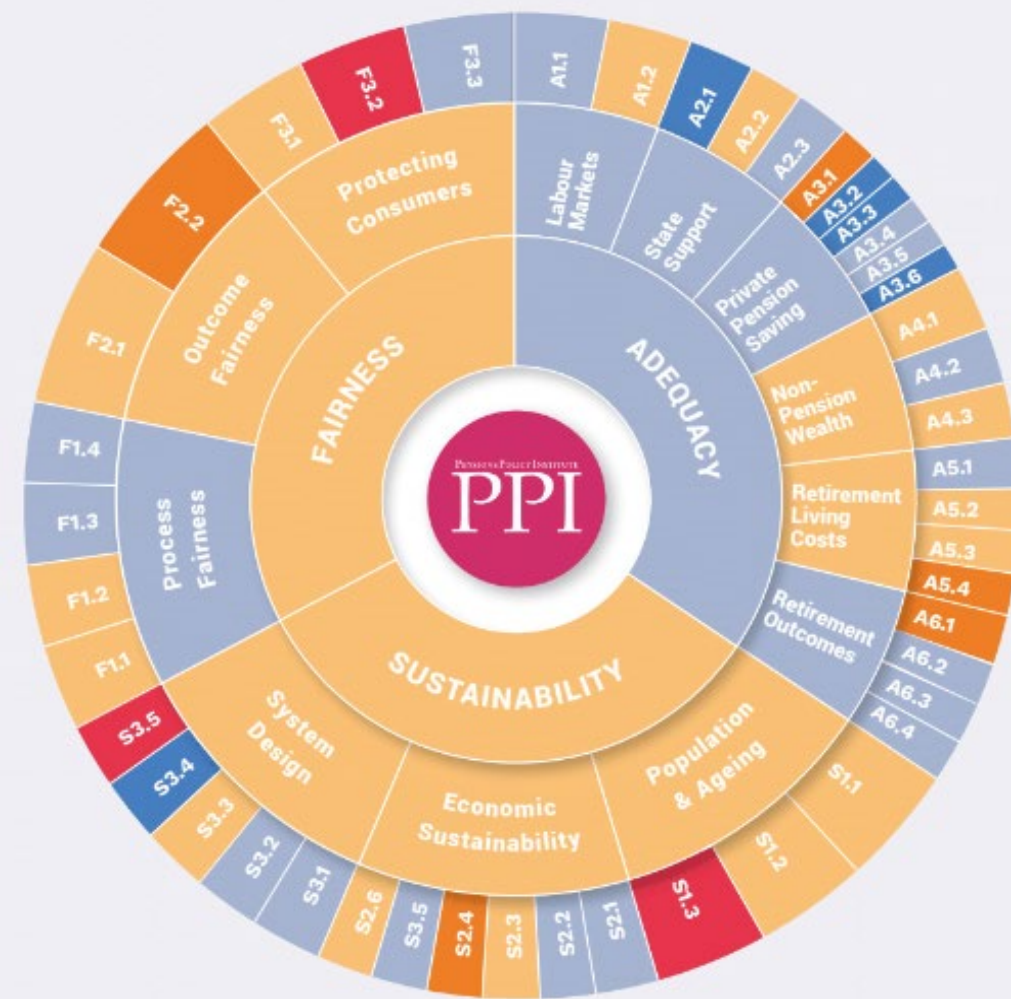
An illustrative policy simulation suggests that removing the LEL and age qualifying criteria for automatic enrolment would likely contribute to improved adequacy, with the greatest benefits being seen amongst the most vulnerable groups. However, it would come at a cost to economic sustainability on account of implications for the State and employers.

Benefit	+2	+1	-1
	+1	+/-1	-1
	NO CHANGE	-1	-2
	Risk / Cost		

Case Study: Part 3

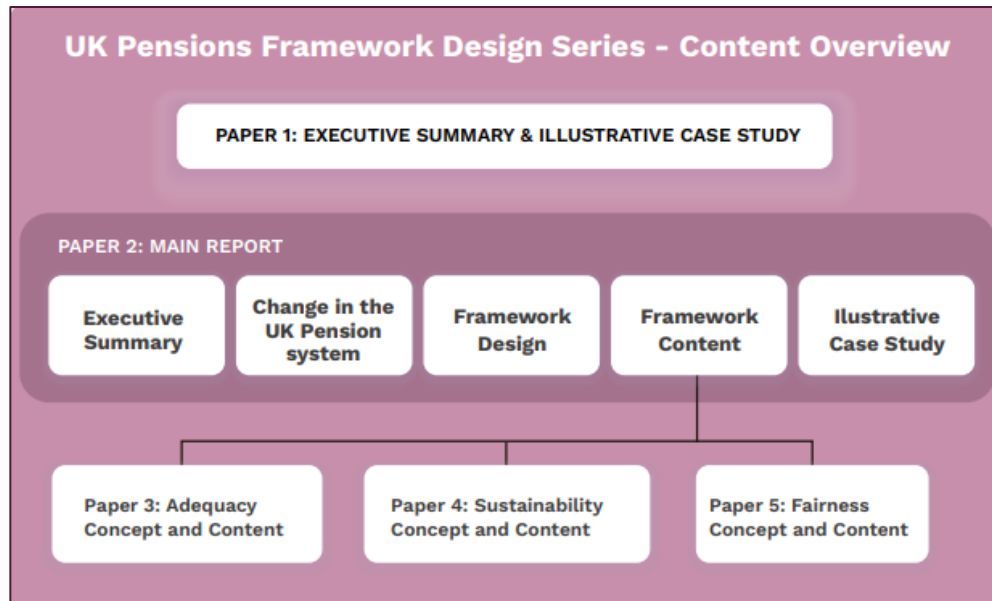
Simulated effects of the impact on the UK pension system of proposals to remove the automatic enrolment LEL and qualifying age criteria.

Compared to the 2022 illustrative baseline analysis chart, automatic enrolment reforms could be expected to produce outcomes that favour improved adequacy in the UK pension system but place downward pressure on employers and fiscal sustainability in the short to medium term.



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What next?



- How are changes reshaping overall concepts and design of the pension system?
- Where might policies lead to unintended consequences or trade-offs in years ahead?
- How could the framework help with your work?
- What kind of questions could it answer to support policy debate and improve retirement outcomes?

Q&A Session...

Please observe the Chatham House Rule

Pensions Policy Institute

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Professor Nicholas Barr FRSA



Anna Brain



Baroness Jeannie Drake CBE



Andy Seed



Pete Searle



Sir Steve Webb

Thank you for attending today

Thank you to our speakers, Chair and the sponsors for this report

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