PENSIONS POLICY INSTITUTE

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Executive Summary of the submission from the Pensions Policy Institute in response to the Pensions Commission's First Report *Pensions: Challenges and Choices* ("the Report")

January 2005

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Summary

1. The Pensions Policy Institute (PPI) welcomes the success of the Commission's report in raising awareness of the current state of UK pensions.

2. The general conclusions of the Report are in agreement with much other work carried out by the PPI and other organisations.

3. This response focuses on where the PPI can be most helpful to the Commission in producing the Second Report. Rather than discuss the many areas of agreement with the First Report, this submission concentrates on where further consideration is needed to meet the different requirements of the Second Report, and where PPI work can most usefully feed in to the Commission's remit.

4. The first part of the submission highlights significant gaps in the First Report's analysis. These gaps include:
   - **Some assumptions have been overly simplified**. Making assumptions such as individuals are all male, single, working for 44 years until age 65, and saving continuously has probably overestimated the amount of money received from state and private pensions and so *underestimated* the extent of 'undersaving' and the impact of Pension Credit on incentives to save.
   - **Opportunities to do new analysis have not been taken**. For example, more analysis is still required to investigate the affordability of the 'required' savings rate, likely future retirement behaviour, and to estimate the impact of non-pension, non-property saving on 'undersaving'. Not allowing for these factors may have *overestimated* the extent of 'undersaving'.
   - **A number of wider policy issues are not addressed in the Report**. For example, there is little discussion of the future distribution of pensioner incomes, or pensioner poverty. There is no analysis of the impact on individual incomes of longer retirement. The Report does not consider the significant amount of money that Government pays to people of working age to support private pension provision, or how uncertainty in private pension provision results in uncertainty in future state spending on Pension Credit.

5. The implications of these gaps are that:
   - The 'savings problem' appears as a stark, accurately quantified issue rather than the reality of a dynamic, unquantifiable situation.
   - The Report, in representing the savings issue, is an incomplete starting point for a resolution of the underlying problems in the state pension system.

6. The second part of this submission focuses on the possible solutions to the pensions problems. For each of the possible ways forward - later retirement, reforming state pensions, enhancing voluntary saving and introducing compulsory private saving - this submission:
   - Makes detailed comments based on PPI analysis, and,
   - Sets out some critical questions to be answered either in the Commission's Second Report or elsewhere.

7. The PPI view – based on a large body of work already completed – is that reform of the state pension system is the necessary first step before tackling issues of the private sector such as voluntary or compulsory pensions.

8. Further, the PPI doubts that a practical system of compulsion into private pension saving can be designed that will achieve the objective of good pensions for all.

9. The PPI is part-way through a major programme of work examining options for state pension reform. A summary of the findings so far, and copies of PPI reports on state pension reform and related topics have been included as part of this submission to enable the Commission to build upon existing and planned work in this area.