PENSIONS POLICY INSTITUTE
PPI

The Under-pensioned 2016

The Pensions Policy Institute (PPI) held a policy seminar on 1 March 2016 to launch its latest report on the Under-pensioned. The report was sponsored by Age UK, the Joseph Rowntree Foundation, The People's Pension and The Trades Union Congress.

A broad range of people representing the Government, third sector, the pensions industry and the investment industry attended the seminar.

Michael Pomery, PPI Chairman, Chaired the seminar, welcomed attendees and made introductions.

Daniela Silcock, PPI Head of Policy Research, Presented the findings of the research.

Michael Pomery asked the panellists their view on the research findings:

Angela Rayner MP, Shadow Pensions Minister made the following points:

- The work of an independent research organisation like the PPI into under-pensioned groups is welcomed. The report comes at a vital time as Labour are soon to launch an independent review of retirement income which looks at the future of pensions provision in the UK.
- The average yearly private pension income in retirement for men is £3,500 and for women is £3,000 which is low. Low pay can lead to low pension provision if it motivates to people opt-out as they cannot afford to contribute. The under-pensioned report demonstrates this and states how low pay is fuelled by discrimination.
- The research indicates stark contrasts for women, ethnic minorities, carers and disabled people who are all less likely to be employed and more likely to be in part-time work.
- There needs to be increased transparency and governance in private pensions, perhaps this could be achieved through methods similar to those taking place in the public sector whereby schemes are pooling pension administration, increasing transparency and reducing costs.

Tim Sharp, Policy Officer (Economic and Social Affairs Department), Trades Union Congress:

- This report is significant as it highlights the extent of inequalities experienced by women, carers, self-employed, ethnic minorities and disabled people and delves into the labour market to identify where the inequalities arise from. As well as highlighting various labour market issues, it also examines policy levers, for example, the potentially profound effect on retirement of the removal of band earnings.
- The TUC seeks to engage with the Government and employers on increasing contributions to 15%. Without further progress, there is a risk that minimum contribution rates under automatic enrolment will become embedded as the norm. In 2017, the DWP will release their report updating us on auto-enrolment. This is the opportunity to put in place a route map towards increasing contribution rates to adequate levels and to look at ways of helping under-pensioned groups to save.

Claire Turner, Head of Policy and Research, Joseph Rowntree Foundation welcomed the report and made the following points:

- This research report fits well with a broader range of work that JRF is undertaking around an anti-poverty strategy, which is evidence based and across the life course but also looks at poverty in later life.
- The under-pensioned report highlights that low pay has a direct impact on pension contributions. If pension contributions are to increase there needs to be a change in the labour market, specifically removing the barriers to employment.
- The poverty landscape for pensioners has changed. Pensioners used to be the group of people most likely to be living in poverty where-as now they are the least likely. However, many still have a low standard of living.
- There are questions that remain around how to get low paid people saving into a private pension. Although auto-enrolment has been successful there are aspects of the policy such as contribution levels and band earnings that need to be reviewed.
- There also needs to be further research in to wellbeing in later life with a focus on the under-pensioned groups.

Darren Philp, Director of Policy and Market Engagement, The People's Pension welcomed the report and made the following points:

- Long-term policy making needs to be evidence based. However, political decisions are often made for the short term rather than long-term. The People's Pension is looking forward to the 2017 automatic enrolment review as it will be an opportunity to consider important issues that arise from the policy so far, for example how we can help those in the under-pensioned groups.
- Policy makers need to understand the distributional implications of pensions policy as it is clear from the report that pensions policy is delivering very different outcomes to different groups - even post auto enrolment and state pension reform not everyone is going to achieve an adequate retirement. The report brings out the fundamental point that much pensions inequality is driven by labour market issues, but it also demonstrates that pensions policy is exacerbating inequality in some instances.
- Automatic enrolment is working and getting people saving and opt out rates are lower than most expected. However, there are stark gaps around the self-employed and those with multiple part-time jobs as they are not being auto-enrolled.
- There have been various policy changes to pensions since automatic enrolment began, for example the introduction of the pension flexibilities. Therefore, the rationale for certain aspects of auto-enrolment (for example, band earnings) needs to be re considered in light of the changed pensions landscape. In addition, we need to consider contribution levels sooner rather than later given the length of time it takes to deliver change.

Chris Brooks, Senior Policy Manager for Consumer and Community, Age UK welcomed the report and made the following points:

- This report raises a wide range of issues and highlights the impact of both the state pension and the triple lock as an important part of people's income in later life. Without the triple-lock the gaps seen in the report would widen.
- The state-pension age review should consider healthy life expectancy, as this will account for the predicted years that people will spend in good health.

- The under-pensioned report draws out a simple conclusion about the labour market which is those who are not earning are not saving. The case studies in the report demonstrate the impact of various labour market issues. The lower pension incomes of women, carers and disabled people stems from labour market. There needs to be more high skilled jobs for those in part-time work.
- The Government is reluctant to raise the contribution levels because of potential macro-economic consequences. The Government believe that raising contributions could impact economic growth and reduce consumer spending. We need to build the argument that these negative consequences are unlikely, and get the under-pensioned saving.

The following points were raised during the question and discussion session with the panellists and the audience. They do not necessarily reflect the views of the PPI or the PPI seminar speakers:

- The origin of band earnings in automatic enrolment needs to be explored, and if contributions are to change it needs to be understood where they will fall. If the contributions are mainly going to fall on the employee then more people are likely to opt-out.
- We need to identify the key markers along the life-course that encourage engagement into pension saving.
- Expanding eligibility and providing the opportunity to save more are key in automatic enrolment.
- Compliance with auto-enrolment has been good so far, however small employers are yet to go through the automatic enrolment process. If smaller employers sense that the public sector is avoiding contributing to their employees' pension scheme this could set a bad example.
- Previous PPI modelling has looked at what people need to save in order to achieve an adequate replacement rate from a private pension. To have a 2/3rds chance of achieving an adequate retirement income people need to contribute 11-15% of band earnings.
- It is in societal interest that we encourage people to save 15%, specifically the state, employer and not just the individual.
- The Government has done a lot to help the pensioners of today but the cohort of pensioners in the future are the most at risk of not achieving an adequate retirement. Those who are 43 and below need help and this can be done by improving regulatory systems, further advice and guidance

around the pension freedoms and a political consensus and evidence based policy change.

- A consensus in pensions policy is not easy as it requires evidence based policy making, clear and charismatic leadership and involvement of all shareholders.
- It is going to be a long time before the minimum contribution level is raised, therefore we need something to fill the interim period and encourage people to save.
- PPI has previously done work to identify those who are most at risk of making sub-optimal decisions with their pension pots. The group identified constitutes of those who have modest DC pots and little or no DB. This group is getting bigger and are likely to be at risk of scams.
- People need to be much more engaged in pensions to avoid scams and this can be done by simplifying jargon around pensions so people can understand easily.

To conclude the following final remarks were made about the research in the seminar:

- The report has drawn out issues that are wider than pensions policy and looks at the labour market and its impact on pensions. The discussion today looked at issues around consensus, the role of employers and the level of contributions.
- It is important to look at work and pensions side by side and keep focus on the under-pensioned groups otherwise we could lose specificity.
- Pension Wise is good but the take-up has been low. There needs to be less jargon and simplification of pensions to increase engagement. The inequalities shown in this report could mean that people will have to work longer than planned due to not having enough pension savings.