PENSIONS POLICY INSTITUTE
PPI

NEWS RELEASE
EMBARGOED
00.01am Monday 14 November 2005

Pensions Policy Institute (PPI) sets out how much more pensions could cost in future

The PPI today publishes *What will pensions cost in future?*, a detailed analysis of the cost of pension reform, and of what the impact on people in different income groups could be.

The PPI has previously highlighted how many proposals for reform of the state pension system have been made (see PPI Briefing Note Number 18). This technical paper analyses the financial impact of the main reform ideas. It uses new economic modelling capability developed over the last two years by the PPI, consistent with, but taking further, the models used by Government.

"With new capability to model pension outcomes using different sets of assumptions for among other things how much people save, we are able to show the wide uncertainty in the future cost of the current pension system, and the possible future cost of alternative systems", said PPI Director, Alison O'Connell.

"Attention is moving towards reforming the state pension system, with Government proposals expected in Spring 2006. All proposals for making state pensions better will cost more.

Rigorous analysis such as this has to be the basis for evidence of the cost, how we can pay for reform and how the incomes of today's and tomorrow's pensioners will be affected".

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A summary of conclusions from the paper follows on the next page.

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The full paper can be downloaded from 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. It does not lobby for any particular issue, but works to make the pension policy debate better informed.

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What will pensions cost in future?
Summary of Conclusions

The impact on today's older people of any reform of the pensions system will be carefully considered. But the desire for a stable system means it should be designed to be sustainable for tomorrow's older people too. This requires understanding the long-term costs and the implications for pensioner incomes of not only possible reform options, but also, for comparison, the continuation of current pension policy.

The future cost of the current pensions system is very uncertain. There is a wide funnel of doubt for the future cost of Pension Credit, which depends on how much private income older people have, and how many of them take up any entitlement to Pension Credit.

There is a significant risk that the current pensions system will cost more in future than anticipated by government. By 2050, it could reasonably cost 0.8% of GDP more than the government estimate of 5.8% of GDP, but there is a chance that it could cost still more.

The total income received by older people from private pensions is also uncertain. It could decline over the long term if the shift from Defined Benefit to Defined Contribution schemes means a reduction in total private pension contributions. Even if contributions do reduce, tax relief on private pension saving is likely to remain a significant cost to government.

All the proposals for state pension reform currently being discussed will cost more than the current system, because they seek to improve pension outcomes. Opinions will differ as to what combinations of increasing state pension age and increasing taxes would be acceptable ways of paying for this extra cost. This paper investigates the costs of different reform options and different ways of paying for them.

Opinions also differ as to what shape of income distribution the state pension system should try to achieve. This paper shows how the different reforms being proposed would benefit less well-off and more well-off older people differently.