

## Introduction

While there has been much debate in recent years about the details of different pensions policy proposals, there has been less debate about the long-term goals for the UK pensions system beyond reform, and the process for reviewing policy in the future. This briefing note seeks to stimulate debate on these issues. It summarises findings of a Pensions Policy Institute (PPI) research report funded by the Nuffield Foundation and is informed by desk-based review of national and international case studies, a small-scale survey of selected organisation with an interest in pensions policy and qualitative research conducted by the PPI with experts from across the pensions sector.<sup>1</sup>

The views expressed are those of the authors and not necessarily of the Nuffield Foundation.

## Continuity: 7 goals for the pensions system

Pensions policy deals with long-term issues and the consequences of decisions made by today's political decision makers will have ramifications for many years to come. The long-term nature of pensions creates a need for consensus and continuity in the direction of pensions policy that can endure changes in Government and changes in political direction. The Pensions Commission argued that agreement about the core principles for the UK pensions system could help to achieve consensus and continuity in the direction of specific policies over time.<sup>2</sup> Although there has thus far been consensus on the main

## Seven goals for the UK pensions system (in alphabetical order)

- **Adaptable**  
Adapts to changes in the social and economic context and fits with societal values, which may change over time.
- **Adequate**  
Ensures an adequate income for all by: preventing poverty, meeting expectations and minimising income shocks.
- **Affordable**  
Is financially viable for the state in the short and long term.
- **Clear**  
A system from which people can understand what they can expect to receive when they retire, and what actions they need to take themselves.
- **Fair**  
Is fair between groups, across generations and strikes an appropriate balance of responsibility between individuals and the state. Policy needs to balance individuals' different expectations of *fairness*, and to respond to changes in living and working patterns.
- **Robust**  
A system that can withstand, and respond appropriately to, economic shocks and political changes.
- **Trusted & builds confidence**  
Builds trust and confidence among the public and other stakeholders.

elements of the Government's current pensions reforms, the UK does not have an agreed, definitive vision for pensions policy beyond reform.

The PPI has identified seven goals for the UK pensions system (see box). The goals are not mutually reinforcing and there will be inevitable tradeoffs between them (between adequacy and affordability, for example), but together they underpin an overarching vision of a sustainable pensions system that ensures an adequate income for all.

Many of the seven goals deal with social concepts that may change over time (such as 'fairness'), and it is likely that given the long-term nature of pensions, the social and economic contexts for policy will

also change. This means that even if consensus is gained regarding the vision and goals for the UK pensions system, there are no guarantees that policy decisions taken now will achieve goals in the future. So, while continuity in pensions policy is important, there is also a need for policy to be flexible, so that the pensions system can respond to changing social and economic conditions. For this, we need a strong process of ongoing monitoring of key trends and analysis of the implications of changes in those trends for pensions policy.

**Flexibility: Monitoring trends and reviewing policy over time**  
Currently the Government monitors trends and reviews pensions policy through in-house analysis and ad hoc independent reviews.

Two concerns have been raised about this approach: Government analysis may not be perceived to be objective; and, there is uncertainty about the timing and scope of future reviews, which means the Government could choose to not explore politically sensitive issues. These concerns highlight the importance of independence from the Government in the policy analysis and review process.

There are a number of other points that should be considered when designing a strong pensions policy review process:

1. Independence from the Government is important for building trust and confidence in the pensions system. This goes for both undertaking analysis and setting the timing and scope of reviews.
2. Stakeholders see elected Ministers as the right people to take decisions about pensions policy. But, they are concerned that decisions could be, or could appear to be, driven by short-term political agenda rather than by evidence.
3. Transparency is important for building trust and confidence that policy decisions are based on evidence. The Pensions Commission argued that if future debates are informed by independent evidence and independent analysis of the inherent tradeoffs, this ought to increase the likelihood of consensus and continuity in the overall framework for the pensions system and in the transparency of the debate.<sup>3</sup> Ministers may be more likely to make decisions that are evidence-based, rather than driven by short-term political agendas, if the information and analysis that support those decisions are publicly known and debated.

4. A comprehensive remit to explore the broad range of issues related to pensions policy and to review the pensions system as a whole is important for ensuring that policy is created with a coherent and consistent long-term view and that gaps and overlaps are avoided.
5. Certainty about the timing and scope of reviews needs to be balanced with the need for flexibility to respond to emerging issues.
6. The quality of analysis will depend on the calibre and skills of people who undertake monitoring and reviews.
7. Duplication, bureaucracy and costs should be balanced with the benefits of independence.

#### Options for ongoing review

Two alternative options have been proposed for monitoring and reviewing pensions policy: introduction of a permanent Independent Pensions Commission or periodic independent reviews commissioned by Government.

#### ***A Permanent Independent Pensions Commission (IPC)***

This option was initially proposed by the Pensions Commission. They recommended that a permanent pensions advisory commission should be created, ***charged with continually assessing developments and laying before Parliament every three to four years a report describing key trends in demography, pension provision, employment and retirement patterns, and spelling out the unavoidable trade-offs which result.***<sup>4</sup>

In their view, a permanent advisory commission would help to better focus the ongoing pension debate and would increase the likelihood of arriving at consensus. As proposed by the Pensions Commission, a permanent advisory commission would

have two key roles:

- information and monitoring: producing latest best estimates of key trends
- analysis of the implications that changing demographic, social and economic trends will have for pensions policy.

Several organisations have shown support for an independent pensions commission, although they have differing views about the remit of such a body.

For example, the NAPF has proposed creation of a Pensions Monitoring Board. They say that this body would not be a policy making body but would be charged with monitoring the ***adequacy and sustainability of the pensions system and providing a triennial report to Government on developments, and any implications for pensions policy... Its remit would be to help government ensure that the pensions systems remains on the course set by the reforms.***<sup>5</sup> The NAPF identify the Low Pay Commission (LPC) as a model for the Pensions Monitoring Board.

A possible framework for a permanent Independent Pensions Commission is described on page 3. This description draws from survey responses, stakeholder discussion at a PPI roundtable event and case study analysis.

The Government rejected the Pensions Commission's recommendation, saying ***we do not agree that a standing commission to monitor developments in demographic and other relevant trends and reporting to Parliament every three to four years is the right way to proceed. A standing commission might create policy instability by creating a vehicle for permanent re-examination of the pension reform framework and policy.***<sup>6</sup> Instead the Government proposed periodic reviews.

## What could the options for review of pensions policy look like?

	Permanent Independent Pensions Commission	Periodic Independent Reviews
<b>Description</b>	Government establishes a permanent, Independent Pensions Commission (IPC) to undertake research and reviews of pensions policy. The IPC could be made up of a small number of Commissioners, supported by a small secretariat of research and policy experts.	Government could set out in advance the timing and scope of reviews of the pensions system. A small number of commissioners could undertake each review, supported by a small secretariat of civil servants.
<b>Role</b>	<ul style="list-style-type: none"> <li>• Monitor key social, demographic and economic trends.</li> <li>• Analyse the implications of those trends for pensions policy.</li> <li>• Stimulate and facilitate public debate about the tradeoffs inherent in pensions policy.</li> <li>• Keep under review current pensions policy.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor key social, demographic and economic trends.</li> <li>• Analyse the implications of those trends for pensions policy.</li> <li>• Stimulate and facilitate public debate about the tradeoffs inherent in pensions policy.</li> <li>• Keep under review current pensions policy.</li> </ul>
<b>Remit and responsibilities</b>	A permanent IPC could have a remit to undertake research and analysis related to all elements of pension policy and retirement provision. It could be required to periodically lay before Parliament, perhaps every 5-7 years, a report monitoring key social, economic and demographic trends and analysing their implications for the UK pensions systems (state and private). A permanent IPC could have the flexibility to monitor and report on any other elements of pensions provision and pensions policy on its own initiative, or at the request of the Secretary of State on an ad hoc basis.	The timing and scope of reviews could be called the review framework. A review framework could be developed in consultation with political parties and sector stakeholders. A framework could include a: <ul style="list-style-type: none"> <li>• Requirement for Government to commission periodically a comprehensive review of the whole pensions system, perhaps every 5-7 years, preferably not coinciding with the political cycle.</li> <li>• Review of discrete parts of the pensions system, for example review of the transfer policy for Personal Accounts.</li> </ul>
<b>Powers</b>	The permanent IPC could have advisory powers only, and could present policy options. All decisions could remain with the Secretary of State/ Parliament.	Reviewers could have advisory powers only, and could present policy options and/or make recommendations. All decisions could remain with the Secretary of State/ Parliament.
<b>Accountability</b>	Commissioners could be accountable to the Secretary of State / Parliament.	Reviewers could be accountable to the Secretary of State.
<b>Appointments</b>	Commissioners could be appointed by the Secretary of State / Parliament for a term longer than the electoral cycle, perhaps 7 years, with the opportunity to renew once.	Reviewers could be appointed by the Secretary of State for the duration of the review. Alternatively, Government could commission an independent agency to undertake reviews periodically.
<b>Case study</b>	The Low Pay Commission (LPC) is an independent statutory non departmental public body set up under the National Minimum Wage Act 1998 to advise the Government about the National Minimum Wage. Government sets the Terms of Reference for the LPC on an annual basis. In 2007, the terms of reference include research, review and advice functions.	Government Actuary's Department (GAD) – The Government Actuary is required under statute to review and report on the assumptions he proposes for calculating contracted-out rebates for members of contracted-out pension arrangements at intervals of not more than five years. The Secretary of State for Work and Pensions publishes his own report alongside that of GAD, which sets out the Secretary of State's decision on the appropriate level of rebates.



## Periodic reviews

The Government *proposes to maintain [consensus] by carrying out periodic reviews of the available evidence to confirm the effectiveness of these simple and sustainable reforms. These reviews will provide an opportunity for the Government to seek independent advice on the impact of the pension reforms, maintaining the consensus around the main elements of reform.*<sup>7</sup>

The Government suggested that the timing of future reviews may be linked to the timetable for changes to SPA and to the availability of demographic data. However, they noted future Governments will want flexibility to explore emerging issues.<sup>8</sup>

There is currently a lack of certainty about the nature and frequency of the periodic reviews. Organisations outside of Government have agreed that if periodic reviews are used, a framework should be set out in advance and that it should include the timing and scope of future reviews. This should include a comprehensive review of the pensions system as a whole, and any smaller reviews of discrete parts of the system.

Experience has shown that it can be difficult to determine how frequently reviews should be undertaken. A preset schedule could mean that the Government of the day is required to commission reviews at an inopportune time, or on issues that are no longer as relevant, or Govern-

ment could use the schedule as an excuse for not reviewing issues that emerge in between reviews.

There are different views about how frequently a periodic review of the entire pensions system should be conducted. Suggestions range from 3 yearly or 5 yearly to 'not less frequently than every ten years'. Or, as the Government has suggested, for the timing of reviews to be tied to a policy change of some kind, such as increases in State Pension Age.

## Advantages and disadvantages

A *permanent Independent Pensions Commission* could offer greater independence and certainty than the current approach, Government in-house analysis and ad-hoc reviews, and of periodic reviews if commissioners have freedom to set the timing and scope of monitoring and analysis.

As a permanent body, an IPC would have the advantage of being able to plan ahead and take a strategic long-term view beyond the parliamentary cycle. It may also be able to build up a stock of knowledge and expertise among staff, and be able to respond quickly to issues that emerge in the short term. However, a permanent body could become institutionalised and may be tempted to continually make adjustments to policy. An IPC may also be costly to administer and could result in duplication of monitoring and analysis undertaken in-house by the Government.

*Periodic reviews* could also offer greater independence and certainty than the current approach if the Government sets out in advance a framework for the timing and scope of future reviews. However, this option may not offer sufficient flexibility to respond to emerging issues and there may be a lack of overall strategic coherence if different people are commissioned to lead each review and if the scope of the reviews is patchy. Periodic reviews or ad-hoc reviews may attract individuals with issue-specific skills and expertise, because they are time-limited, but there could be hidden costs associated with setting up a temporary review body.

## Conclusions

Each of the options has advantages and disadvantages. An IPC and periodic independent reviews both offer greater independence and certainty than the current approach of Government in-house analysis and ad-hoc reviews. But, they also involve tradeoffs between independence and cost, and between certainty and flexibility in the monitoring and review process.

No process or procedure for ongoing review of pensions policy can guarantee the 'right' policy outcome. Whichever option is chosen, the key points outlined in this research should be considered when designing a strong review process.

<sup>1</sup> The PPI held a round table event with 11 stakeholders from across the pensions sector in July 2007, and several smaller group and 1-to-1 interviews. The full report from this research is available for download from the PPI website

<sup>2,3,4</sup> Pensions Commission (2005) *A new pension settlement for the 21st Century*

<sup>5</sup> NAPF (2007) *NAPF submission to the Paul Thornton review of pensions institutions: emerging issues*

<sup>6,7,8</sup> DWP (2006) *Security in retirement - summary of consultation*

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The full report is available free from [www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

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