

The Pensions Landscape – Chapter 2 update

The Pensions Landscape was published in February 2003.

Charts in Chapter 1 of ***The Pensions Landscape*** were updated in December 2003.

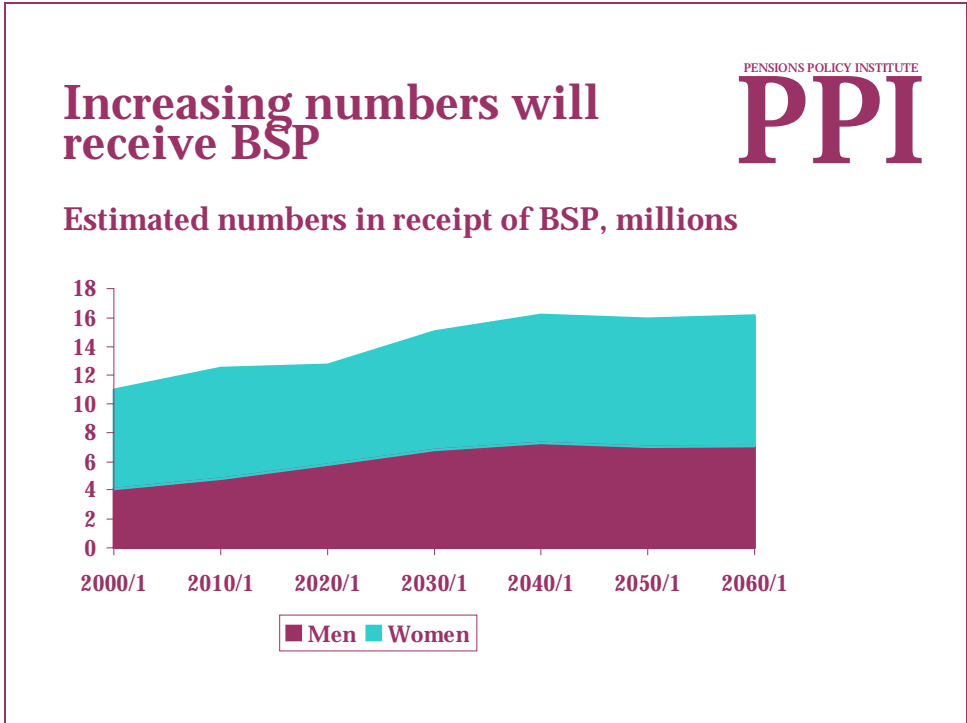
Charts in Chapter 2 of ***The Pensions Landscape*** have now been updated, where possible, using the latest data available (March 2004). Any significant changes are highlighted in the accompanying text. Where there is no text by a chart, the new data tells much the same story as in ***The Pensions Landscape***.

New data shows that there is no reason to change the overall message of Chapter 2, that:

The make-up of pensioners' incomes will change but there are no signs that future pensioners will be relatively better off than today's.

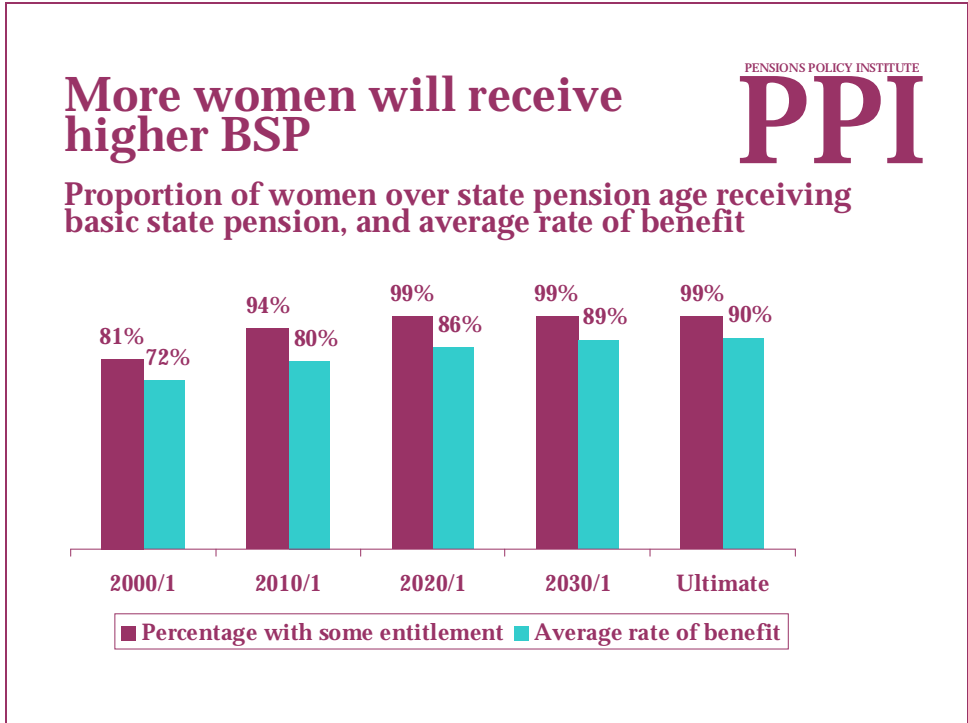
- Both the state and employers are reducing their long-term pension commitment. More people will receive state pensions in future. But state pension income per pensioner will fall relative to earnings, despite the earnings-linking of means-tested benefits. Employers are changing the type of provision offered, and reducing the amount contributed.
- Today's pension saving behaviour seems unlikely to deliver more private pension income in future. Total contributions to private pensions have stalled. Only a minority save in personal pensions. Pension saving is starting at later ages and tends to be irregular.
- Pension alternatives are not widespread. Most people do not have significant amounts of non-pension saving or investments. Those without pensions are less likely to have other assets. Housing is a significant asset for many, but is rarely converted into retirement income.

Chart 14¹



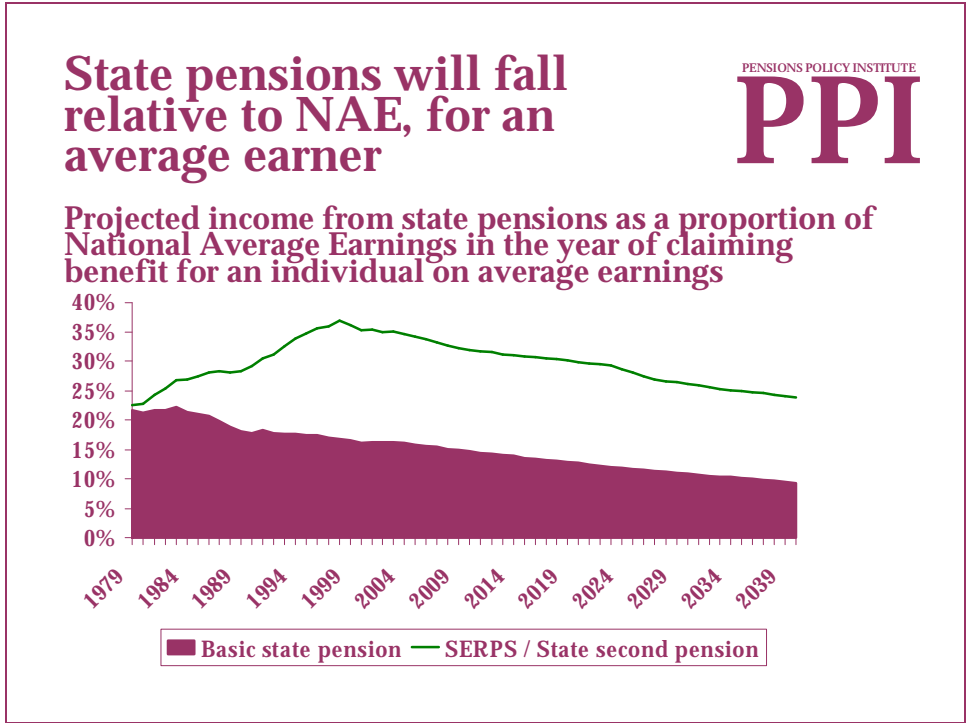
¹ GAD (2003 QR)

Chart 15²



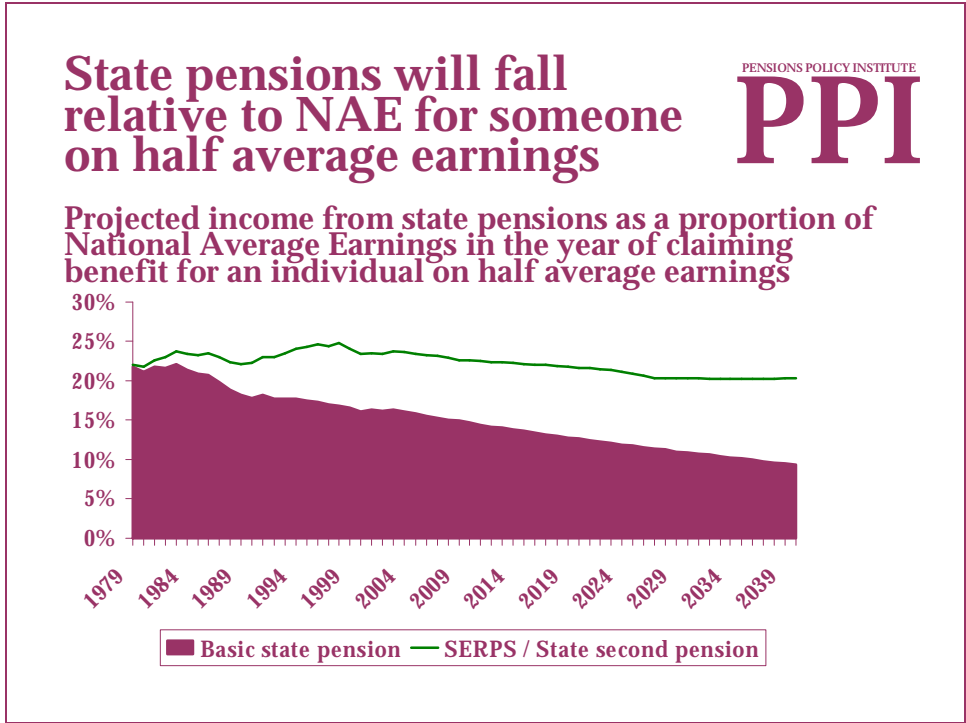
² GAD (2003 QR)

Chart 16³



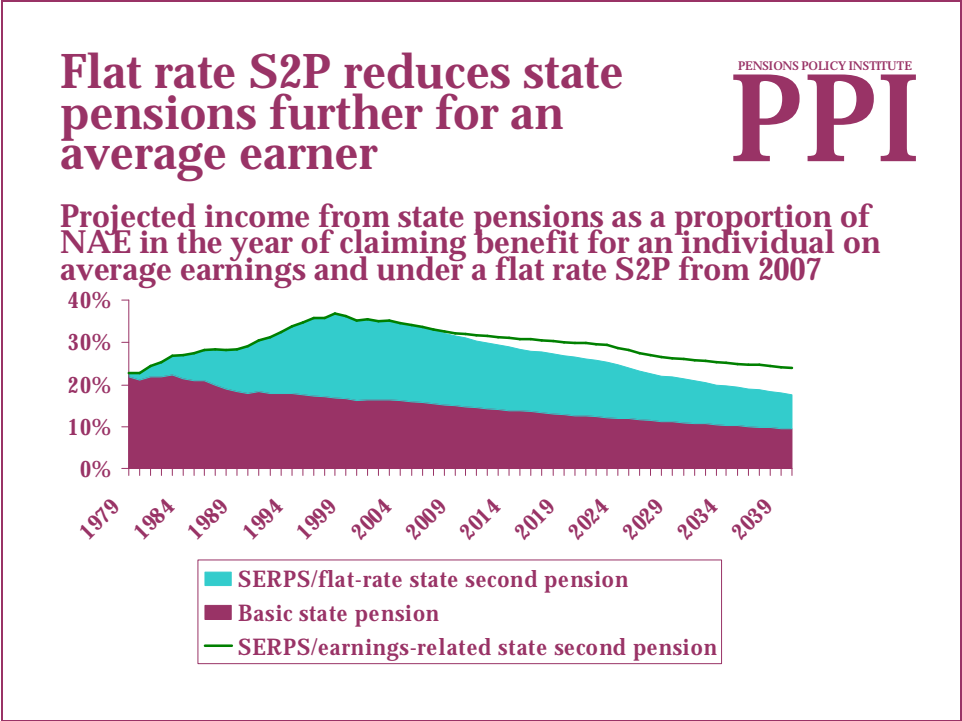
³ PPI calculation – see Appendix 1 for assumptions

Chart 17⁴



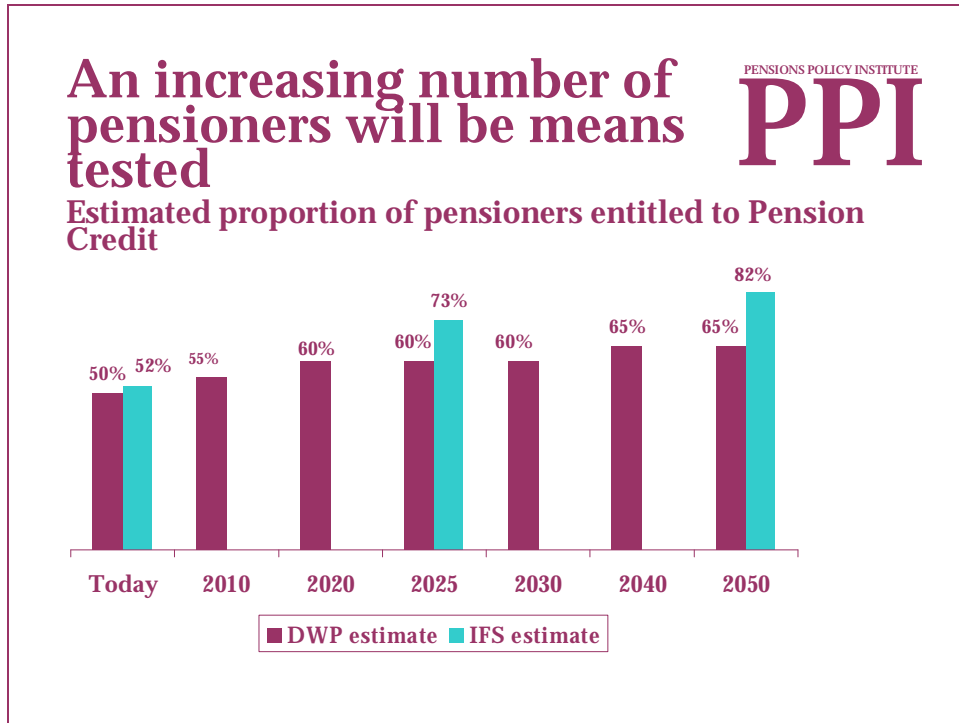
⁴ PPI calculation – see Appendix 1 for assumptions

Chart 18⁵



⁵ PPI calculation – see Appendix 1 for assumptions

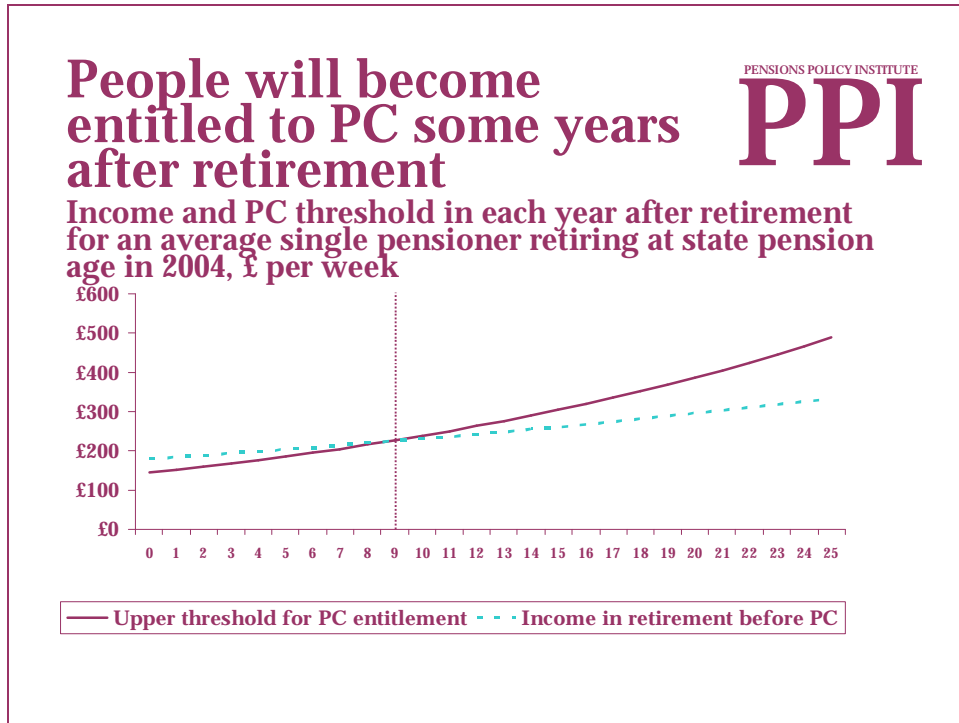
Chart 19⁶



No new information is available, so this chart has not been updated.

⁶ Clark and Emmerson (2002), DWP (2002). Both estimates assume that PC levels will continue to increase in line with NAE beyond the end of this Parliament. The major difference between the estimates is that IFS assume annual real earnings growth of 2%, while DWP assume 1.5%.

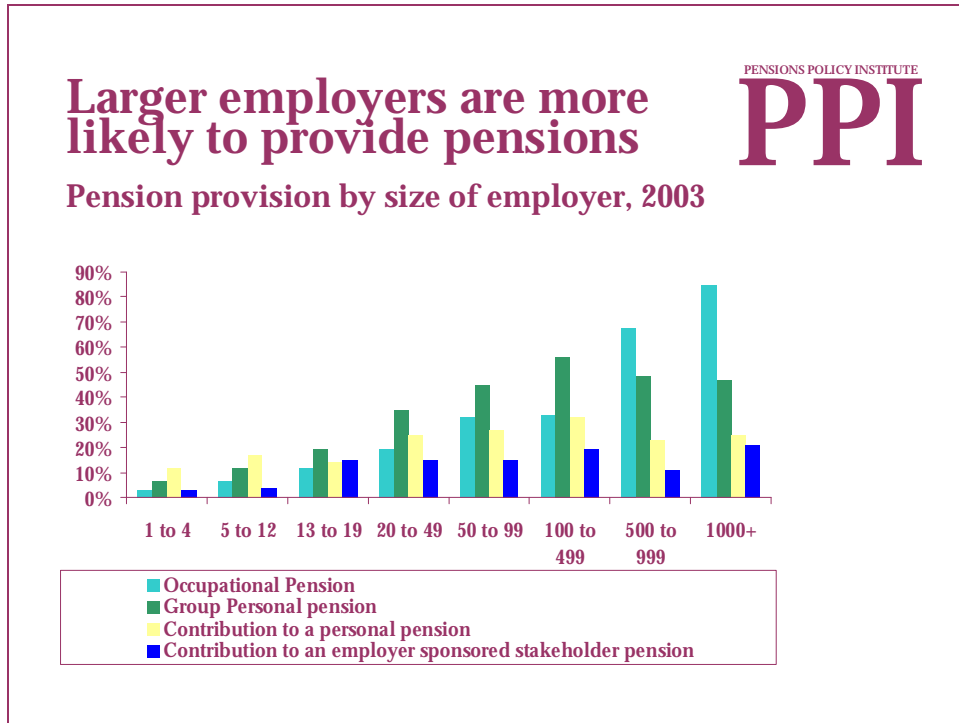
Chart 20⁷



The average single pensioner retiring at state pension age in 2004 becomes entitled to Pension Credit one year earlier than his or her counterpart retiring in 2003. This is because the threshold level for PC entitlement increases faster than state pension incomes.

⁷ PPI calculations, assuming RPI of 2.5% per year and real growth in NAE of 1.5% per year.

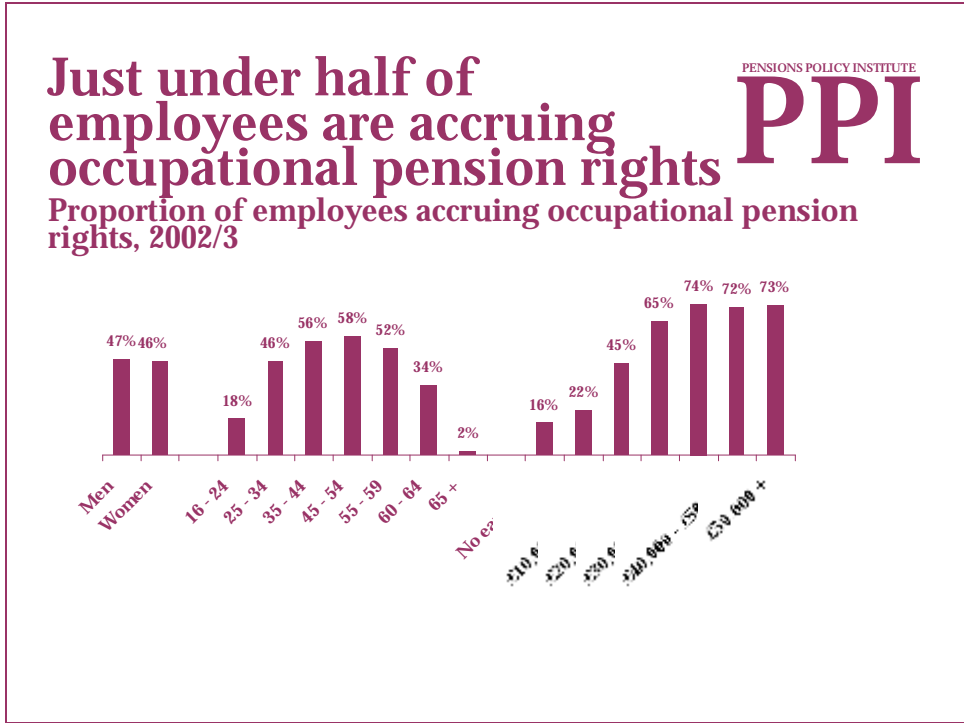
Chart 21⁸



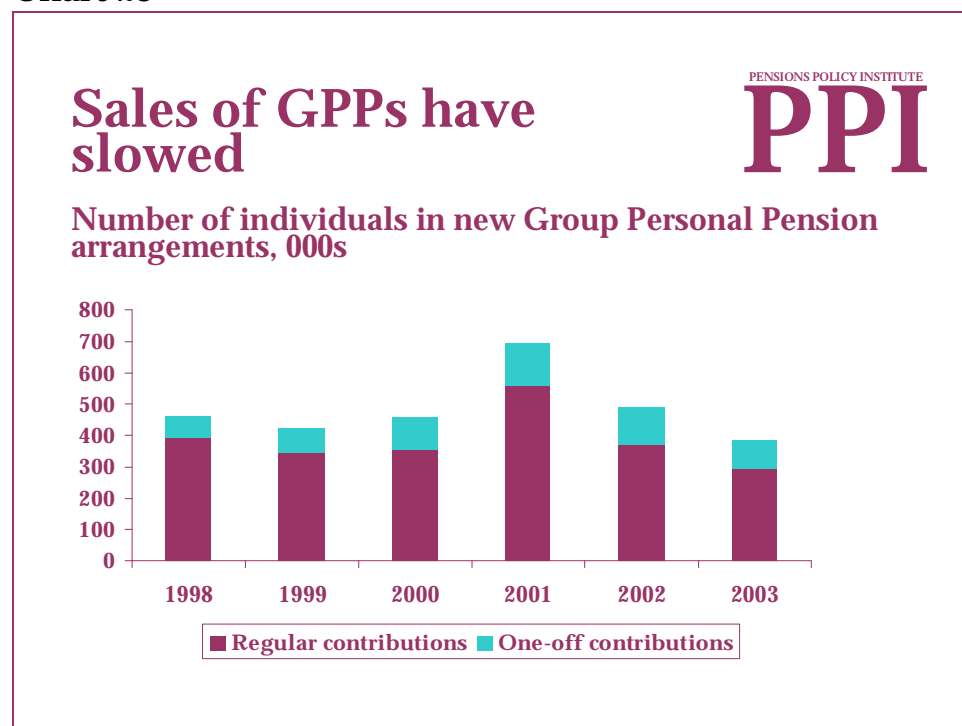
A higher proportion of small employers are providing access to private pensions in 2003 than in 2000. But most of this is through offering access to stakeholder pensions. Less than 5% of the smallest employers offer contributions to a stakeholder pension.

⁸ Cebulla and Reyes De-Beaman (2004)

Chart 22⁹



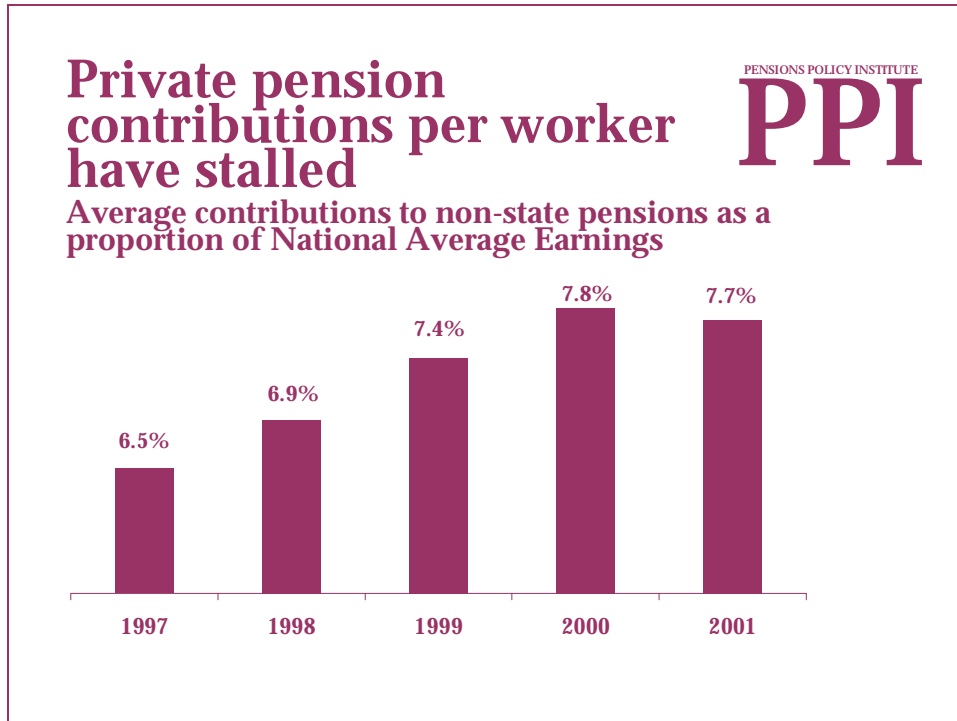
⁹ PPI analysis of the Family Resources Survey 2002/3

Chart 23¹⁰

The large increase in GPP sales in 2001 has not been repeated in 2002 or 2003. This suggests that many sales in 2001 may have been replacing existing schemes (for example those provided by Equitable Life, which closed to new business in December 2000), or were arranged as a way of complying with employers' requirements after the introduction of stakeholder pensions in April 2001.

Although most employers now have to offer access to a stakeholder pension scheme, very few make employer contributions (Chart 21).

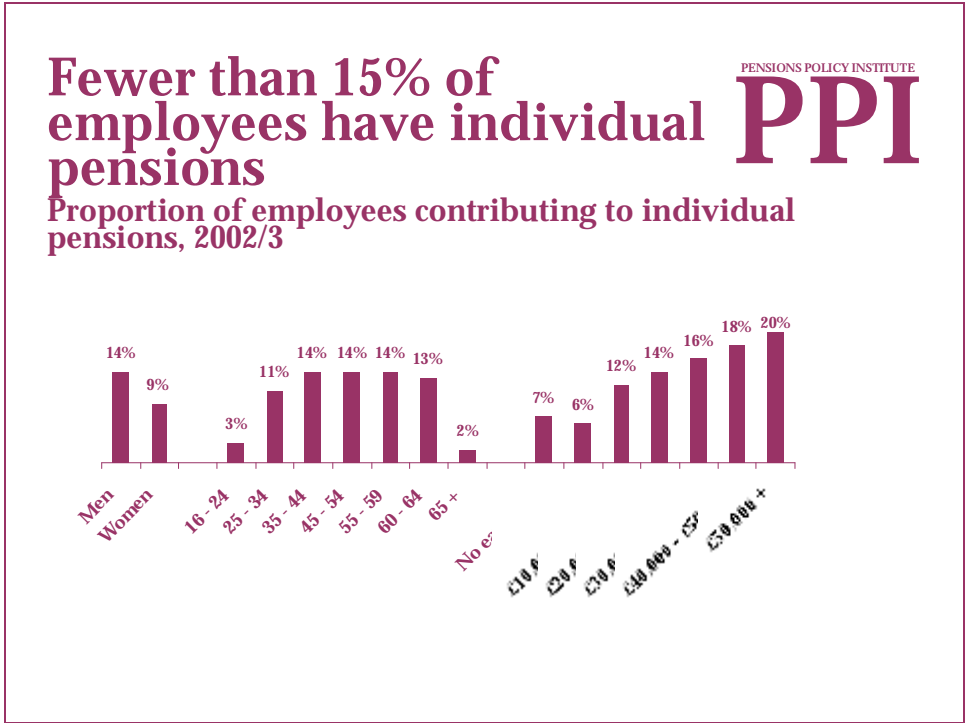
¹⁰ ABI Quarterly Long-Term Business Statistics

Chart 24¹¹

No new data is available, so this chart has not been updated. These figures are currently being reviewed by the ONS. The corrected figures are expected to show lower levels of pension contributions, particularly in more recent years. This would reinforce the point that private saving (whether through individual or employer contributions) has stalled.

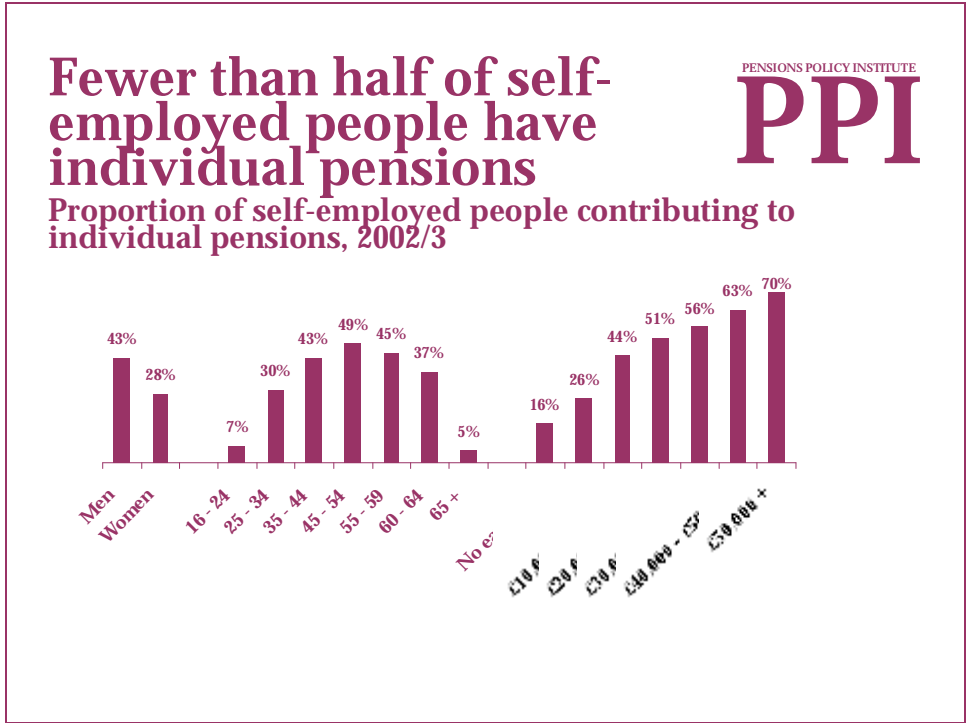
¹¹ PQ Mr M Jack, 29 Oct 2002, House of Commons Hansard Col 689 W. Includes contribution to unfunded and notionally unfunded schemes.

Chart 25¹²

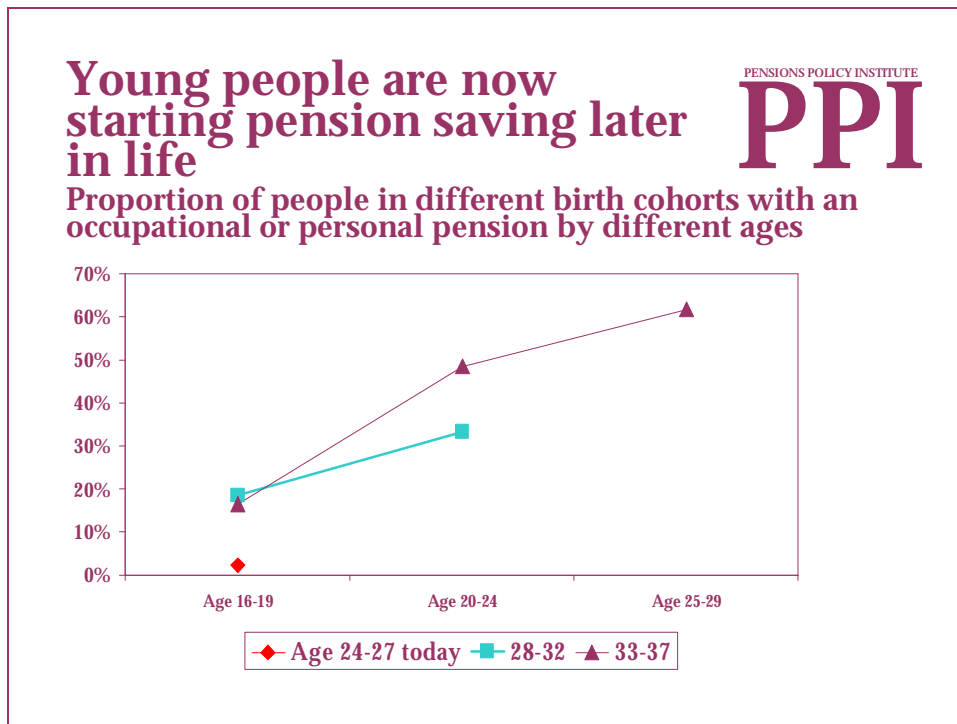


¹² PPI analysis of the Family Resource Survey 2002/3

Chart 26¹³



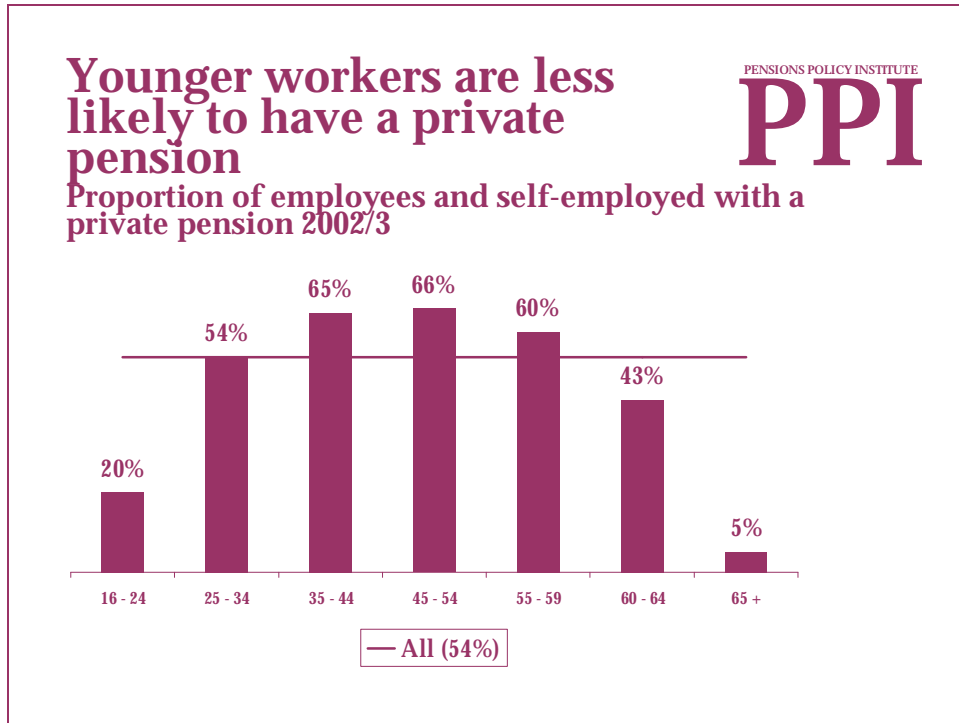
¹³ PPI analysis of the Family Resource Survey 2002/3

Chart 27¹⁴

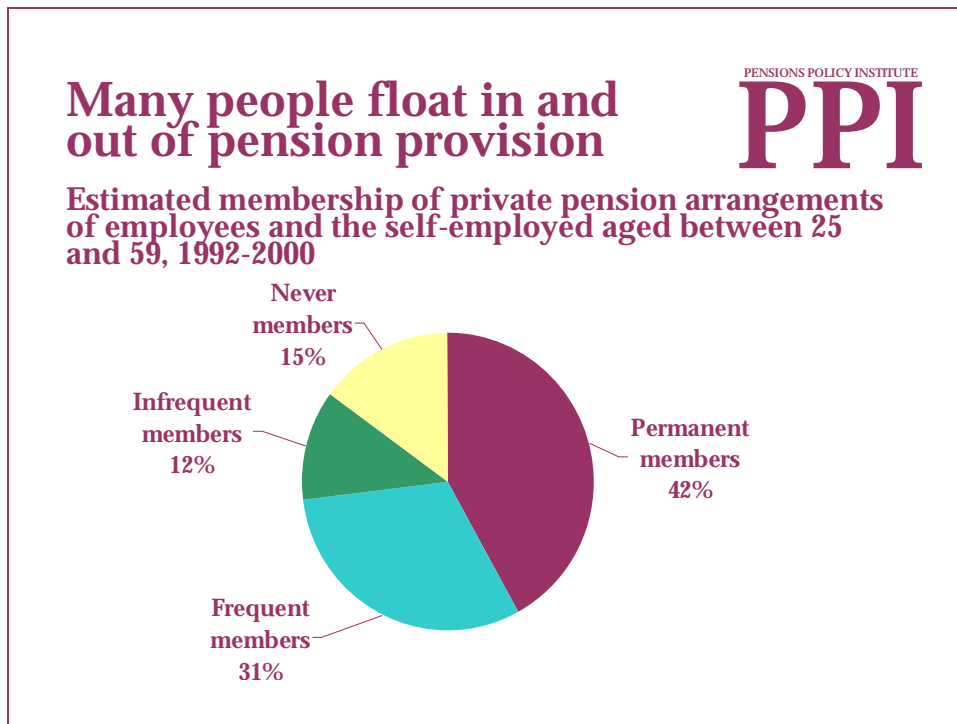
No new analysis is available, so this chart has not been updated.

¹⁴PPI calculations based on data from McKay et al (2000), relating to 1995

Chart 28¹⁵



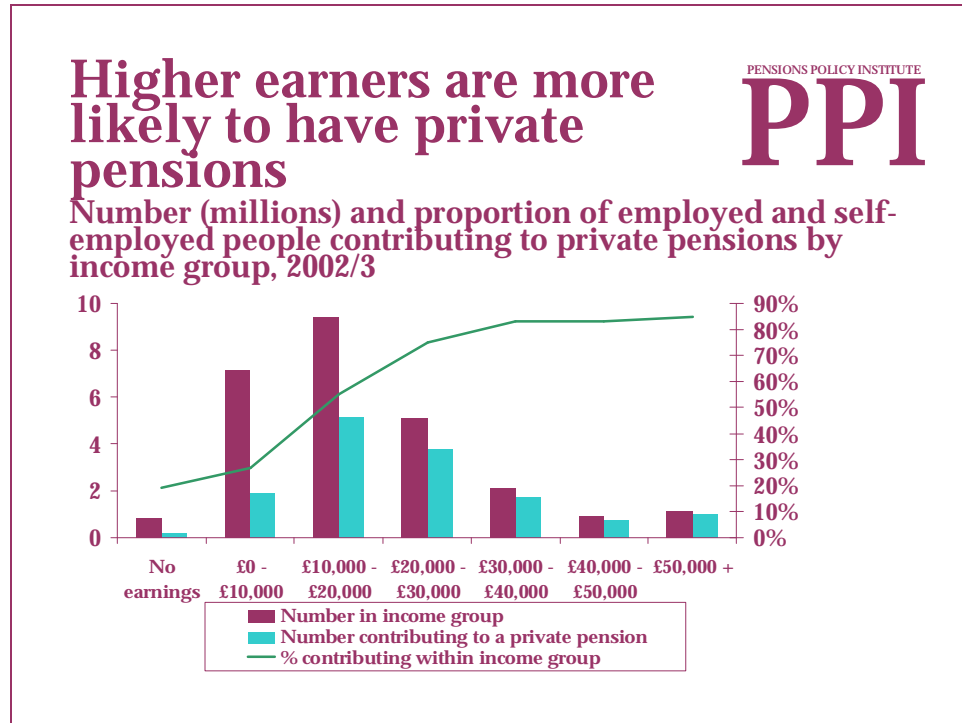
¹⁵ PPI analysis of the Family Resource Survey 2002/3

Chart 29¹⁶

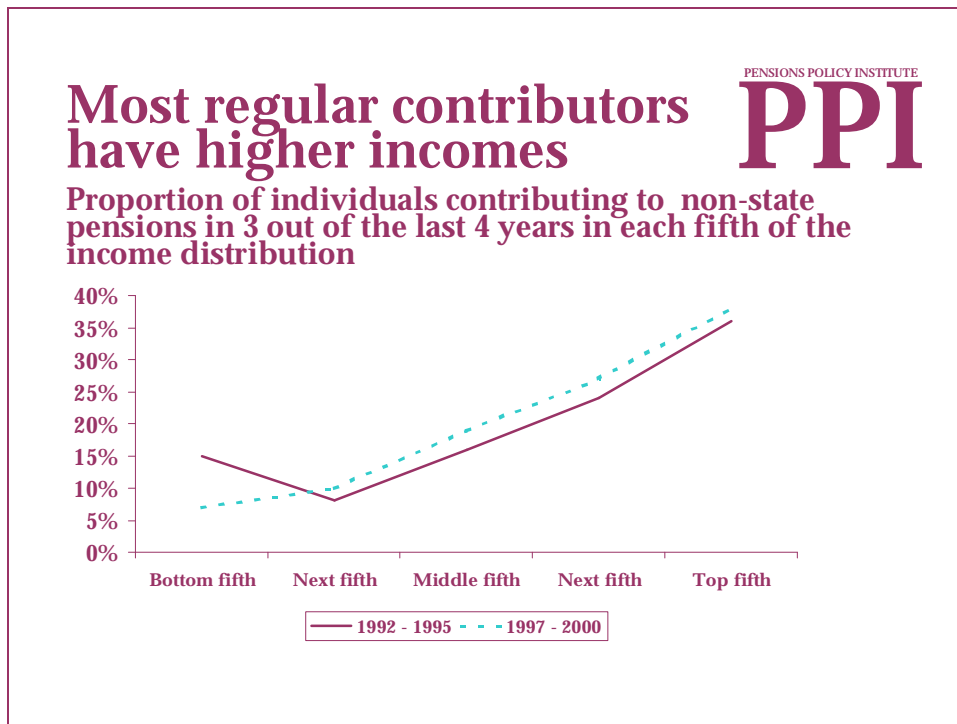
No new analysis is available, so this chart has not been updated.

¹⁶ PPI analysis of data from Banks, Blundell et al (2002)

Chart 30¹⁷

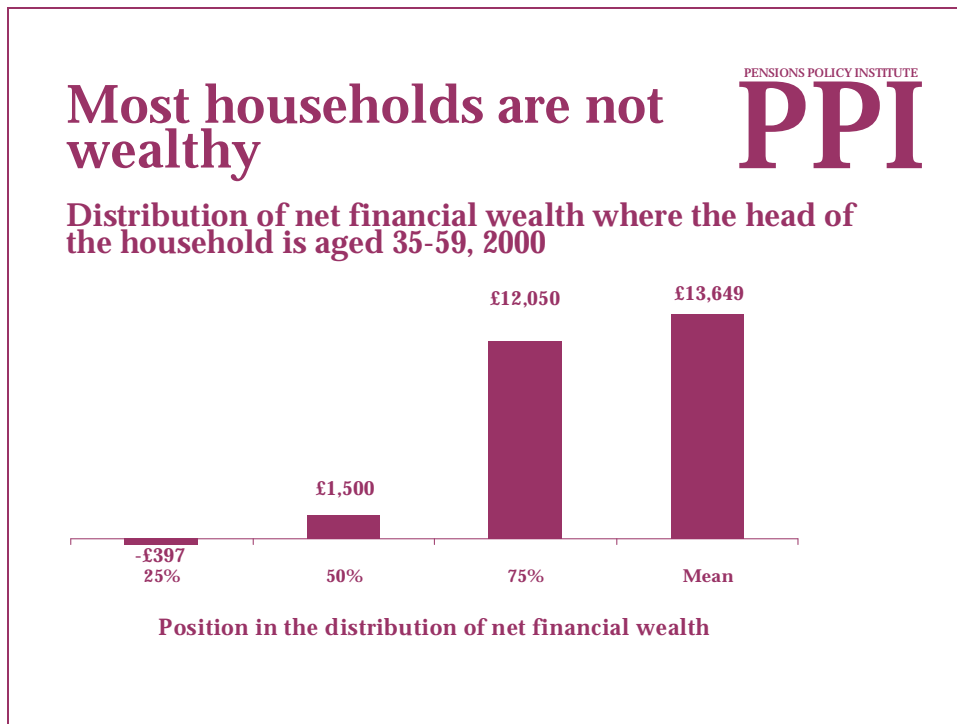


¹⁷ PPI analysis of the Family Resources Survey 2002/3, updating analysis in HMT (2002)

Chart 31¹⁸

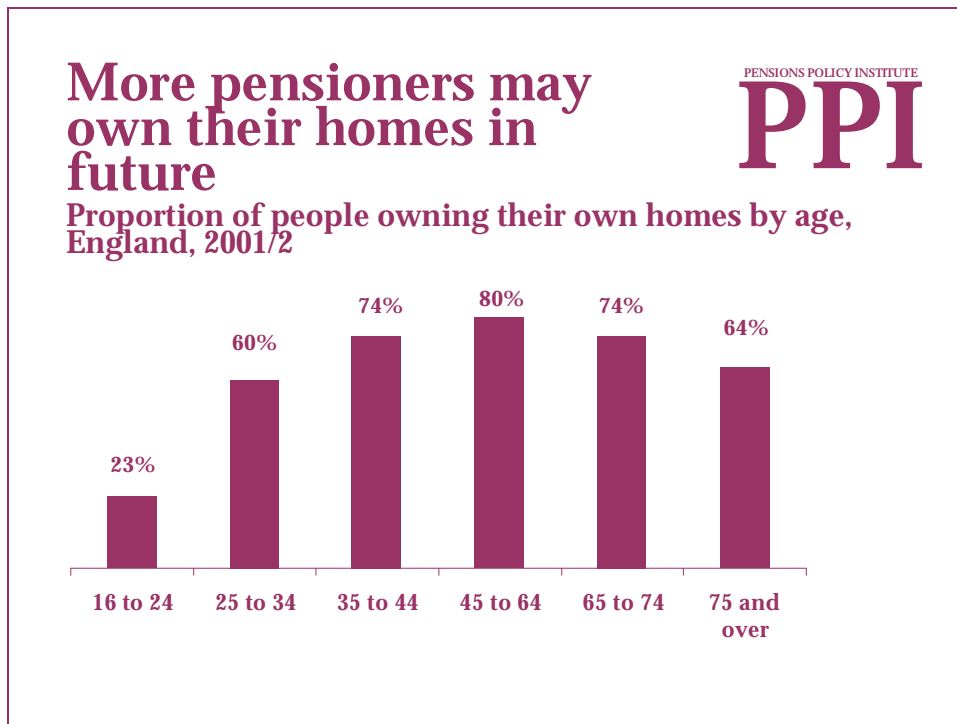
No new analysis is available, so this chart has not been updated.

¹⁸ PQ Steve Webb 24 October 2002, House of Commons Hansard Col 487 W

Chart 32¹⁹

No new analysis is available, so this chart has not been updated.

¹⁹ Banks, Smith et al (2002)

Chart 33²⁰²⁰ Mew et al (2003)

Appendix 1

The projections made by the PPI in chapter 2 of *The Pensions Landscape* are based on the following data and assumptions.

General Assumptions

Price inflation of 2.5% per year. Historical price levels are based on the CHAW series produced by the ONS.

National Average Earnings (NAE) in 2003 of £480 per week.

Real growth in NAE (i.e. above price inflation) of 1.5% per year. Historical earnings levels are based on the LNMQ series produced by the ONS.

Threshold and Benefit levels announced for the year beginning April 2004

Basic State Pension (single pensioner)

Basic State Pension	£79.60 per week
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The Basic State Pension is assumed to increase each year in line with prices.

Pension Credit (single pensioner)

Guarantee Credit	£105.45 per week
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Savings Credit minimum income level	£79.60 per week
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Savings Credit taper	60%
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Savings Credit clawback taper	40%
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Maximum Savings Credit	£15.51 per week
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The Guarantee Credit increases in line with earnings growth.

The Savings Credit minimum income level increases in line with prices.

State Second Pension

Lower Earnings Limit	£79 per week
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Lower Threshold (S2P)	£223 per week
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Upper Threshold (S2P)	£512 per week
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Upper Earnings Limit	£610 per week
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The Lower and Upper Earnings Limits increase in line with prices.

The Lower and Upper Thresholds increase in line with earnings until they are above the Upper Earnings Limit – then they increase in line with prices.

Illustrative average individual

An average individual works for 45 years, from the age of 20 until 65. Earnings remain constant as a proportion of National Average Earnings.

Additional references

Cebulla, A and Reyes De-Beaman, S (2004) *Employers' Pension Provision Survey 2003*
Department for Work and Pensions Research Report No. 207
www.dwp.gov.uk/asd/asd5/rrs2004.asp

Government Actuary's Department (GAD) (2003) *Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2000*
www.gad.gov.uk/publications/docs/QR5-FullReport.pdf

Mew H, Robinson C, Humphrey A, Kafka E, Oliver R and Bose S, (2003) *Housing in England 2001/2* Office of the Deputy Prime Minister
www.odpm.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_026606.pdf

All other references appear in The Pensions Landscape