PENSIONS POLICY INSTITUTE

# Briefing Paper: Why now is the right time for a dedicated UK pensions framework

## About this paper

This Briefing Paper sets out the rationale for a new framework to provide a comprehensive, systematic and multidimensional approach to analysing changes in the UK pension system.

This paper considers:

- Why now is the time for a new pensions framework
- Structure of analysis and rationale behind key features and design principles
- Anticipated challenges and options to address them

The PPI is currently constructing this framework and this paper precedes publication of the underlying framework methodology in December 2021. The first full report into the UK pension system will then be conducted in 2022. The objective of the 2022 report is to act as a baseline against which the system can be assessed annually, and against which the potential impacts of policy options can be evaluated.

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The PPI's UK Pensions Framework: in association with AVIVA

## Briefing Paper Highlights

**What is the PPI Pensions Framework project?**

The PPI is developing a UK Pensions Framework to support coordinated, comprehensive and regular analysis of trends, issues and outcomes in the UK pension system.

The framework will be designed in 2021, with a methodology report to be published at the end of the year. The first report into how the system is working, who for, and why is due to follow in 2022. Analysis is expected to be refreshed annually thereafter.

**What is the UK Pensions Framework?**

The framework is a tool to help measure and explain differences in financial security and experiences that people have in later life, and what might happen if new policies are introduced.

It aims to analyse underlying objectives of adequacy, sustainability and fairness, which together help to determine overall financial security, against a series of indicators and measurements.

**UK Pensions Framework Highlights**

**Why is the PPI developing the framework?**

Economic, demographic and political pressures are rapidly producing important changes to the way in which people need to prepare for later life. They also increase the need for transparent, coordinated, long-term and evidence based policy-making and debate.

Currently, no single framework is dedicated to regular, multidimensional analysis of the UK pension system. This framework aims to fill this gap and build on existing research by tracking changes in the system and the way in which facets relate to each other over time.

**What can be learned from the framework?**

The framework aims to analyse trends and differences in system outcomes from the perspectives of individuals, employers, the pensions and financial services industries, and the State.

Drivers of outcomes, ways to improve them, and the extent to which trade-offs are produced elsewhere can further help to identify policy gaps. The framework also seeks to improve understanding of how socioeconomic and policy changes impact on objectives, and to compare possible merits of future policy options.

## Introduction

Population ageing, fallout from economic recessions, changes to working lives, and high levels of national debt are producing important changes to the way in which people prepare for later life. They are also producing significant pension reforms. Together, these pressures have necessitated shifts towards increased sustainability for the pension system and those who operate within it. Some of the most notable impacts include the introduction of the flat rate State Pension, the closure of many private sector Defined Benefit (DB) pension schemes and the introduction of pension flexibilities which led to falls in annuity sales. There is little understanding, however, about what these changes mean for longer-term financial security, behaviours and inequality in later life, or the extent to which individuals are prepared for risks that are rising with each successive generation.

### Understanding uncertainty

It has never been more important to understand the uncertainty that lies ahead. This Briefing Paper sets out the rationale for a new framework to provide a comprehensive, systematic and multidimensional approach to analysing changes in the UK pension system. The PPI is currently constructing this framework.

### Framework Aims

The framework seeks to help policymakers and industry achieve a wider understanding of trends and issues in UK pension and retirement provision.[1] Its objective is to determine the extent to which the system supports the overarching goal of income security for individuals in later life by analysing the underlying objectives of adequacy, sustainability and fairness against a series of indicators. It incorporates factors within the system as well as those outside that impact upon it, and aims to build on existing research by:

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[1] PPI (2021). *Why we need it.*

- Allowing analysis of what might happen if policy levers are introduced, or policies and behaviours remain unchanged
- Considering and tracking interactions and trade-offs that may be associated with current or target outcomes over time
- Examining how outcomes have different implications for different groups, sub-groups and actors in the system

## Why now is the right time for a dedicated UK pensions framework

### Impacts of change are unclear and difficult to track over time

Pensions policy needs to be regularly assessed against policy objectives.[2] The UK pension system has seen unprecedented change over the past twenty years and although the impact of some changes are clear and measurable, others are more abstract. To track what these changes could mean for retirees in the future, it will be crucially important to understand how policy outcomes relate to each other over time.

### Today's pensioners depend heavily upon State and DB pension income

In 2016-17, 18.9% of the UK population was over State Pension age (SPa), equivalent to 12.4 million people or 30% of the working age population.[3] Although 62% of these people received income from occupational pension schemes (primarily DB), and 19% from personal pensions including private sector Defined Contribution (DC), the State Pension provides a significant proportion of retirement income for current and future pensioners.[4]

### State Pensions will continue to be important for many people

Over time, a growing share of retirement income has been paid from private pensions and a smaller share from State Pension and benefits. PPI analysis of the DWP Pensioner's Income series shows that the proportion of income that pensioners received from State Pension and benefits fell from 55% in 1997/8 to 49% in 2019/20.[5] However, this trend towards increased dependency on private pensions as a share of income could be set to reverse in years ahead as more people reach retirement both without DB, and without sufficient DC savings to make up the shortfall. Continued high rates of dependency upon State provision for many pensioners will therefore mean that decisions regarding future levels of the new flat rate State Pension will impact both how much people need to save, and the standard of living they can expect in later life.[6]

### Individual risk is increasing

By 2050, the share of people over SPa is projected to rise to 21.4%, 15.7 million people, and equivalent to 36% of the working age population. Of the most significant challenges that lie ahead for pensions however, many arise from systemic shifts that have seen retirement risk transferred to individuals. Until recently, retirement risk was generally borne by employers

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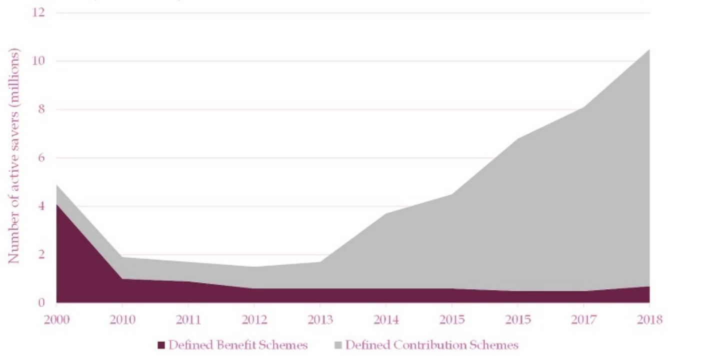
[2] OECD (2020)
[3] ONS (2016)
[4] Adams, J. & Luheshi, S. (PPI) (2021)
[5] Adams, J. & Luheshi, S. (PPI) (2021)
[6] Silcock et al. (PPI) (2019)

and Government through DB schemes and the State pension. In the private sector, shifts in the balance of risk came about as it became harder for DB schemes to survive economic and demographic change in the UK. As a result, many DB schemes closed to new members and new accruals, and the number of people actively saving into occupational DC pension schemes rose almost tenfold to 9.8 million in 2018 from 0.9 million in 2010 (Figure 1[7] [8]). This figure includes master trusts but excludes personal DC pensions which have also seen significant growth over the same period. At the same time, it became harder for current workers to accumulate adequate retirement savings through DC pensions and other resources on account of falls in earnings growth and interest rates, as well as the lower rate of employer pension contributions paid into DC pensions compared to DB.[9]

**Figure 1: The proportion of active savers in private sector Defined Contribution pension schemes rose from 20% in 2000 to 93% in 2018**

**Number of active members of private sector pension schemes by benefit structure (millions)**



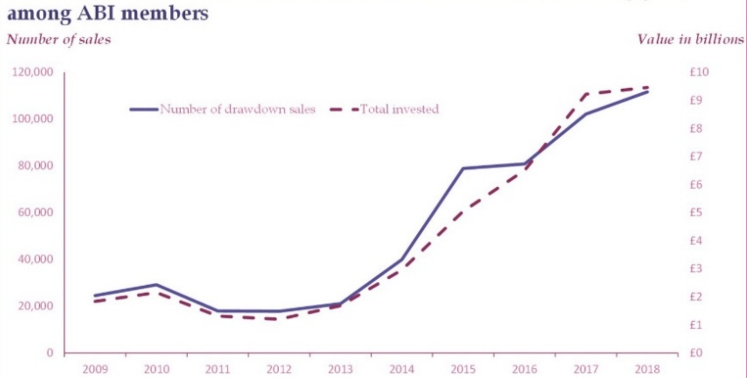

Source: ONS (2019) Occupational Pension Schemes Survey 2018

## Savings pots are replacing income streams in retirement

The introduction of pension freedoms in 2015 created further shifts in how retirement income is used. Alongside the existing option for savers to take a quarter of their pension as a tax-free lump sum, new rules also allowed people to withdraw their pension pot as cash, and without drawdown limits. The changes marked the end of compulsory annuitisation and produced vast reductions in the number of people buying a secure income with their savings.[10] In turn, they also greatly increased sales of drawdown products and levels of dependency on personal savings (Figure 2[11]).

**Figure 2: The number and value of sales of new drawdown products increased by nearly five times between 2009 and 2018**

**Number of new sales of drawdown contracts and value of sales by year, among ABI members**




Source: Silcock, D. (PPI) (2019) The DC Future Book

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[7] ONS (2019). Changes to methodology for 2006 onwards mean comparisons with 2005 and earlier should be treated with caution.

[8] ONS (2019). Changes to methodology for 2006 onwards mean comparisons with 2005 and earlier should be treated with caution.

[9] Adams, J. & Luheshi, S. (PPI) (2021)

[10] Silcock, D. (PPI) (2019)

[11] Silcock, D. (PPI) (2019)

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## Spending and saving behaviours are also changing

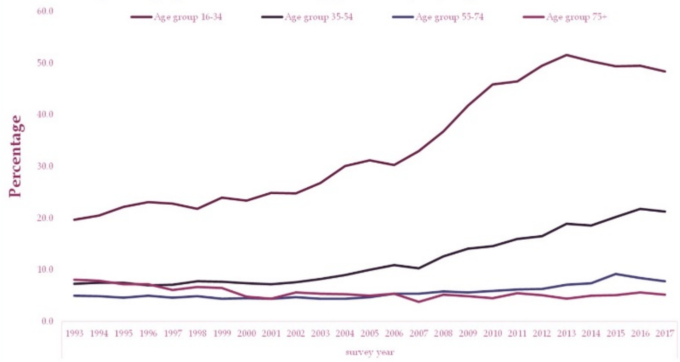
Together, these shifts have moved the focus of pensions policy away from income streams and towards income security. They have also marked fundamental changes to behaviours and the way in which savings are used. A picture of the outcomes that these behavioural changes might produce over time is only just starting to become apparent. Understanding their impacts over time will be an important part of the framework.

## More people are likely to face higher living costs in retirement

Lastly, changes brought about by the financial crisis also catalysed a significant redistribution of wealth towards owners of homes and other assets as values rose. As a result, rates of home ownership are declining in the UK, particularly among younger age groups, and more people are facing higher living costs by renting in later life (Figure 3[12]).[13]

**Figure 3: The percentage of younger people in the private rented sector has risen**

Percentage of population renting privately by age band




Source: Ministry of Housing, Communities and Local Government (2019) English Housing Survey

## Uncertainty and understanding present significant risks to financial security

People not only need to recognise the importance of saving for retirement, but also understand how much they will need to save for the sort of retirement they want.[14] Changes which have taken place over the past twenty years are generating widespread concerns among policymakers that risks to future adequacy may be underappreciated by individuals.[15] This is despite the expectation that they will work until later ages in line with rising life expectancy.

> "Uncertainty is the result of our incomplete knowledge of the world, or about the connection between our present actions and their future outcomes"
> – John Kay & Mervyn King, 2020[16]

## Risks are unevenly distributed among different social groups

Groups of particular concern include women, those from BAME backgrounds, part-time, low-income and rising numbers of self-employed or non-standard workers, disabled people and carers. The timing of policy decisions is also likely to impact age cohorts differently. The long-term savings position of Generation X (aged 41 to 55 in 2021) is of particular concern in this case, since individuals are less likely to have the levels of DB provision seen amongst Baby Boomers (aged 56-75 in 2021).

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12 Ministry of Housing, Communities and Local Government (2019)

13 Baker, M. & Adams, J. (PPI) (2020)

14 Hurman et al. (PPI) (2021)

15 Pension and Lifetime Savings Association (2019)

16 Kay, J. & King, M. (2020)

At the same time, they have fewer years and less time to remedy this shortfall or to benefit from automatic enrolment than Millennials (aged 21 to 40 in 2021) (Figure 4[17]). Individuals who may be unable to work to SPa yet lack resources to fund the widening gaps in state benefits paid before and after SPa are also at significantly greater risk than in the past and are a key group that the framework aims to focus on.[18] [19]

**Figure 4: Timing of policy decisions will impact differently across individuals and groups**[19]

Molly and Gemma were both automatically enrolled into a Defined Contribution (DC) pension scheme in 2012 when Molly was aged 22 and Gemma was aged 42. With their employer, they both contributed 8% of total earnings to their pension.

At their State Pension age (SPa) (68 for Molly and 67 for Gemma), Molly's pot is 148% higher than Gemma's.


### Coordination is key to successful long-term policy

The need for better informed, consistent, transparent and coordinated long-term policy making remains a critical issue. Moves towards greater long-term stability in some areas such as the state pension have been offset by continued changes in others such as tax treatment of pensions. This is important because consistency and coordination in policy making can support confidence that people need to plan for the future. Addressing the myriad of changes discussed and the speed at which they are taking place requires informed, evidence-based and coordinated policy debate. A new UK Pensions Framework can make significant long and short-term contributions towards it.

## UK Pensions Framework: structure and rationale

### Frameworks can help measure how well policies are working

Analytical frameworks are instruments that allow periodic evaluation of complex, multidimensional systems in a structured and consistent way. In the case of pension systems, they help measure and explain differences in the financial security and experiences that people have in later life. They examine how well policies are working, along with potential drivers of outcomes and ways to improve them.[20] In some cases, this might include the long-term effect of short-term decisions. Frameworks can also track how outcomes differ among

17 Silcock et al (PPI) (2019)

18 Silcock et al (PPI) (2019)

19 Institute for Fiscal Studies (IFS) (2019)

20 OECD (2020)

actors in the system and how experiences change over time. Together, these outcomes provide a useful way to structure discussion, identify opportunities for learning and support evidence-based policy making.

**The scope of the pensions framework includes the UK State and private pension systems. It comprises three key dimensions.**

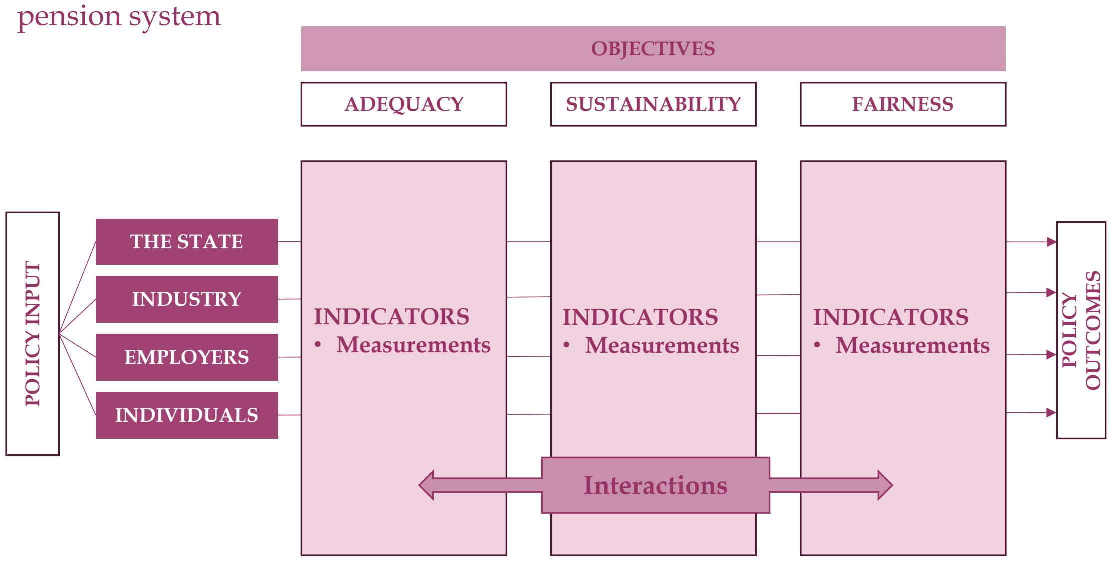
Together, these dimensions allow the analysis to address three key questions.

1. To what extent is the pension system supporting core objectives of sustainability, adequacy and fairness?
2. How do policy levers and their interactions contribute to these outcomes?
3. How do outcomes vary among the different groups who participate in the system?

The framework is structured around the objectives of **Adequacy, Sustainability** and **Fairness.** The extent to which the system supports these objectives is expected to be carefully assessed against a series of indicators in order to make an informed assessment against each objective. Each indicator comprises various measures and, where available, targets. The effects of policy options or socioeconomic change can also be compared to baseline analysis in order to highlight the different strengths and weaknesses of possible decisions or outcomes. Outcomes are assessed from the perspective of individuals, employers, the pensions and financial services industries, the state and other public bodies and crucially, sub-groups within them (Figure 5).

## Framework Structure

Figure 5: The UK Pensions Framework aims to provide a comprehensive, systematic and multidimensional approach to analysing changes in the UK pension system



### A multidimensional approach is important for policy relevance

Analysis which emphasises the multidimensional aspects of the pension system is important. This is because financial security is dependent upon several key considerations: work, homes, relationships and health, as well as ability to make choices around how to spend and save money. The same applies in later life.

#### Past policy decisions were not always coordinated

Policy decisions based upon analysis of specific, isolated or individual issues are concerning. Both the Pension Provision Group (PPG) which reported in 1997[21] and the Pensions Commission which reported in 2004 and 2005[22] raised caution about single-issue policy-making. At the time, the default option for policy evaluation was largely to question the extent to which policies produced their intended outputs and at what cost.[23] Both groups found that past pension reforms, problems, and complexity in the system were all too commonly the product of short-term decision-making.

In a series of landmark reports and recommendations that followed, the two groups charted a new direction for pensions policy. They brought to life the importance of an approach which emphasised the cumulative impact of decisions and commitments, whilst also recognising wider implications, unintended consequences and trade-offs that policy change might have. This approach remains important and underpins the design of the UK Pensions Framework.

### Research and policy making are evolving

The study of pensions policy has advanced considerably since the Pensions Commission and PPG. More recently, extensive research has produced valuable and coordinated insight into trends, reforms and outcomes associated with UK pensions policy, and into how the UK system performs in comparison to its international peers. Developments are supported by a growing body of time series data, particularly that which is economic in nature. Amongst the most well-known examples of periodic analysis are the biannual OECD Pensions at a Glance series, the annual CFA Mercer Global Pension Index, and the Allianz Pension Index. These studies assess a range of indicators against common system objectives in order to compare pension policies and their outcomes between countries.[24] Further, the OECD provide rich analysis of recent pension reforms in each country, whilst the CFA Mercer Global Pension Index aims to highlight how some shortcomings of the pension system could be improved by possible areas of reform.[25]

### Comparing international pension systems has several advantages

Along with other analysis from the World Bank and World Economic Forum, these studies can illuminate patterns of similarity and differences in how governments deal with pension dilemmas, which together can provide lessons on how policy-making and its drivers impact on the world. They also help understanding of why a variety of policies are adopted in different contexts, and why they lead to divergent outcomes.[26]

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[21] The Pension Provision Group (1997)

[22] The Pensions Commission (2004)

[23] Peters, B. G. (2015)

[24] OECD (2019)

[25] Mercer (2020)

[26] Dodds, A. (2018)

## The UK Pensions Framework fills an important research gap

The UK Pensions Framework is different to other leading studies because it is not intended to compare the UK to other countries. Despite developments in policy research, no single resource is dedicated and tailored to building comprehensive, long-term analysis of trends and changes in the UK pension system and, importantly, the way in which changes and facets of the system relate to each other over time. For this reason, it remains challenging to establish a clear and consistent picture of the extent to which policies are shaping long-term outcomes beyond their immediate or intended goals, who they are working for, and why. The PPI aims to complement existing research by filling this gap with a framework that dives deep into the UK pension system.

## Comparative research also presents two key limitations

1. The requirement for indicators and measurements to be consistent across constituent countries can make it difficult for outputs to capture the complex interactions that underlie divergent outcomes.
2. Studying an individual system allows for building on existing research by examining policy implications and interactions in greater depth, while still maintaining a focus on long-term lesson-learning and tracking changes against past outcomes over time.

## Building on existing research

Added depth allows us to build on the success of existing research in three important ways.

### 1. Evaluation of possible impacts of policy options or socioeconomic change

Comparing a range of expected outcomes against a baseline analysis allows questions to be addressed such as:

- What might happen if employer pension contributions were payable from the first pound?
- How might social care reform impact spending in retirement?
- What would further house price increases mean for future generations of retirees?
- How might pension flexibilities impact retirement outcomes?

This work can be used not only to build a picture of how socioeconomic and policy changes are impacting on the pension system, but also to compare the possible merits of policy options in future policy analysis.

### 2. Identification of interactions, side-effects and trade-offs associated with pension policies and outcomes

The implications of pension policies and their outcomes extend beyond the intended policy area. Together, the effects of these interactions may be anticipated or unanticipated, beneficial or detrimental. For example, increasing employer pension contributions could put downward pressure on earnings, while some tax rules such as the tapered annual allowance could influence choices that individuals make around how much or how long to work. Interactions are an important part of analysis because the way that policies relate to each other can be a key differentiator in outcomes between one system and another.[27] Without the

[27] Vedung, E. (2013)

consequences that fall outside of the target policy area, there is also a risk that evaluation findings could produce a biased picture of what policy interventions have actually attained.[28]

Policy interventions in one area can often generate the need for other policy interventions in another.[29] Incorporating interactions into an approach does, however, create other questions around whether interactions have positive or negative side-effects, and the extent to which these side effects offset the intended or actual policy outcomes. To address these challenges, the framework first intends to map effects and interactions between indicators and objectives, before secondly considering ways to assess impacts.

### 3. Analysis of how outcomes have divergent implications for different groups and actors

Considering the extent to which outcomes differ can help to identify policy gaps. As well as individuals, the framework will consider implications for other actors to sustain or deliver what is expected of them including administering, funding, or governing the system. They include employers, the pensions and financial services industries, the state and other public bodies. There are numerous and important ways that these groups can be segmented, each of which will have distinctive viewpoints that drive different approaches and judgments on pension outcomes. Take adequacy as an example:

- To individuals, adequacy may mean the ability to maintain living standards from working-life into retirement. Inequality will heavily impact perceptions and outcomes.
- To some employers, pension adequacy might be valuable to the employee proposition. To others, it may be seen as a cost of employment.
- The State may view adequacy as a requirement to provide a safety net against deprivation, but is also interested in ensuring individuals are enabled to meet their own income needs in later life[30]

### Including perspectives from a range of actors is important

The efficacy of the pension system depends on ensuring that the viewpoints of all these actors, and crucially sub-groups within them, are considered. This is particularly important in the UK where the State is heavily dependent upon the financial services industry to enable pension saving, and is also responsible for regulating it.

> "What gets measured gets managed. If we measure the wrong things, we will manage the wrong things"
> - Keith Ambachtsheer, 2016[31]

### The study of retirement outcomes is not an exact science

Such study involves analysis both of positive, or objective and verifiable facts, and also of normative aspects which are derived from different positions or opinions.[32] This is particularly relevant to analysis of economic and ethical outcomes of the system. To reflect this, it will be important first to be clear about how measures and objectives of the framework are understood. Secondly, it will be important that it includes sufficient range of data for the reader to draw their own conclusion on subjective aspects where necessary.

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28 Vedung, E. (2013)

29 Vedung, E. (2013)

30 Hurman et al. (PPI) (2021)

31 Ambachtsheer, K. (2016)

32 McKnight, A. *et al.* (2019)

The UK Pensions Framework is structured around the objectives of Adequacy, Sustainability and Fairness.

Within each objective are a series of sub-objectives, and within each sub-objective are a number of indicators. Indicators are essentially proxies which can provide information about a particular objective. They are assessed with respect to each objective using a series of measures and, where available, targets. These objectives reflect some of the key underlying social and economic challenges that pension systems aims to address. They also challenge the analysis to consider how relevant outcomes are to the real problems that policy is trying to solve.[33] Take automatic enrolment as an example. Despite its unequivocal success in increasing the share of workers saving into pensions, there are considerable concerns that contributions at the default level are not sufficient to tackle the wider goal of enabling individuals to meet their own income needs in retirement.[34]

### Objectives form the basis for a long-term pensions framework

Together, the objectives allow a long-term, multidimensional approach to analysing the system because they are more likely to remain constant in time and place. In contrast, policies and targets do not.[35] [36] [37] They are also derived from the overall purpose of the pension system which is to support income security in later life through consumption smoothing, insurance, poverty relief and redistribution.[38] Wider research shows numerous other possible objectives including affordability, efficiency, flexibility, simplicity and equitability. The importance of these considerations is not discounted in the framework. Rather, many are considered to be facets of chosen objectives, and together they comprise key elements of the chosen indicators. Affordability, for example, can be considered pivotal to all three goals. The effects of the pension system on secondary outcomes including economic growth, national savings and labour markets are considered, but are not the primary focus of this work.

### Assessing multidimensional concepts is challenging

Adequacy, sustainability and fairness are relative, not absolute terms.[39] They are also multidimensional in nature and assessing them is no easy task.

1. There is no consensus regarding the definition of each objective, how to measure it, and how to assess retirement outcomes against each.[40] Definitions of policy goals may reflect tolerances for potential risks and shortfalls, as well as the role that policy makers anticipate in achieving them.[41]
2. Definitions vary depending on who makes the assessment and the social, political and economic context in which decisions are made.

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33 Vedung, E. (2013)

34 Department for Work and Pensions (2017)

35 Borsch-Supan, A. (2014)

36 Dodds, A. (2018)

37 Peters, B. G. (2015)

38 Barr, Nicholas (2020)

39 Hurman et al. (PPI) (2021)

40 OECD (2020)

41 OECD (2020)

For the framework to assess the pension system against these objectives, a clear definition of each should be determined. The following early proposed definitions are based upon a detailed literature review which will be discussed in greater depth in the methodology report due at the end of 2021.

Adequacy protects against deprivation and supports dignity and security in later life by enabling individuals to smooth lifetime consumption. Indicators are expected to relate to state support, saving, consumption smoothing, investing, decumulation, pension outcomes and system design.

Sustainability relates to a system which is financially affordable, provides continuity of arrangements in a range of economic, demographic and political scenarios, and can uphold the commitments it makes to participants and supports wider societal goals. Indicators are expected to relate to demographic, economic and political sustainability, as well as system resilience and other long-term societal objectives.

Fairness relates to an inclusive system which protects people equally from risk in retirement, provides equal opportunity for all through individual and societal equity, and ensures that future financial promises are met. Indicators are expected to include inclusivity, heterogeneity, inequality, redistribution, simplicity, governance and oversight.

### Of the three objectives, fairness is particularly hard to define and measure

In order to assess fairness, a range of approaches and questions could be considered. Does fairness mean equal outcomes for all? This is particularly relevant to the State Pension system, where redistribution can be used to reduce inequality or provide insurance against risks. Or does it mean that retirement income should be commensurate with contributions? How do outcomes for one group compare to another, or more specifically to other groups or cohorts with different characteristics, resources and preferences? Together, these questions refer to outcome fairness.

### Outcome fairness refers to how outcomes are distributed

While indicators exist that can address some of these questions, subjectivity is required to determine whether outcomes are "fair" or not. This is a key challenge for the framework, which inherently requires a degree of objectivity to overcome. To do so, findings from various indicators will be presented with a clear narrative to qualify the types of fairness they might inform, thus presenting the reader with a range of perspectives from which outcomes could be assessed as fair or otherwise.

### Process fairness refers to how groups are treated in the system

In some cases, fairness may instead relate to processes which are built into the pension system. These can be collectively termed process fairness, referring in the main to inclusivity. Does the system meet peoples' needs equally? Does it afford them equal opportunities to participate on equal terms? Does it promote transparency over outcomes associated with decisions and non-decisions? Process fairness also reflects the importance of probity, governance, standards and expectations, including when changes are applied to rules that might be arbitrary or retroactive. Is it fair, for example, to ask people to make the same choices over their pension outcomes given unequal distribution of financial literacy? To what extent is protection afforded to people against making decisions that are not in their best interests? By examining fairness from the perspectives of outcomes and processes, a picture of those for whom the system may be systematically predisposed to different outcomes when other factors remain equal can be assembled.

### Measuring multidimensional objectives can also be difficult

The challenges associated with defining multidimensional objectives also extends to measuring them. Just as there are many ways in which adequacy, sustainability and fairness can be explained, there are also many ways of measuring each concept. The choice of measurement and targets depend on how the objective is understood, as well as the environment in which the assessment is taking place.

Consider again the example of adequacy, for which retirement income is a proxy. Traditional approaches to measuring retirement income typically include a range of proportional income targets such as replacement rates, or a selection fixed income targets based upon a basket of goods approach. Establishing which measure to use in order to assess our objectives is made difficult by notion that policy targets can often be somewhat ambiguous. Although these problems are of core significance to the framework methodology, its primary purpose is not to solve them. Instead, a varied selection of measures for each indicator are presented which better reflect the multidimensional nature of the concepts of interest.

### Conclusions will be informed by a range of in-depth analysis

Careful analysis of the range of measures within each indicator will be undertaken in order to make an informed assessment against each objective. Going forwards, the framework aims to contribute to wider policy debate around the establishment of consensus measures and targets, which can then be adopted accordingly into its results.

### Indicators will be assessed against tests rather than targets

To capture impacts that happen at the same time across all three objectives, a dashboard approach to presenting the indicator outcomes and framework findings will be adopted. High level themes and messages will be supported by clear, detailed narrative and underpinned by in depth analysis of measures and targets where available. Where targets are not established, a range of information will be presented to inform conclusions. Each indicator will also be classified by the extent to which it is supporting the framework objective using a series of tests. Tests are designed to complement analysis of indicators against established target outcomes where available, not to replace them. The framework is expected to incorporate three tests.

Test 1: To what extent do indicator outcomes support the framework objective?

Test 2: To what extent do policies help sustain positive indicator outcomes, or mitigate negative indicator outcomes, over time?

Test 3: To what extent do outcomes have positive or negative impacts or trade-offs elsewhere in the system?

Classifications and their underlying data will then be tracked as changes occur to the system over time.

### Policy targets can be ambiguous

This approach was chosen to address the particularly problematic issue of identifying and assessing targets for such a wide range of framework indicators in an unambiguous manner. First, because there is widespread lack of consensus on established indicators and targets for multidimensional concepts such as adequacy, sustainability and fairness. This is especially true where distinctions are made between positive and normative (or economic and ethical) aspects. Secondly, policy indicators may have a catalogue of conflicting goals from which is hard to elicit the expected outcome; and lastly, but perhaps most importantly, a target-attainment approach risks overlooking the relevance of policies to the wider objectives of the pension system, and the extent to which side-effects are produced elsewhere.[42] [43] This approach will be documented in more detail in the methodology report at the end of the year.

### Consideration was given to other approaches

Several other possibilities were assessed as options for presenting the framework findings. An econometric approach was considered for the extent to which statistical inference could be used to quantify outcomes and causality. However, it was rejected because it would be almost impossible to construct a representative sample of individuals and other actors that could include information across all indicators and measurements over time. A single weighted index was also considered unsuitable for two reasons. First, because it would be heavily subject to the challenges associated with target definition as discussed above; and secondly because an index requires weightings to be underpinned with a wide-ranging series of assumptions. However, the output will be presented in such a way that the reader is able to make a judgment on relative importance and develop an alternative method to weight or present the information themselves.

## A pensions framework, or a retirement framework?

The final discussion in this Briefing Paper refers back to the multidimensional nature of financial security. The same concept is true of retirement, where living standards and experiences depend similarly upon interactions with factors both inside and outside the pension system. Together, they highlight the need for a framework which includes important non-pension factors in order to understand what pension outcomes mean in the real world.

### Incorporating non-pension factors into a framework without over-extending the scope into other policy areas is challenging but necessary.

Incorporating both pensions and non-pensions factors is challenging because many outcomes are the product of decisions and trade-offs which take place in other policy areas, and because no single government department or body is responsible for how they comprehensively fit together. However, it is necessary because people will not only have multiple sources of pension income, but the amount of income they need will also depend on other resources available to them.

### Many assumptions underlie the concept and system of pensions

Thinking about how retirement factors interact with other considerations in real life will also challenge some of the deep-set assumptions underpinning pensions policy.[44] These may include notions such as the idea that people will reach retirement without housing costs, that they are willing and able to work to retirement or SPa in good health or without unexpected caring responsibilities, or that income and spending can be projected on the basis that households remain together. If declining trends in home ownership persist in years ahead for example,[45] more people will face potential shortfalls in retirement income as a result of higher living costs. Similarly, if gaps do not narrow between rising SPa and the age at which people

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[42] Holzmann et al. (2008)

[43] Vedung, E. (2013)

[44] World Economic Forum (2017)

[45] Ministry of Housing, Communities and Local Government (2019)

leave the labour market, or between working age benefits and those paid after SPa, there may be a greater need for people to draw upon their savings earlier and face potential adequacy risks later in life.[46]

### The framework will maintain its core focus on pensions policy

Where possible, however, the framework will also consider the extent to which policies mitigate, replicate or exacerbate trends, circumstances or inequalities that either originate or manifest outside of the pension system. In other words, do they improve or worsen retirement prospects for individuals or groups who may be at risk of poor financial security as a result of processes and actions that happen elsewhere? Consider labour market behaviour as an example. National Insurance credits for carers mitigate some of the differences in working patterns between women and men that contribute to the gender pensions gap. In contrast however, the same differences are exacerbated by the automatic enrolment threshold which disproportionately precludes women, as the majority of low-income and part-time workers, from accessing employer pension contributions.[47]

## Conclusion

### A new UK Pensions Framework can promote consistent, informed, evidence-based policy discussion and decision-making that can improve outcomes in later life

This Briefing Paper brings together the rationale, objectives and direction for a new UK Pensions Framework. It has described why now is the right time to introduce long-term, UK-specific analysis, that can complement existing research. It also explains why the framework should address two key questions in respect of how the pension system is supporting income security for individuals in later life:

### What happened, and what if?

Based on these questions, a number of key challenges have been identified that we expect to face going forwards. They include identifying where measurements should be examined against targets such as replacement rates in order to inform indicator tests, assessing the relative impact of side-effects and interactions, and presenting normative or subjective concepts such as fairness in an objective way.

### There is no such thing as the perfect pension system

The study of pensions is an inexact science, and the search for a perfect or perfectly self-regulating pension system is an impossible undertaking. The framework is expected to raise as many questions as it answers. In doing so, however, the overarching aim remains not to answer every one, but instead to provide facts and evidence to support the policy debate that is crucial to improving retirement for generations in the future. These framework objectives are synonymous with those at the heart of the PPI's mission when it was founded twenty years ago.

We welcome input to the development of the framework and invite anyone with an interest in this research to get in touch with the author.

[46] Institute for Fiscal Studies (IFS) (2019)
[47] Department for Work and Pensions (2017)

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