

# An evaluation of the White Paper state pension reform proposals

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# An evaluation of the White Paper state pension reform proposals



- Quantitative analysis
- Policy implications

# Quantitative analysis

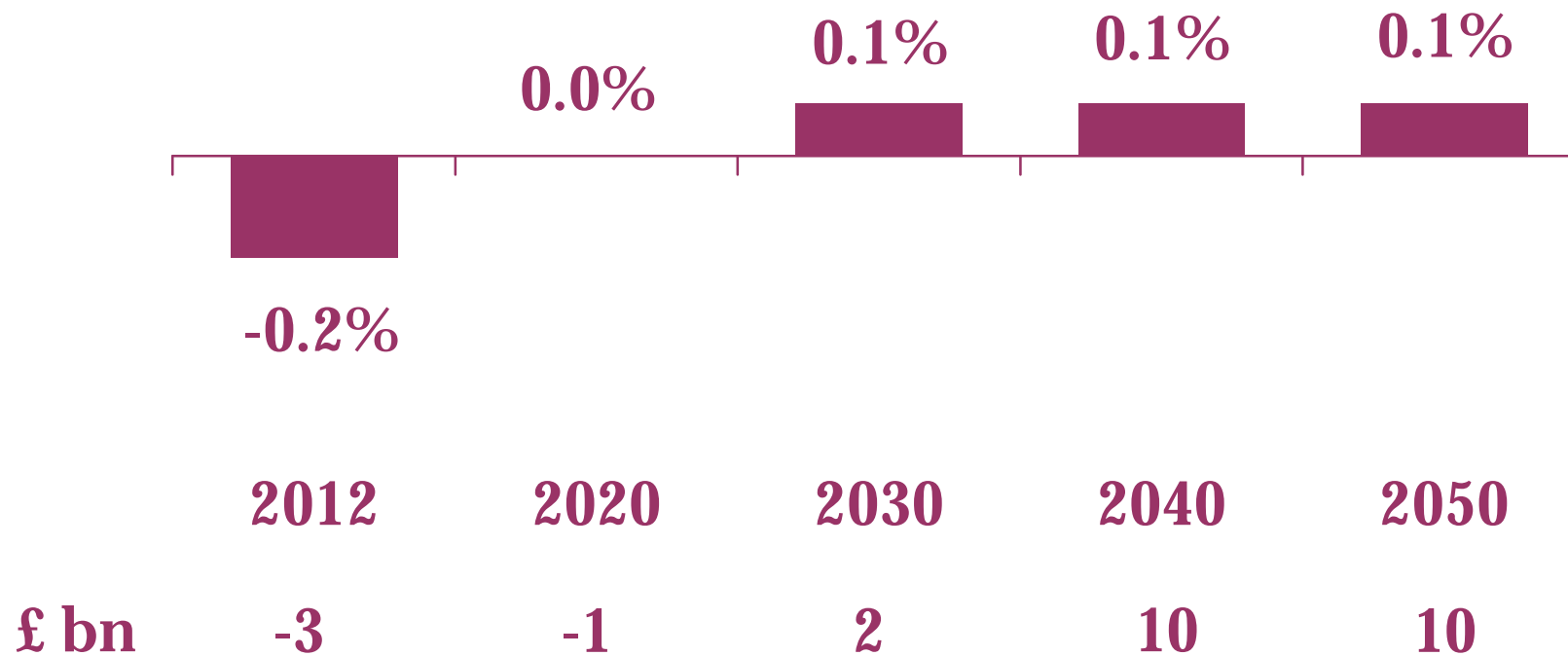
- **The proposed reforms are not expensive**
- **The impact on pensioner incomes is small**
- **State pension amounts are uncertain**
- **The extent of Pension Credit is uncertain**

# The proposed reforms are not expensive

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Net change in Government finances from the White Paper state pension reform options compared to the current pensions system assuming contracted-out rebates are not used for other purposes  
%GDP and £bn, 2006/7 prices



# The impact on pensioner incomes is small

- Higher income pensioners gain first
- Middle income pensioners lose from the Savings Credit squeeze
- In the long run the highest gains are for higher income pensioners

# The impact on pensioner incomes is small

Illustrative weekly total after tax income of people over SPA in 2050 by decile of the income distribution, £ per week in 2006/7 earnings terms

	<b>Current system</b>	<b>White Paper</b>
<b>1<sup>st</sup></b>	<b>110</b>	<b>115</b>
<b>3<sup>rd</sup></b>	<b>140</b>	<b>135</b>
<b>Median</b>	<b>165</b>	<b>170</b>
<b>7<sup>th</sup></b>	<b>205</b>	<b>210</b>
<b>9<sup>th</sup></b>	<b>305</b>	<b>325</b>

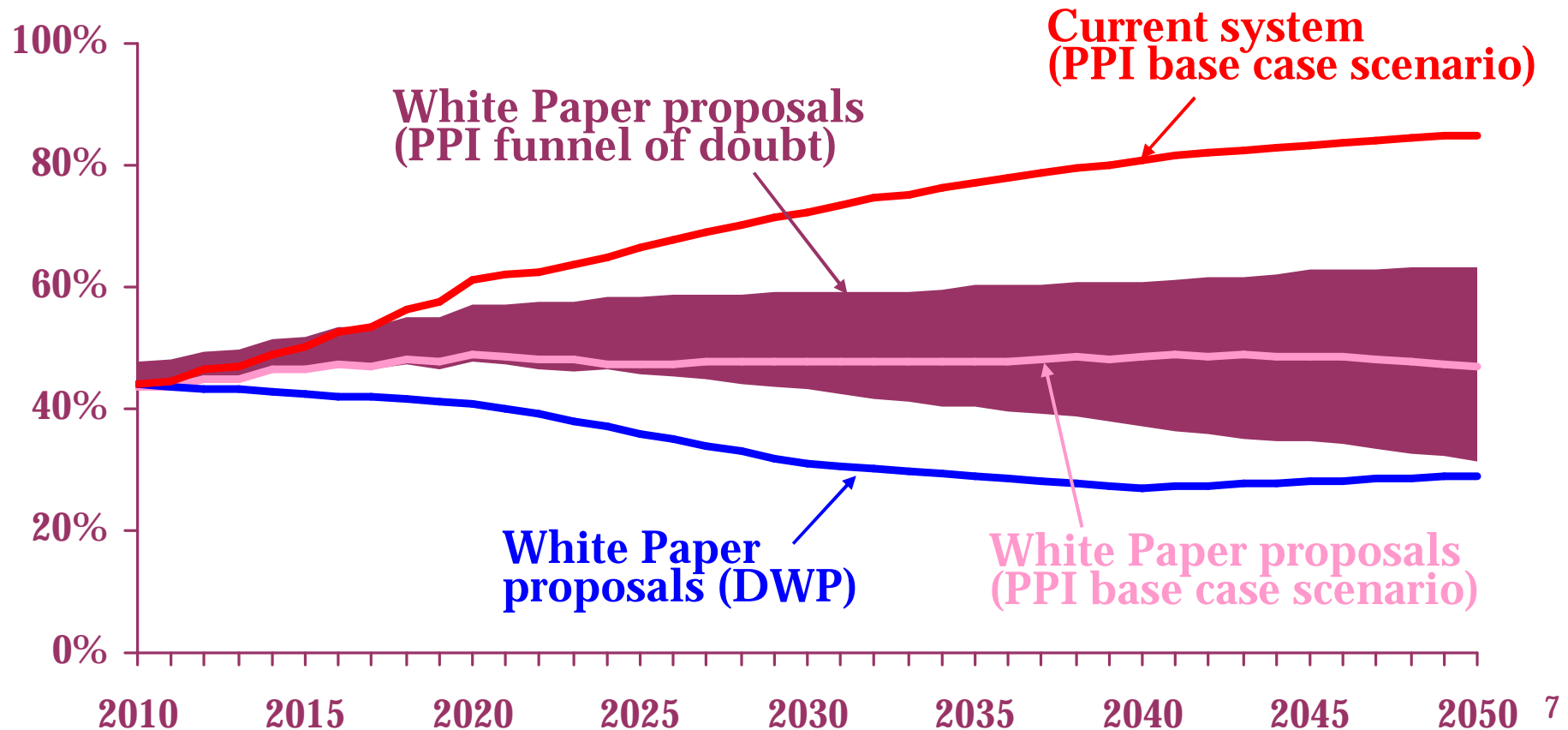
# State pension amounts are uncertain

# PPI

- The ‘near-universal’ BSP is only £75 a week
- There will still be gaps in S2P: 25% of working age people will not qualify for S2P each year
- It will take time for S2P to become high enough for full state pension at state pension age to reach £135 a week.
- Older pensioners will see state pension income fall below £135 a week as S2P is price uprated.
- As a result, the majority of individuals over state pension age will have state pension income of less than £135 a week in today’s earnings terms.

# The future extent of Pension Credit is uncertain

## Estimates of the future percentage of benefit units eligible for Pension Credit





# *Shaping a stable pensions solution:*

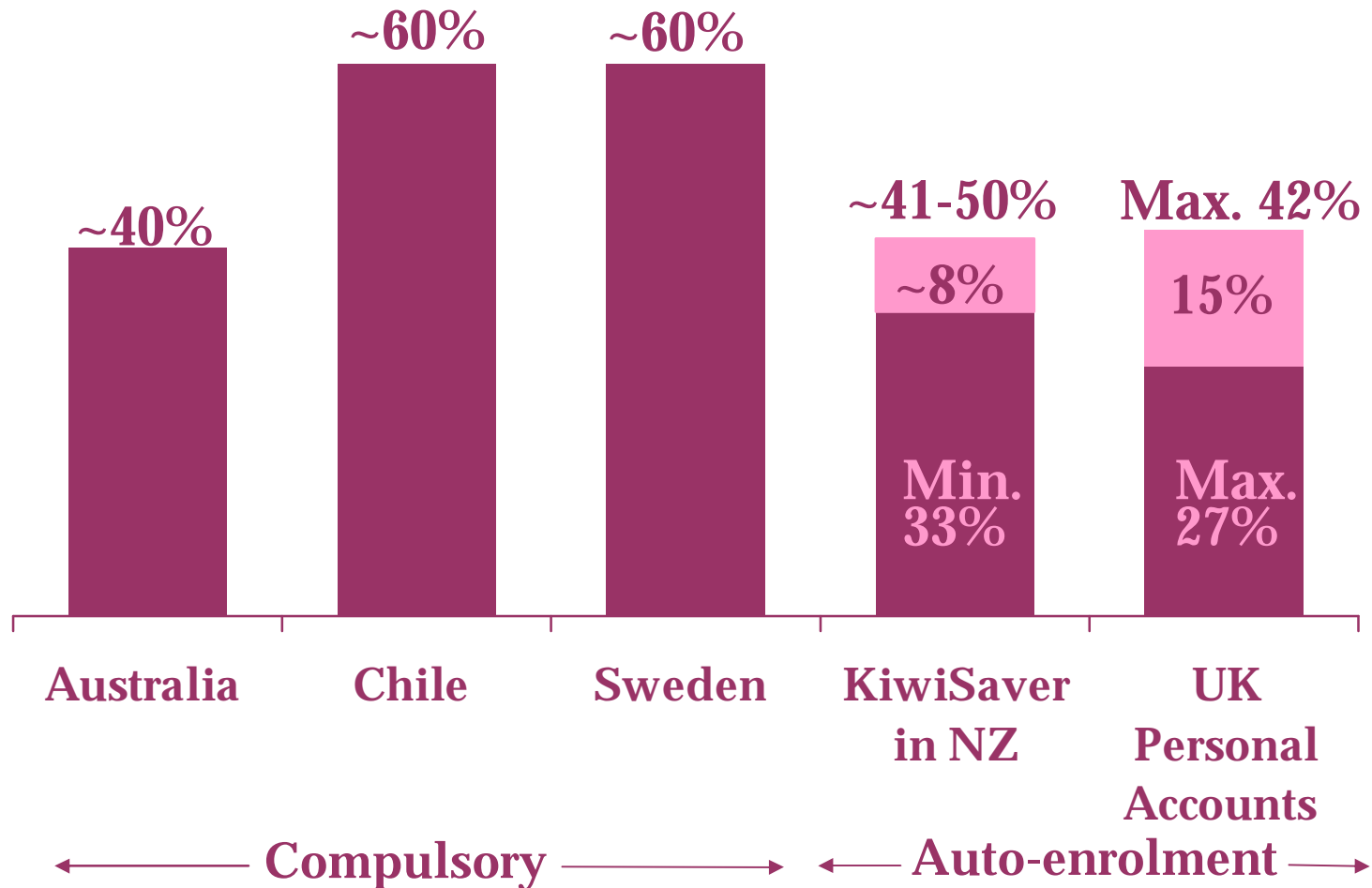
**2 clear roles for the state**



- 1. Deliver better on the one role that only the state can do - poverty prevention**
- 2. Enable and incentivise the private sector to do what it does best – provide earnings-related pensions on a voluntary basis.**

# Personal Accounts are planned as a package with low state pensions

Target income for an average earner as % NAE



# Pre-Pensions Commission consensus principles on pension reform

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## 1. Complexity

➡ *Simplify so easy to understand*

## 2. Unequal outcomes

➡ *More equal coverage*

## 3. Too high expectations of saving

➡ *Clarify role of the state vs. private saving  
vs. working longer*

## 4. State pensions unsustainable

➡ *Higher state pension, less Pension Credit*

# Progress on consensus principles

## 1. Complexity

*No simpler state pension plus Personal Account complexity*

## 2. Unequal outcomes

*Better over time*

## 3. Too high expectations of saving

*Messages on both working longer and saving more... but actual outcome?*

## 4. State pensions unsustainable

*Pension Credit still undermines foundation*