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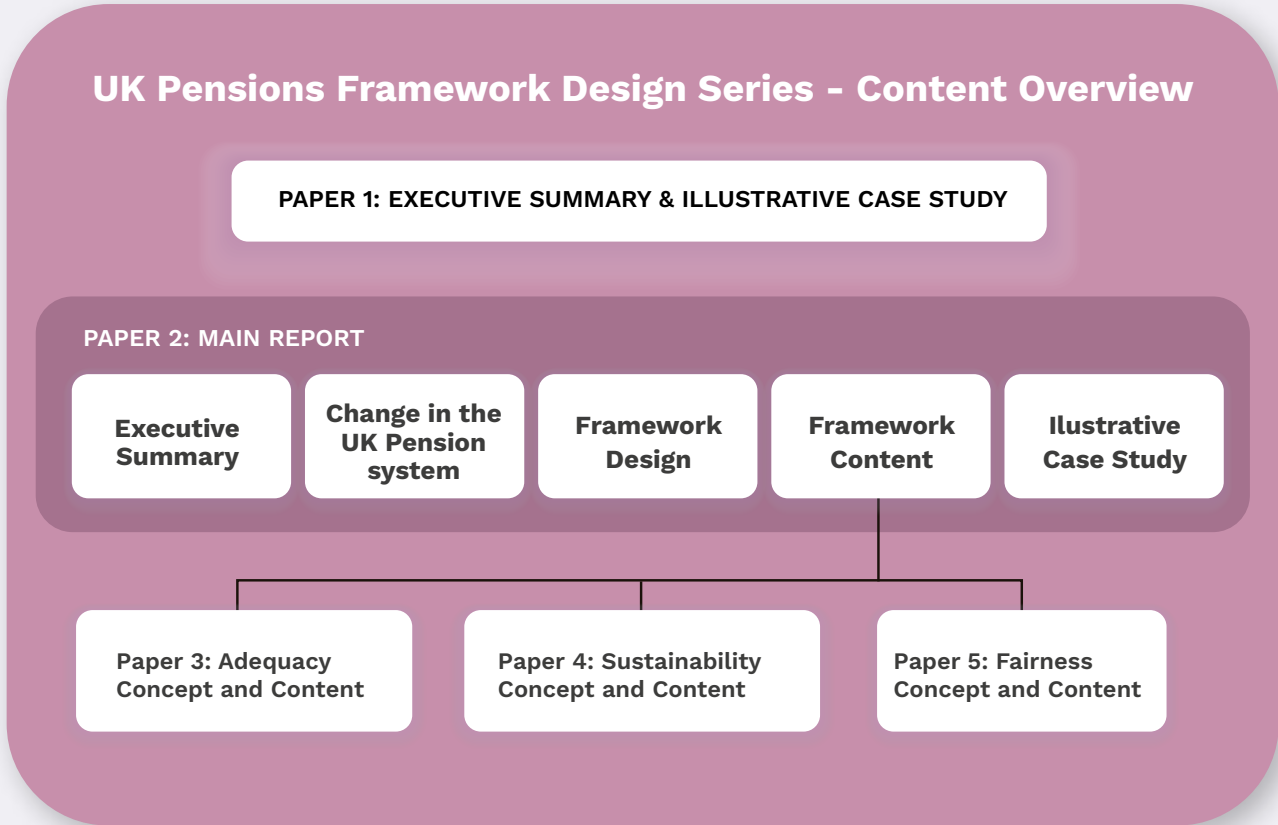
PPI

UK Pensions Framework Design Series

*An examination of adequacy, sustainability
and fairness in the UK Pension System*

Paper 1 - Executive Summary
& Illustrative Case Study

The UK Pensions Framework Design Series - Executive Summary & Illustrative Case Study



The **UK Pensions Framework Design** Series comprises five papers which together document the process of developing the UK Pensions Framework, undertaken over the course of 2021.

The UK Pensions Framework is a long-term analytical instrument which seeks to build a clear picture of how strengths and weaknesses in the UK pension system are evolving over time. From its first release, due in Q4 2022 and annually thereafter, it aims to provide a consistent and systematic approach to examining and simulating changes in adequacy, sustainability and fairness in the UK State and private pension system, which overall determine the financial security that people have in later life.

The first part of this paper presents the **Executive Summary**. It provides an overview of what the Framework is, why it is needed and how it has been designed. The second part then provides an **Illustrative Case Study** of how the Framework can be used in practise. Both sections are included as part of the **Main Report**, which also provides a more detailed insight into the context, structure and content of the framework. The concepts underpinning analysis **Adequacy**, **Sustainability** and **Fairness**, provided in three supporting papers, are examined in greater depth, along with their proposed content indicators.

The Pensions Policy Institute is an independent not-for-profit educational research organisation, devoted to improving retirement outcomes by being part of the policy debate and driving industry conversations through facts and evidence. The UK Pensions Framework project has been kindly sponsored by Aviva. Sponsorship has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.

The UK Pensions Framework Design Series has been authored by Anna Brain, Research Associate at the PPI. The PPI would like to thank experts from across government, regulators, academia and industry around the world who have so generously given their time to provide insight and guidance into the development of this work. Their contribution is gratefully acknowledged in the **Main Report**. The next step in the Framework project is to undertake detailed analysis of the UK pension to understand how it is changing year on year, the results of which will be made available annually from the end of 2022 onwards.

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PENSIONS POLICY INSTITUTE
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The UK Pensions Framework
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Comparing outcomes year on year can help to develop a picture of how pension outcomes, opportunities and risks are evolving over time

This report begins by articulating the need for a new analytical resource in the context of today's changing pensions landscape, before providing an overview of the content of the Framework and its three key dimensions. It ends with an illustrative case study which uses auto enrolment reform to demonstrate how the Framework can be used to compare the impact of changes in the pension system over time; and as a tool to simulate the possible effects of policy proposals.

The primary purpose of the Q4 2022 report will be to establish baseline measures against which changes can be assessed going forwards. Successive annual reports will aim to include analysis of findings related to specific indicators, groups of indicators, and overall Framework objectives which together can provide a clear overview of the strengths and weaknesses in the UK system. They are also expected to include analysis of cross-system issues that span multiple dimensions of the UK pension system, such as savers' journeys through from working life into retirement, environmental, social and governance (ESG), risk transfers, and how the system is working in respect of stakeholder groups. A technical update detailing the Framework's analytical methodology is also due to follow.

From 2023 onwards, and when policy simulations are conducted to support research, analysis will be compared against the baseline to establish how the system is evolving.

Building the UK Pensions Framework is a significant undertaking, and refining the output will require steady, measured steps in years ahead

Already, the scope and design of the Framework have posed many challenging questions, such as the extent to which non-pension factors that influence retirement outcomes including social care and home ownership should be incorporated; the way in which the wider objectives of sustainability and responsible investing should be reflected in the content; how to manage issues around availability of data; and whether or not the findings should be used to develop an index score to summarise system performance year on year. Many of these questions are addressed in Chapter Two. However, the overwhelming conclusion from work to date is that not every question can be answered immediately, and that the important goal for this year is to establish the foundations upon which the future of the Framework can be built.

Despite the transformations in pension provision to date, transitions in the UK pension system are by no means complete. On the contrary, the system is characterised by sensitivity to risks - demographic, macroeconomic, political and market, which demand continuous reassessment of principles and priorities. In turn, these reassessments bring about ongoing transitions from one state to another. They are also complicated by the notion that none of the components of the UK pension system, or the risks associated with them, exist in isolation. At any point in time, a transitory shift in one area can, through a complex web of interactions, lead to a catalogue of impacts in others. By recording and investigating the continuous nature of changes and interactions over time, the framework aims to provide stakeholders in the pension system with a comprehensive long-term resource that can ultimately support the development of policy and better outcomes in later life.





EXECUTIVE SUMMARY

This The UK Pensions Framework Design Series provides a descriptive overview of the PPI UK Pensions Framework, along with the rational for its design and a case study of how it can be used.

Its aim is to provide a non-technical insight into how the framework has been developed to examine adequacy, fairness and financial sustainability in the UK pension system, as well as what the content will cover. This report precedes the first full analysis of the system which is due to be published in Q4 2022, and annually thereafter.

Executive Summary

The UK Pensions Framework provides a long-term instrument for bringing together clear, comprehensive and objective analysis of adequacy, sustainability and fairness in the UK State and private pension systems - which overall determine the financial security that people have in later life.

Its purpose is to build, for the first time, a single resource that can support evidence-based policymaking and debate by documenting how changes in the UK pension landscape are impacting these three dimensions over time. It looks at them from the view of individuals, households, employers, the pensions industry and Government to show how changes interact, how they shape the living standards of older people today, and what they mean for the retirement prospects of pensioners tomorrow. This report describes how and why the framework is designed. It precedes the first full analysis of the system, which is due to be completed Q4 2022 and repeated annually thereafter.

The UK pension system is changing, and its changes are affecting everyone. A series of major demographic forces, economic trends, industry developments and policy reforms over the past two decades are reshaping the pensions landscape and transforming the way in which people need to prepare for retirement. Policy momentum is changing too. As implications for individuals become more apparent and risks emerge, policymakers, the pensions industry, consumer groups and employers are responding to the need to work together towards creating the conditions necessary for people to confidently secure positive retirement outcomes. Without a clear overview of what these changes could mean, however, it will be challenging to understand how the pension system is working to deliver its overall goal of providing financial security, and to design policies that are correctly targeted to support it.

For the UK pension system to be successful in its goal, it needs to support retirement outcomes that are adequate, fair and sustainable. However, what society considers to be adequate, based upon expectations of living standards, minimum income or financial resilience, may not be financially or socially sustainable if it is not affordable. But what is considered affordable, based upon the resources available in the system and the nature of retirement, may not be considered adequate. The challenge for any pension system is to balance these objectives. The extent to which the outcomes are positive can impact differently among groups, and the way in which people respond can depend on two factors: whether they have confidence the system is working, and whether they think it is fair.

Transformations in the pension system are continuously shifting the balance between these objectives. Together, the scale of their effects has created the need for an analytical framework, tailored to the UK pension system, that can help to tackle its complexity by providing a single source of analysis into the implications of change through time. Until now, however, pension frameworks have largely been developed with the study of single dimensions such as adequacy or inequality in mind, or for the purpose of learning lessons from around the world. In the case of international research, the tendency to place emphasis on system comparisons has generated a gap whereby the effect of country specific patterns and features, and the interactions that exist between them, have become difficult to track over time.

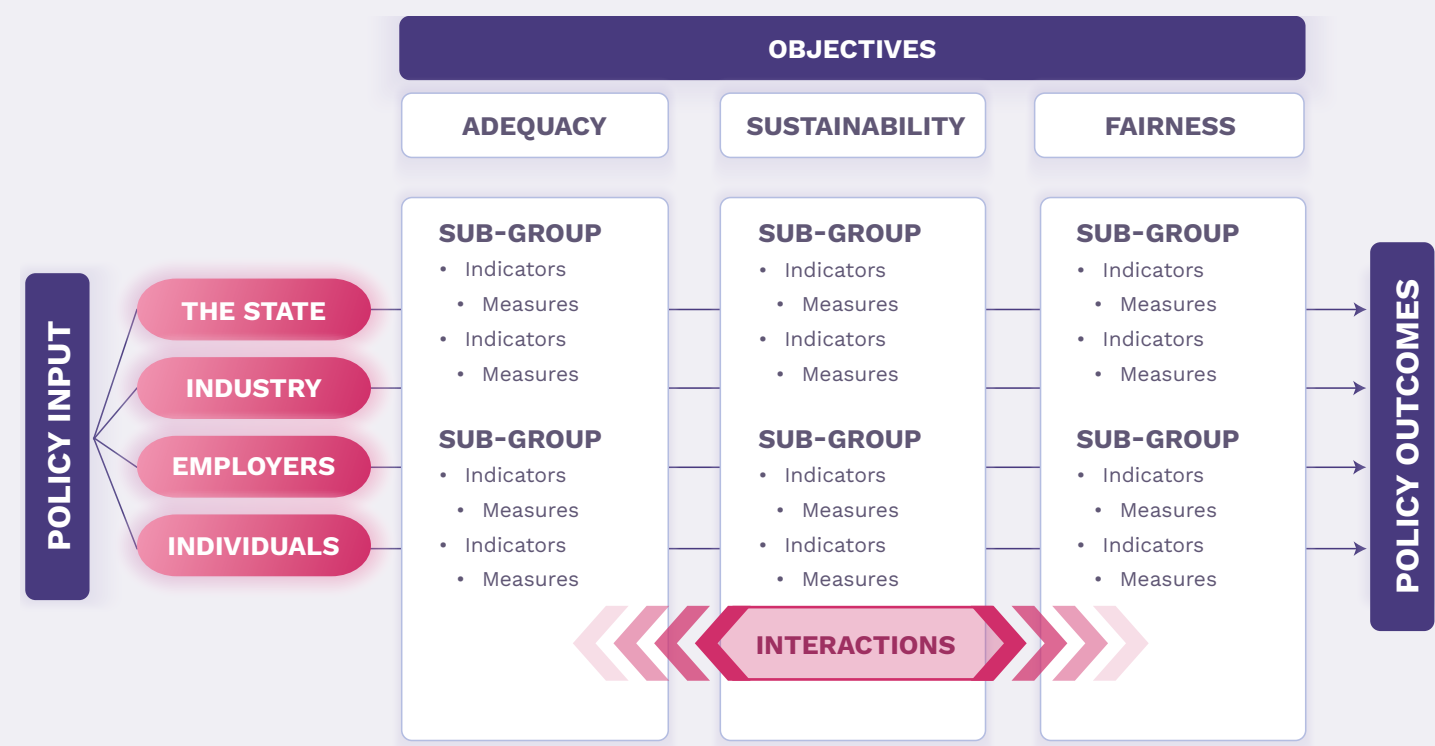
The purpose of the UK Pensions Framework is to fill this gap by providing a systematic approach to examining and simulating change in the UK pension system across all three dimensions of adequacy, sustainability and fairness. In doing so, it seeks to build a clear picture of how strengths and weaknesses of the UK pension system are evolving

The challenges of pension reform underscore the need to develop consensus among all stakeholders around issues facing people in later life, what the system is aiming to achieve, and how it might be able to deliver on its goals. An important part of this process will be recognising that every individual and every retirement journey is different, and that people will require different levels of support if they are to be encouraged to save for retirement, feel a sense of ownership of their pensions, and live with dignity and security in later life.

The structure of the Framework follows a consistent logic. Within each of the three overall objectives are a series of sub-objectives that represent core components of the pension system. Within each of the sub-objectives, a series of metrics have been identified to indicate the state and outcomes of the pension system. They are referred to as the indicators. They comprise both content

indicators, which measure the shape and status of the system, and performance indicators, which measure its outcomes. Indicators are examined from the perspective of different stakeholder groups in order to establish how policy outcomes are produced in context of the current system, or a proposed change to it.

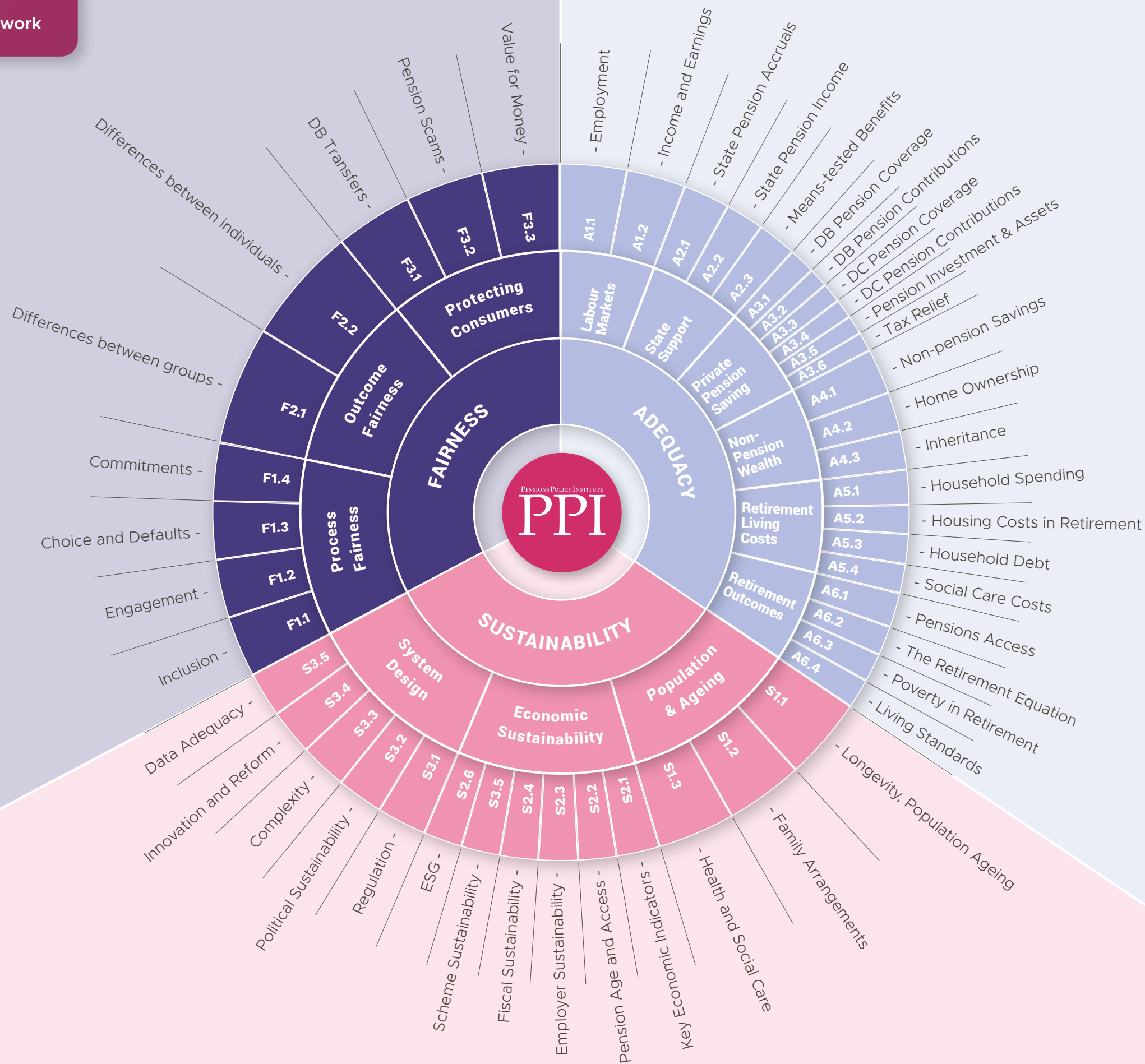
Figure 1: A schematic overview of the structure of the UK Pensions Framework



The Framework will also consider how policy outcomes might interact with other aspects of the pension system and public policy to produce trade-offs or unintended consequences, and how these impacts could change over time. To complete the analysis, each indicator is classified by the extent to which they support their respective objectives, before being grouped together to provide an overall insight

into the strengths and weaknesses of provision for adequacy, financial sustainability and fairness across the system. Output will be brought together in chart format (Figure 2), a detailed example of which is provided as an Illustrative Case Study in the next section of this paper, and in the [Main Report](#).

Figure 2: A visualisation of the content of the UK Pensions Framework



Illustrative Case Study

This section uses automatic enrolment reform as an illustrative case study to show how the Framework can be used to compare changes in the UK pension system

CASE STUDY

1. Serving as an example or explanation. Typically utilises one or two instances of an event to show what a situation is like.

The main aims of this section are to:

- Describe how the Framework is constructed to bring together system-wide data as a single, comprehensive resource.
- Outline how Framework indicators will be classified according to their impact on the UK pensions landscape.
- Demonstrate how the Framework will work using a case study to simulate-level effects of a proposed policy reform.

Introduction

This section provides an illustrative overview of how the UK Pensions Framework could be used to examine the potential impacts of a policy change on the UK pension system. The same format can be used to document the changes that take place in the system year on year.

The case study is illustrative only. It does not constitute an assessment of the current or projected state of the pension system and should not be treated or referenced as such. A full analysis of the system will be conducted ahead of the 2022 report, during which time indicator measures and parameters will be defined, and data collected. This case study section aims to answer the following questions:

- How will the Framework output be constructed?
- How will indicators be classified and presented?
- What can the Framework tell us about change in the UK pension system?

How will the output be constructed?

An overall picture of the UK pension system can be developed by bringing together data from across all three objectives into one single, comprehensive

The process of constructing the Framework output comprises four stages:

1. **Indicator analysis:** Data is collected across a variety of measures and sources in order to develop conclusions over the short and long-term impacts of outcomes relating system objectives.
2. **Trade-off Analysis:** Indirect impacts, side-effects and trade-offs associated with indicator measures are analysed to identify interactions that take place either between components of the system, or between stakeholder groups of the system. For example, tax relief could support adequacy by boosting the value of savings whilst also

compromising fiscal sustainability on account of costs.

3. **Indicator Classification:** Each indicator is classified by the extent to which they provide support for the overall system objective, adjusted for trade-offs, according to the framework definition of the objective and parameters set.
4. **Cross-system Analysis:** Indicator conclusions and classifications are aggregated by sub-group, and then by overall Framework objective in order to inform a cross-system perspective of the UK pension landscape.

How will indicators be classified and presented?

The overall goal of analysis in every indicator is to ask: What does it mean for the pension system?

Each indicator will analyse a range of measures with an important overarching purpose in mind: understanding how outcomes relate to objectives from the perspectives of individuals, institutions, interactions and stakeholders in the complex UK pensions landscape.

Using a range of data and evidence, every indicator will be classified by the extent to which outcomes provide support for adequacy, sustainability or fairness using a series of six predetermined parameters, or targets where available. Parameters are tailored to each indicator using the Framework’s definitions of each objective. An overview of indicator content is provided in the [Main Report](#), with a more detailed discussion on the concepts and content in supporting papers on [Adequacy](#), [Sustainability](#) and [Fairness](#).

The six classification levels include:

L6	Strong support for system objective with sustainable outcomes
L5	Good support for system objective with somewhat sustainable outcomes
L4	Somewhat supports objective, somewhat sustainable outcomes
L3	Somewhat fails to support objective with some prospects for improvement
L2	Poor support for objective with few prospects for improvement
L1	Fails to support objective with poor prospects for improvement

The Framework uses a schematic overview to highlight high-level impacts and policy trade-offs in the UK pension system

The following three charts comprise an illustrative case study of how a potential change in UK pensions policy might impact upon the pension system.

- **Chart 1:** Acts as a baseline measure to illustrate how the UK pension system might be presented following system-wide analysis in 2022
- **Chart 2:** Shows which indicators and objectives might be positively or negatively impacted as a result of the proposed policy change, or of changes year on year.
- **Chart 3:** Shows how the UK pension might look after the policy proposals were implemented. The same chart can be used to illustrate differences between two annual reports, for example 2022 and 2023

Some important points about the indicator chart format should be noted:

- The outer ring of the chart shows individual indicators. In early stages of the Framework design, each indicator is given an alpha-numeric references which relates to (A) the Framework objective group and (2) the sub-objective group in which they belong. A full reference table of indicators and alpha-numeric codes accompanies each chart.

- Each indicator is classified by level of impact against the Framework objective. Classifications are coded in an accessible red (negative) to blue (positive) schematic, and accompanied a their numeric classification in brackets.
- The middle ring of the chart shows sub-objective groups. Each sub-objective group is assigned an aggregate level of impact based upon component indicators. Where sub-objectives contain primary indicators, the classification will be given priority in determining the overall impact classification for the sub-objective.
- The inner ring of the chart shows the overall Framework objectives. Each Framework objective is assigned an aggregate level of impact based upon component sub-groups.
- At this stage, Framework components are not weighted. It is acknowledged that this implies that all components are of equal importance or relevance, and that this is not the case in the UK pension system. The question of how to account for relative importance across indicators will be addressed as data is compiled over the course of 2022.
- Each chart is accompanied by a brief description of the chart highlights. Once again, this narrative is illustrative only, it is not based on validated analysis and does not constitute an actual assessment of the UK pension system.

What will the case study examine?

The case study is designed to simulate the potential effects of policy recommendations from the 2017 Automatic Enrolment Review

Automatic enrolment was introduced in 2012 to rebuild the UK's savings culture and enable future generations to achieve security in later life.¹ It has resulted in more than 10 million individuals being enrolled into workplace pension schemes, many of whom were underserved or excluded from workplace pensions in the past. In 2017, a review of the system took place with the objective of identifying how to build on its success for the future. The outcome was a package of proposals and reforms aimed at increasing access to workplace pensions and improving adequacy through higher contributions. Specifically, the review recommended that Government should:

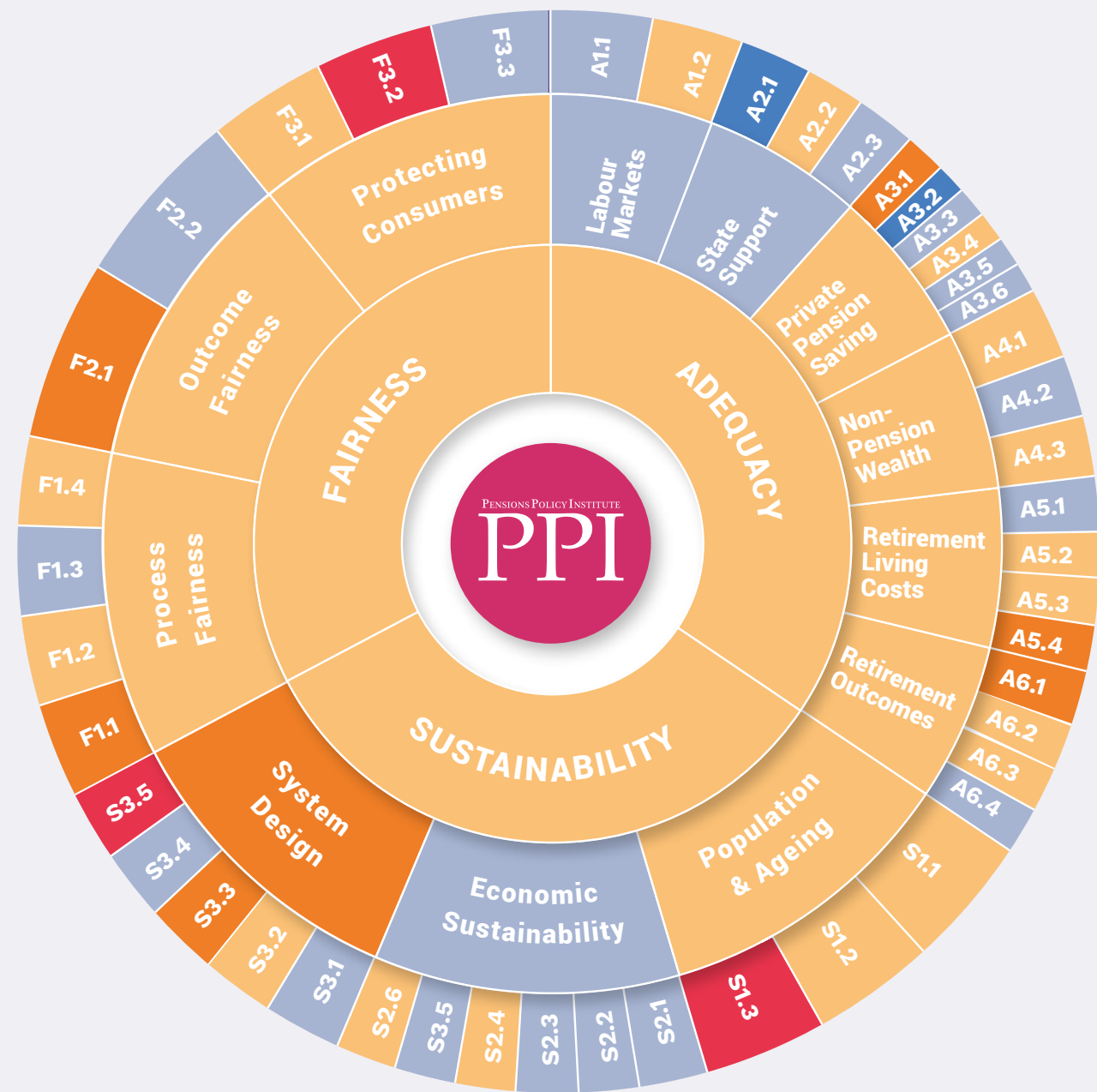
- Lower the age threshold for automatic enrolment from 22 to 18 in order to enable more people to save, regardless of who their employer is or the sector in which they work
- Remove the lower level of qualifying earnings limit (LEL) so that contributions are calculated from the first pound earned. The LEL is set at £6,240 in 2021-22.

This is the subject of the illustrative case study. The case study replicates the steps that would be taken in a policy simulation or year-on-year comparison of outcomes in the UK pension system. First, the impact on measures within each indicator are projected. Second, the new indicator classification is determined. Third, new indicator classifications are compared to the baseline analysis in order to identify changes and trade-offs, before being compiled into an overall picture of the system. It should be noted that:

- A colour key is used to illustrate uprating and downrating based on the combination of benefits, risks and costs estimated. The change in classification level is also denoted by +1, +2 for positive changes, -1, -2, for negative. Indicators with no colour denote no change.
- Not all changes in measures will result in an uplift or downgrade in indicator classifications, but all significant findings will be reported.

¹ DWP (2017), p.3

Chart 1 illustrates that sustainability elements of the UK pension system may have improved in recent years, but this is likely to have been at the cost of adequacy and fairness.



The 2022 illustrative baseline analysis chart suggests that improvements in important measures of economic sustainability have somewhat compromised adequacy in recent years, resulting in uneven distribution of trade-offs across population groups and an increasingly complex system.

The UK pension system shows a mixed picture of adequacy. Pension coverage has been increased by automatic enrolment overall but remains low across a significant minority of people on account of eligibility (F1.1, A3.4). Low coverage disproportionately affects groups already vulnerable to risk in retirement, including women, family carers and self-employed workers (A3.3, F1.1). Among the shrinking number of people retiring or retired with Defined Benefit (DB) income, income maintenance is relatively adequate (A6.4). Among more than half of Defined Contribution (DC) savers, however, contributions are lower on average than is considered necessary for a secure retirement (A3.4). Retirement costs are coming under pressure from falling home ownership (A4.1), rising household debt (A5.3), and continuing uncertainty over long-term costs of social care to individuals and families (A5.4). Adequacy is generally supported by low unemployment, but reforms have tightened links between pensions and jobs at a time when trends in non-linear and self-employment are increasing (A1.1) and earnings remain under pressure (A1.2). Some of these changes reflect shifts towards longer working lives, and the needs of older workers and family carers will be an

important focus going forwards. State Pensions (A2.1) and means-tested benefits (A2.3) remain the primary source of income for many people in later life. They

ADEQUACY L3		
A1: Labour Markets L4		
L4	A1.1	Employment
L3 A1.2 Income and Earnings		
A2: State Support L4		
L5	A2.1	State Pension Accruals
L3	A2.2	State Pension Income
L4	A2.3	Means-tested Benefits
A3: Private Pension Saving L3		
L2	A3.1	DB Pension Coverage
L5	A3.2	DB Pension Contributions
L4	A3.3	DC Pension Coverage
L3	A3.4	DC Pension Contributions
L4	A3.5	Pension Investment & Assets
L4	A3.6	Tax Relief
A4: Non-pension Wealth L3		
L3	A4.1	Non-pension Savings
L4	A4.2	Home Ownership
L3	A4.3	Inheritance
A5: Retirement Living Costs L3		
L4	A5.1	Household Spending
L3	A5.2	Housing Costs in Retirement
L3	A5.3	Household Debt
L2	A5.4	Social Care Costs
A6: Retirement Outcomes L3		
L2	A6.1	Pensions Access
L3	A6.2	The Retirement Equation
L3	A6.3	Poverty in Retirement
L4	A6.4	Living Standards

SUSTAINABILITY L3		
S1: Population & Ageing L3		
L3	S1.1	Longevity, Population Ageing
L3	S1.2	Family Arrangements
L1	S1.3	Health and Social Care
S2: Financial Sustainability L4		
L4	S2.1	Key Economic Indicators
L4	S2.2	Pension Age and Access
L4	S2.3	Employer Sustainability
L3	S2.4	Fiscal Sustainability
L4	S2.5	Scheme Sustainability
L3	S2.6	ESG
S3: System Design L2		
L4	S3.1	Regulation
L3	S3.2	Political Sustainability
L2	S3.3	Complexity
L4	S3.4	Innovation and Reform
L1	S3.5	Data Adequacy

FAIRNESS L3		
F1: Process Fairness L3		
L2	F1.1	Inclusion
L3	F1.2	Engagement
L4	F1.3	Choice and Defaults
L3	F1.4	Commitments
F2: Outcome Fairness L3		
L2	F2.1	Differences between groups
L4	F2.2	Diff. Between individuals
F3: Protecting Consumers L3		
L3	F3.1	DB Transfers
L1	F3.2	Pension Scams
L4	F3.3	Value for Money

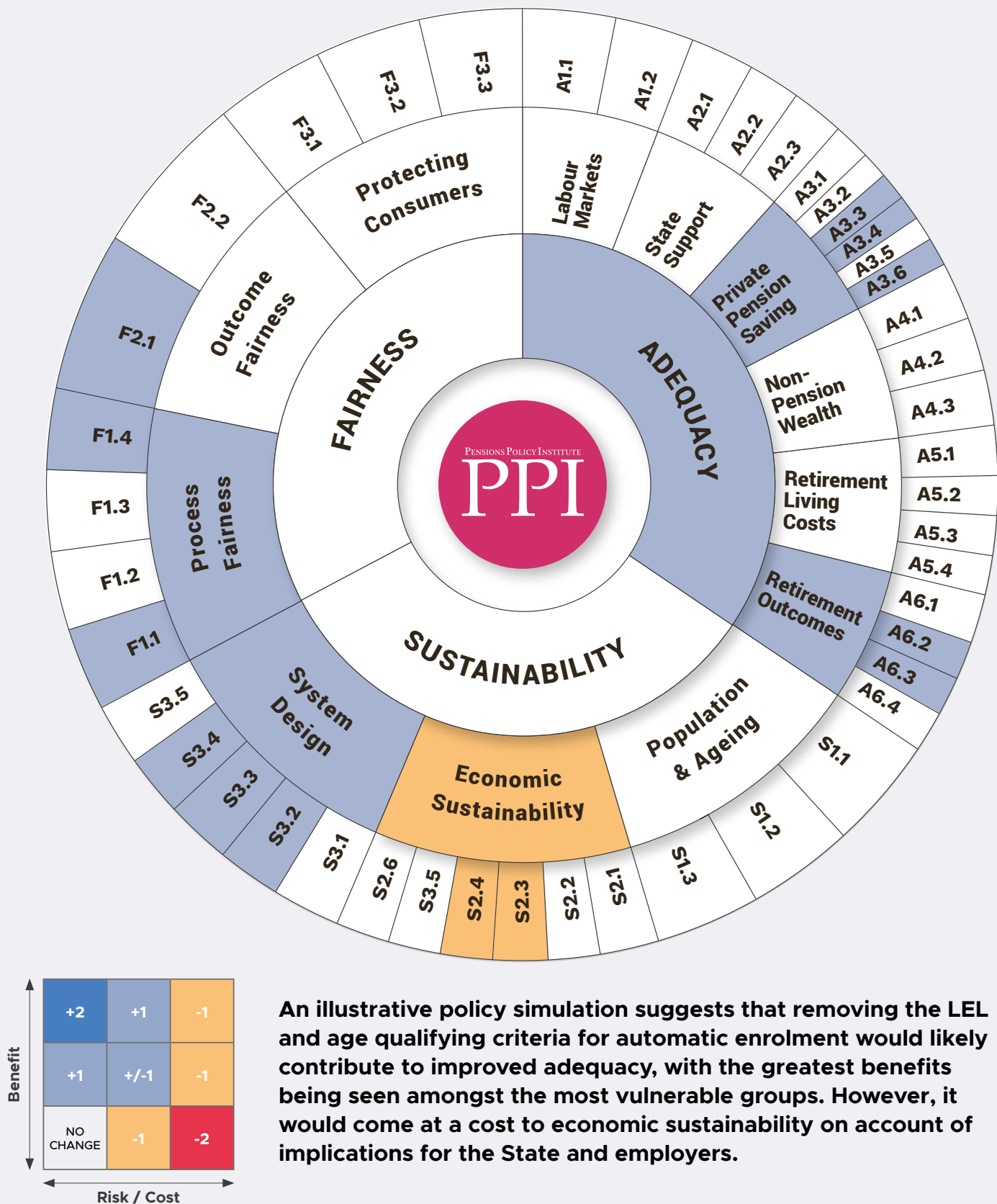
broadly meet their target objectives of replacing a minimum level of income and insuring against poverty respectively, although recent falls in pensioner poverty are beginning to reverse (A6.3).

Sustainability shows a clear division between economic sustainability and system design, as demographic pressures continue to persist. Economic sustainability has improved as longevity, investment and adequacy risks are transferred away from employers (S2.3) and the State (S2.4) and towards individuals in order to address the upward pressure that population ageing is placing on public spending (S1.1). However, public spending is also under continued pressure from the rising costs of health and social care to the State (S1.3). Incremental system reforms have led to growing complexity in the system (S3.3), which in many cases present a barrier to political stability (S3.2) and trust (F1.4) as well as costs to providers (S3.5) and employers. Significant challenges around data are also identified across the system (S3.5).

Fairness outcomes reflect the trade-offs between adequacy and sustainability that are being felt unevenly across population groups, and lags in process fairness reflect the rapid rate at which change has taken place across the system. Inclusion remains an issue for many at-risk groups (F1.1), and some groups would benefit from greater levels of engagement (F1.2) or changes to options and defaults (F1.4) as they face increasingly complex decisions on how to access their pensions (A6.1). The need to protect savers from some of the harmful outcomes associated with poor decisions is also growing (F3.1, F3.2, F3.2).

Chart 2 shows that automatic enrolment reforms would likely have a positive impact on adequacy and sustainability, but at some cost to economic sustainability

Chart 2: Simulated effects of the impact on framework indicators of proposals to remove the automatic enrolment LEL and qualifying age criteria



An illustrative policy simulation suggests that removing the LEL and age qualifying criteria for automatic enrolment would likely contribute to improved adequacy, with the greatest benefits being seen amongst the most vulnerable groups. However, it would come at a cost to economic sustainability on account of implications for the State and employers.

The overall effects of proposed automatic enrolment reforms are mixed. Removing the LEL could have a positive impact on adequacy and fairness because it would likely increase pension pots for DC savers (A3.4), with individuals in the lowest income deciles seeing proportionately greater increases in average retirement income. Data from the Automatic Enrolment Review suggests that proposals could yield an increase in savings of over 80% among the lowest earners, and 40% among median earners - bringing in an extra £3.8 billion in savings annually. There is an expectation that changes could improve coverage by incentivising those in multiple jobs to opt in to workplace pension schemes in order to benefit from employer contributions for every pound they earn in every job, up to the upper earnings limit (A3.3). However, the extent to which the same rules could also prompt people to opt out of workplace saving should also be considered. Removing age qualifying criteria could improve coverage by bringing younger savers earning over £10,000 within scope of eligibility rules, with the option to opt in at lower earnings levels. However, reforms are still required to address differences in net pay versus relief-at-source schemes, which currently mean low earners

in net pay schemes may not receive tax relief and could have to pay 20% more for their pensions than those in relief-at-source arrangements (F1.1).

ADEQUACY +1		
A1: Labour Markets System		
A1.1	Employment	
A1.2	Income and Earnings	
A2: State Support		
A2.1	State Pension Accruals	
A2.2	State Pension Income	
A2.3	Means-tested Benefits	
A3: Private Pension Saving +1		
A3.1	DB Pension Coverage	
A3.2	DB Pension Contributions	
+1 A3.3	DC Pension Coverage	
+1 A3.4	DC Pension Contributions	
A3.5	Pension Investment & Assets	
+1 A3.6	Tax Relief	
A4: Non-pension Wealth		
A4.1	Non-pension Savings	
A4.2	Home Ownership	
A4.3	Inheritance	
A5: Retirement Living Costs		
A5.1	Household Spending	
A5.2	Housing Costs in Retirement	
A5.3	Household Debt	
A5.4	Social Care Costs	
A6: Retirement Outcomes +1		
A6.1	Pensions Access	
+1 A6.2	The Retirement Equation	
+1 A6.3	Poverty in Retirement	
A6.4	Living Standards	

SUSTAINABILITY		
S1: Population & Ageing		
S1.1	Longevity, Population Ageing	
S1.2	Family Arrangements	
S1.3	Health and Social Care	
S2: Financial Sustainability -1		
S2.1	Key Economic Indicators	
S2.2	Pension Age and Access	
-1 S2.3	Employer Sustainability	
-1 S2.4	Fiscal Sustainability	
S2.5	Scheme Sustainability	
S2.6	ESG	
S3: System Design +1		
S3.1	Regulation	
+1 S3.2	Political Sustainability	
+1 S3.3	Complexity	
+1 S3.4	Innovation and Reform	
S3.5	Data Adequacy	

FAIRNESS		
F1: Process Fairness +1		
+1 F1.1	Inclusion	
F1.2	Engagement	
F1.3	Choice and Defaults	
+1 F1.4	Commitments	
F2: Outcome Fairness		
+1 F2.1	Differences between groups	
F2.2	Diff. Between individuals	
F3: Protecting Consumers		
F3.1	DB Transfers	
F3.2	Pension Scams	
F3.3	Value for Money	

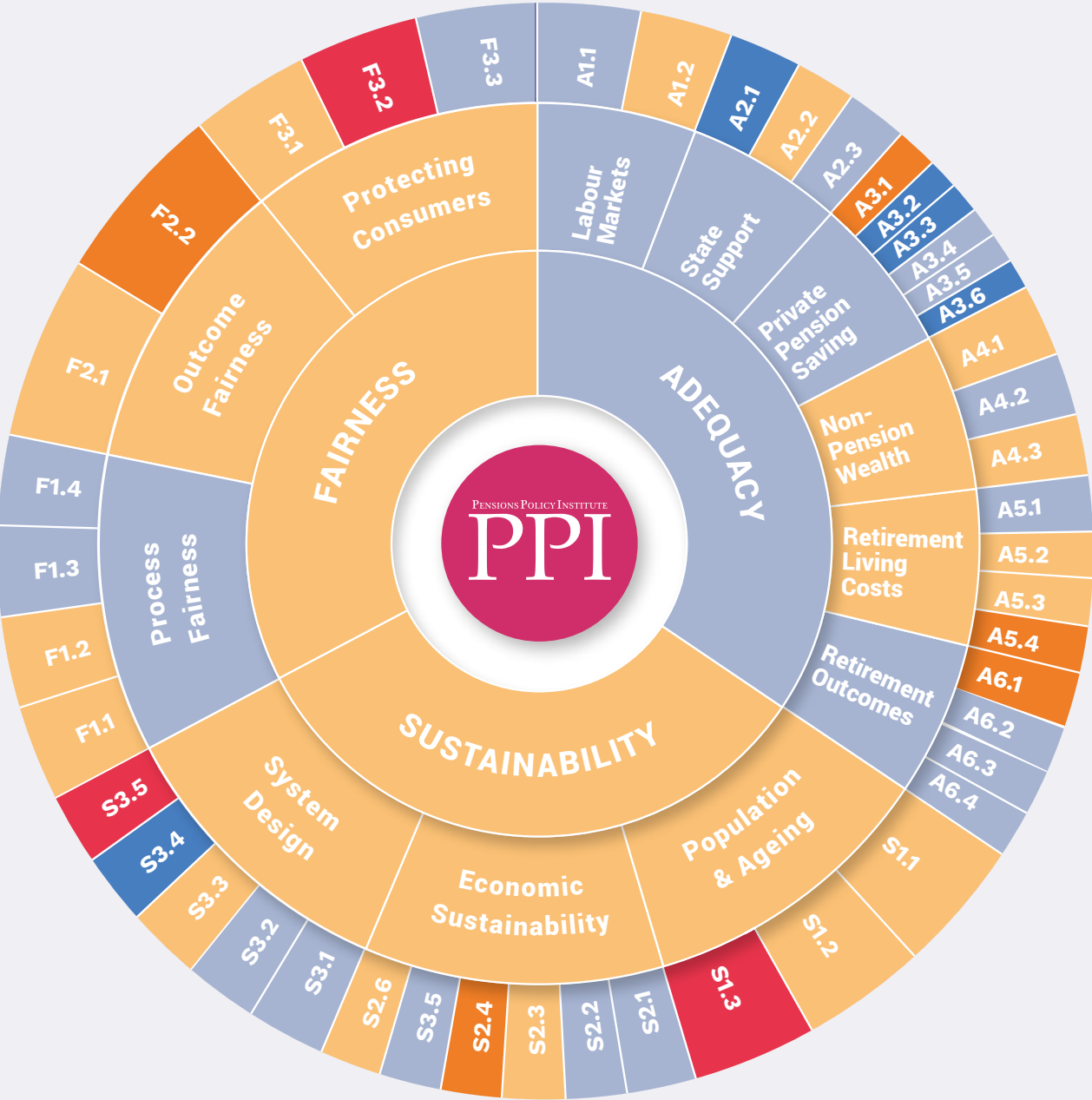
Despite the benefits to adequacy, reforms are not without significant cost to both employers (S2.3) and the State (S2.4), who would need to share the cost of improved retirement outcomes along with individuals themselves. Employers face competing challenges for resources from ongoing reforms associated with the National Minimum Wage (NMW) and National Living Wage (NLW), which could, in turn, exert short-term pressure on affordability and earnings gaps. Proposals are likely to benefit the UK's longer-term fiscal position on account of the expectation that increased levels of private saving, particularly among low-income groups, will reduce future dependency on means-tested benefits. However, the cost of tax relief is likely to rise quickly over the short term and place additional burden on public spending going forwards.

Further benefits include simplified messaging and processes, which overall impact positively on system design by reducing complexity (S3.3) and engendering political sustainability (S3.2) by demonstrating commitment to system improvements (S3.4), particularly for at-risk groups. However, the overall scale of improvements does not sufficiently offset wider concerns over levels of inclusion and adequacy to significantly uprate associated indicators such as inclusion, coverage and contributions. Greater improvements in adequacy and fairness could be achieved through further incremental reforms, such as the removal of the £10,000 earnings trigger, provision for self-employed workers and family carers, inclusion of pensions in divorce settlements, and measures to address the disadvantages for low earners in net pay schemes.

⁷⁹ DWP (2017)

Chart 3 shows that automatic enrolment reforms may counterbalance the uneven distribution of trade-offs which have accompanied shifts towards increased sustainability

Chart 3: Simulated effects of the impact on the UK pension system of proposals to remove the automatic enrolment LEL and qualifying age criteria



L6	Strong support for system objective with sustainable outcomes
L5	Good support for system objective with somewhat sustainable outcomes
L4	Somewhat supports objective, somewhat sustainable outcomes
L3	Somewhat fails to support objective with some prospects for improvement
L2	Poor support for objective with few prospects for improvement
L1	Fails to support objective with poor prospects for improvement

Compared to the 2022 illustrative baseline analysis chart, automatic enrolment reforms could be expected to produce outcomes that favour improved adequacy in the UK pension system but place downward pressure on employers and fiscal sustainability in the short to medium term.

Outcomes are most likely to benefit at-risk groups, which overall produces improvements in process fairness, although wider issues associated with outcome fairness and the need to protect consumers remain important issues. If trends towards increased adequacy within the pension system were to persist, changes suggest that pressures on retirement income could increasingly come from to factors outside of the control of the pension system - such as household debt or the increased likelihood of renting in retirement, as well as labour market behaviours and earnings. Reforms also have a positive impact on system design, reducing complexity and its associated costs for individuals and employers, whilst also demonstrating a commitment to achieving an overall balance of adequacy, sustainability and fairness in the system that can enable better retirements for all.

ADEQUACY L4		
A1: Labour Markets L4		
L4	A1.1	Employment
L3	A1.2	Income and Earnings
A2: State Support L4		
L5	A2.1	State Pension Accruals
L3	A2.2	State Pension Income
L4	A2.3	Means-tested Benefits
A3: Private Pension Saving L4		
L3	A3.1	DB Pension Coverage
L5	A3.2	DB Pension Contributions
L5	A3.3	DC Pension Coverage
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Editing decisions remained with the author who takes responsibility for any remaining errors or omissions.

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