

## Uncertain outcomes from the Pension Reform White Paper

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[www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

## There will still be gaps in qualifying

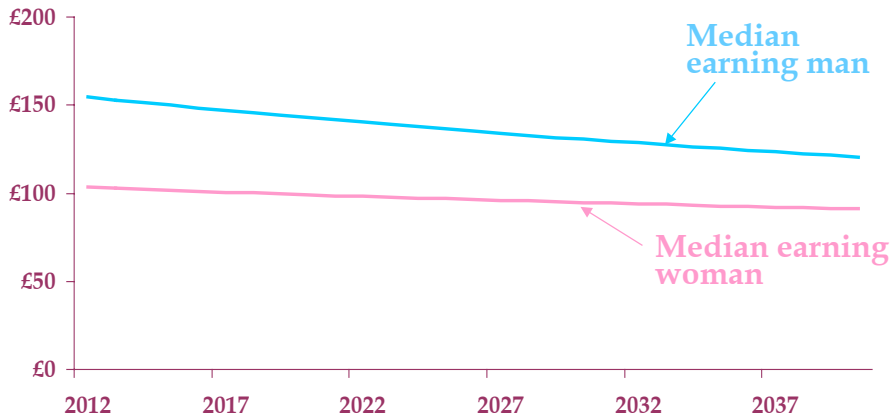
Number of working age people accruing a qualifying year for  
BSP/S2P under the current system and the White Paper proposals,  
UK, 2004/5

	Current system	WP proposals
<b>Basic State Pension: Full amount £75pw, indexed to earnings</b>		
Earning enough	24.2	24.2
Other credits	6.3	6.0
<i>Not qualifying</i>	<b>4.7</b> 13%	<b>5.0</b> 14%
<b>State Second Pension: Max. amount £60pw, indexed to prices</b>		
Earning enough	21.7	21.7
Credits	3.7	4.8
<i>Not qualifying</i>	<b>9.6</b> 27%	<b>8.5</b> 25%

## Outcomes are unequal in the short term

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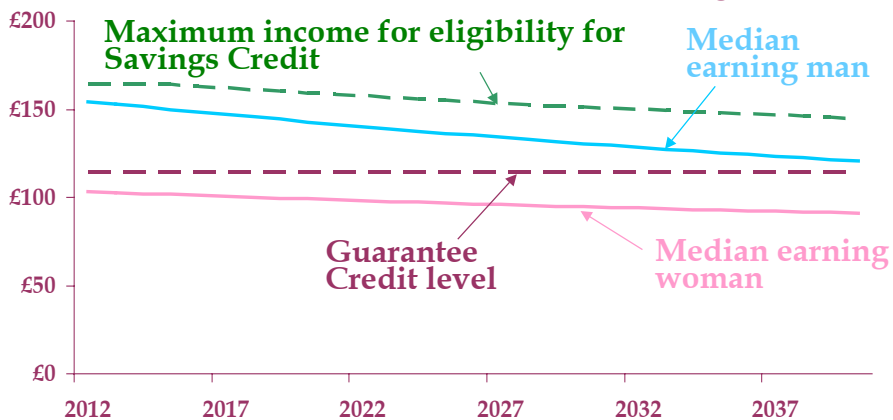
Income from BSP and S2P for median earning men and women reaching state pension age (age 65 for men and age 61 for women) in 2012, £ per week, 2006/7 earnings

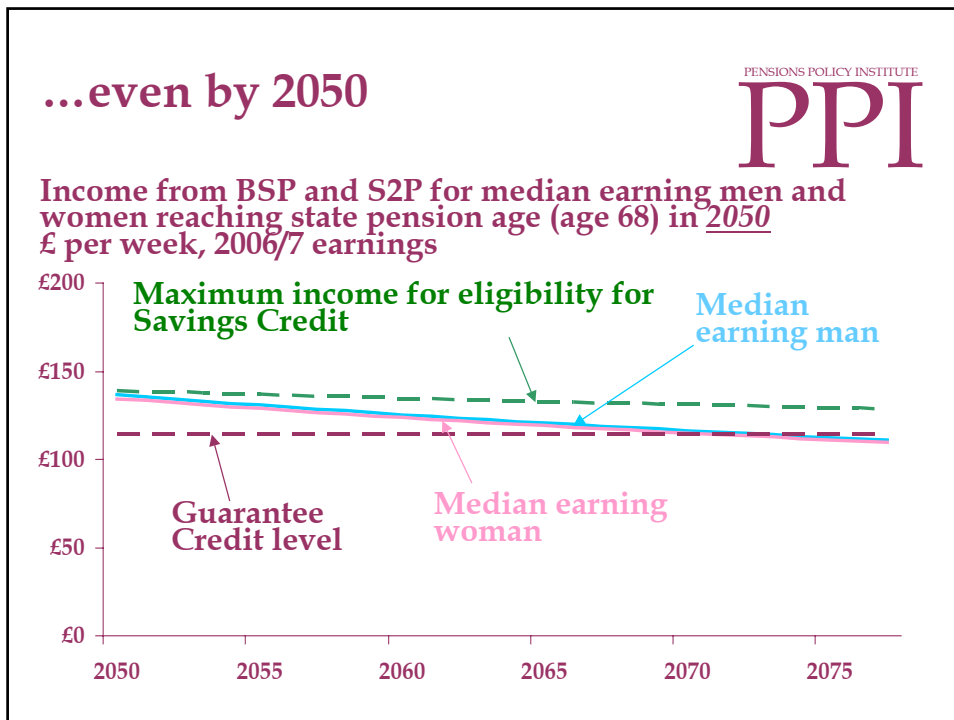
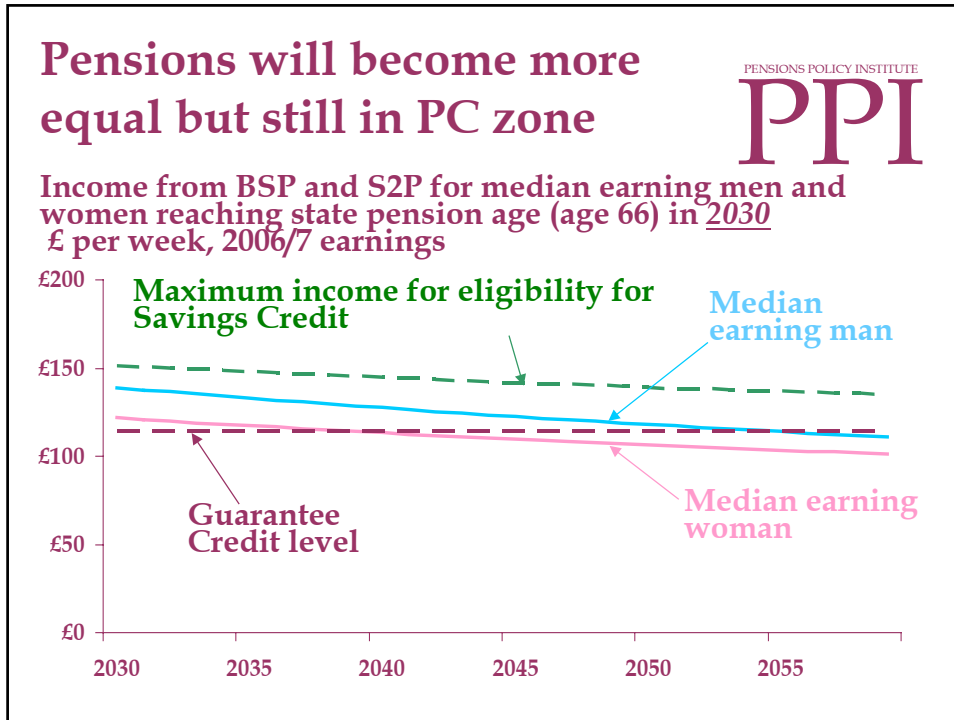


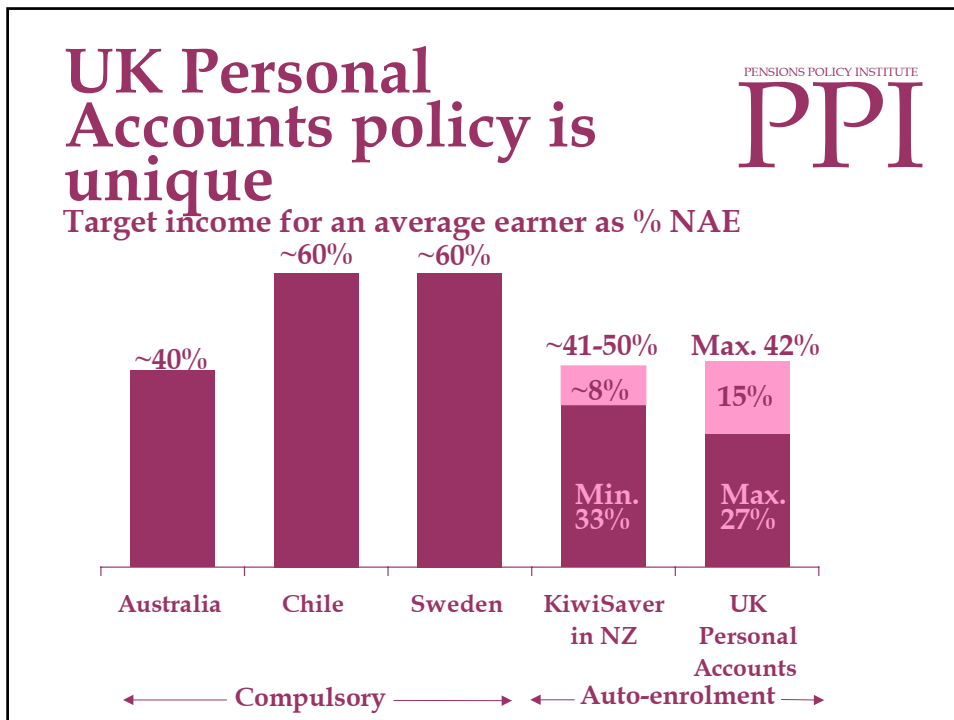
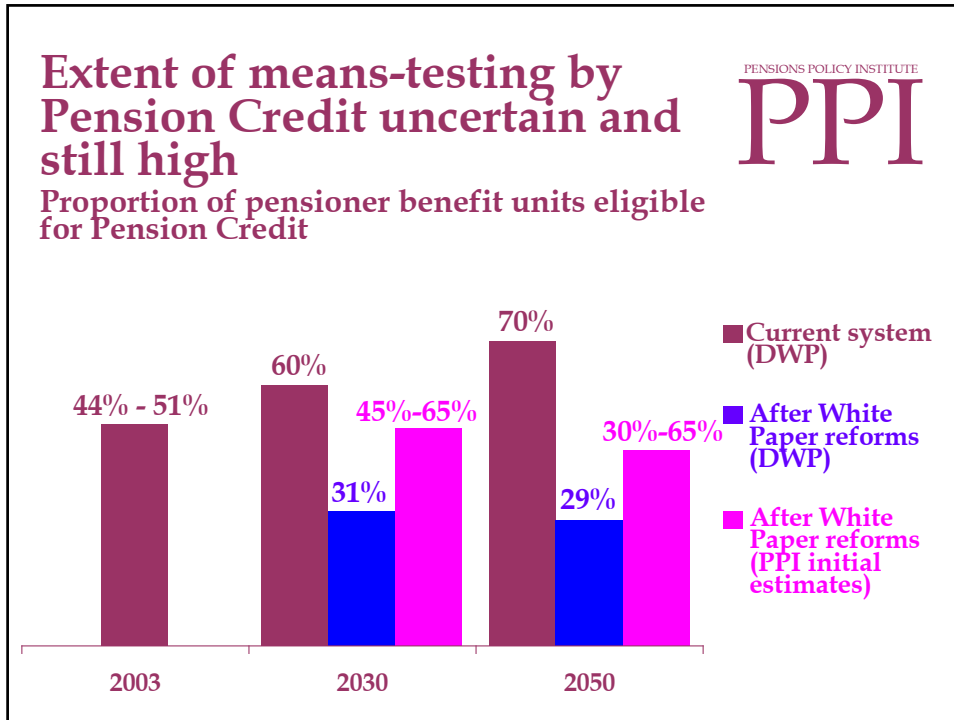
## Many people in Pension Credit zone

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Income from BSP and S2P for median earning men and women reaching state pension age (age 65 for men and age 61 for women) in 2012, £ per week, 2006/7 earnings







## Challenges for Personal Accounts

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- Extent of means-testing; uncertain that saving is best option
  - Affordability of contributions: individual and employer
  - Impact on existing pension saving (10x larger than PAs will be)
  - Continuation of regressive and costly tax incentives
  - Liability risks for Government
  - Model design: how many providers, what type?
  - Extent of choice/responsibility for employee and employer
  - Extent of information/advice available for decisions needed (opt-in or out, which provider, which investment)
  - Management of decumulation phase
  - Implementation risks and costs (who funds set up?)
  - Implementation details: contribution collection, service interfaces...
  - Regulatory requirements; compliance procedures and costs
  - Accountability of new central body
  - Transferability of existing private pensions
- etc. etc. ...implementation by 2012?

## Pre-Pensions Commission consensus principles on pension reform

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- Complexity  
➡ *Simplify so easy to understand*
- Unequal outcomes  
➡ *More equal coverage*
- Too high expectations of saving  
➡ *Clarify role of the state vs. private saving vs. working longer*
- State pensions unsustainable  
➡ *Higher state pension, less Pension Credit*

## Progress on consensus principles



- **Complexity**  
*No simpler state pension plus Personal Account complexity*
- **Unequal outcomes**  
*Better over time*
- **Too high expectations of saving**  
*Messages on both working longer and saving more... but actual outcome?*
- **State pensions unsustainable**  
*Pension Credit still undermines foundation*