

Pensions
Commission

Pensions Policies – what are the future liabilities?

Foundation for Science and
Technology

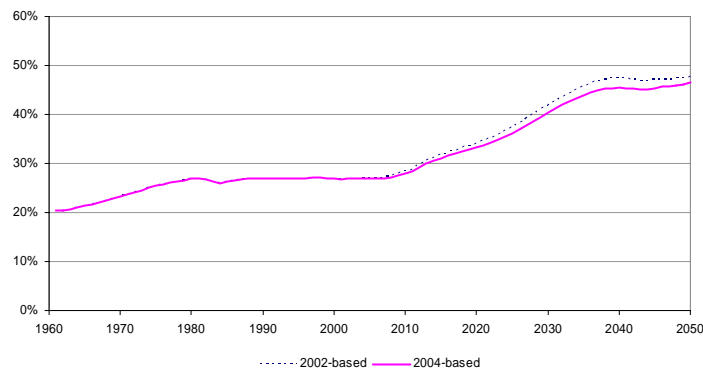
July 11th, 2006

Total Personal Sector Balance Sheet End 2003: Estimated Figures to the Nearest £50 Billion

	Assets	Liabilities		
Cash and Deposits ⁽¹⁾	650	150	Short term consumer debt	
Securities (equity and bonds including via mutual funds)	350			Non-Pension Financial Wealth 1,150
Insurance Company Policies (excluding pensions)	300			
Unquoted Equity	100			
Residential Housing	3,000	750	Mortgage Debt	Net Housing Wealth 2,250
Pension Funds and Policies ⁽²⁾	1,300			Non-state Pension Rights 1,800
Unfunded Public Sector Pension Rights ⁽³⁾	500			State Pension Rights 1,100
Accrued State Pension Rights	1,100			
Total	7,300	900		Net Personal Sector Wealth 6,400
Of Which				
■ Market assets and liabilities	5,700	900		Net Market Assets 4,800
■ PAYG claims on future tax resources	1,600			

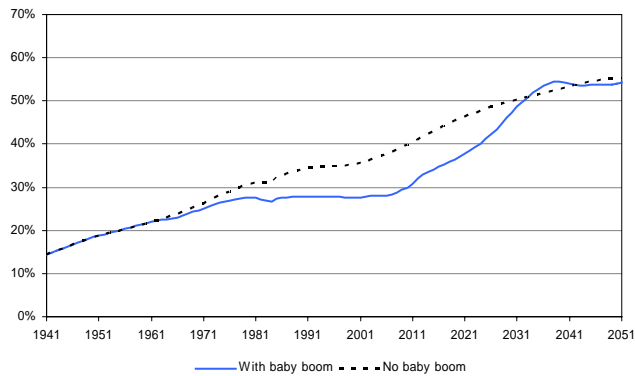
- (1) The "Cash and Deposits" figure is as per M4 for individuals in ONS Financial Statistics. This figure is below the figures recorded in the Blue Book Household sector balance sheet, since the household sector includes non-incorporated businesses and charities. Small judgmental adjustments to exclude these latter two groups have been made to derive personal sector estimates for other asset categories e.g. for securities, for which the total household sector figure is £400 billion
- (2) The personal sector claim against pension funds can be higher than the value of assets, to the extent of pension fund deficits (and was by about £70 billion at end 2003). Personal sector funded scheme rights might therefore alternatively be expressed as £1,400 billion, but only if there is no risk of pension fund insolvency
- (3) The GAD estimate for March 2003 is £425 billion, but this will increase significantly once it is recalculated using the latest life expectancy estimates, and using an equivalent discount rate to that used in the private sector

Old-age Dependency Ratio: All 65+ : 20-64, UK



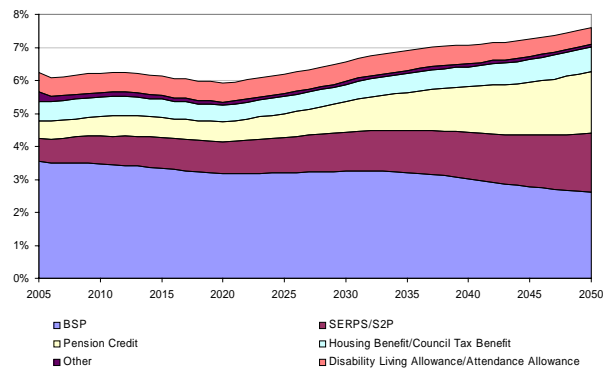
Source: GAD 2004-based principal population projection, UK
 GAD 2002-based principal population projection, UK
 ONS Population estimates unit, UK

Impact of the 1940s-1960s Baby Boom on the Old-age Dependency Ratio



Source: Pensions Commission analysis based on a synthetic model for the England and Wales population

Public Expenditure on Pensioners as a Percentage of GDP 2005-2050: Pensions Commission Base Case Projections



Source: Pensions Commission analysis

Note: Other includes Winter Fuel payments and free TV licences.

The public expenditure projections quoted here and at other places in this Report and the estimates of the percentage of pensioners covered by means-testing, reflect the complex interaction of numerous trends.

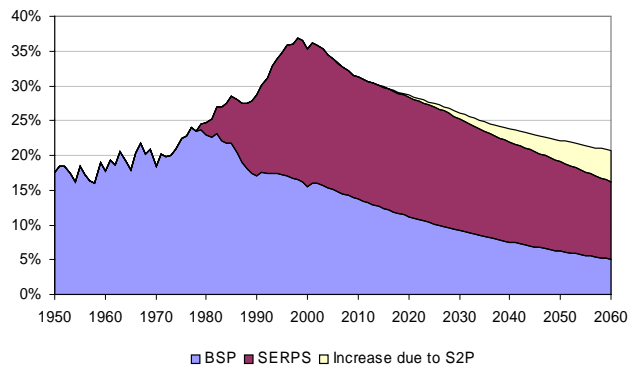
Published official estimates have varied from year to year.

Figures should therefore be considered as indicating broad trends and particularly differences between options.

Appendix F explains the modelling tool Pension2 which has been used to generate these projections. Note in particular that the projections use fixed assumptions for flows of private pension income.

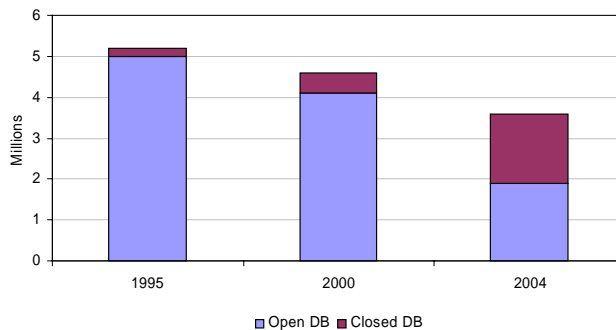
In reality one might expect options entailing weaker incentives through wider means-testing to imply smaller flows of this kind, which could increase public spending on means-tested benefits further.

State Pension at Point of Retirement Assuming a full Contribution Record for a Person Who Has Been on Average Full-time Earnings throughout their working life:
Percentage of Average Earnings



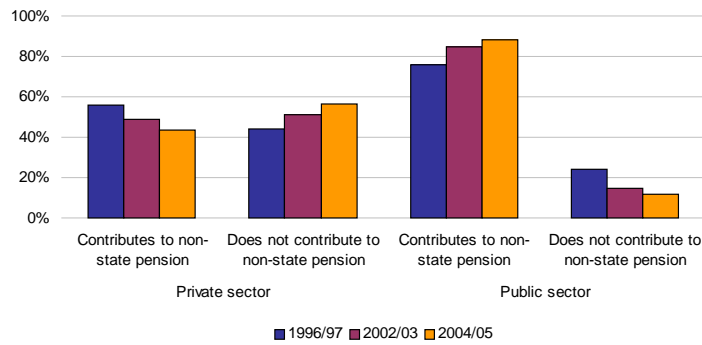
Source: Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2000, GAD

Active Members of Private Sector Defined Benefit Pension Schemes by Scheme Status, Millions



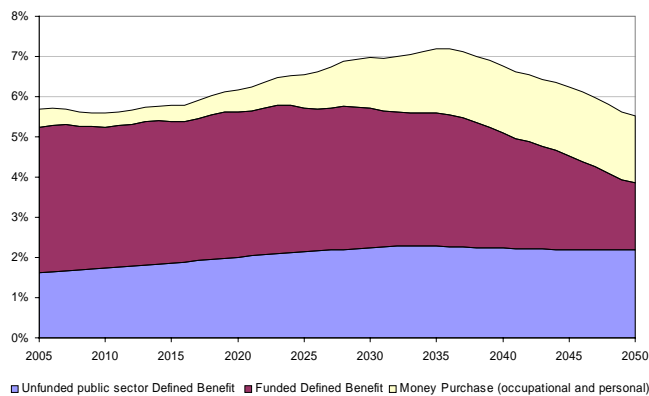
Source: Occupational pension schemes 2004, GAD

Participation in public and private sector non-state pension schemes: percentage of workforce



Source: Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2000, GAD

Private Pension Income as a Percentage of GDP by Source 2005-2050



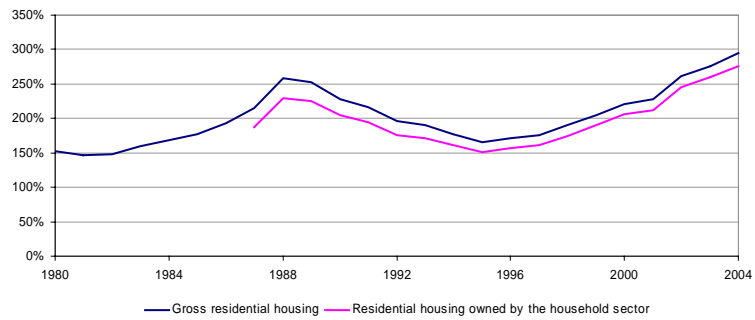
Source: HMT, ONS and Pensions Commission analysis

Notes: Pension income based on Pensions Commission estimates from the Family Resources Survey, the Blue Book and Pensions2.

Includes income from annuities and lump sum payments.

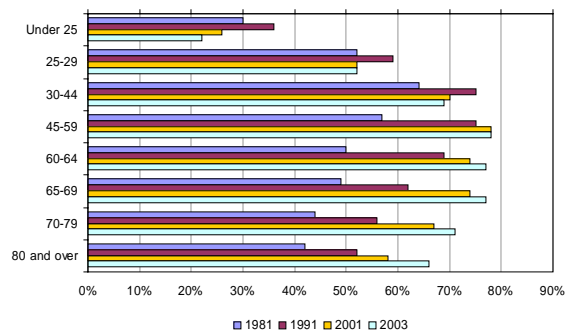
These figures include all pension income whether flowing to people below or above State Pension Age. Other figures (e.g. Figure 1.21) focus solely on the income of those above SPA. About 40% of non-state pension income currently flows to early retirees

Residential Housing Wealth as a Percentage of GDP



Source: ONS Blue Book

Home Ownership By Age



Source: Living in Britain, GHS, GB

Notes: Age refers to the age of the household reference person (HRP).

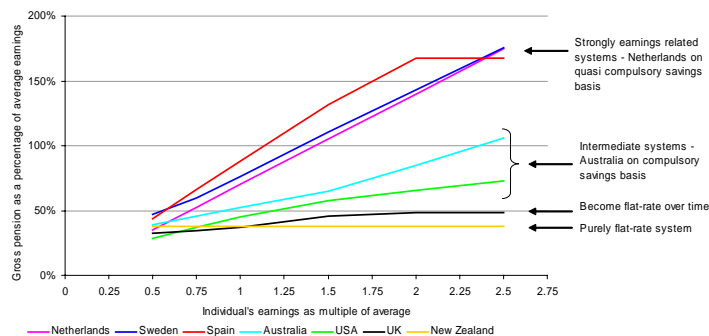
The HRP is defined as follows: in households with a sole householder that person is the household reference person; in households with joint householders the person with the highest income is taken as the household reference person; if both householders have exactly the same income, the older is taken as the household reference person.

Summary of Current Risk Bearing: Who Bears Which Categories of Risk

Risk Category	Classic DB	Classic DV	UK State Pension
Investment Pre-retirement	Employer	Individual ⁽¹⁾⁽²⁾	State ⁽⁴⁾
Investment Post-retirement	Employer	Annuity Provider	State ⁽⁴⁾
Specific Longevity Post-retirement	Employer	Annuity Provider	State
Average Cohort Longevity Post-retirement	Employer	Annuity Provider	State ⁽⁴⁾
Long-term Average Cohort Longevity Pre-retirement	Employer ⁽³⁾	Individual	State/Individual ⁽⁵⁾
Default/Political	Individual (in future partly covered by PPF)	Individual ⁽⁶⁾	Individual
Earnings Progression	Employer	Individual	Largely Individual

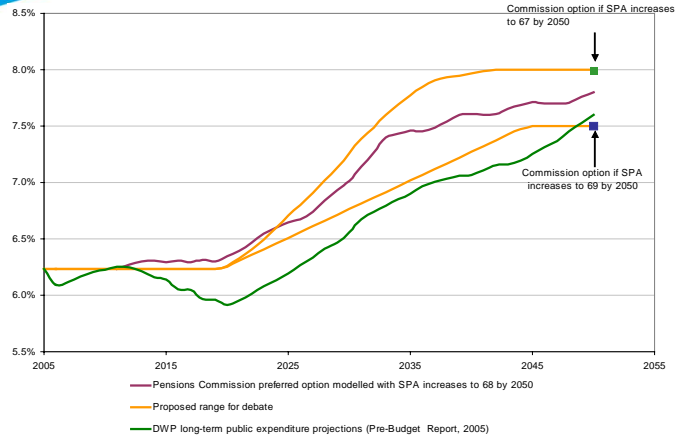
- (1) May be partially absorbed through with-profits funds
 (2) When investment returns is very poor however this risk is partially absorbed by the state if there is a means-tested element in the state pension system, e.g. a DC investor who does badly until in the UK receives more Pension Credit
 (3) Employer absorbs this risk if (as in most DB schemes) the age of retirement is contractually committed for in advance
 (4) May be partially passed on to individuals by changing the value of pensions in payment
 (5) Depends upon whether the state is committed to a State Pension Age set far in advance and whether it delivers on this promise
 (6) Partly recovered by Financial Services Compensation Scheme

Gross Mandatory Pension System Values

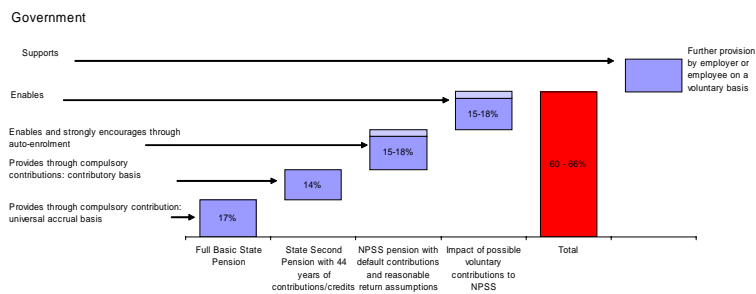


Source: *Monitoring Pension Policies, Annex: Country Chapters*
 Notes: Netherlands's figures reflect the impact of the quasi-mandatory private savings systems as well as the PAYG pension.
 The Australian figures reflect the impact of the mandatory private pension savings system as well as the PAYG pension

Public expenditure versus State Pension Age trade-off: state pension and pensioner benefit expenditure as a % of GDP



Target Pension Income as a Percentage of Earnings for the Median Earner: at the Point of Retirement in 2053



Source: Pensions Commission analysis
 Note: The range of 15-18% shown for the impact of default contributions reflects a range of assumptions about number of years of contribution between 25 and SPA