



Institute for
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Reform, reform, reform

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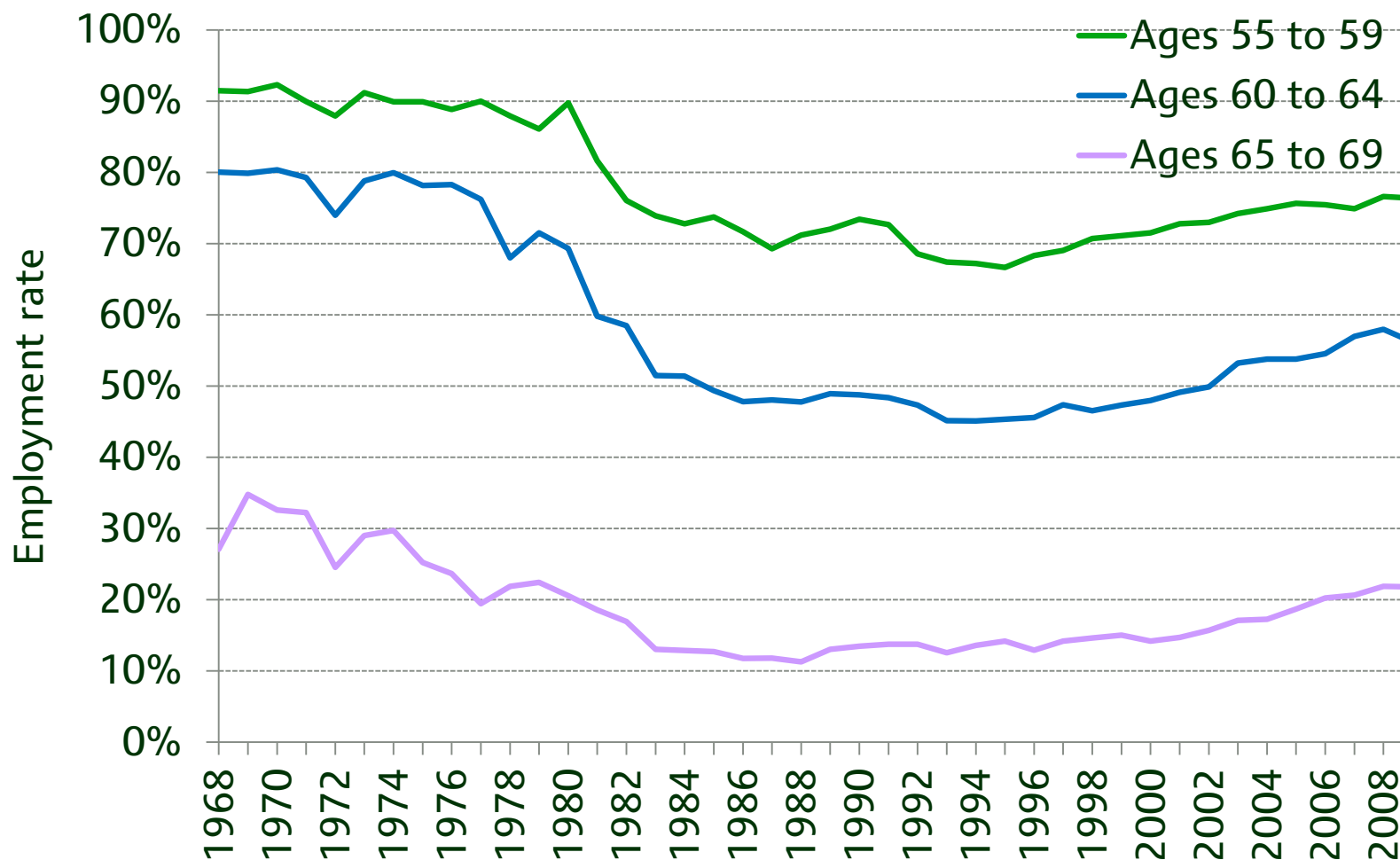
Changing pension provision in the UK

- Reform is a constant in pension provision
 - Three big changes occurring now in the UK
- Pension ages increasing
 - Happening for women now
- Earnings related pensions being abolished
 - Ending a 30 year experiment that began to be undone the moment it was implemented
- Auto enrolment into employer sponsored schemes started last year

Pension age is increasing

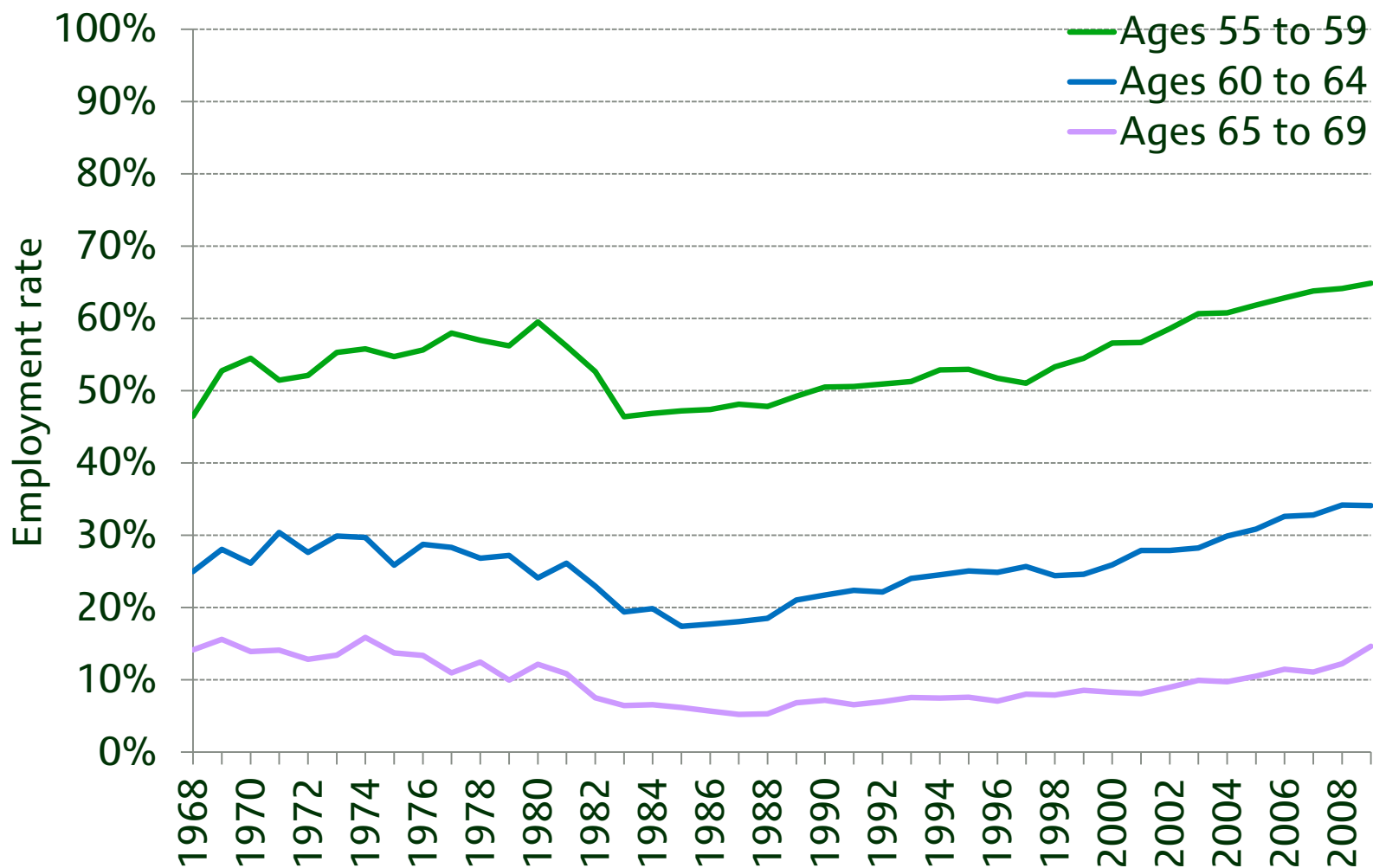
- To 66 by 2020 and 67 in 2028
 - 68 in 2046 – though likely to be brought forward
- Actual retirement ages are rising now

Male employment rates (1968-2009)



Sources: 1968 to 1983 Family Expenditure Survey; 1983 onwards Labour Force Survey.

Female employment rates (1968-2009)

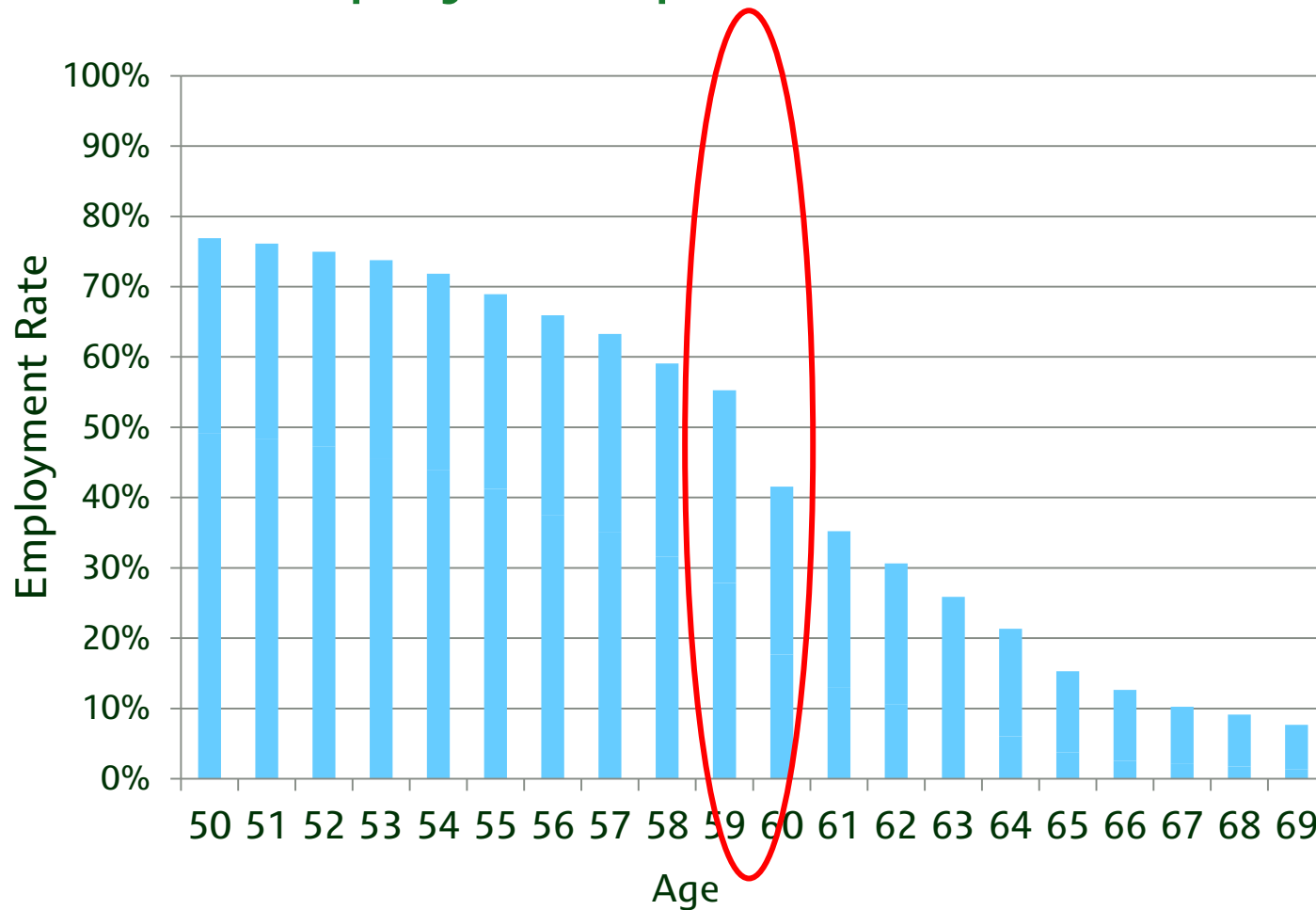


Sources: 1968 to 1983 Family Expenditure Survey; 1983 onwards Labour Force Survey.

Pension age is increasing

- To 66 by 2020 and 67 in 2028
 - 68 in 2046 – though likely to be brought forward
- Actual retirement ages are rising now
- Government is committing to regular reviews aimed at keeping proportion of life spent in retirement broadly constant across cohorts
- Female state pension age is currently rising gradually
 - From 60 in 2010 towards 66 by 2020
 - Experience so far is encouraging

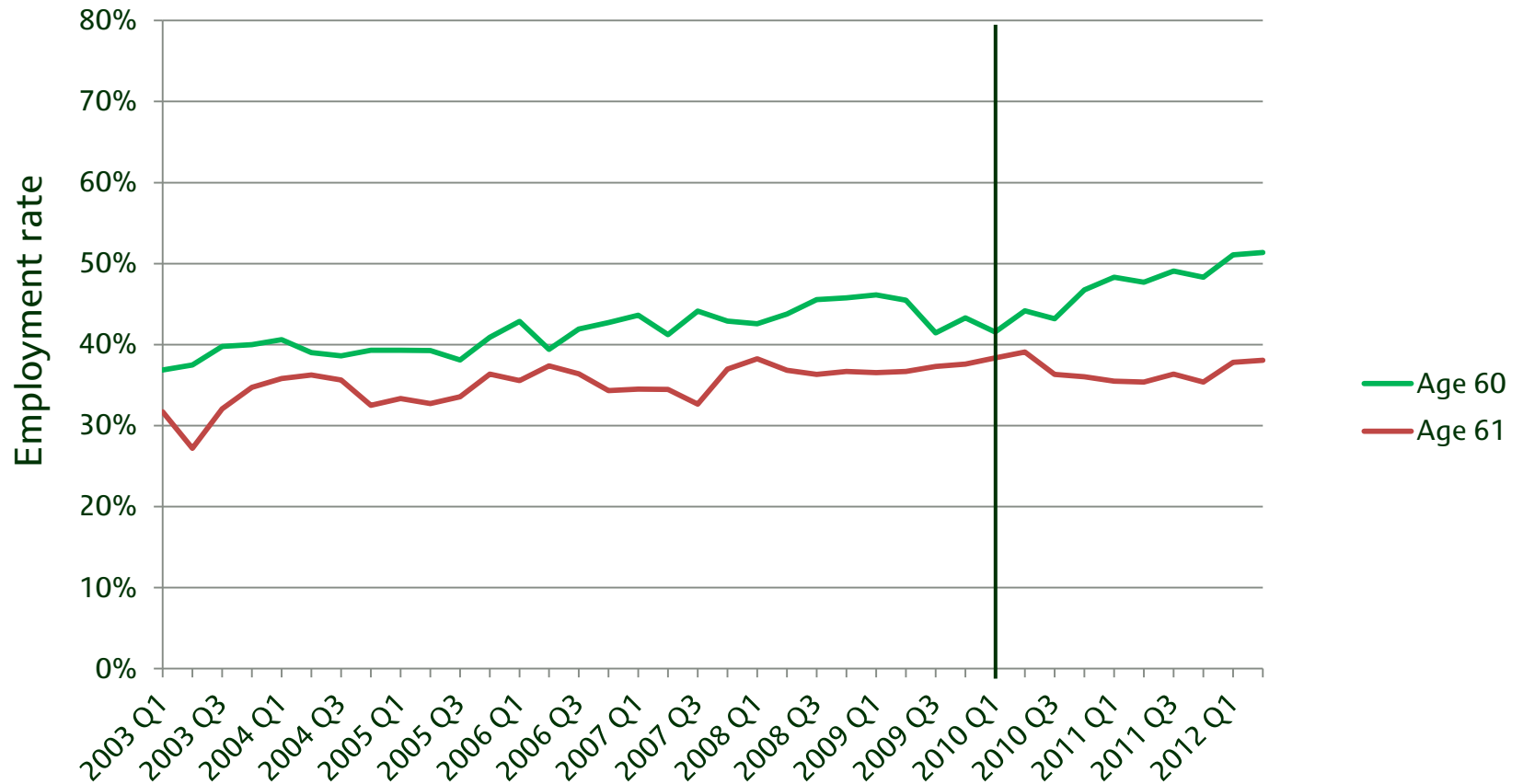
Female employment prior to SPA increase



Source: Figure 2.1. of Cribb, Emmerson and Tetlow (2013)

Notes: Pooled averages over the period 2003 Q1 to 2010 Q1. Based on 404,428 observations.

Employment of 60 year old women has risen



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- Government is committing to regular reviews aimed at keeping proportion of life spent in retirement broadly constant across cohorts
- Female state pension age is currently rising gradually
 - From 60 in 2010 towards 66 by 2020
 - Experience so far is encouraging
- Saving £2 billion annually for one year's increase
 - We estimate employment increase among women of 27,000 as a result of increasing pension age from 60 to 61
 - And 8,000 additional men in work

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 - Hastening a change that was happening much more gradually
- Overall effect to cut entitlements after about 2030
- By 2060 will limit rise in spending on pensioner benefits
 - to 8.1% of GDP (rather than 8.5%) from 6.9%

Eligibility rules becoming much looser

- Original design of state pensions related eligibility to years of contributions
- Any link finally laid to rest in most recent bill
- Retrospective crediting in to single tier of self employed, low earners and women with broken careers
 - More generous pensions from 2016 for these groups
- Single tier pension effectively a “citizen’s pension” in all but name
 - Though fiction of contributory system remains

Auto enrolment

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 - 70% earning less than £25k
- Auto-enrolment began in Autumn 2012 for large employers
 - extending to all by 2017
- All employers have to offer an approved scheme
 - Significant new responsibility, especially for smallest
- All employees automatically enrolled
 - Those who opt out are auto enrolled again every 3 years

Key parameters

- Everyone aged 22 to SPA
- Earning above tax free allowance (about £10,000)
- Employees contribute 4% of “band earnings”, employers 3%
 - That is between £5,668 and £41,450
 - NI LEL and UEL
- Tax relief on contributions

National Employment Savings Trust (NEST)

- Employers free to choose their own scheme
 - Private sector competing for the market
- NEST set up, with government subsidy, to ensure a good value scheme available to all
 - Hard for private sector to provide for small employers and low earners
- Charges 1.8% on contributions plus AMC of 0.3%
 - Up front contributions to be phased out over time
- Restrictions on operation of NEST
 - No transfers in
 - *Maximum* contribution of £4,400 a year

Challenges

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- Population very mobile between jobs
 - Small pots and lack of transferability
- Decumulation and over optimism
 - Lack of understanding of what is needed to buy a pension
 - A quarter of recent retirees with a DC pension got a pension less than half what they’d expected immediately before retirement

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- Increasing pension age looking effective
 - But change is slow
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- Increasing pension age looking effective
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- We wait to see the effects of the great auto-enrolment experiment
- UK a quarter of a century behind Australia?