



Pensions, earnings and forthcoming challenges

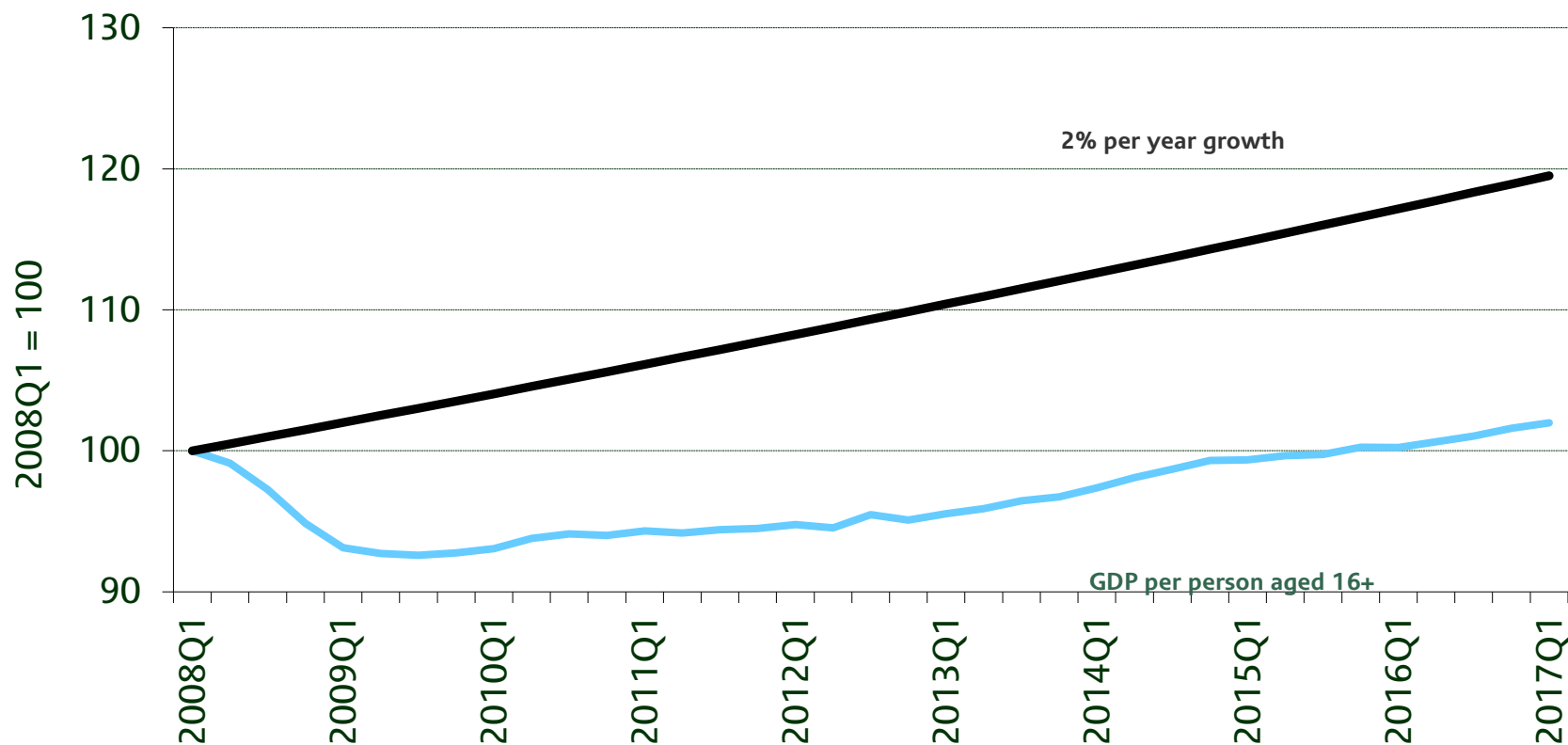
Paul Johnson

@PJTheEconomist

22 March 2017

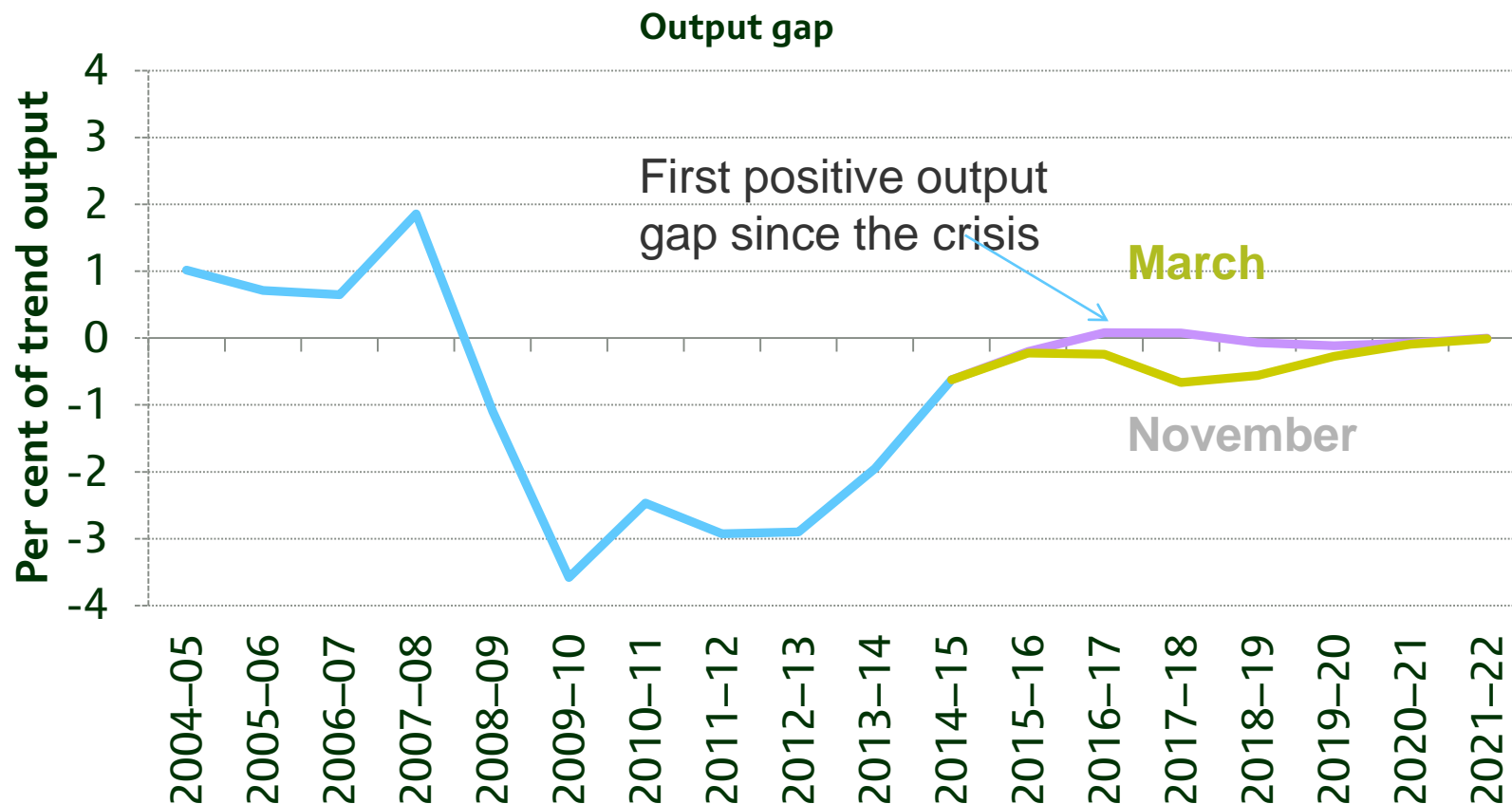


Output per head only just above 2008Q1 level



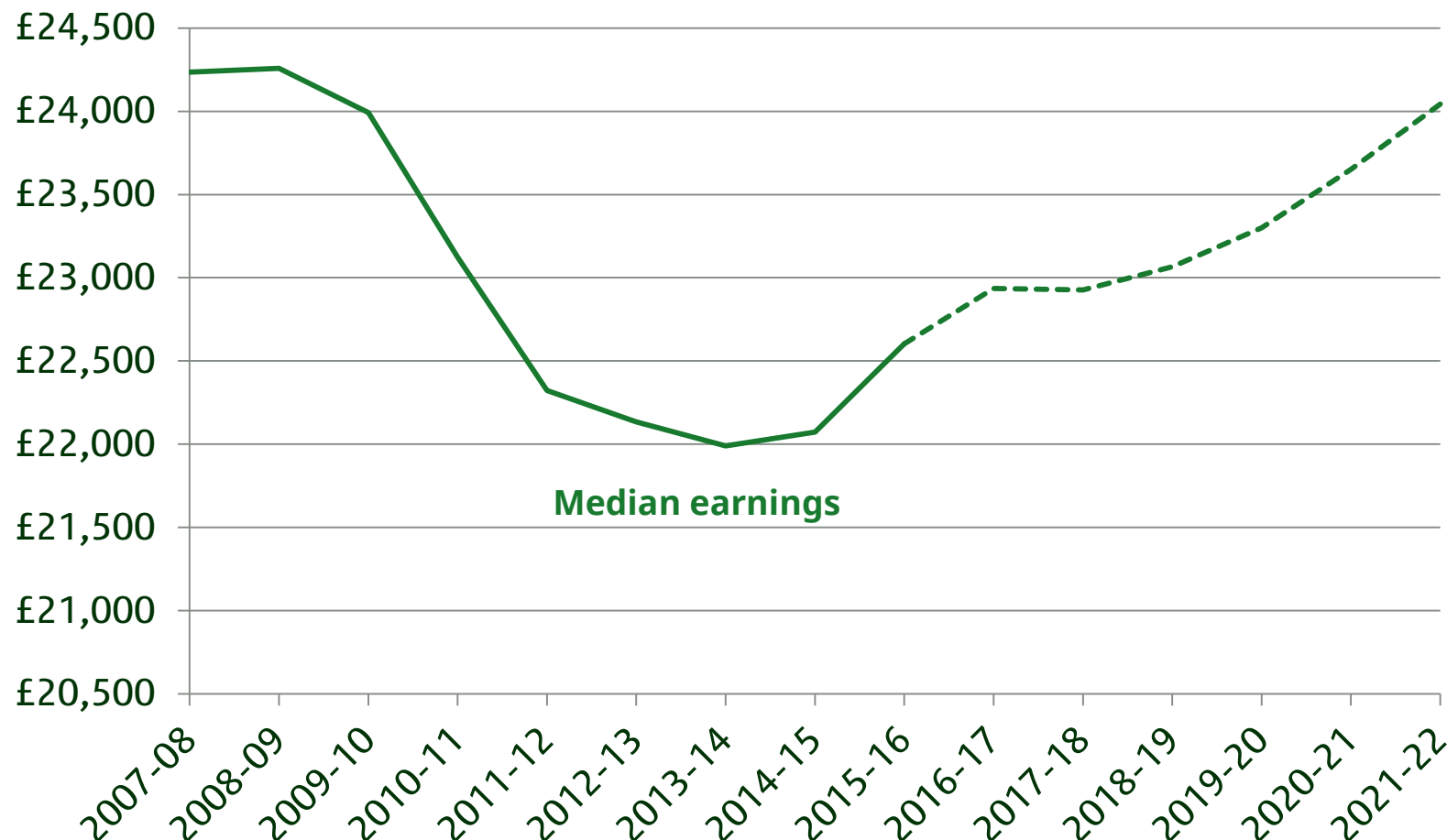
Source: Office for Budget Responsibility

Yet OBR judges economy to be just above trend



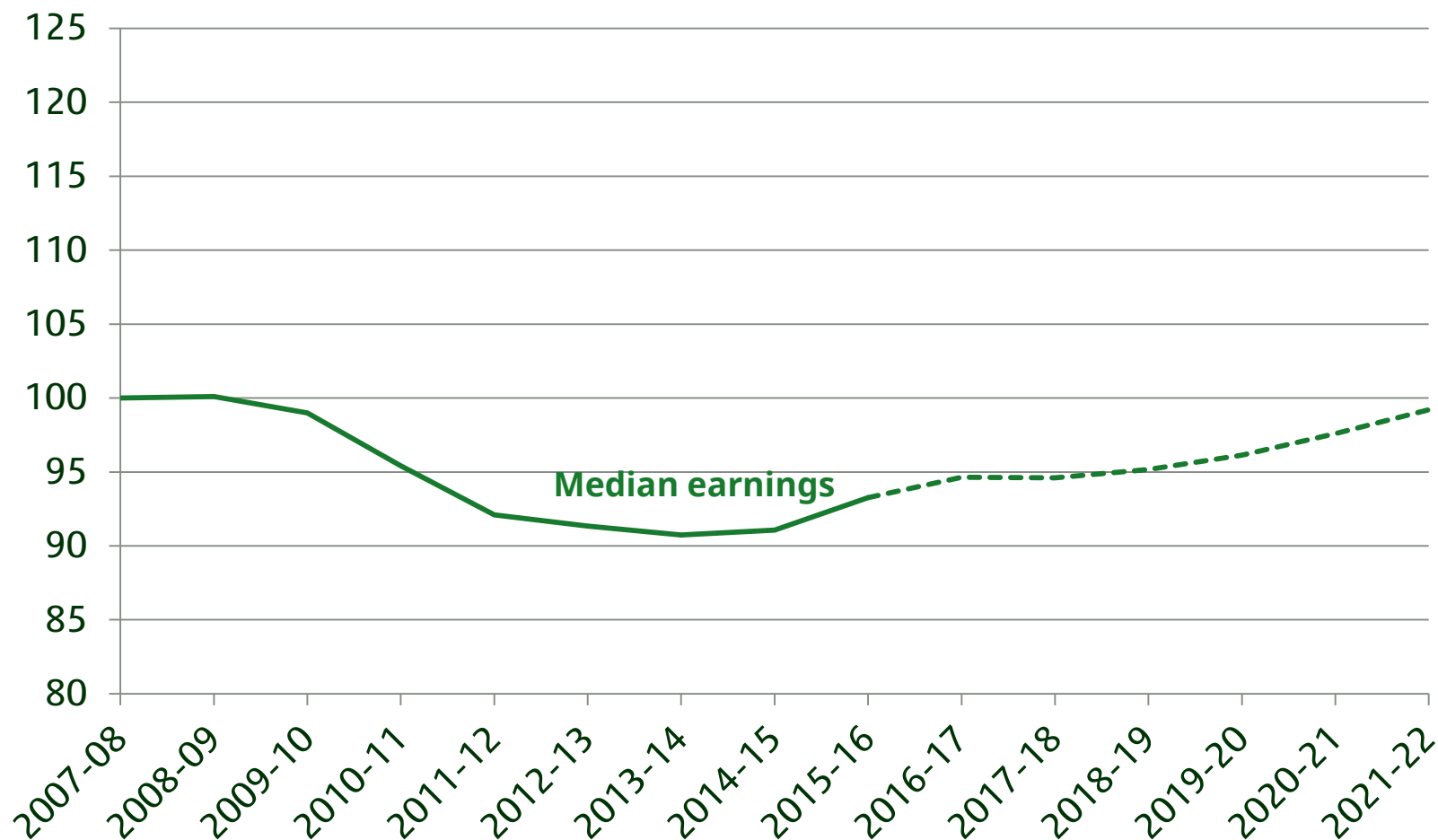
• Source: Office for Budget Responsibility

Path of real earnings since 2007-08



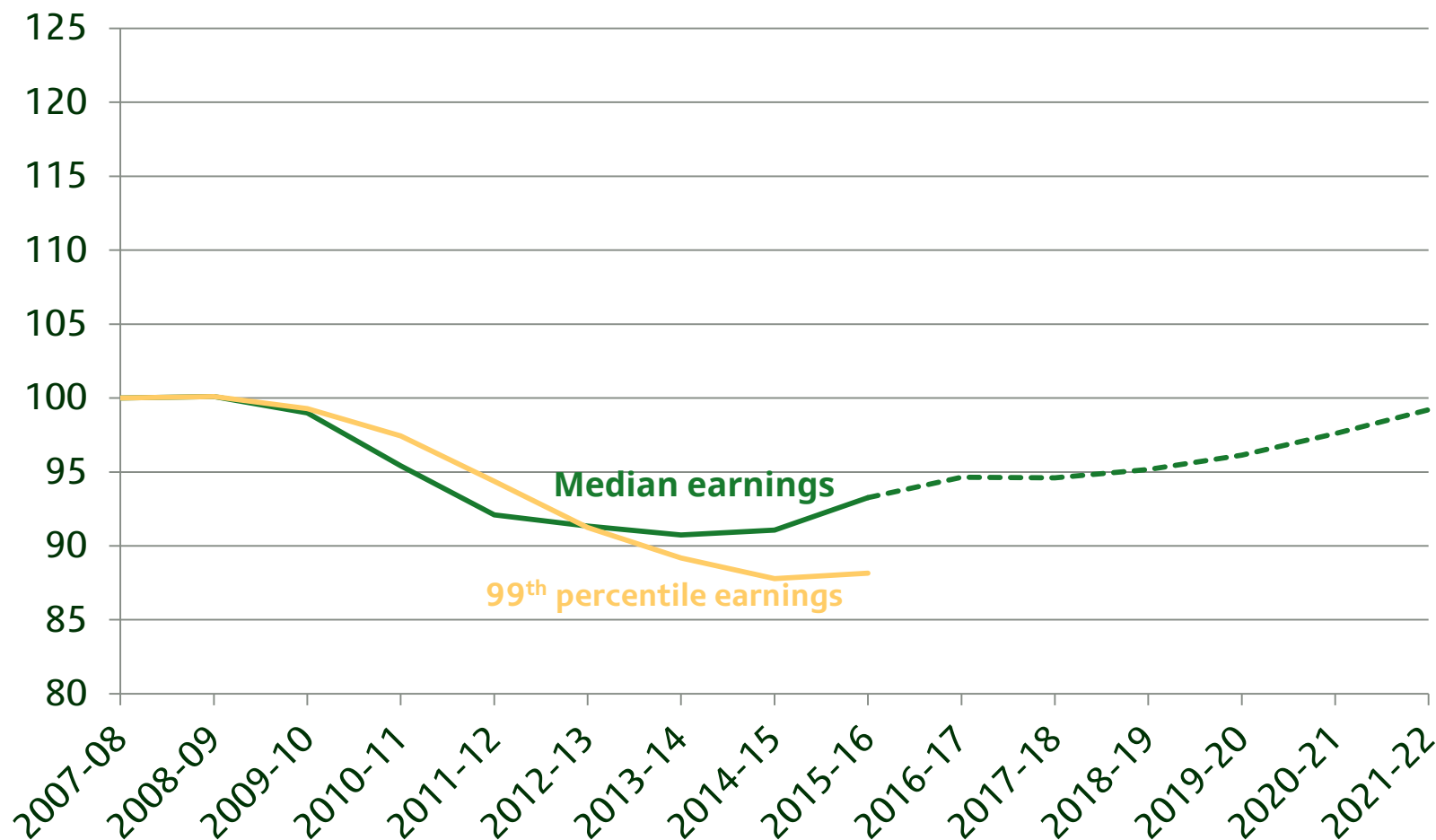
• Sources: OBR Economic and Fiscal Outlook (various years) and IFS calculations using Annual Survey of Hours and Earnings

Path of real earnings since 2007-08



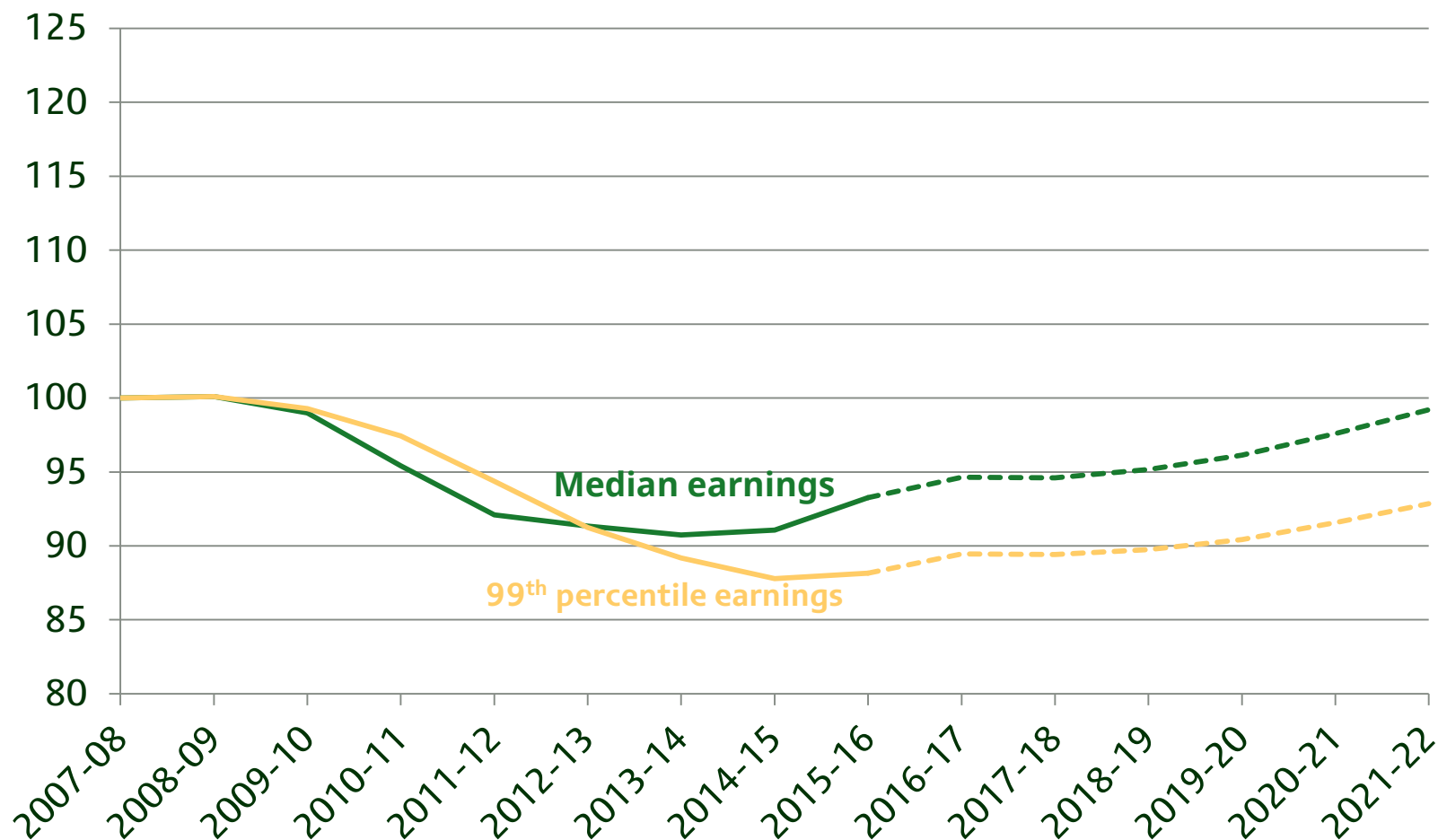
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Path of real earnings since 2007-08



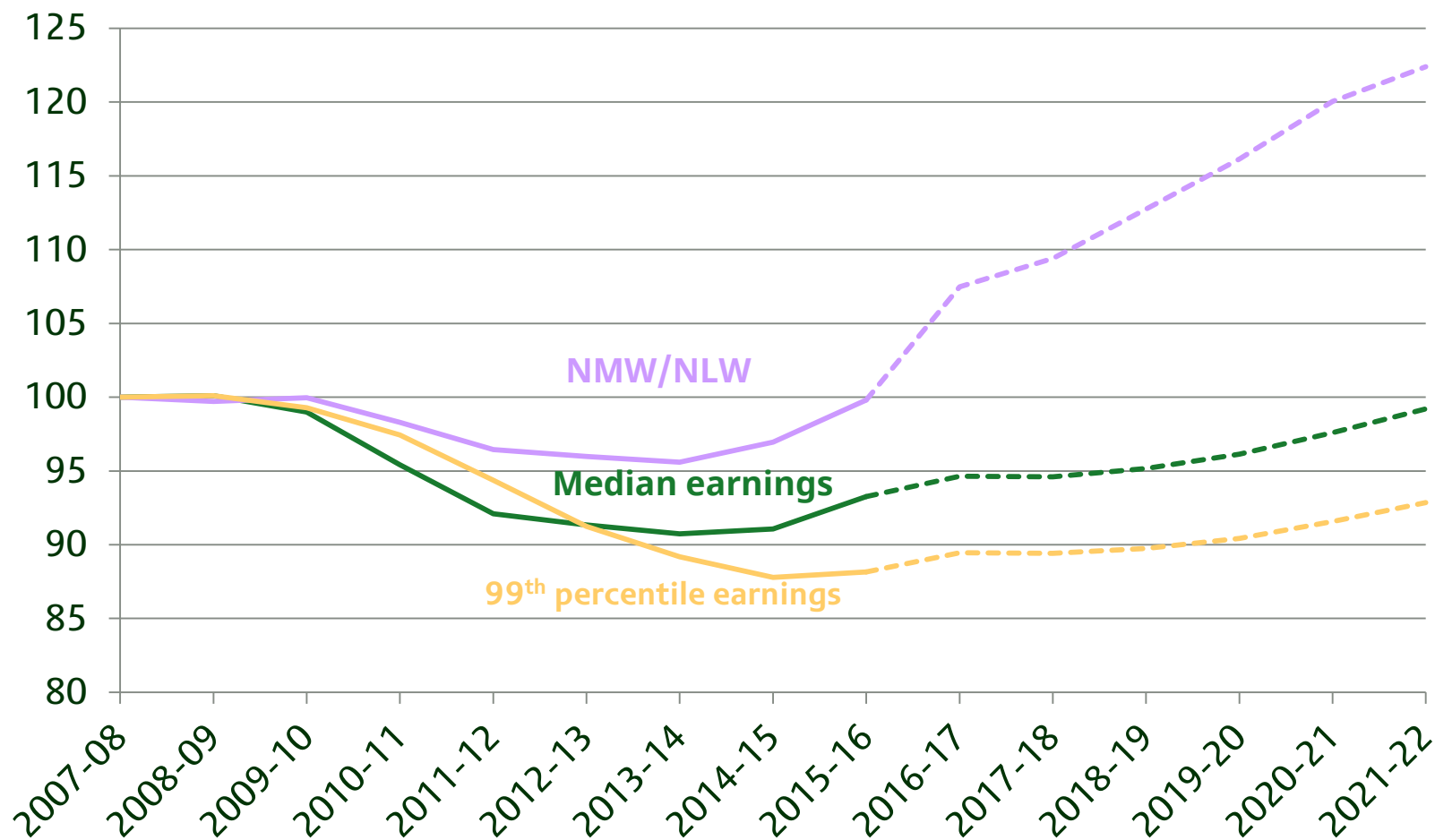
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Path of real earnings since 2007-08



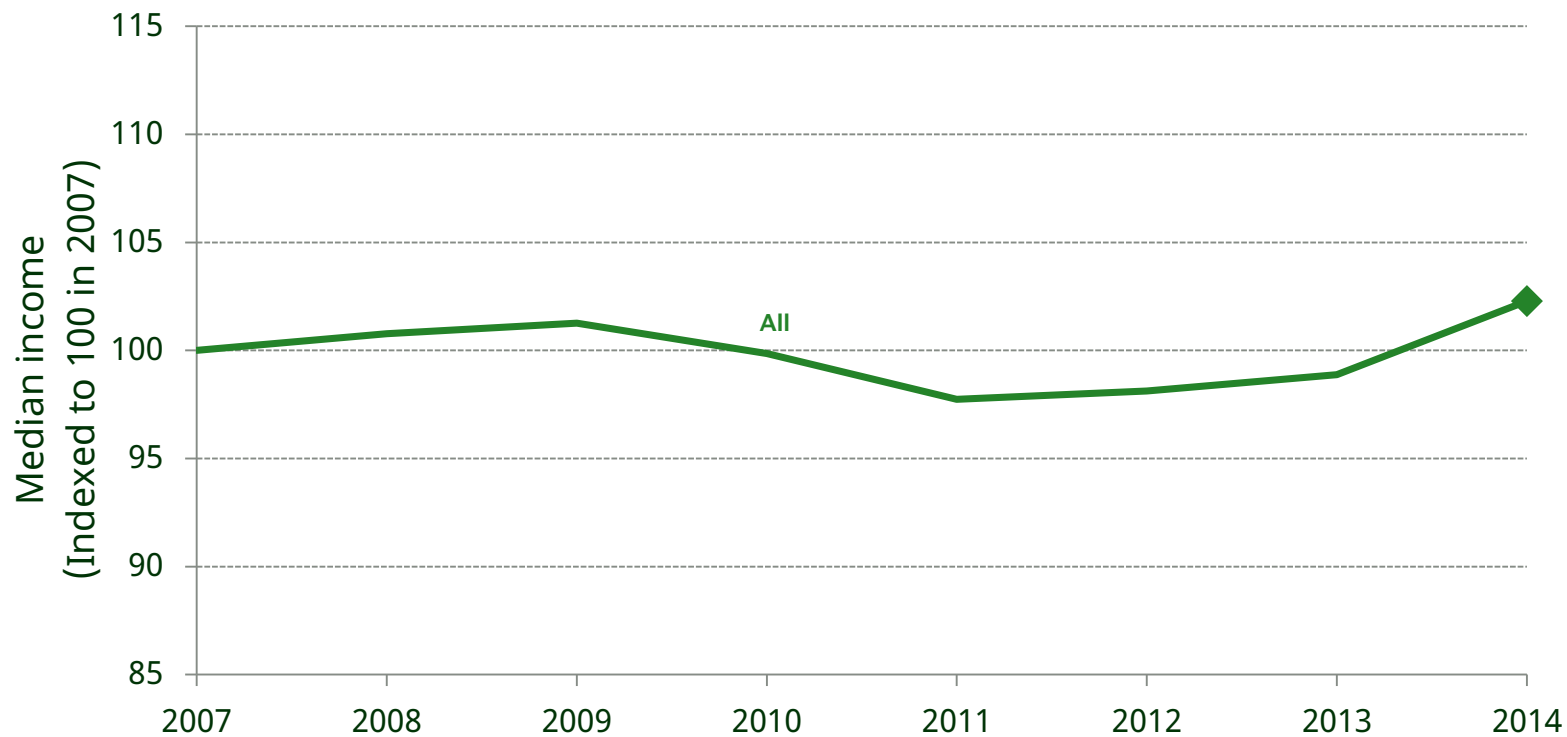
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Path of real earnings since 2007-08



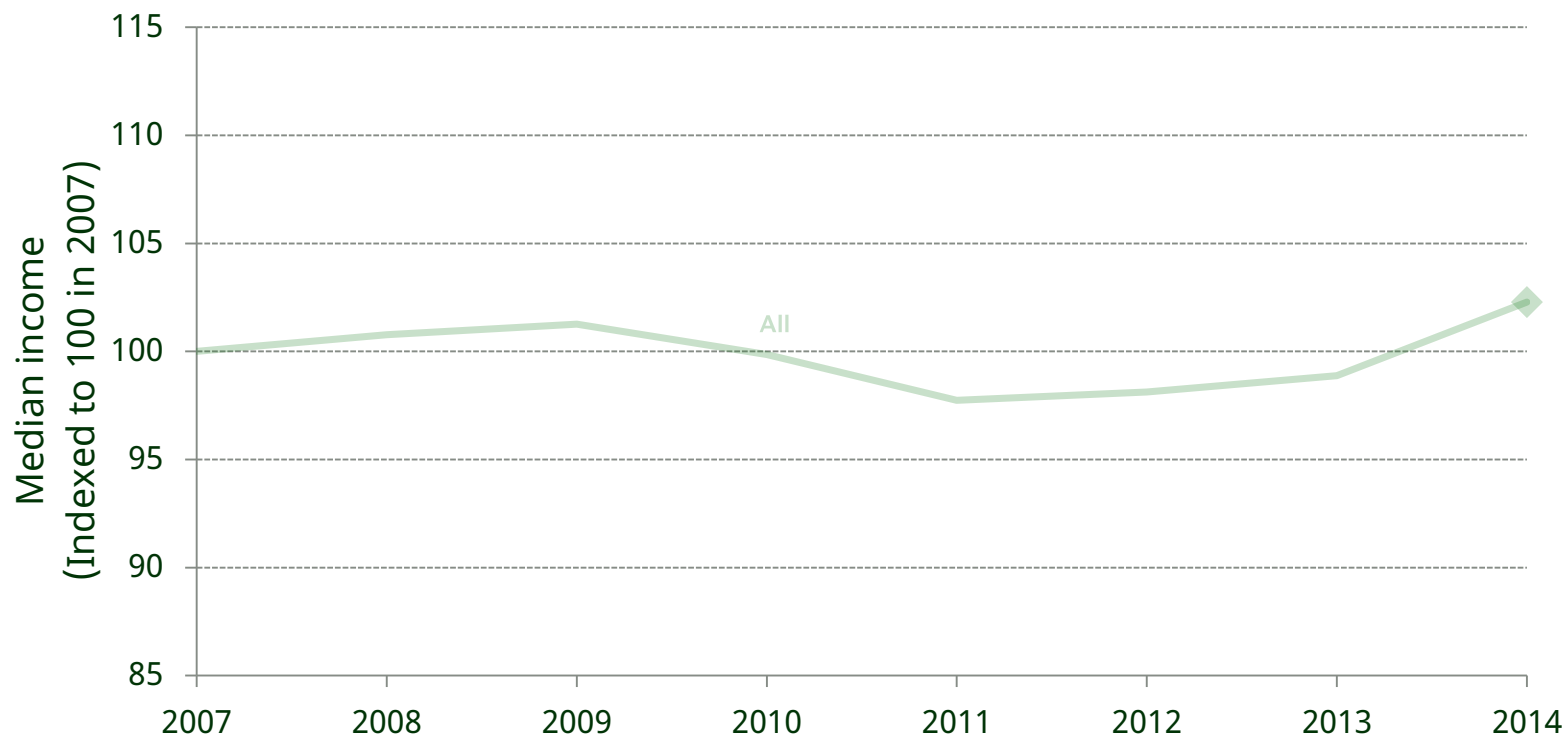
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Median income by age



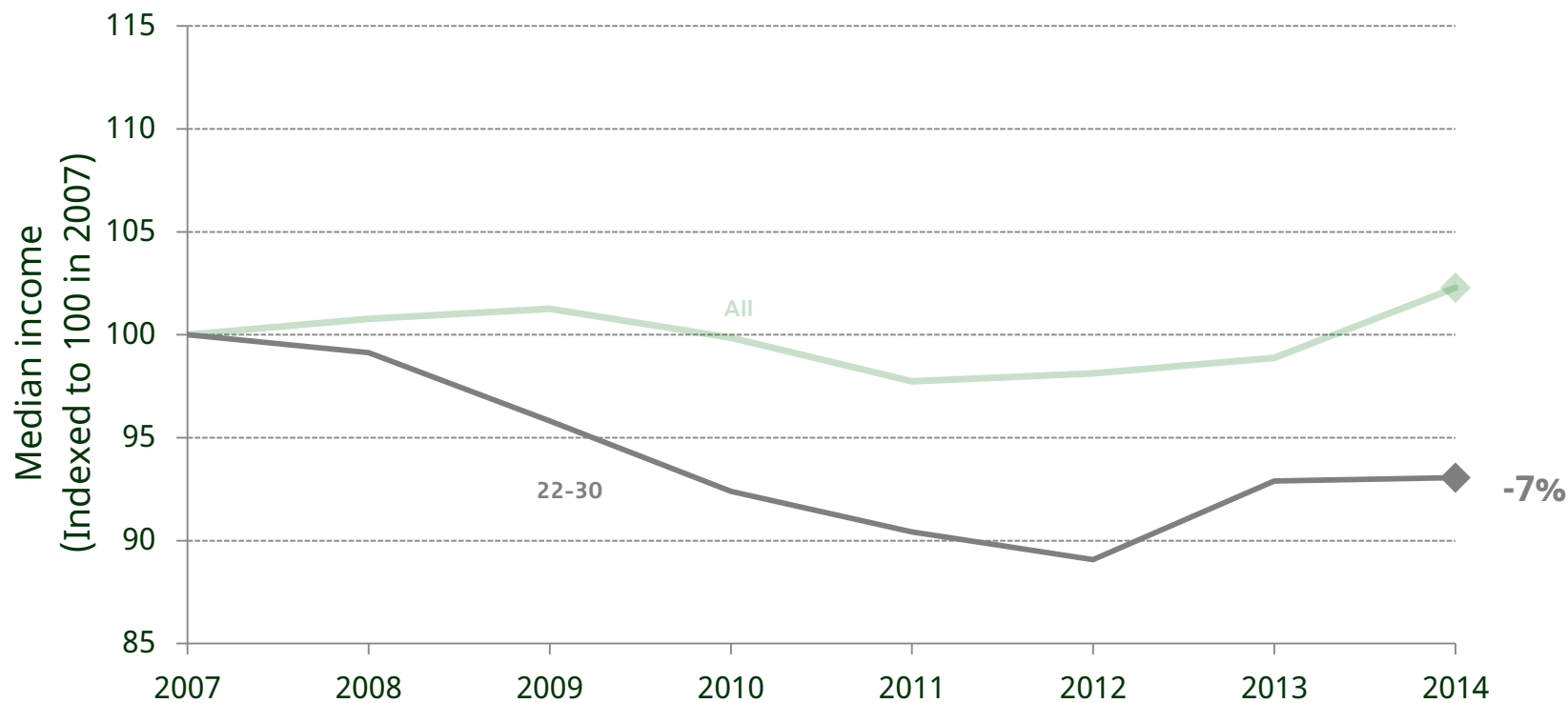
Source: Figure 2.6 of *Living Standards, Poverty and Inequality: 2016*

Median income by age



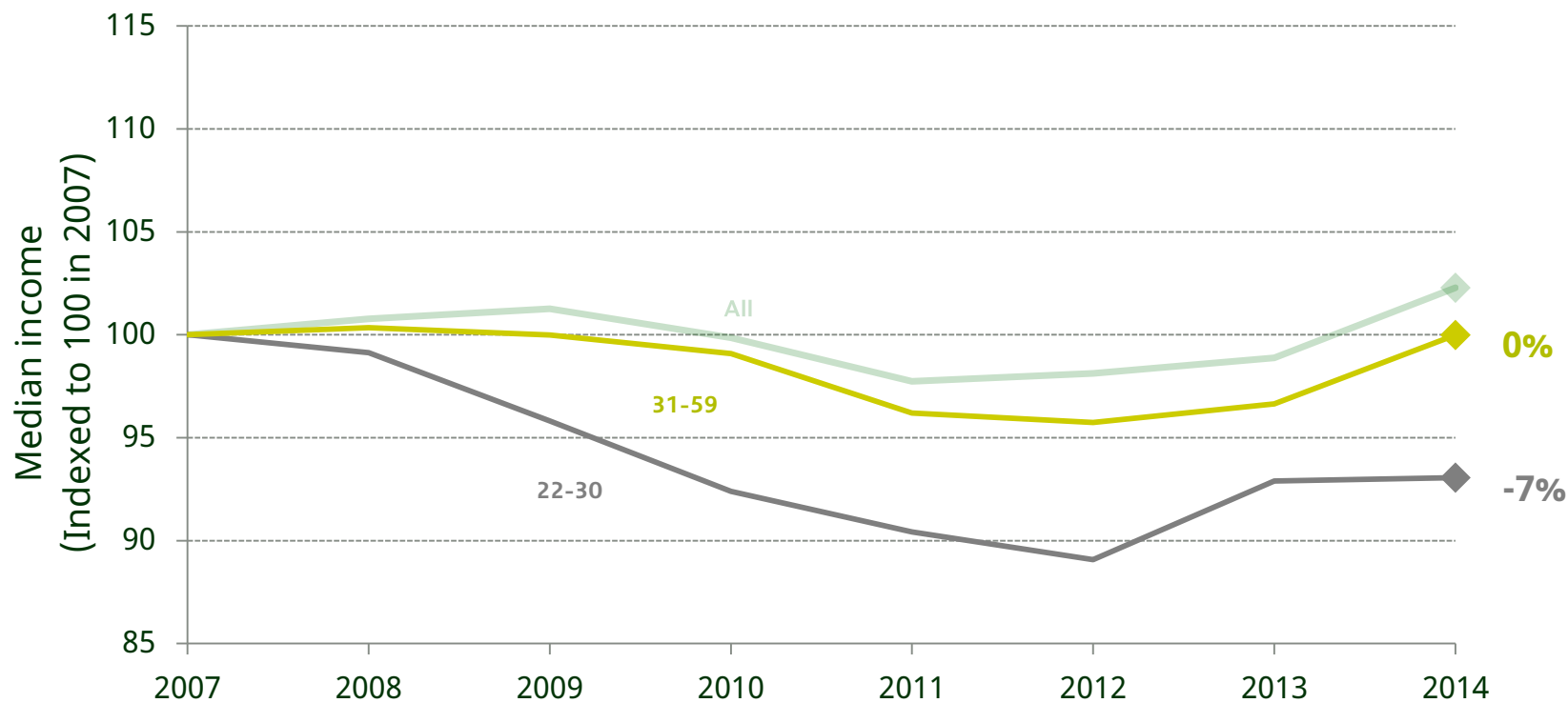
Source: Figure 2.6 of *Living Standards, Poverty and Inequality: 2016*

Median income by age



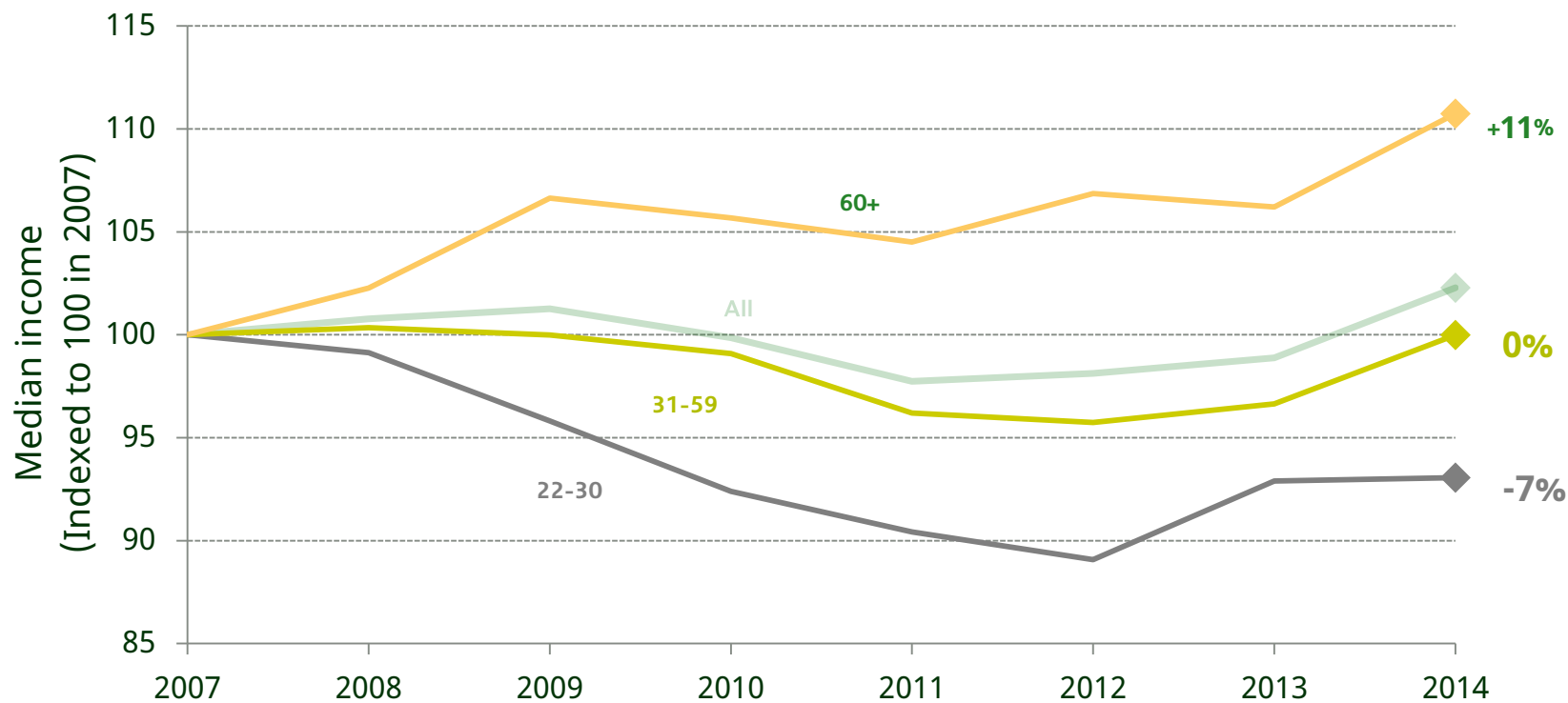
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Median income by age



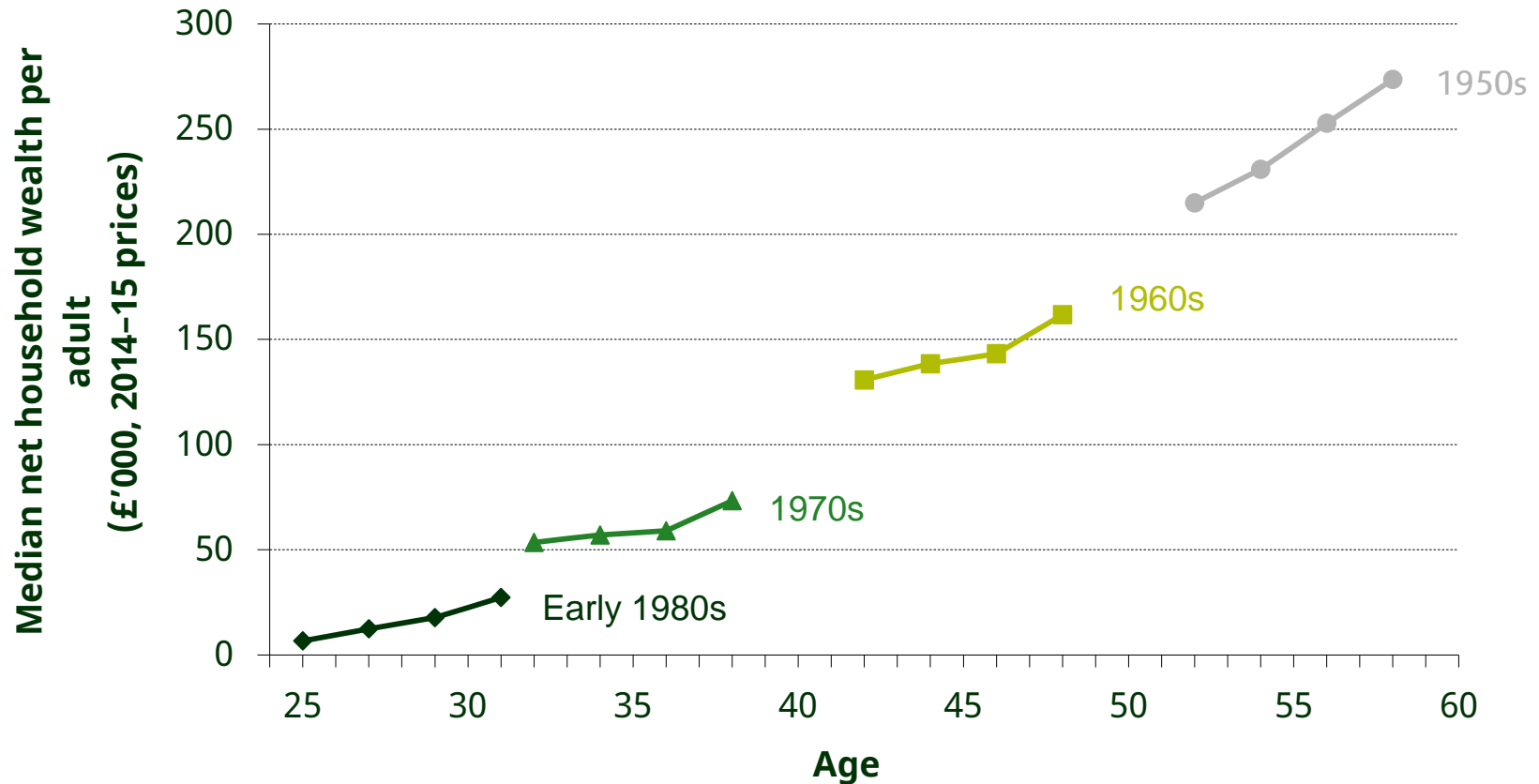
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Median income by age

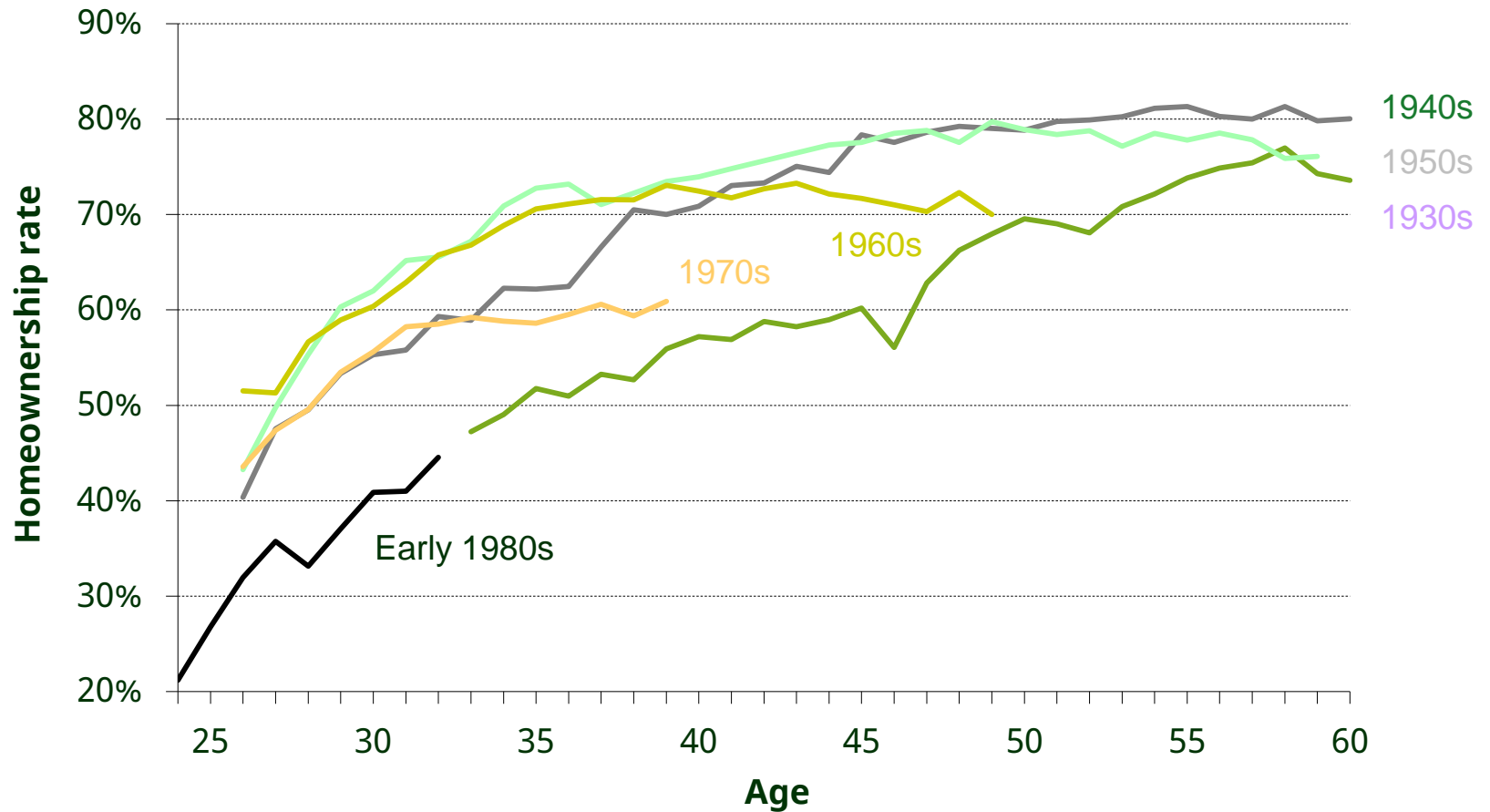


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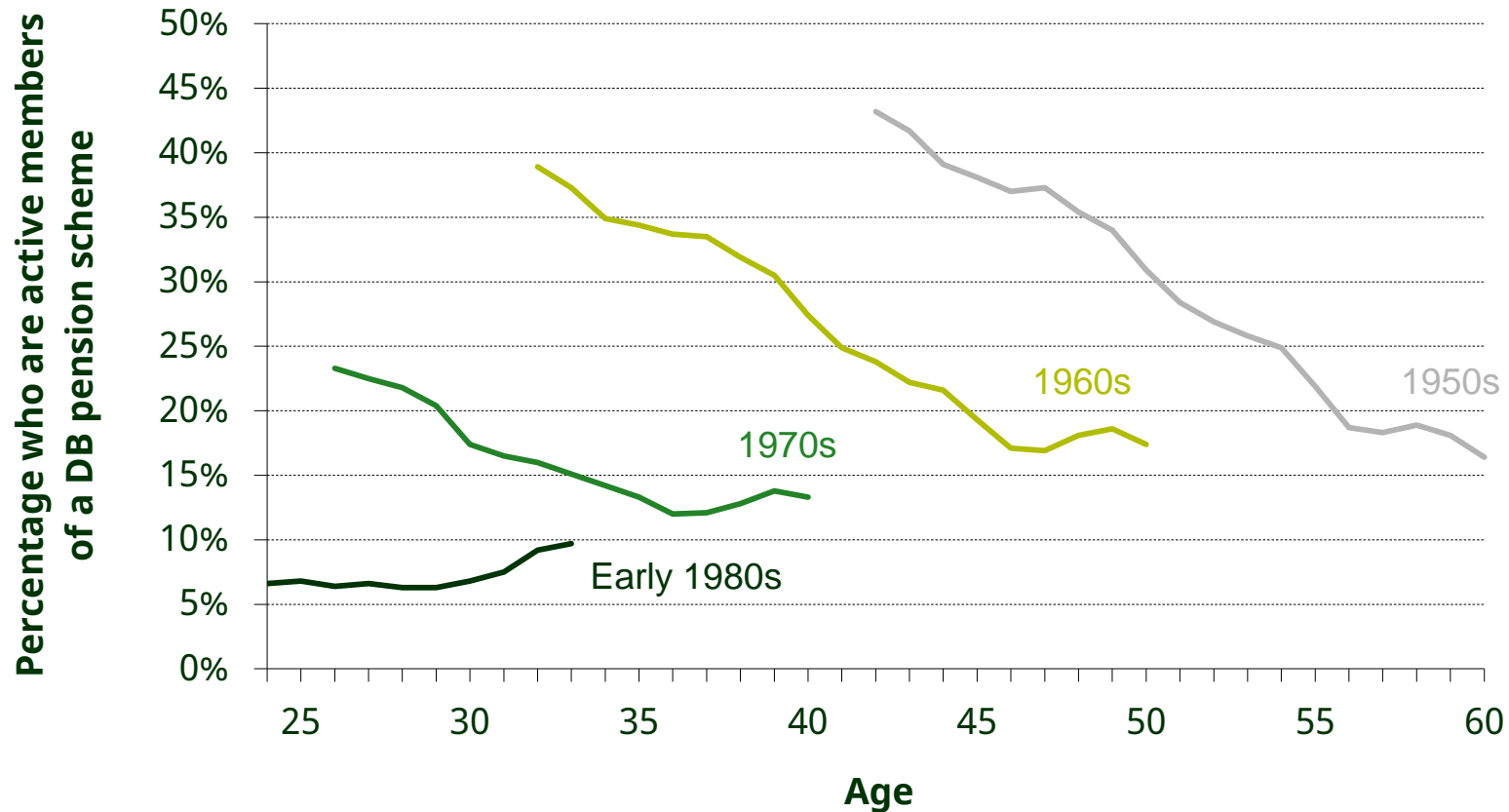
Median net household wealth per adult by age



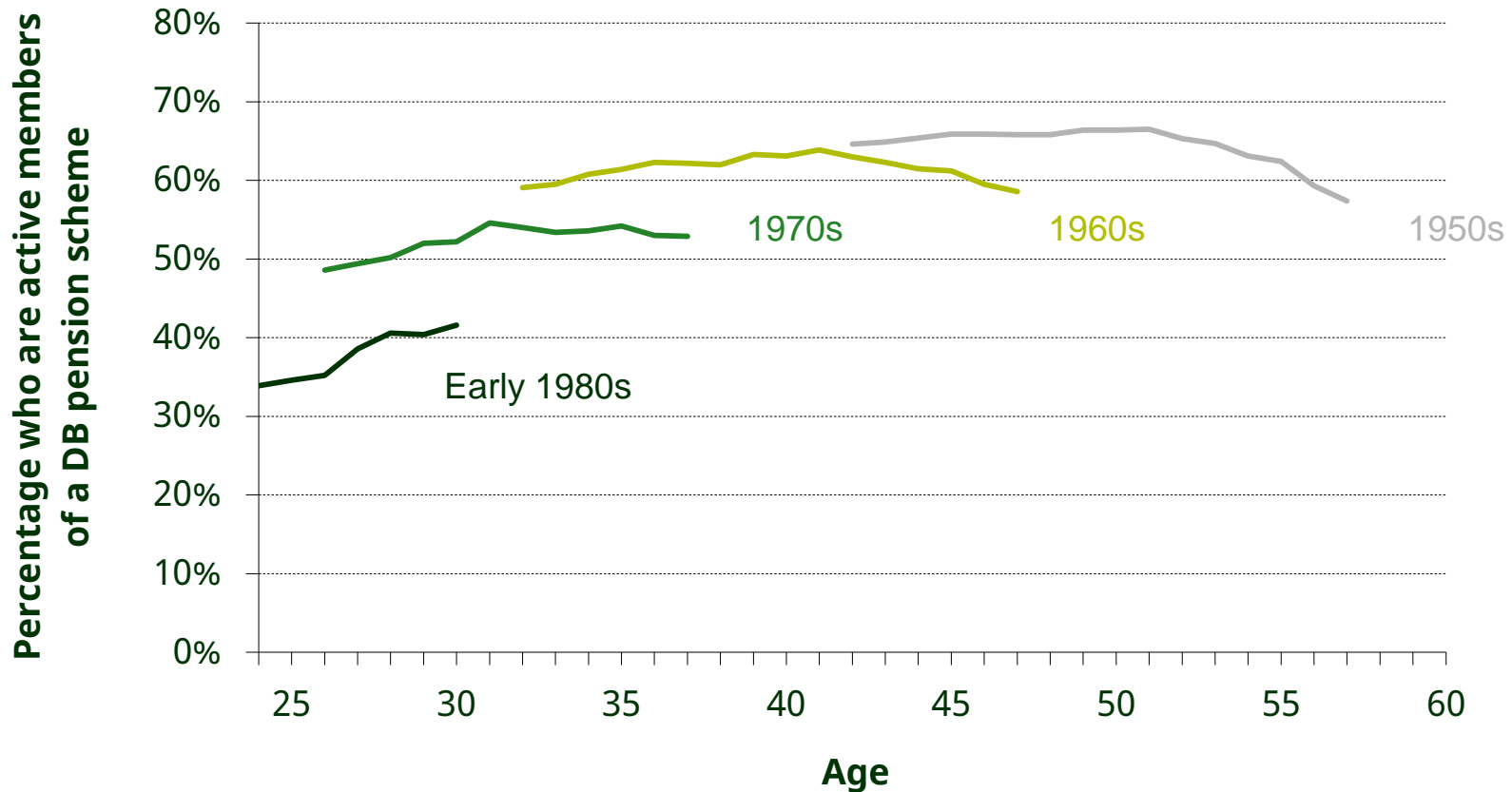
Homeownership by age



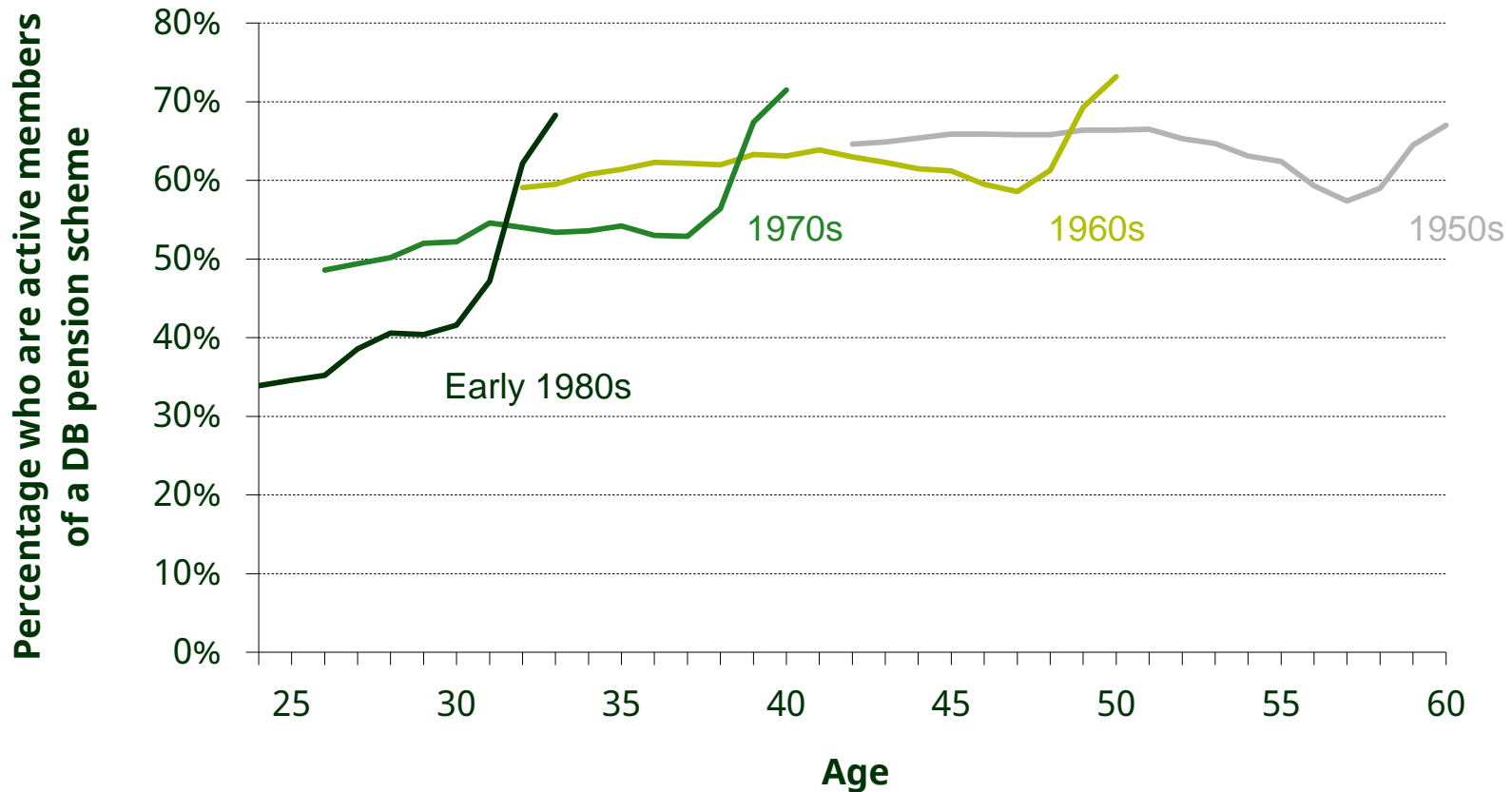
% of private sector employees who are active members of a DB pension, by age



Workplace pension participation rate of employees by age



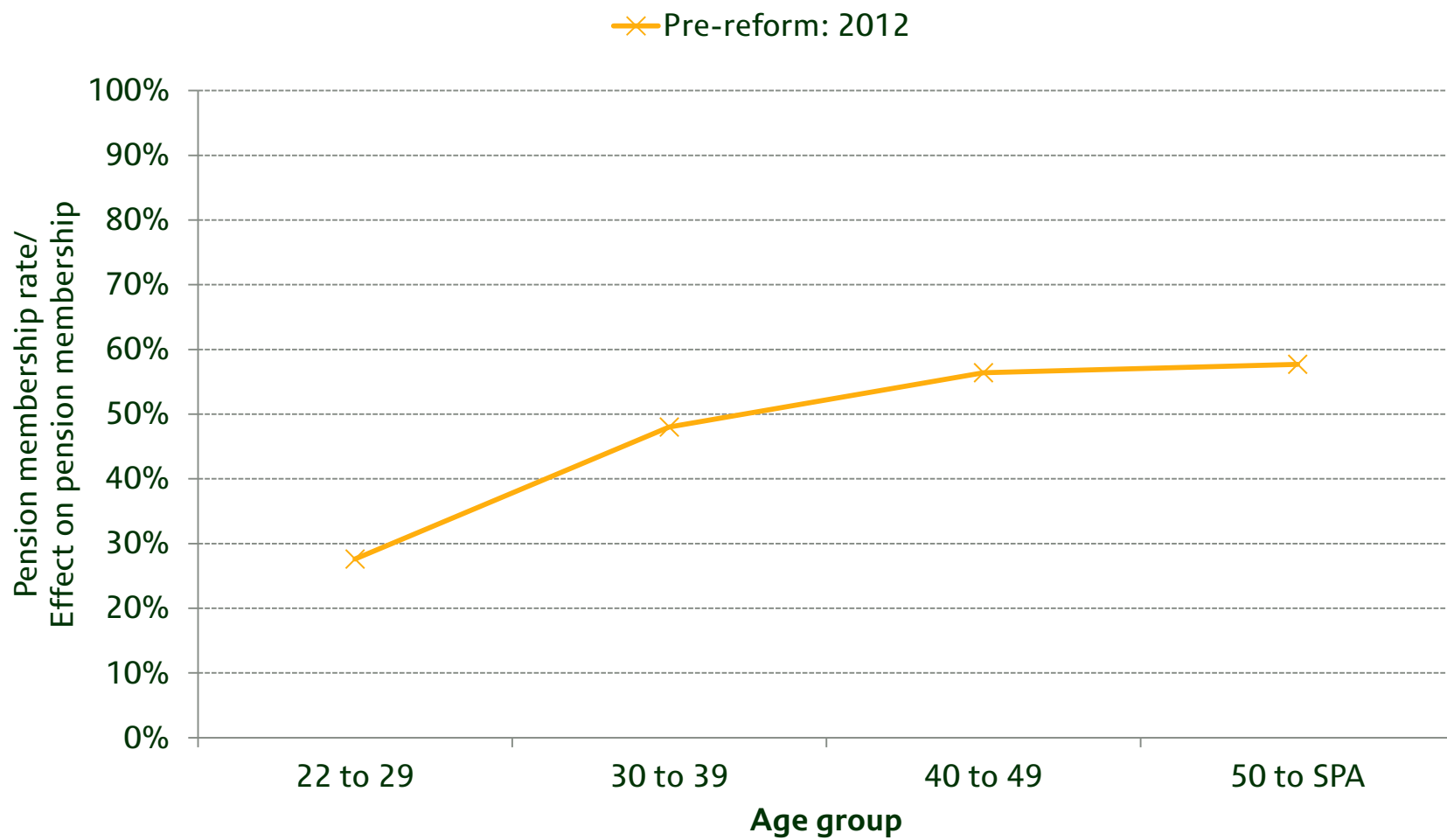
Workplace pension participation rate of employees by age



Effect of automatic enrolment on pension membership

- We find that automatic enrolment has increased pension membership by 37 percentage points
- By April 2015, 88% of eligible private sector employees were a member of a workplace pension
- Essentially all of the increase came from increases in membership of Defined Contribution schemes (35 percentage point increase)
- Between 2012 and 2015: number of private sector employees in a workplace pension increased by 4.6 million
 - Our results suggest 4.4 million was the result of automatic enrolment

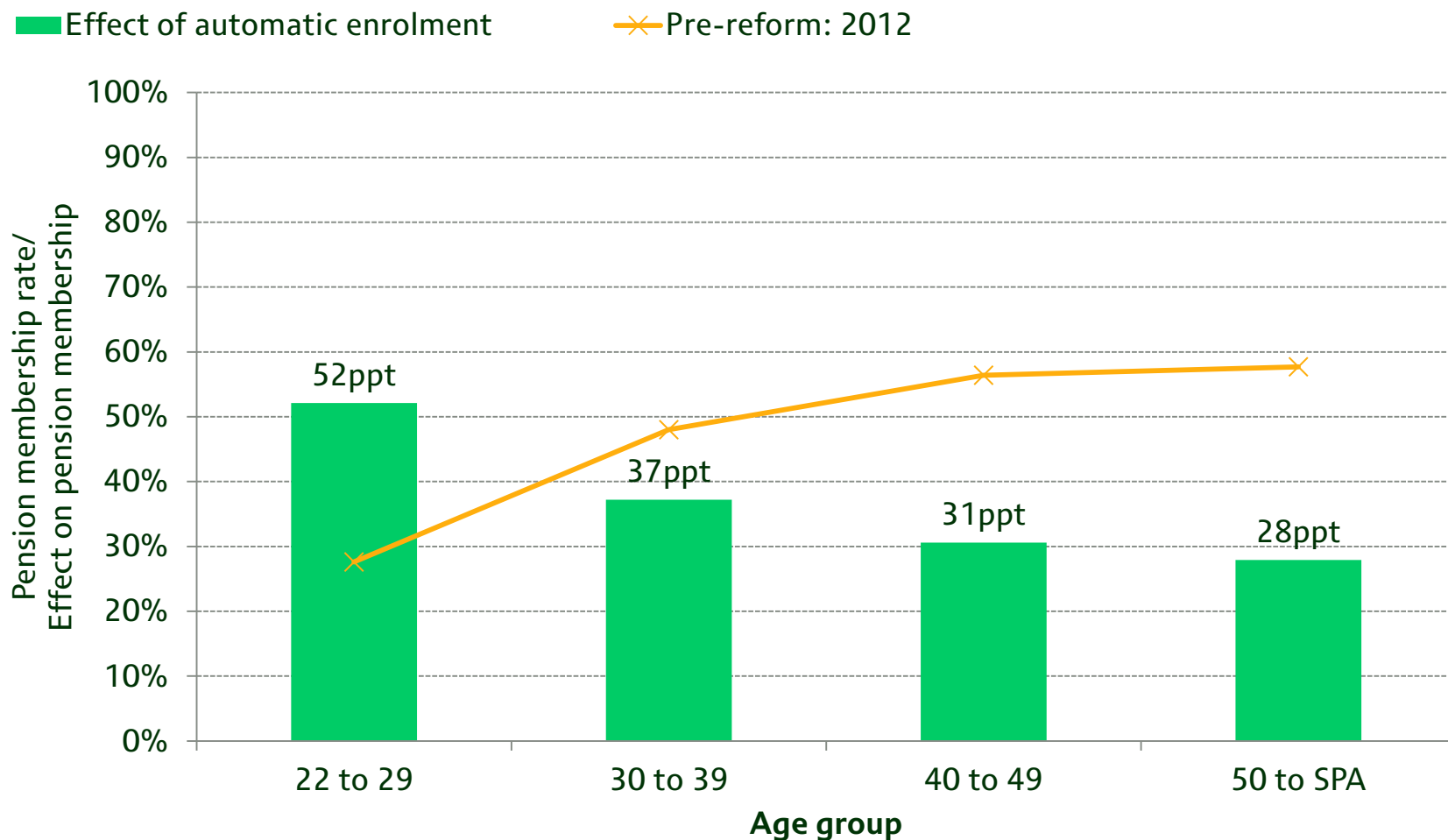
Effect on pension membership by age



Notes: Effects are all significant at 1% significance level.

Source: Table 5 of Cribb and Emmerson (2016).

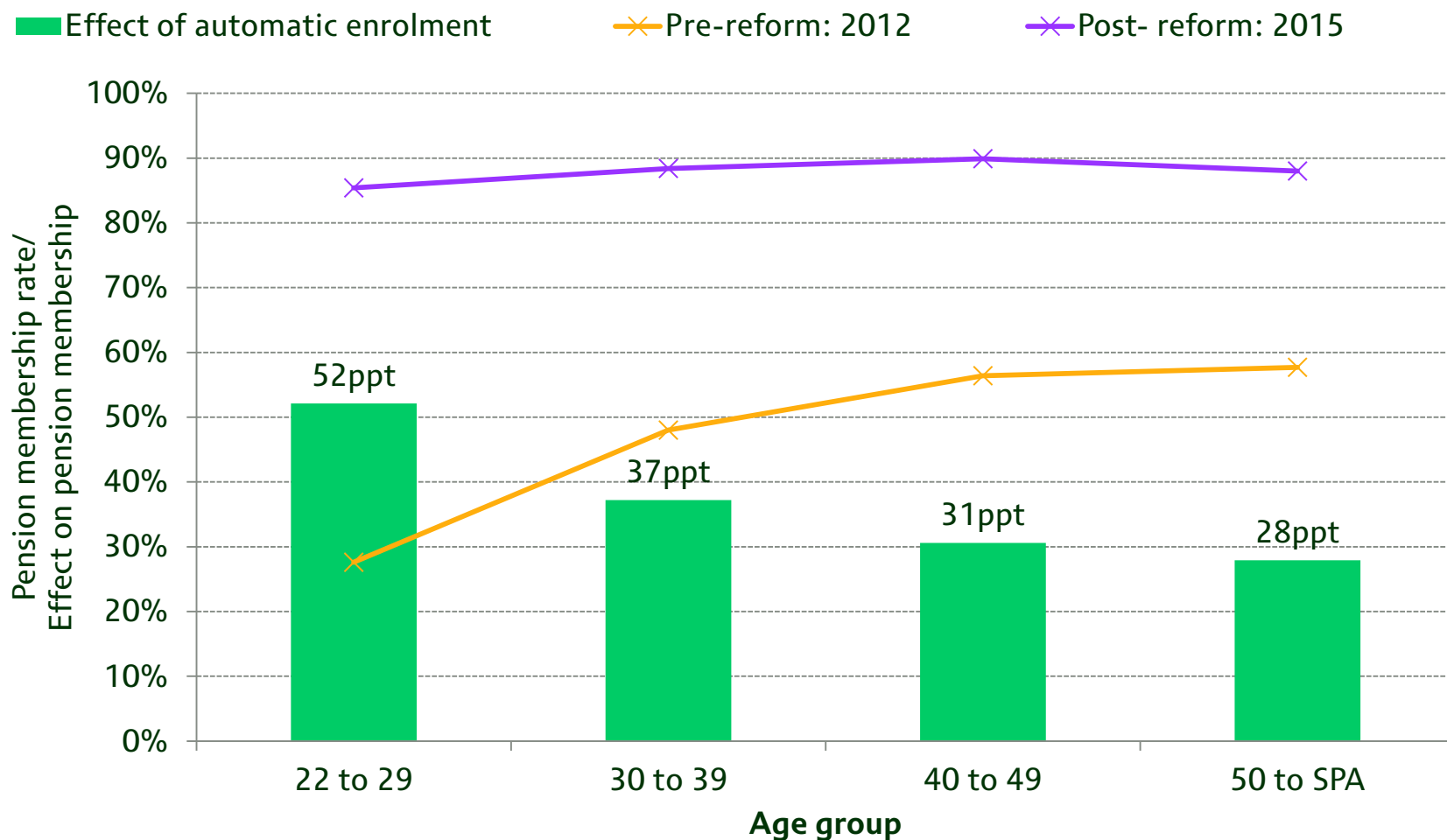
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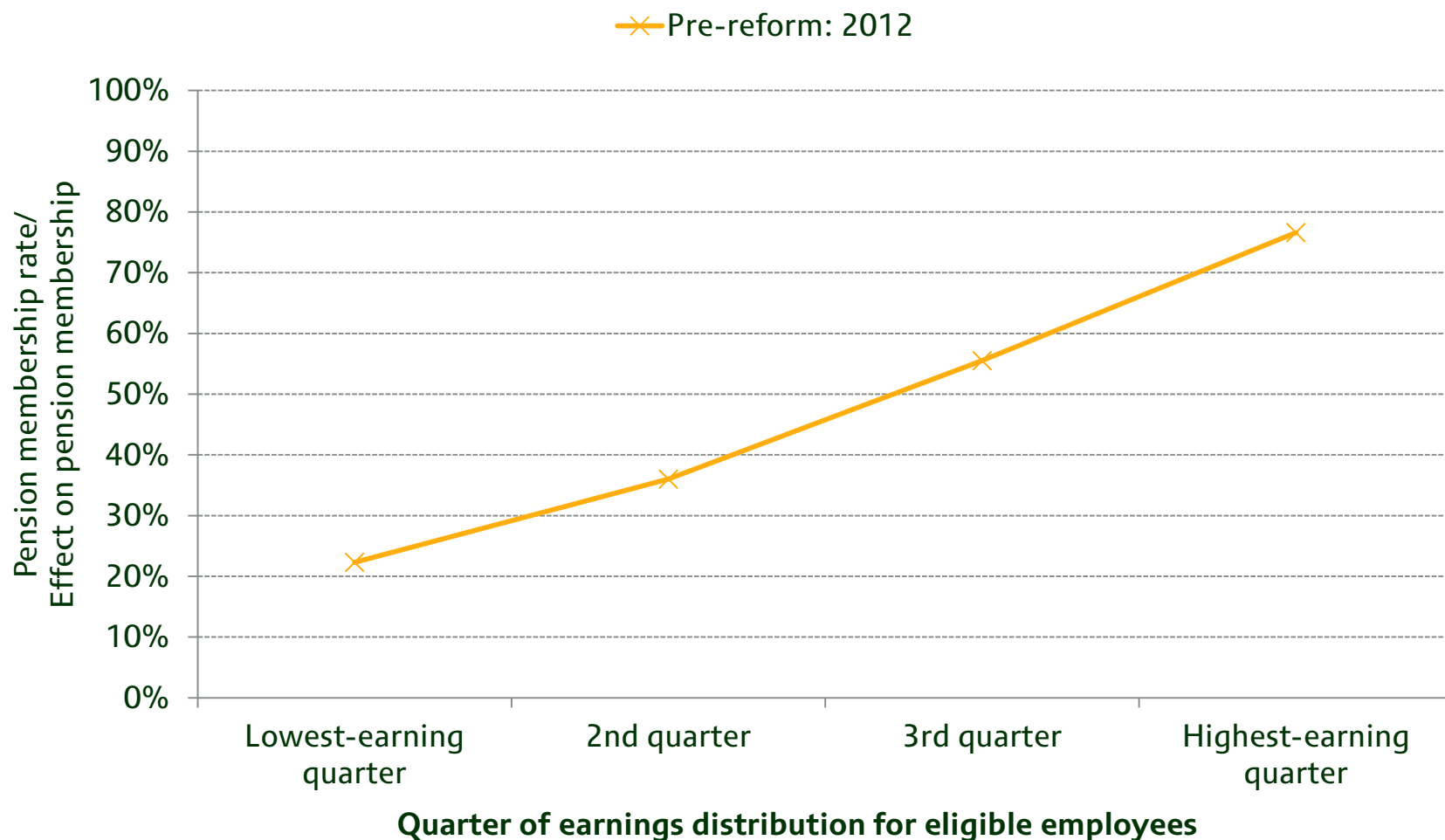
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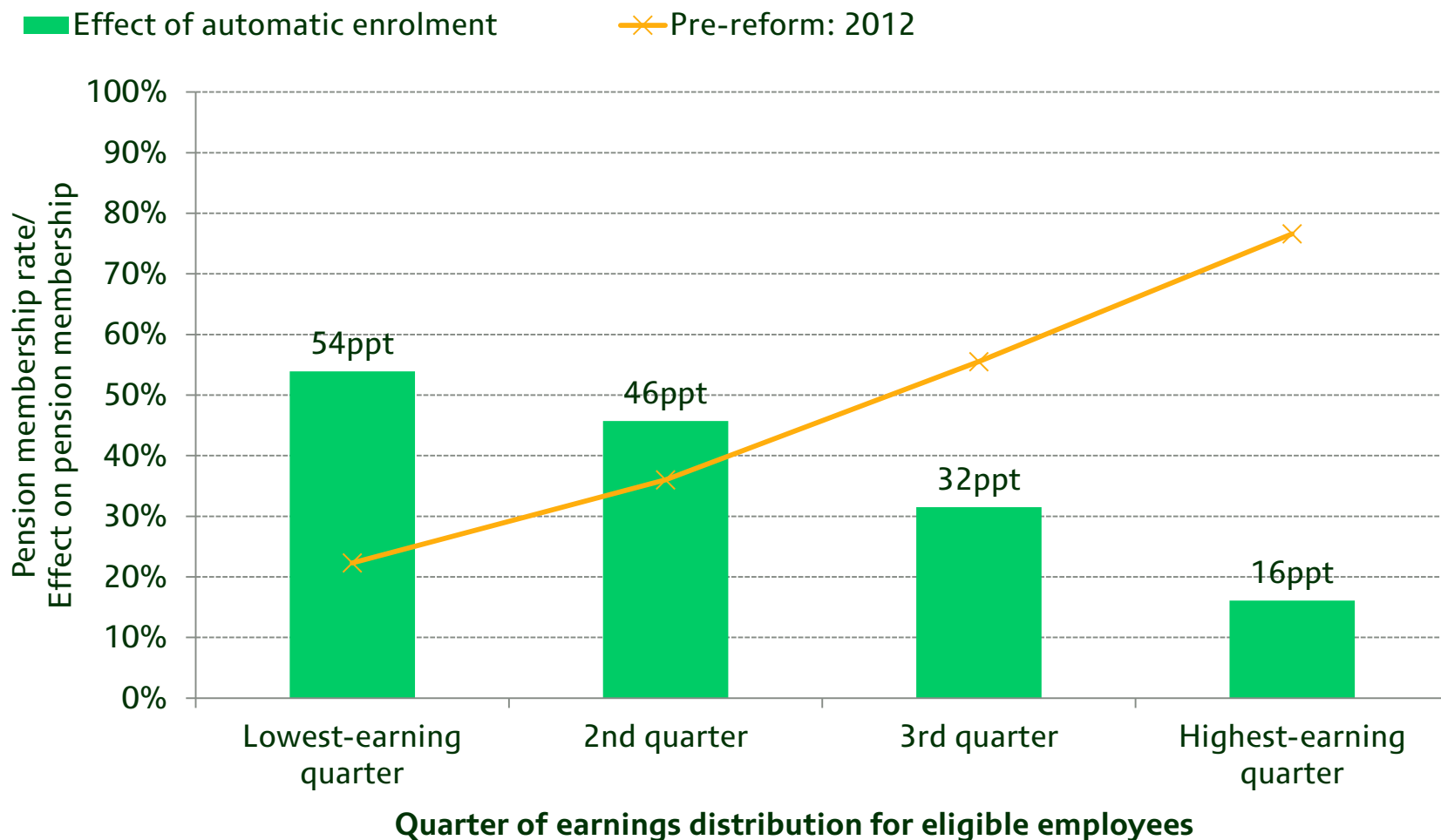
Effect on pension membership by earnings



Notes: Effects are all significant at 1% significance level.

Source: Table 5 of Cribb and Emmerson (2016)

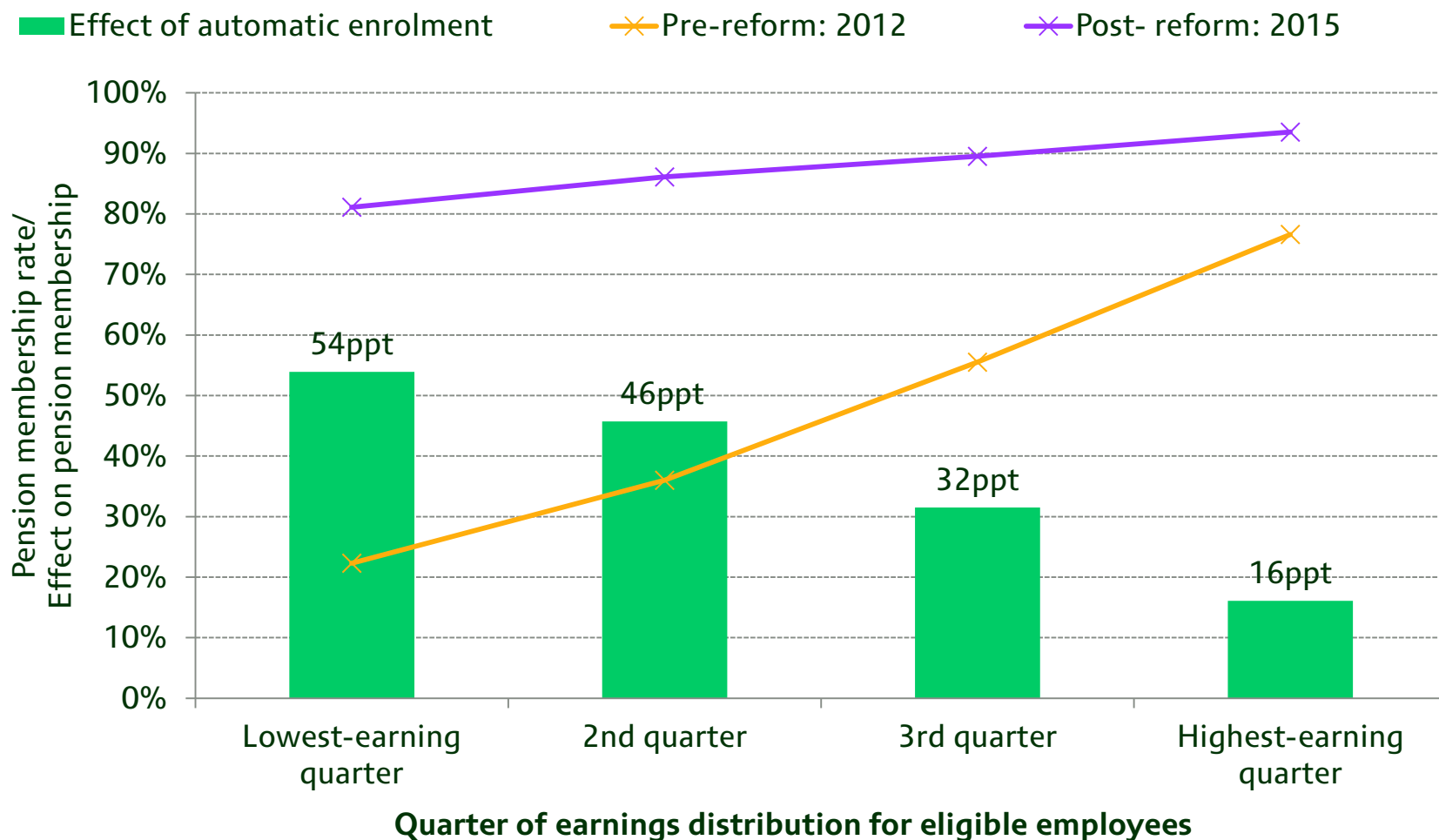
Effect on pension membership by earnings



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Effect on pension membership by earnings



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Challenges

- Protracted period of low earnings growth is a difficult time to increase pension contributions
- Very low interest rates make saving enough very hard indeed
- All risk now being borne by individuals
- Increasing role for inheritances and hence consequences for social mobility
- Public debt approaching 90% of national income leaves little room for manoeuvre
- Things get harder over next 30 years
 - Pension spending rises between 1 and 3% of GDP
 - Health spending rises by 5% of national income (probably)



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