Currently seeing major pensions reform

- **State pensions**
  - new flat-rate state pension with the associated abolition of contracting out for those in DB pensions
  - increases in the state pension age

- **Private retirement saving**
  - continued roll-out of automatic enrolment into workplace pensions
  - introduction of Lifetime Individual Savings Accounts

- **Plus lots of others that I won’t cover in this talk**
  - DC pensions freedoms, increases in minimum pension age, restrictions to pension contribution limits for those on very high incomes, etc.
New single-tier state pension

- Affects those reaching the state pension age after 6 April 2016
- Replaces the basic state pension and the state second pension
- Rights accrued prior to April 2016 calculated as greater of existing system and if new system had always been in place
- Going forwards every year of contributions will accrue £4.44 per week in state pension income
  - up to a maximum of 35 years of contributions, no pension paid to those with fewer than 10 years of contributions
  - no further accrual once reached, or above, £155.65 per week
  - wide range of activities count including: employment, self-employment, unemployment, disability and caring
- Pension credit guarantee remains in place, but the savings credit is abolished for new pensioners
New single-tier state pension

• ‘Triple lock’ indexation
  – increased each year in line with the greater of growth in earnings, growth in prices (as measured by the Consumer Price Index) or 2.5%
  – not a sensible way to index over the longer-term

• Abolition of the state second pension naturally leads to the abolition of contracting out
  – since 2012 has only existed for those in DB pensions
  – employees: pay 1.4% more National Insurance on earnings between the lower earnings limit and the upper accrual point, reducing their take home pay by up £480 per year
  – employers: pay 3.4% more National Insurance on this band of earnings, increasing employment costs by up to £1,165 per employee per year
  – £5.5bn a year tax rise, £3.3bn from public sector employers and £1.4bn from public sector employees
Impact on state pension incomes

• 43% of those reaching the state pension age between 2016 and 2020 will get a higher state pension
  – women and the self-employed are particularly likely to gain
  – some losers: those who have accrued fewer than 10 years of contributions

• By no means all new pensioners will get £155.65 per week
  – only true of 17% of those reaching the state pension age over the next four years
  – 23% will get more as already accrued more than this amount
  – 61% will receive less, typically due to having been contracted out

• Flat rate accrual, of £4.44 per week, is a genuine simplification

• In the long-run this will mean, for most individuals, a lower state pension than under an unreformed system
  – long-run public finances strengthened by this reform
State pension age increases

State pension spending projected to rise

Rising female state pension age is pushing up employment rates

Source: Labour Force Survey.
Automatic enrolment

- Automatic enrolment requires employers to enrol their eligible employees into a pension scheme unless they specifically opt-out
  - introduced for the largest employers in October 2012, increasing number of employers affected over time
- Being introduced in UK on a scale untested internationally
  - 6.2 million employees automatically enrolled by April 2016
- Aim to increase the saving of workers – due to worries about under-saving for retirement
Automatic enrolment: policy details

- Eligibility: aged 22-SPA, earn over a threshold (£10,000 in 14–15, 15–16 and 16–17)
- Each employer is given “staging date”; larger employers given earlier staging dates
  - employers must automatically enrol eligible employees within 3 months of staging date
  - employees can opt out, but default is to be enrolled
  - employers can delay to Sept 2017 if have open DB pension scheme
- Minimum contributions:
  - until April 2018: employer contribution 1% of “band earnings”; total contribution 2% of “band earnings”
  - then rising, reaching 3% employer, 8% total from April 2019
### Staging dates for employers of different sizes

<table>
<thead>
<tr>
<th>PAYE scheme size as of April 2012</th>
<th>Staging Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>120,000 or more</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; October 2012</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>6,000 to 9,999</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; April 2013</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>160 to 249</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; April 2014</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>50 to 53</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; April 2015</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Some with fewer than 30</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; April 2016</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>All existing employers</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; April 2017</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>All existing &amp; new employers</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; February 2018</td>
</tr>
</tbody>
</table>

Membership of workplace pensions

Percentage of eligible employees enrolled in a workplace pension, 2004 to 2014

Private sector membership of workplace pensions, by employer size

Percentage of eligible employees enrolled in a workplace pension, 2004 to 2014

Lifetime Individual Savings Accounts

- Accounts can be opened by 18-40-year-olds from April 2017
- Contributions count towards ISA limit; like ISAs, no tax on returns
- While aged 18-50, government will add 25% to up to £4,000 of contributions each year
  - so over 32 years, max £32,000 top-up on £128,000 of contributions
- Can withdraw from age 60, or earlier to buy 1st home for <£450,000
  - if withdraw earlier for other purposes, 5% charge + lose the top-up
  - though will consult on possibility of withdraw-and-replace option
**Contribution required to match 100 saved in ISA**

By marginal tax rate in work and in retirement

<table>
<thead>
<tr>
<th>ISA</th>
<th>Lifetime ISA</th>
<th>Basic, basic</th>
<th>Higher, higher</th>
<th>Higher, basic</th>
<th>Basic, zero</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>80</td>
<td>94</td>
<td>86</td>
<td>71</td>
<td>80</td>
</tr>
</tbody>
</table>

- Employer pension contributions still more generously treated
- Can gradually shift money from lifetime ISA to pension from age 60
  - benefit from lifetime ISA top-up *and* pension tax-free lump sum

Source: Adam (2016).
Lifetime Individual Savings Accounts

• Clear rationale for encouraging saving for retirement
  – less so when use of money from age 60 unrestricted
  – less clear rationale for encouraging saving for a home more than other pre-retirement consumption

• Expect lots of shifting existing savings to new vehicle
  – in 2013, 3.2m under-45s had more than £3,000 in ISAs

• Big winners: basic-rate taxpayers who can transfer existing savings
  – and higher-rate taxpayers saving for 1st home, and those constrained by pension contribution limits

• Little detail on what government expects
  – cost, take-up, new saving vs. shifting existing funds,...
  – potentially expensive
Conclusions

• Single-tier pension delivers a welcome simplification of the state pension system
  – in the short-term many gain, in the longer-term most lose
• State pension age currently rising particularly sharply for women and will reach age 66 for both men and women by end of this decade
  – further increases in line with longevity, subject to review, planned
• But long-run state spending on pensions still projected to rise
• Early evidence suggests automatic enrolment is boosting membership of workplace pensions
  – evidence on contributions and, preferably, total saving needed
• Lifetime ISAs will be attractive to basic-rate taxpayers whose own pension contributions don’t attract an employer match
  – but how much additional saving will they generate?