

# **The intergenerational impact of state and private pensions**

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IES HR Directors' Retreat  
3 May 2018**

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

# Intergenerational pensions

- **The State Pension**

- What is the role of the state pension?
- How well will the state pension support future generations?

- **Private pensions**

- How are private pensions changing by generation?
- Who pays for private pensions?

- **What does this mean for the future?**

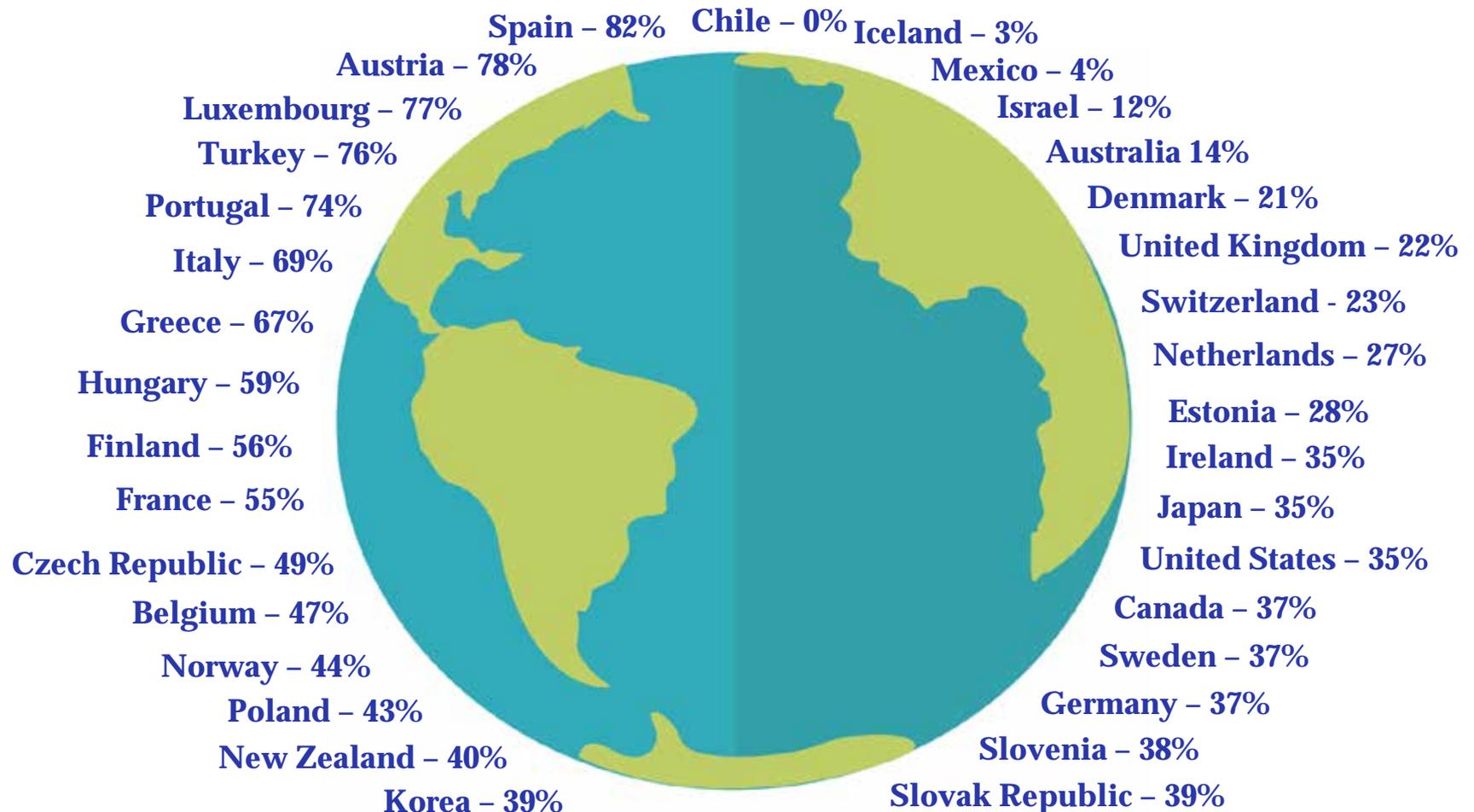
- What will pensions and pension incomes look like in future?

# What are the aims of the State Pension?

- The role of the State Pension has changed over time from its introduction in 1948 from providing a basic level of income, to maintaining living standards, and then back again
- There is a lack of clarity regarding how much income the current basic level is meant to meet as adequacy measures vary.

# The UK State Pension is relatively low

Gross pension replacement rates from mandatory public pension schemes (State Pensions) in OECD countries in 2015

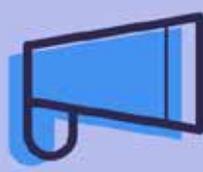


# The value of the bSP reduces during periods of price uprating

BSP and nSP full rates for an individual under age 80 with own National Insurance contributions and average total State Pension receipt in 2017 earnings terms, by year

- Full rate of bSP in 2017 earnings terms
- Full rate of nSP in 2017 earnings terms
- ..... Average receipt



 **State Pension Policy**  
*Aims*

 **Maintain living standards**

 **Provide a basic level of income**

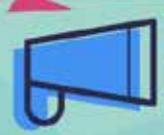
 **Policy Designs**

**Earnings related pension**

**Encourage private saving**

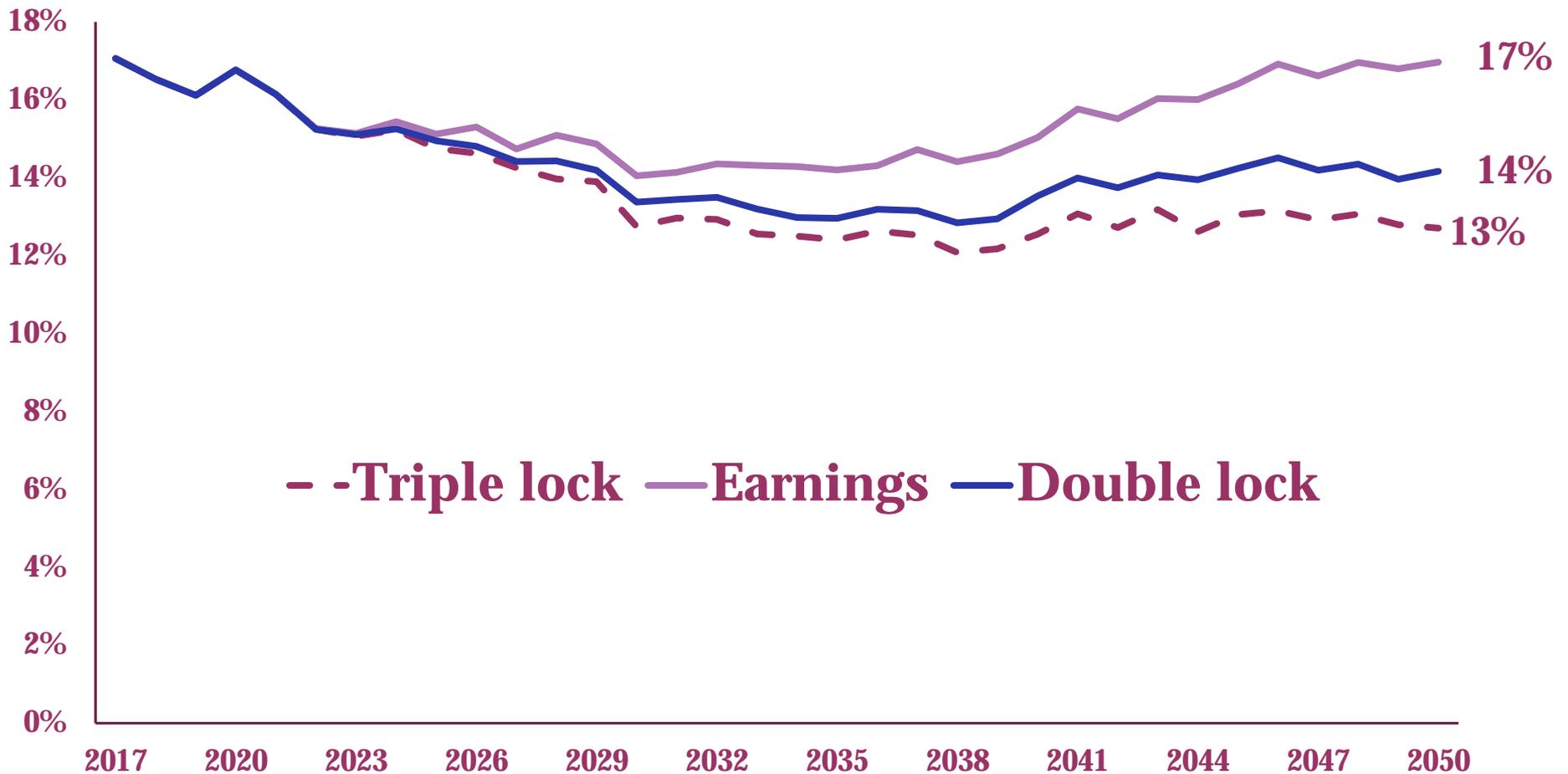
**Flat rate pension**

- Earnings related retirement income**
- May exclude people e.g. self employed**
- Might cost the State more**
- Earnings related retirement income**
- May exclude people e.g. self-employed**
- May need to be compulsory**
- No earnings related retirement income**
- Redistributive**
- Might cost the State more**

 **Policy Trade-offs**

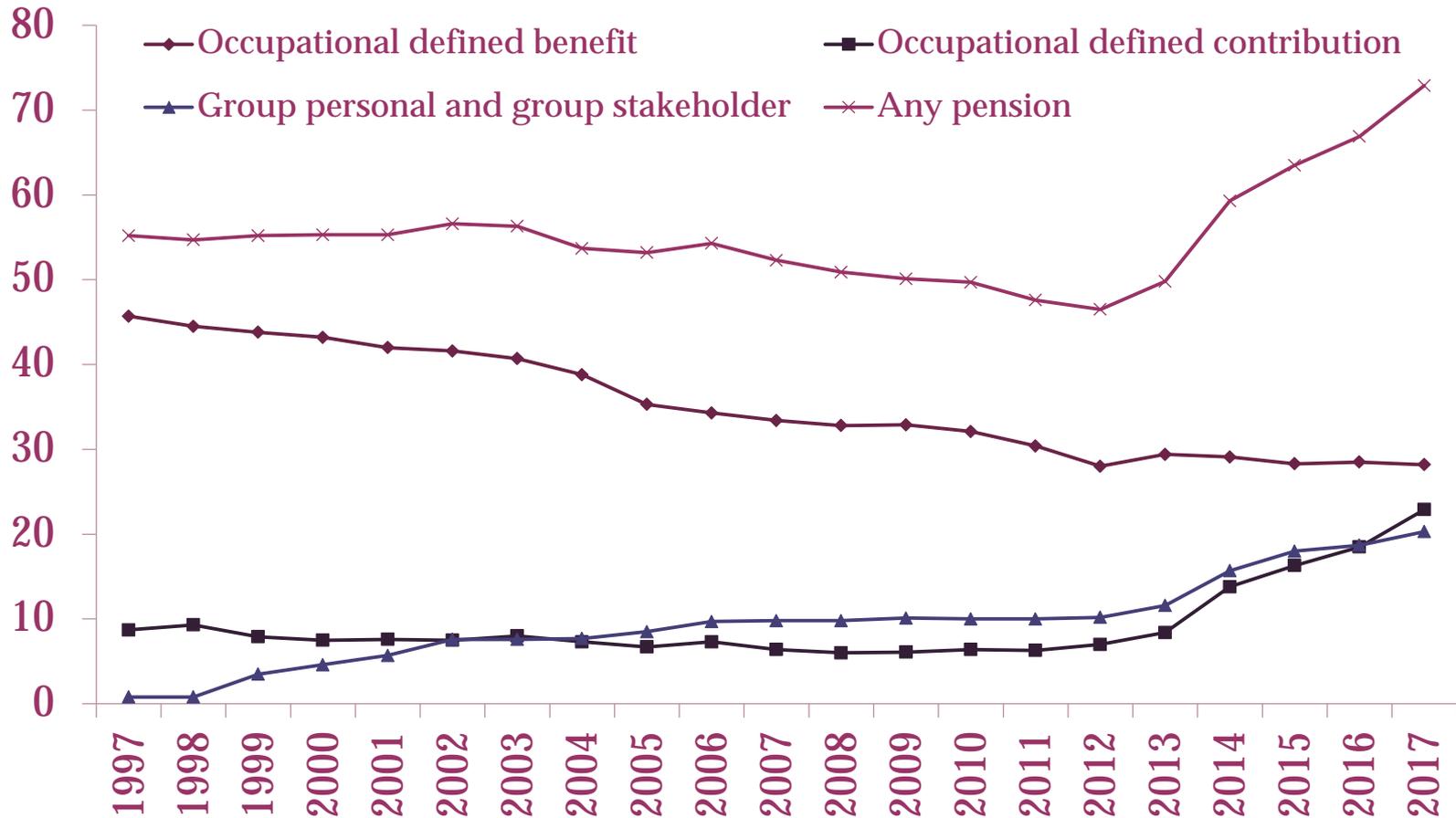
# Pensioner poverty is 1% higher under a double lock and 4% higher under an earnings link than under the triple lock, by 2050

## Proportion of pensioners in relative poverty After Housing Costs under different indexation scenarios by year



# DB pensions have been declining as DC pensions increase

Percentage of eligible employees participating 2004-2017 (ASHE)



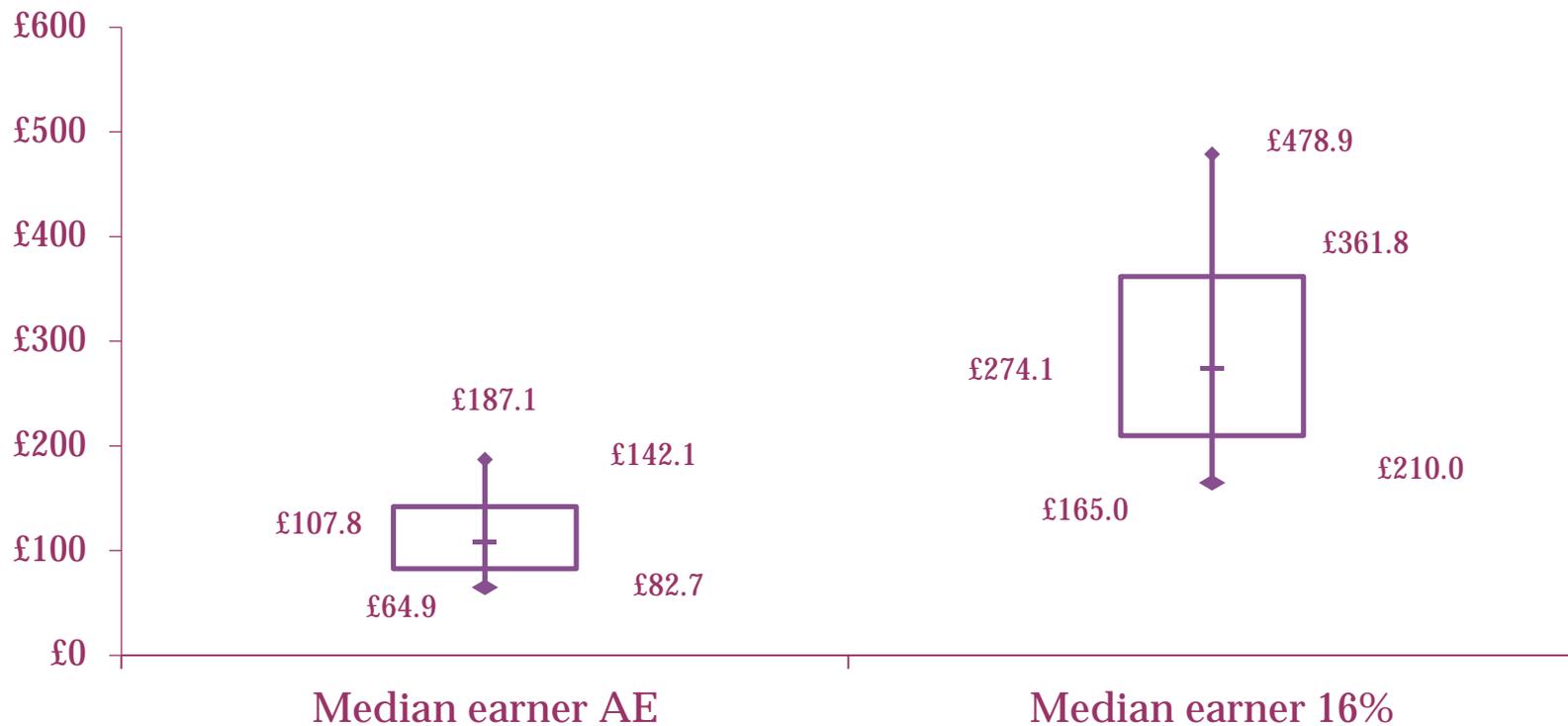
# Automatic enrolment has increased participation in pension savings, especially among younger people

Participation rate in 2012 (pre automatic enrolment) and in 2016 by age group

Age group	Participation rate in 2012	Participation rate in 2016	Change in participation
22-29	36%	72%	36%
30-39	54%	77%	23.4%
40-49	62%	81%	19%
50-SPa	62%	80%	18.1%

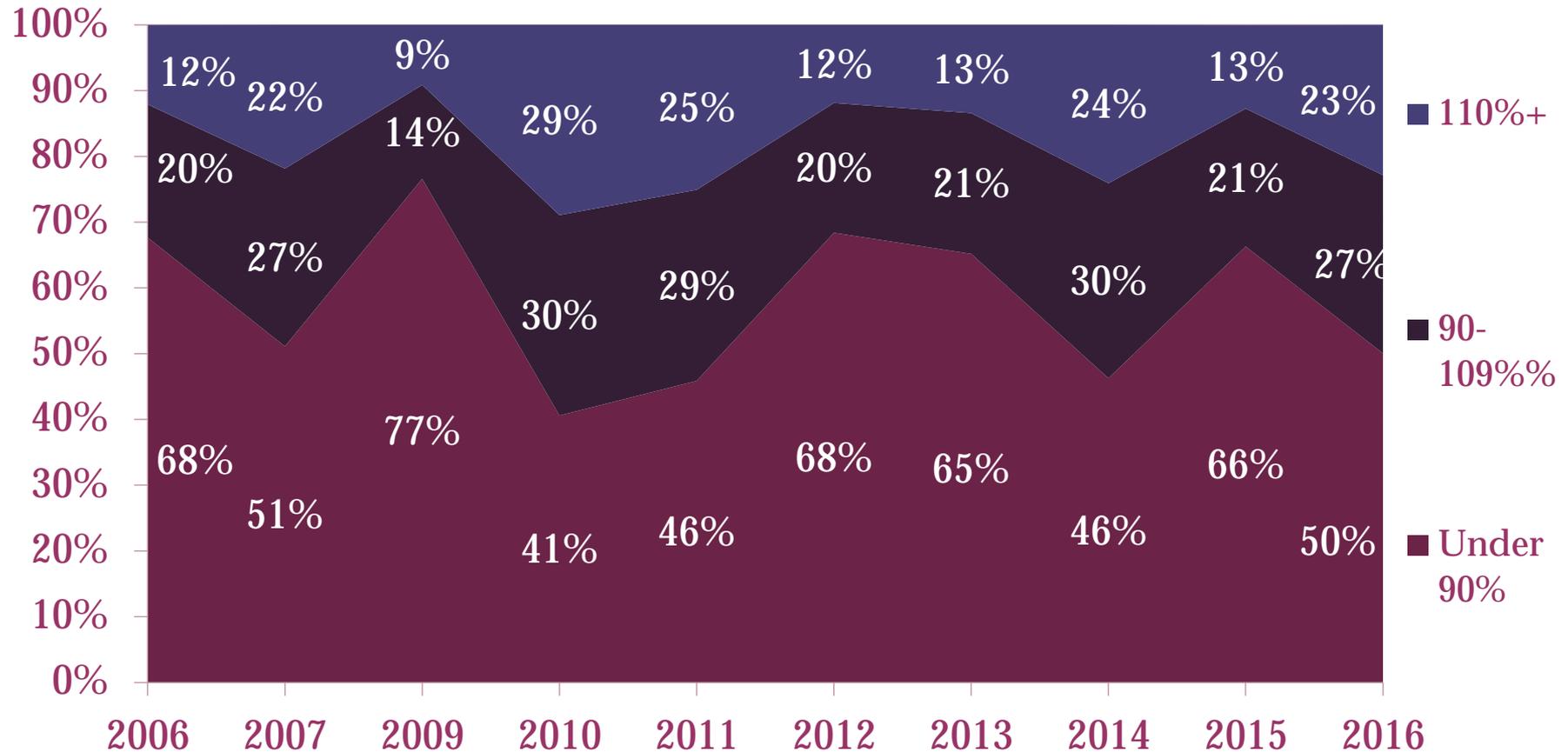
# Higher contributions can improve outcomes significantly

**Distribution of savings outcomes under automatic enrolment minimum contributions, and generous DC pension scheme with 16% contributions**  
*(£,000s in 2017 earnings terms, 75<sup>th</sup> percentile, median and 25<sup>th</sup> percentile results labelled. Results of 3,000 economic scenarios)*



# Funding ratios (s179) improve in 2016, although half of schemes still below 90%

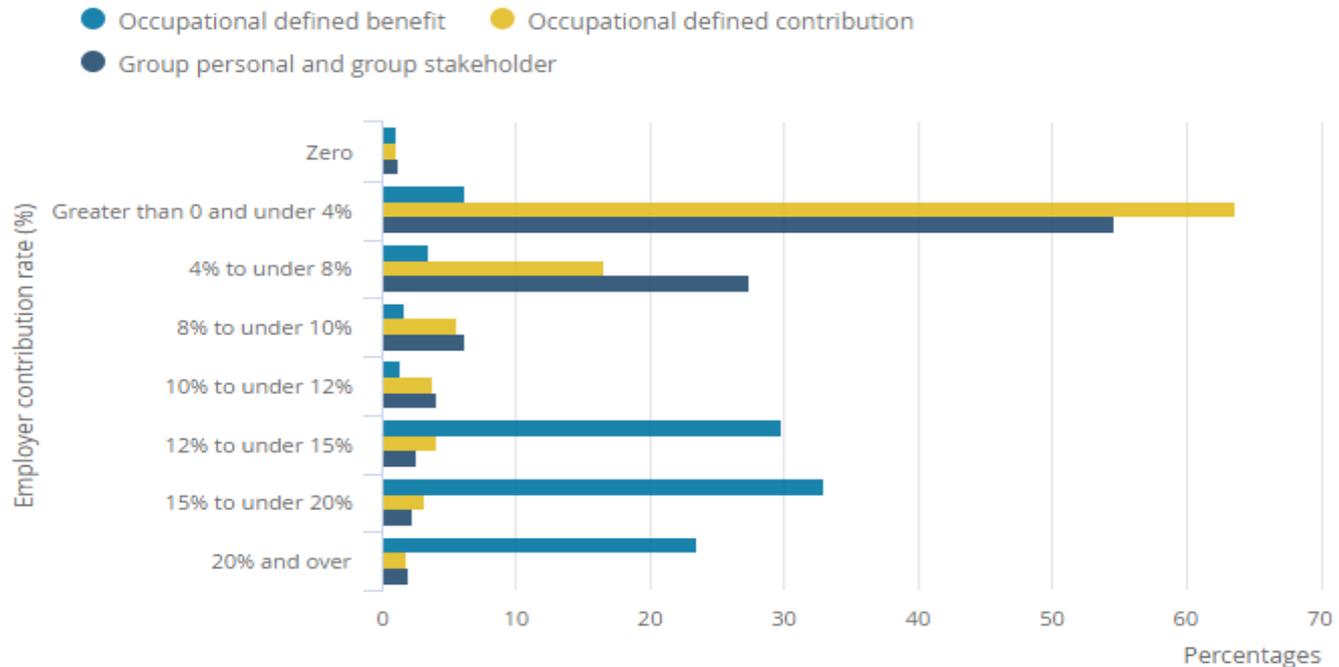
Data from TPR returns (no data for 2008)



# Employer contributions to DC schemes are low compared to DB

**Figure 12: Employees with workplace pensions: by banded rate of employer contribution; and pension type**

UK, 2017

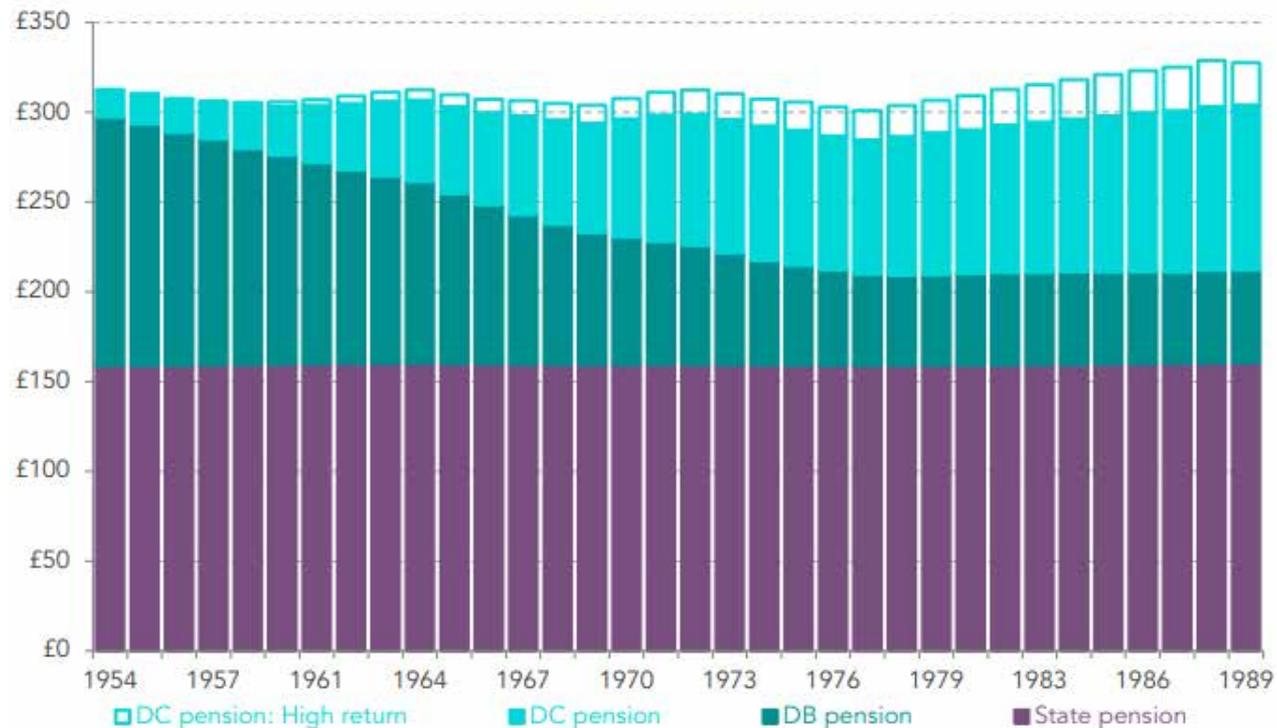


Source: Office for National Statistics, Annual Survey of Hours and Earnings

# Average retirement incomes MAY increase for younger generations

Figure 27: Projections of mean income at retirement, by source and birth cohort: Men, 2020-2060

Gross income, earnings-deflated to 2017-18 prices, five-year rolling average

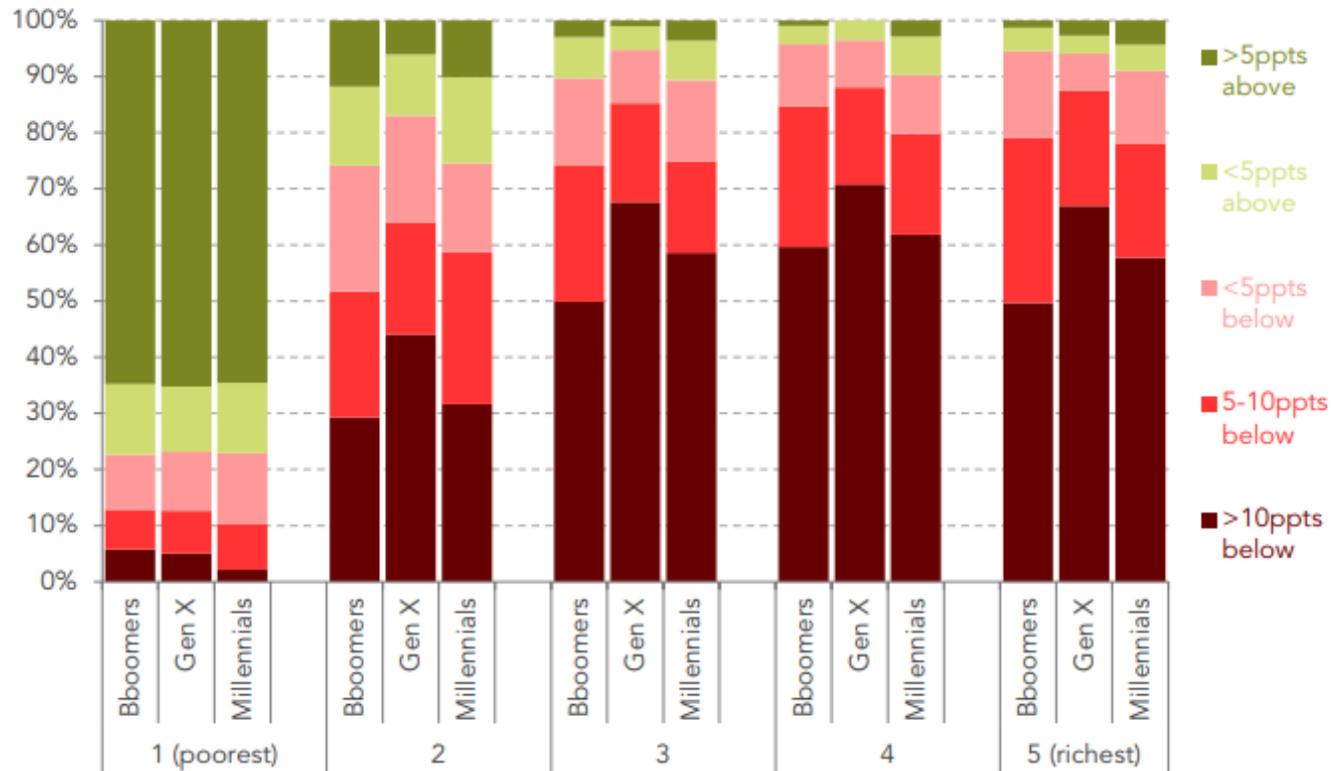


Notes: Analysis covers Great Britain. See Annex 2 for full assumptions.

Source: RF analysis using the RF lifetime model, ONS, ASHENESPD 1975-2016 and the Pensions Policy Institute dynamic model

# Younger generations might not be worse off

Figure 35: Distribution of replacement rates in comparison to Pensions Commission adequacy benchmarks, by generation and earnings quintile: 2020-2060



Notes: Earnings quintiles are calculated by ranking the average of positive earnings 15 years before State Pension age and in constant-earnings terms. Analysis covers Great Britain. See Annex 2 for full assumptions.

Source: RF analysis using the RF lifetime model, ONS, ASHENESPD 1975-2016 and the Pensions Policy Institute dynamic model