

The Pensions Review

20 April 2023

One Birdcage Walk

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The Pensions Review, led by the Institute for Fiscal Studies in partnership with abrdn Financial Fairness Trust



The Pensions Review

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Challenges for the UK Pension System: The Case for a Pensions Review

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Huge changes since 2005



Macroeconomic instability caused by the Great Recession and a pandemic

Falls in long-run risk-free interest rates and other asset returns

Growth in self-employment (not covered by AE)

Declining home ownership, growth of private rented sector

Stalling life expectancy in 2010s

Further falls in prevalence of defined benefit schemes

Attempts to facilitate collective defined contribution arrangements

“Pension Freedoms”

Working age benefits less generous

Changing balance of ISA / pension annual allowance

New triple-locked flat rate state pension

Acceleration of the increase in state pension age

Key challenges facing future pensioners

1. Many people are only saving very little for retirement
2. Increasing numbers approaching retirement live in the more expensive, insecure private rented sector
3. Higher state pension ages pose difficulties for many
4. More state support would help, but demographic and other pressures on the public finances are already considerable
5. Difficulty and risk in managing finances through retirement

Cross cutting challenge: increased risk borne by individuals



**1) Many people are only
saving very little for
retirement**

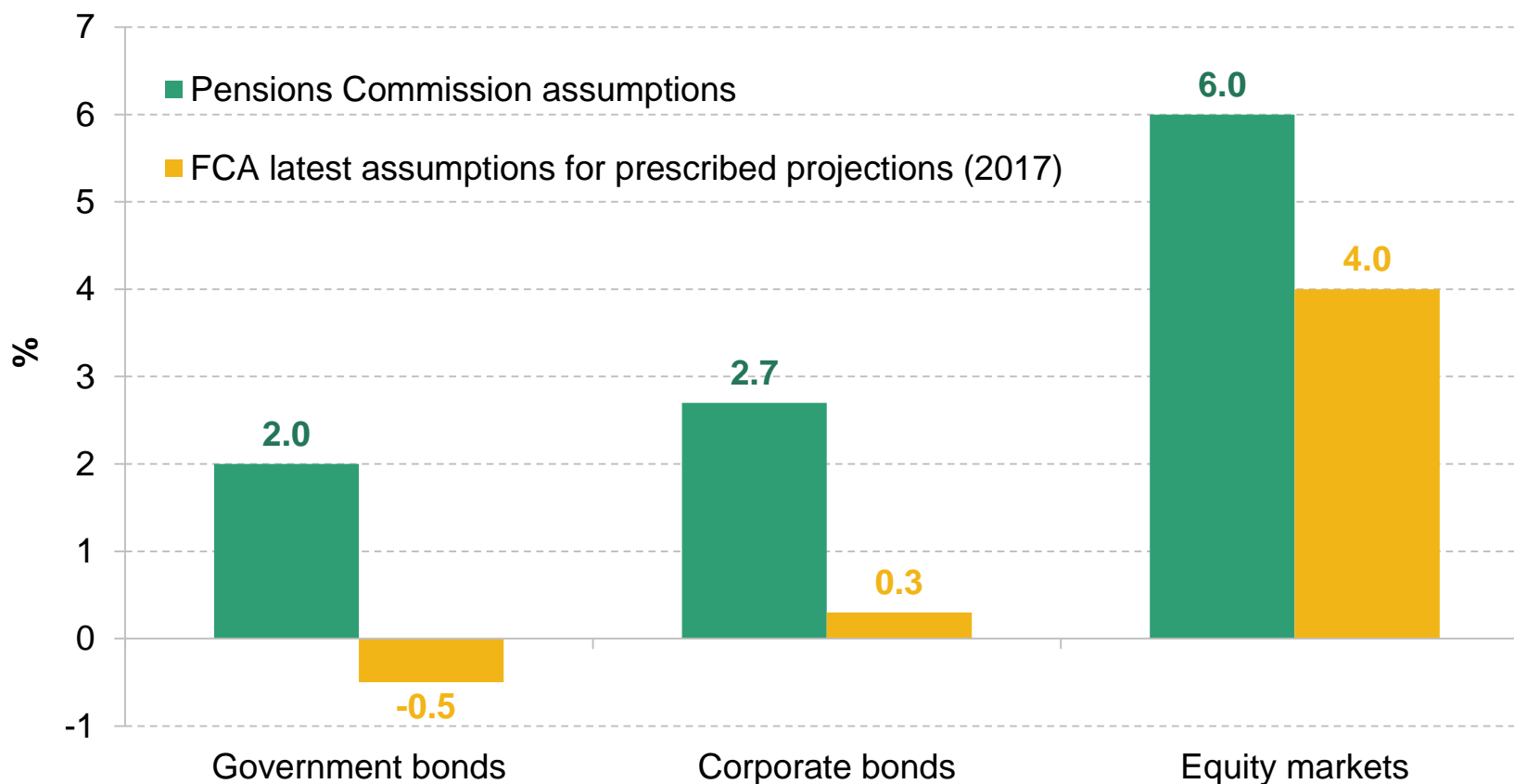
AE had a huge impact on pension participation – driven by DC schemes

Proportion of private sector employees participating in DB and DC schemes



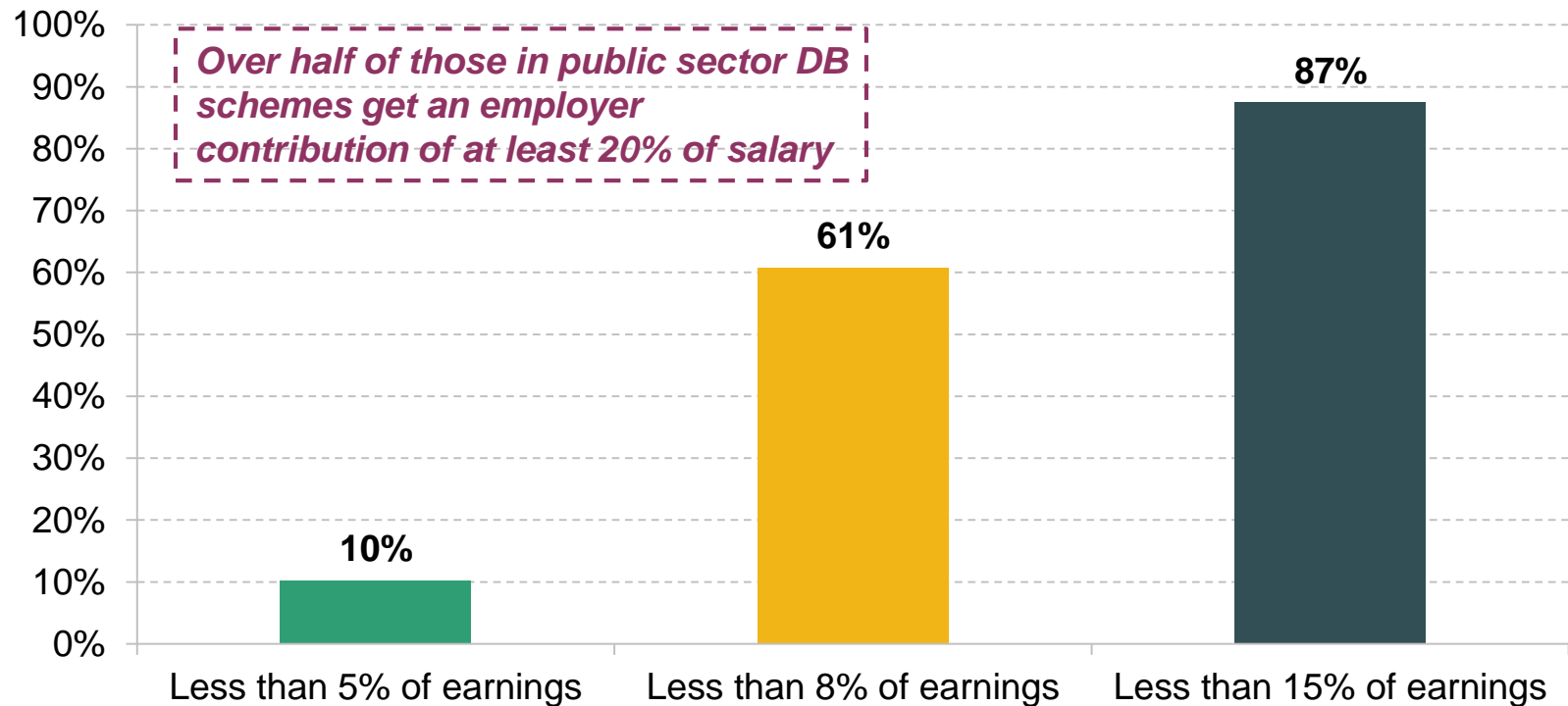
Rates of return have fallen

Projected annual real rates of returns



Amounts saved into pensions are on average low

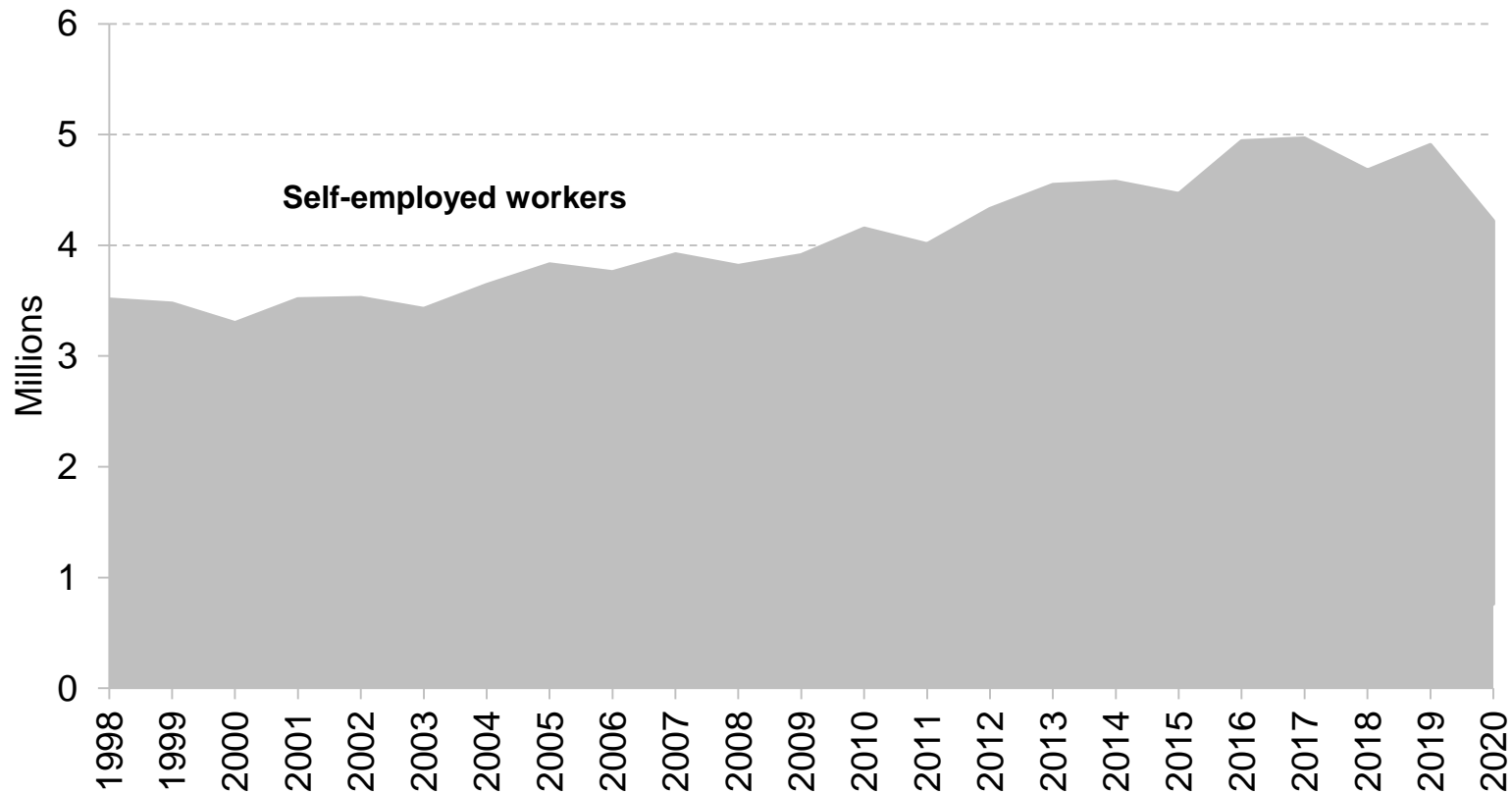
Proportion of private sector employees in the middle earnings quintile (saving in a pension), with given total contribution rates of pre-tax earnings



Source: Adapted from Cribb, Emmerson, Johnson, Karjalainen and O'Brien, 2023. Figure 4. Data from 2019.

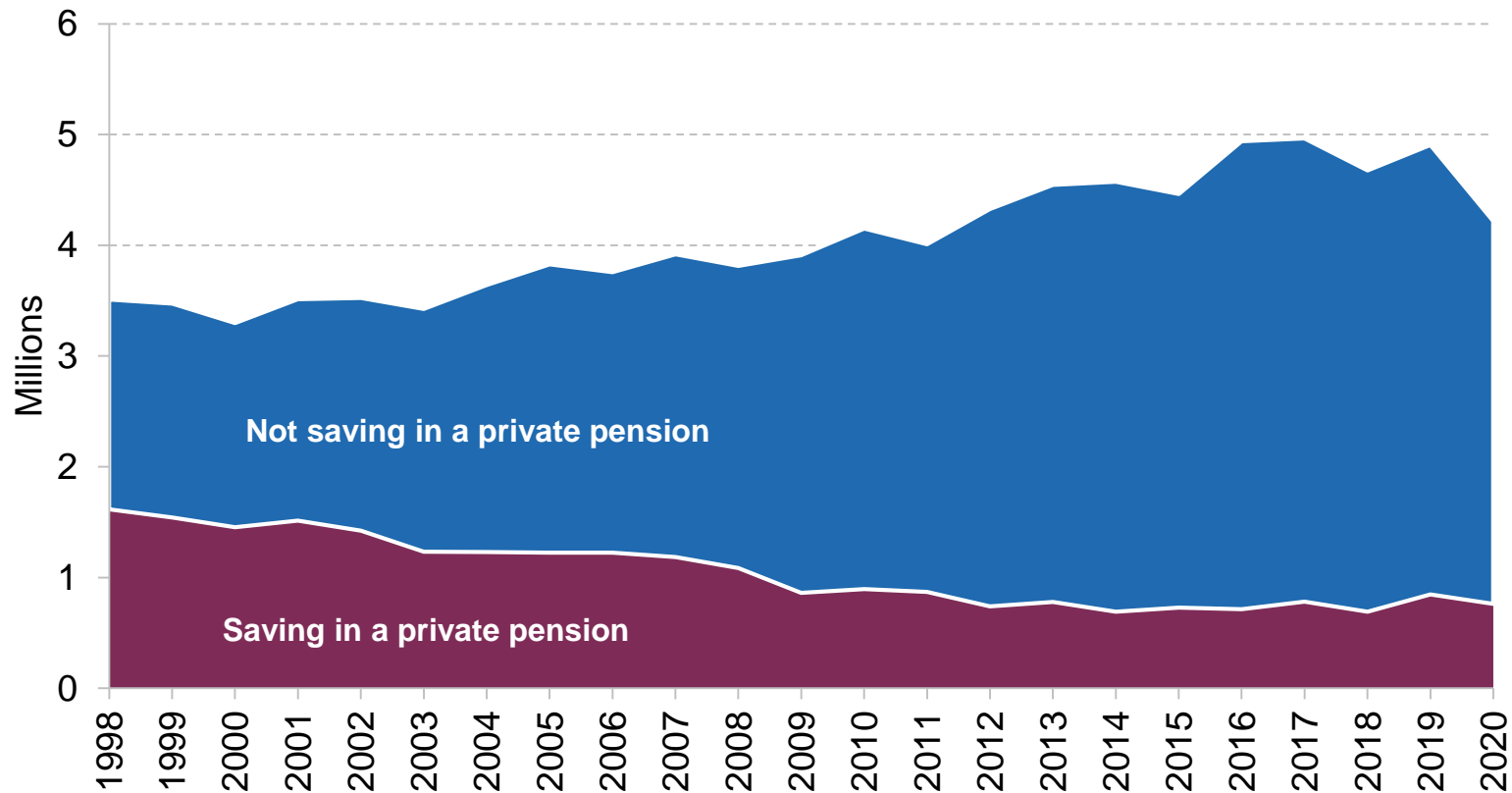
Many, especially self-employed, are not saving in a private pension

Number of self-employed people participating, and not participating in a private pension scheme, 1998-2020



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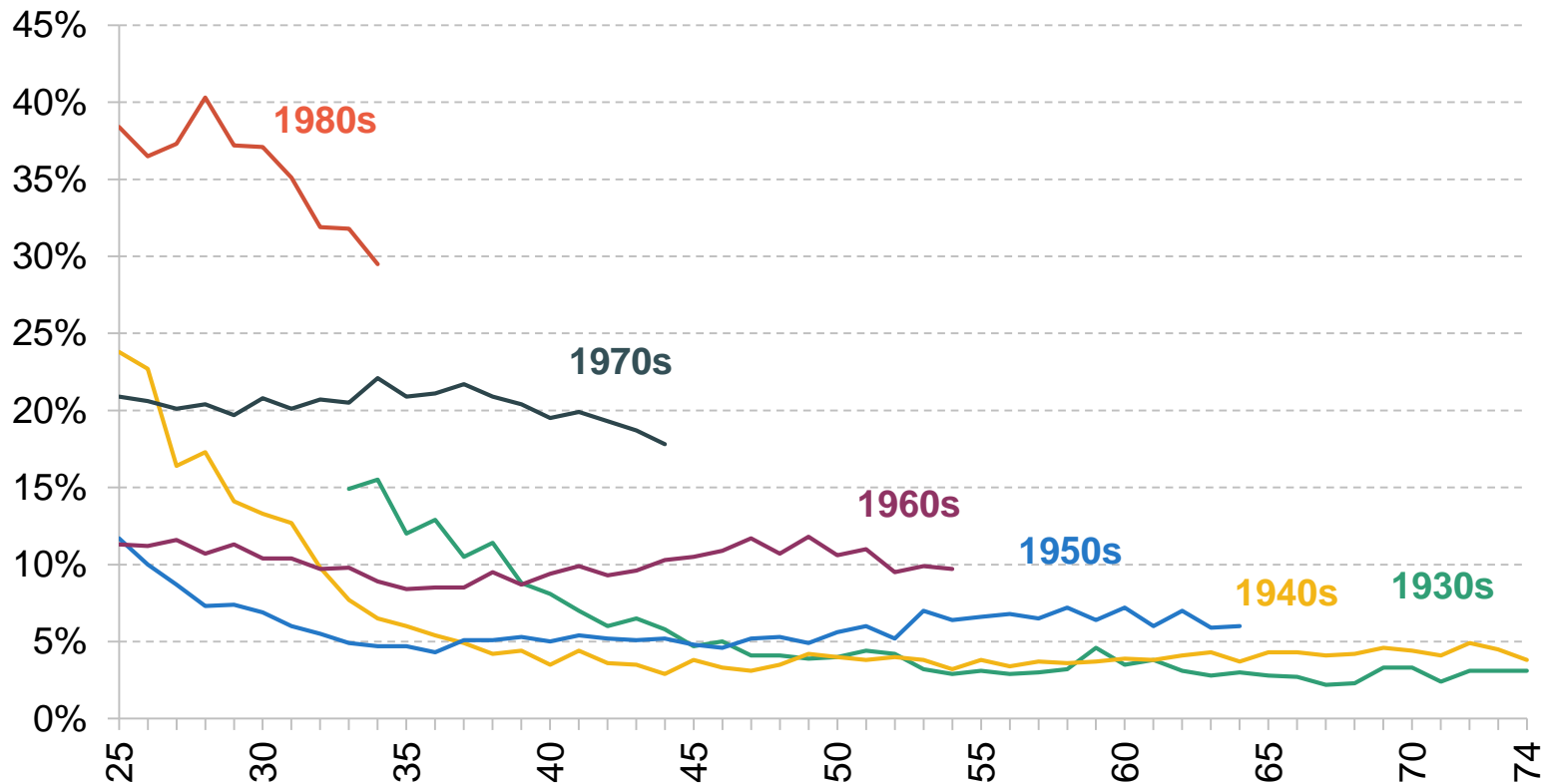




2) Increasing numbers living in private rented accommodation

Younger generations much more likely to be private renters

Proportion of people living in private rented accommodation, by age and decade of birth





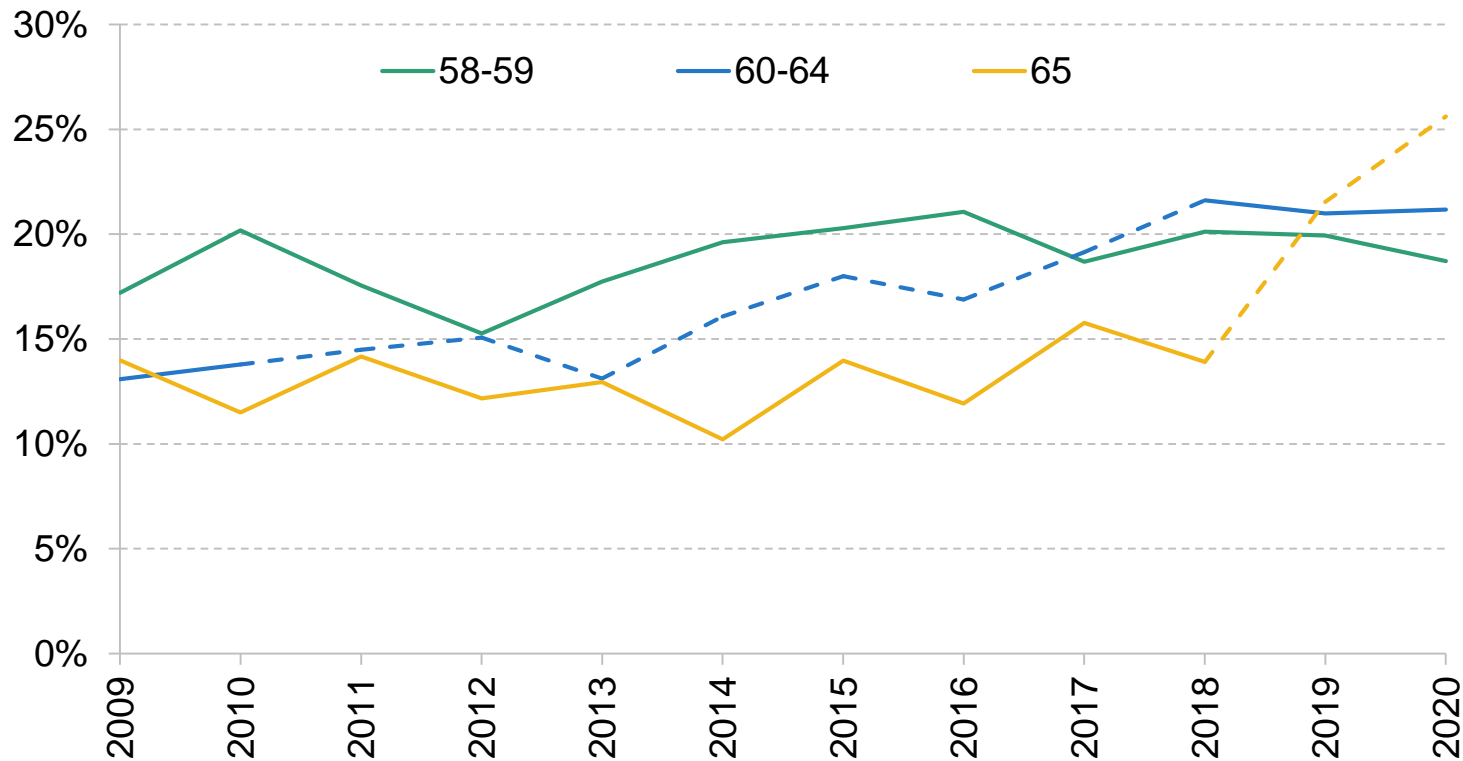
**3) Higher state pension
ages pose difficulties for
many**

Increase in the state pension age

- Increasing the state pension age is one coherent response to the public finance challenge from increased longevity
 - But rising state pension age can lead to challenges for affected age groups
- Increase in SPA from 65 to 66 led to an additional 8 out of 100 65-year-olds being in paid work
 - Changes behaviour for some, but not all
- Increasing SPA will cause financial risks for people who find it difficult to delay retirement in response to increased SPA
 - Those in poor health
 - Those with caring responsibilities
 - Those involuntarily unemployed

Previous increases in SPA have led to higher poverty rates

Relative income poverty rates for **women**, by age (dashed lines indicate period of SPA increase)

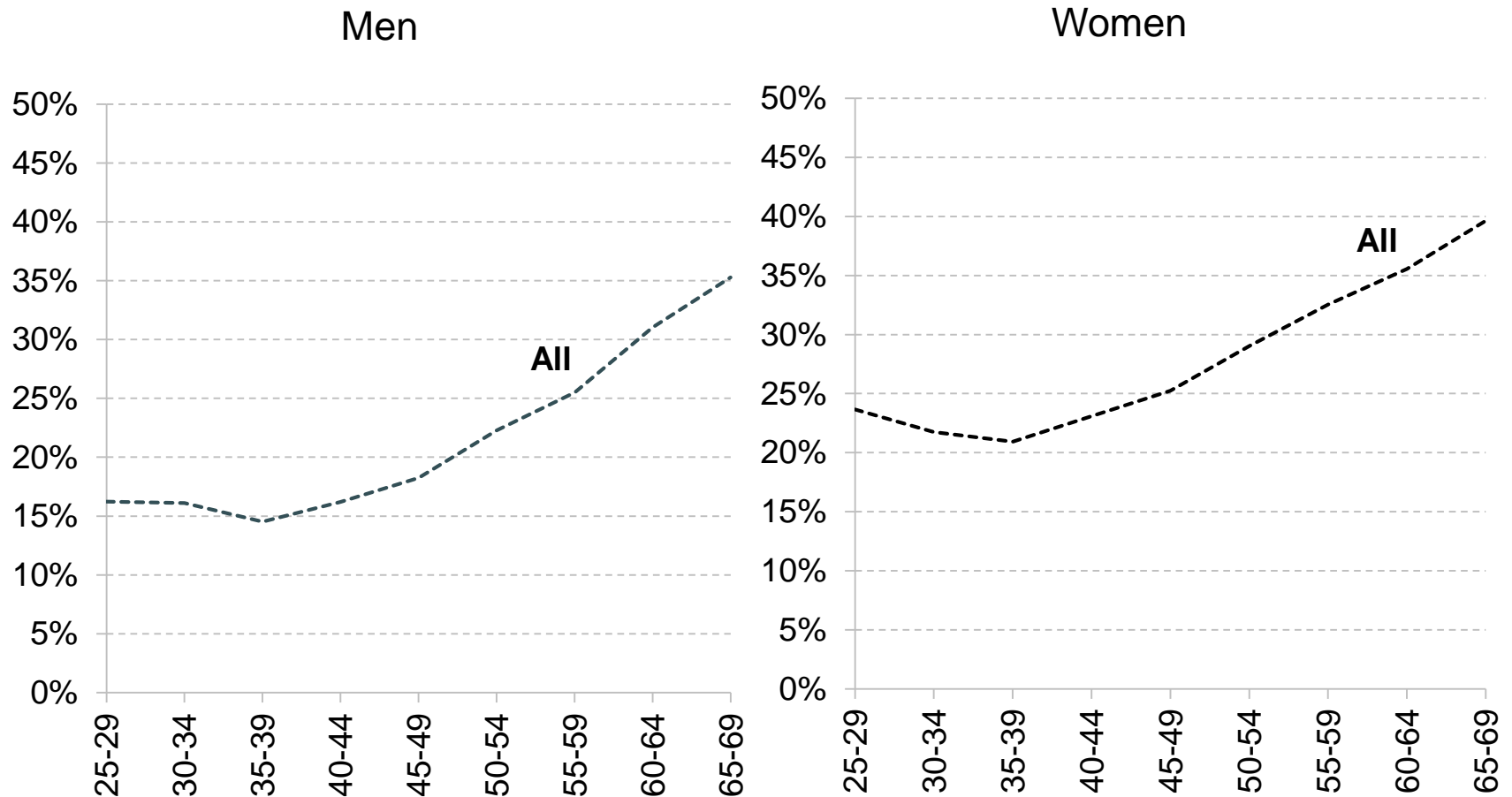


Note: After accounting for housing costs.

Source: Adapted from Cribb, Emmerson, Johnson, Karjalainen and O'Brien, 2023. Figure 10.

High levels of disability around state pension age

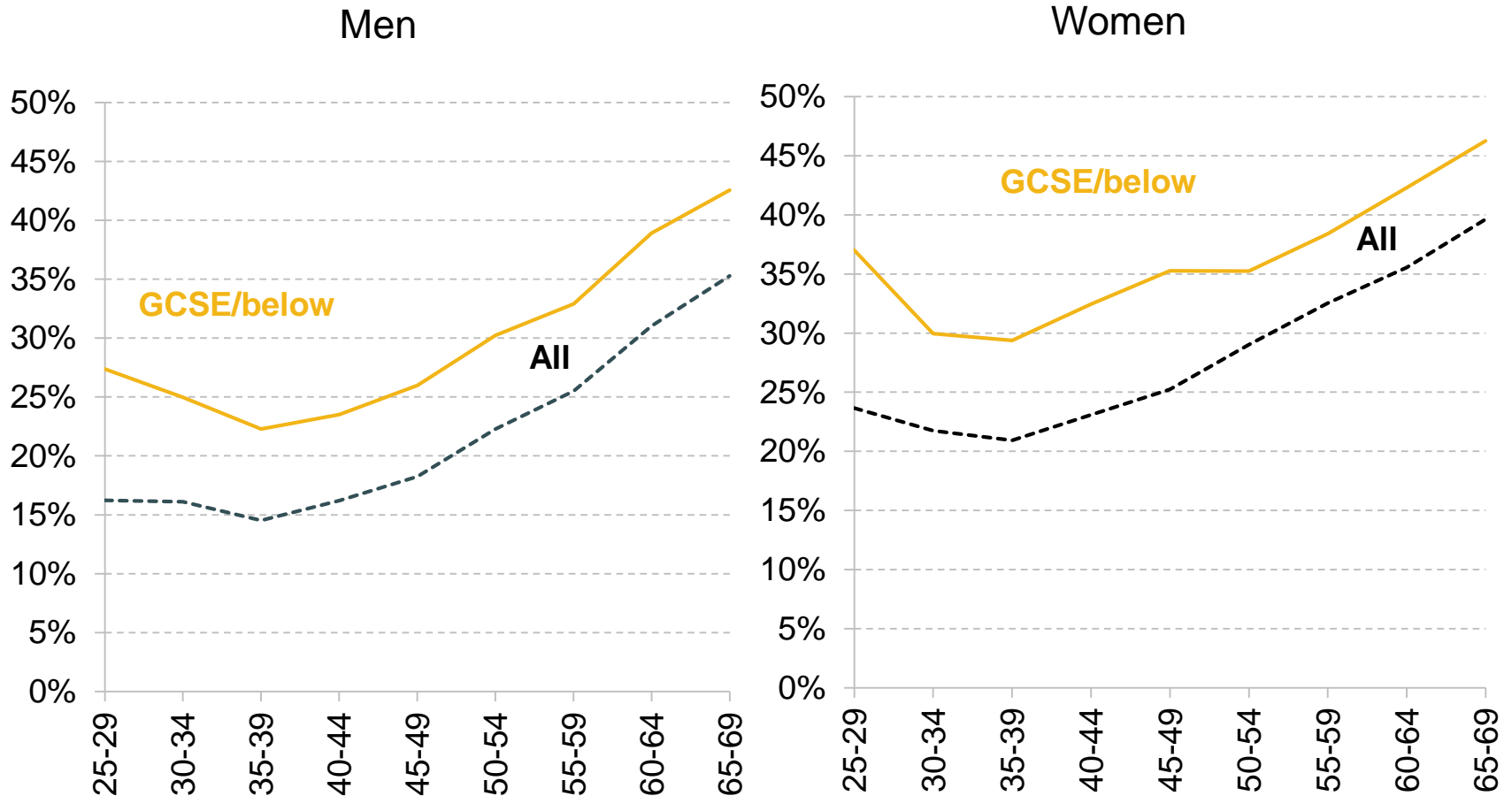
Proportions disabled, by age, sex, and education, in 2022



Source: Adapted from Cribb, Emmerson, Johnson, Karjalainen and O'Brien, 2023. Figure 11.

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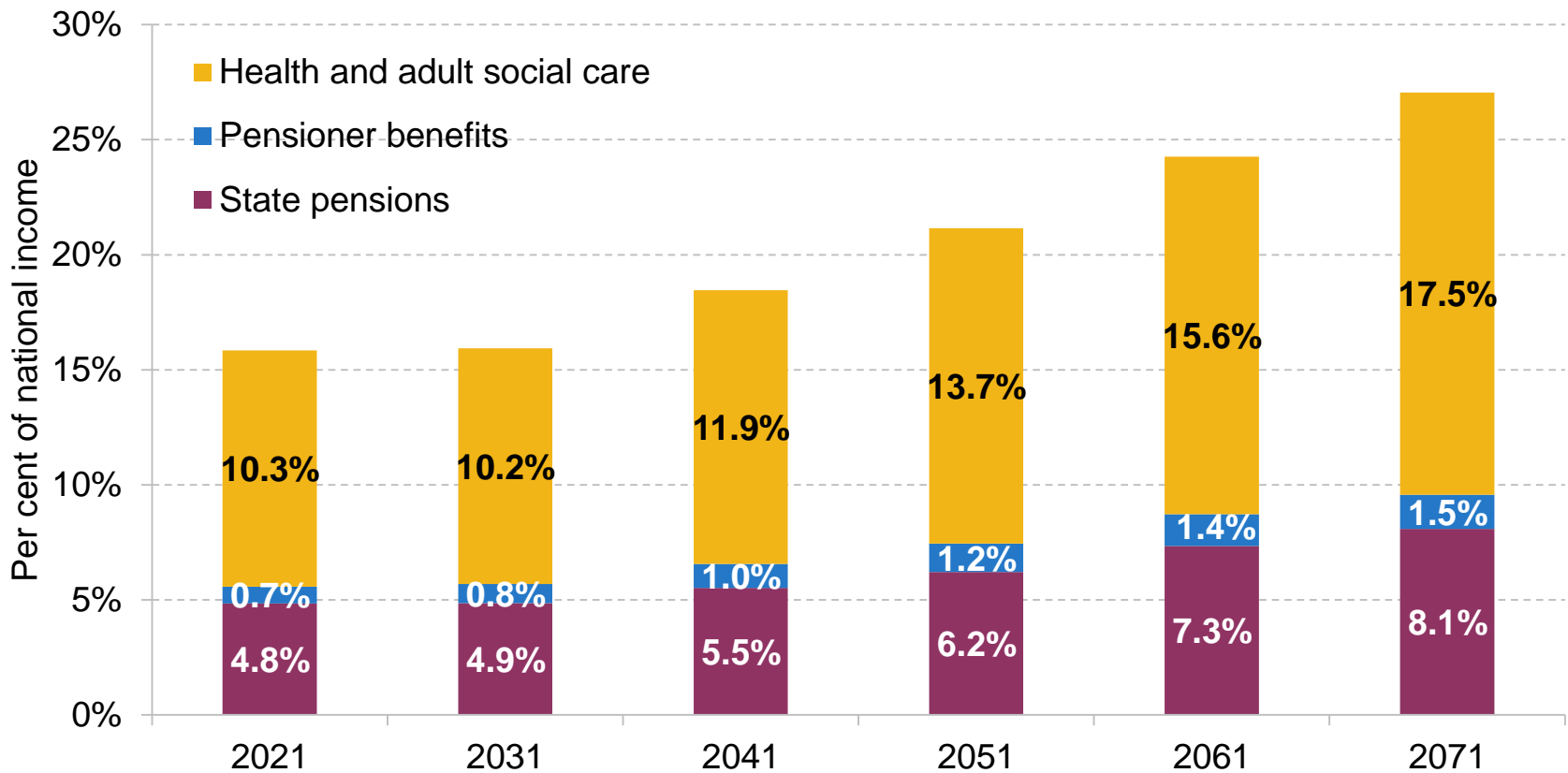
Source: Adapted from Cribb, Emmerson, Johnson, Karjalainen and O'Brien, 2023. Figure 11.



4) Significant pressure on public finances in coming decades

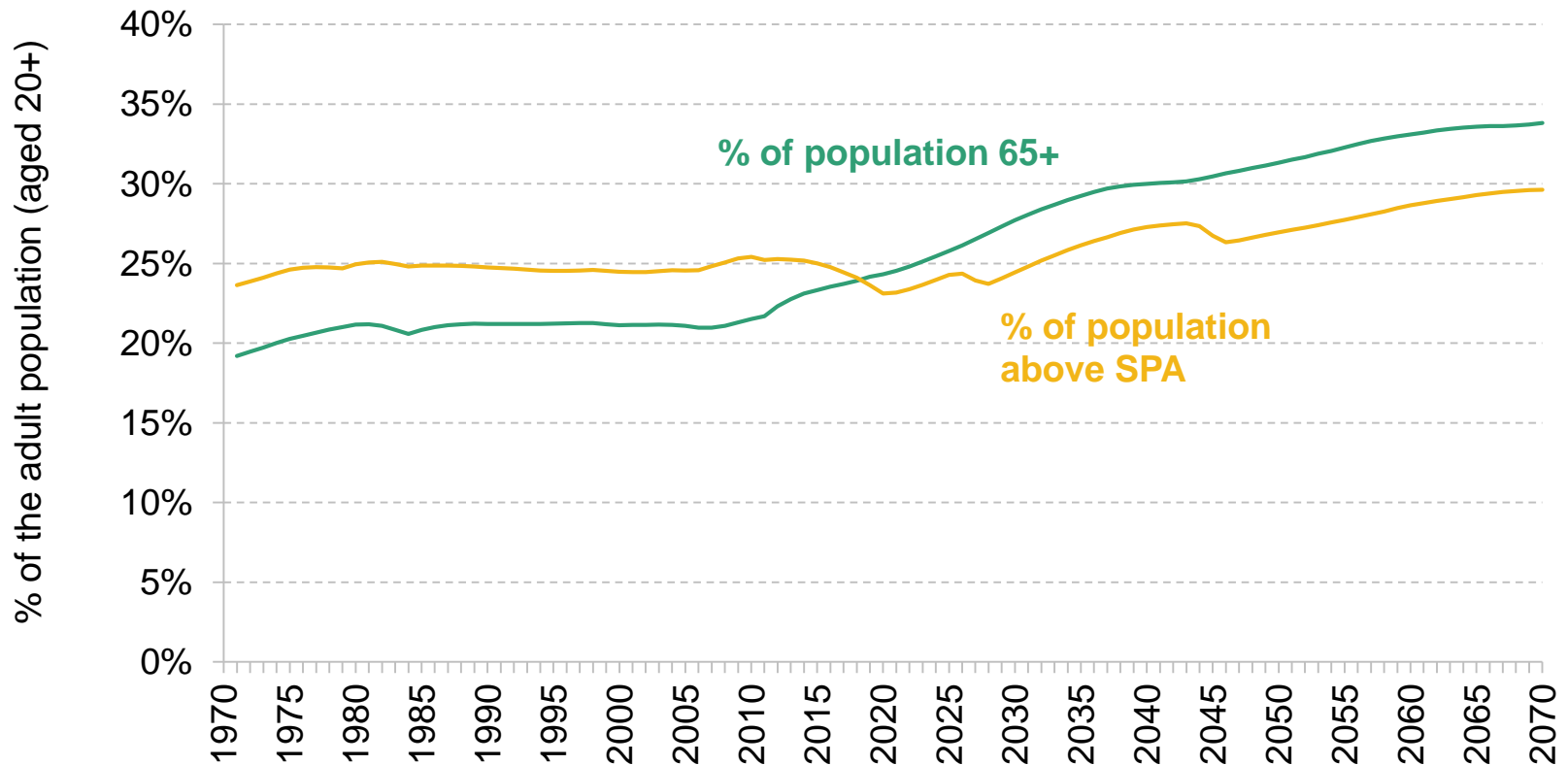
Forecasts show spending on pensions will increase dramatically

OBR projections for public spending, 2021 to 2071



First large rise in % of adult population over SPA coming in 2030s

Percentage of the adult population aged 65 or over, or above state pension age, 1971 to 2020 (out-turn) and to 2070 (projected)





5) Difficulty and risk in managing finances through retirement

Annuity purchases fallen, exposing people to more longevity risk

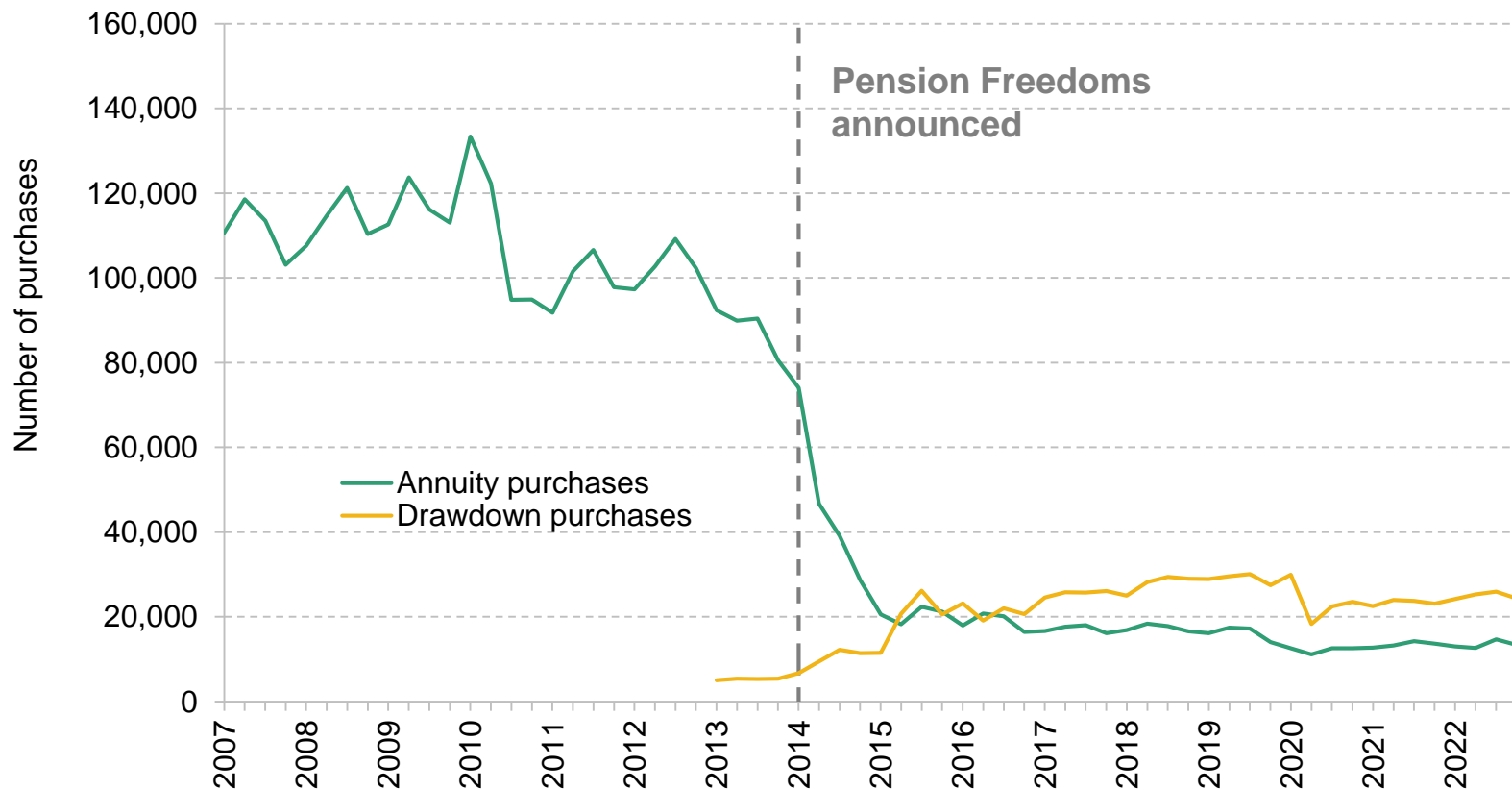
Number of annuity and drawdown purchases, 2007 to 2022



Source: Cribb, Emmerson, Johnson, Karjalainen and O'Brien, 2023. Figure 15.
Data from the Association of British Insurers (ABI), copyright of ABI.

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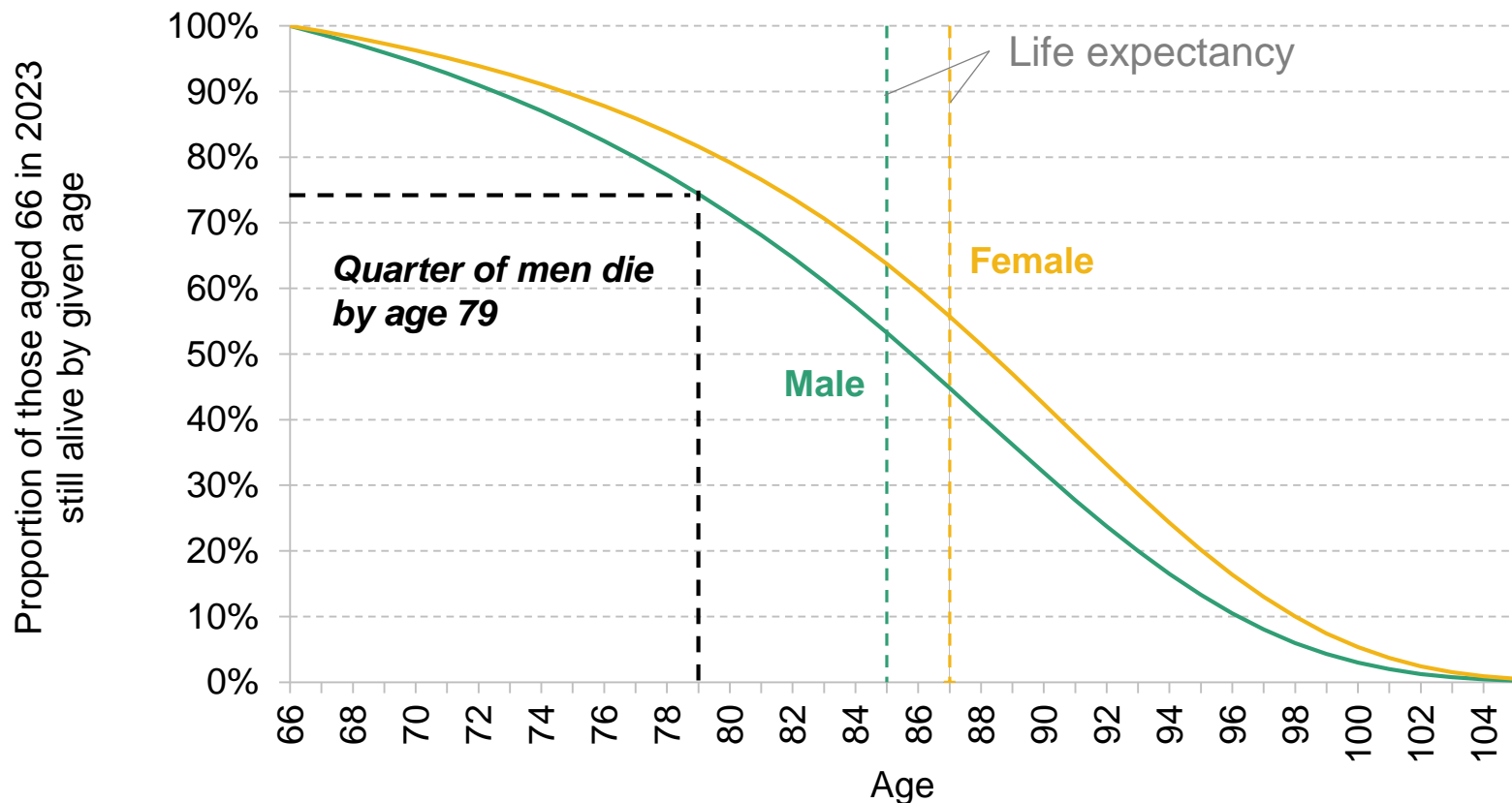
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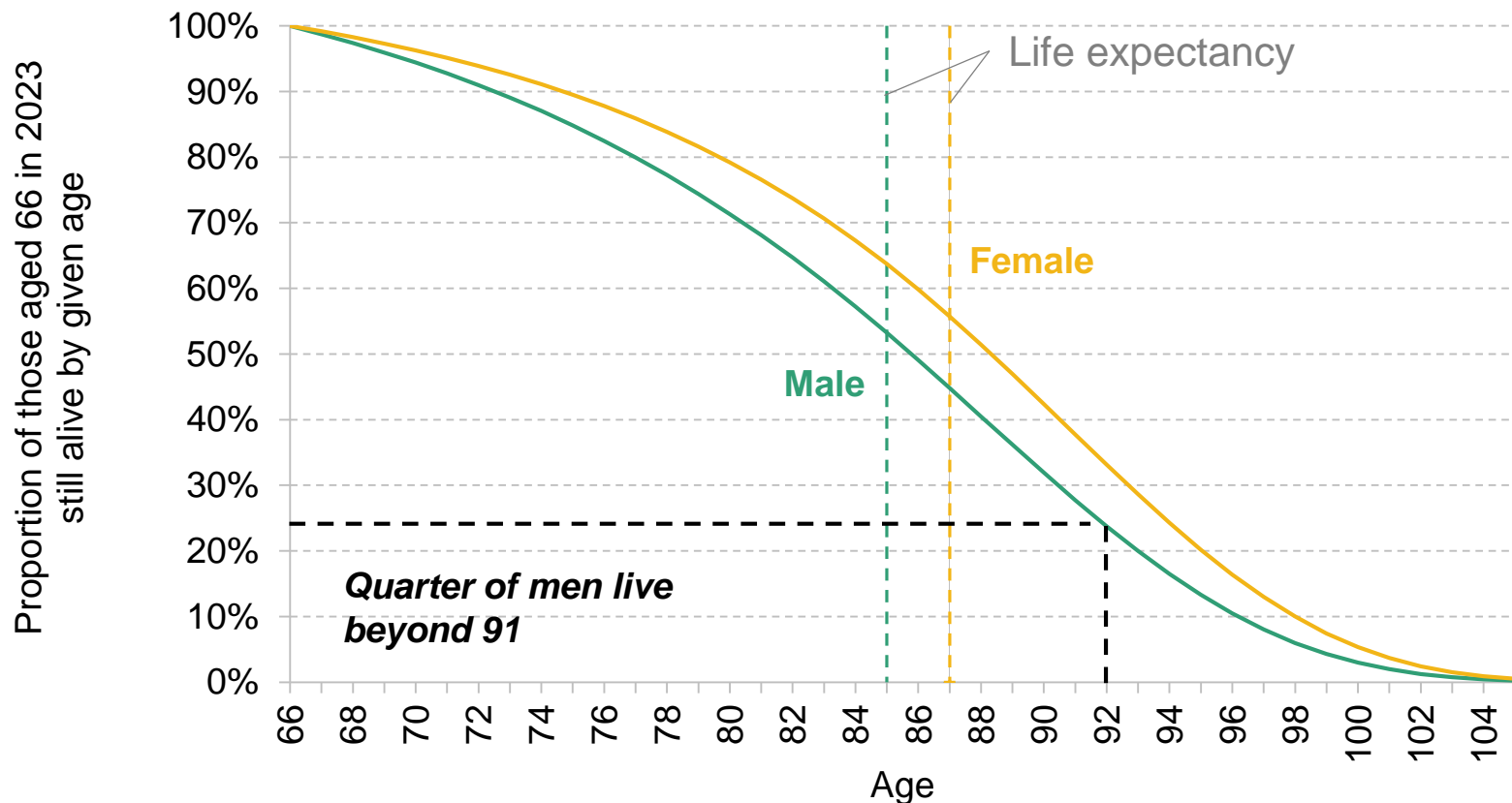
Uncertainty around life expectancy makes planning difficult

Survival curve of those aged 66 in 2023



Uncertainty around life expectancy makes planning difficult

Survival curve of those aged 66 in 2023





Risks borne by individuals in the current system

Risks associated with pensions

- Pension planning is inherently complicated, and requires dealing with different risks and uncertainty over an extremely long time period
 - Longevity risk
 - Investment risk and annuities market risks
 - Potential policy change
- Making decisions around saving also requires financial literacy and understanding of financial products
- A key change in UK pensions has been a **risk transfer**
 - Risks associated with pension saving have been increasingly transferred from the state, employer, and insurance firms towards the individual
- Individuals now required to make active and complex decisions around accumulation and decumulation



The Pensions Review

The Pensions Review



- Multi-year IFS-led review of pensions in the UK and the future of financial security in retirement
 - In partnership with abrdn Financial Fairness Trust
 - Directed by Jonathan Cribb, Carl Emmerson, and Paul Johnson
- Focus on the challenges ahead for future generations of pensioners and propose concrete policy recommendations
 - We will be synthesising existing and emerging evidence, producing new empirical analysis and undertaking detailed modelling work
- We are going to be publishing a series of reports from autumn 2023 to early 2025
- Launch final recommendations and policy options for reform in early summer 2025

Three key strands of work

1. Are people saving appropriately for retirement, both in terms of the amount and the form of saving, and if not, how can government policies help?
2. Does the state appropriately support people from late working life and through retirement?
3. Do people require more assistance to use their wealth appropriately through retirement, and if so how should that assistance be provided?

The next two years

- We will engage with various stakeholders in order to
 - Assess the views of the general public
 - Benefit from views and expertise of policymakers, pensions industry, trade unions, employers and consumers
- Examples of engagement and dissemination activities:
 - Opinion polling and public engagement commissioned by abrdn Financial Fairness Trust
 - Meetings with stakeholders
 - Public events
- Contact pensionsreview@ifs.org.uk if there is something useful we should know!

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