The Pensions Review

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Presentation at NIESR Conference "Demographics and Finance"

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@TheIFS

Improving pension outcomes

Institute for Fiscal Studies

Economic and Social Research Council

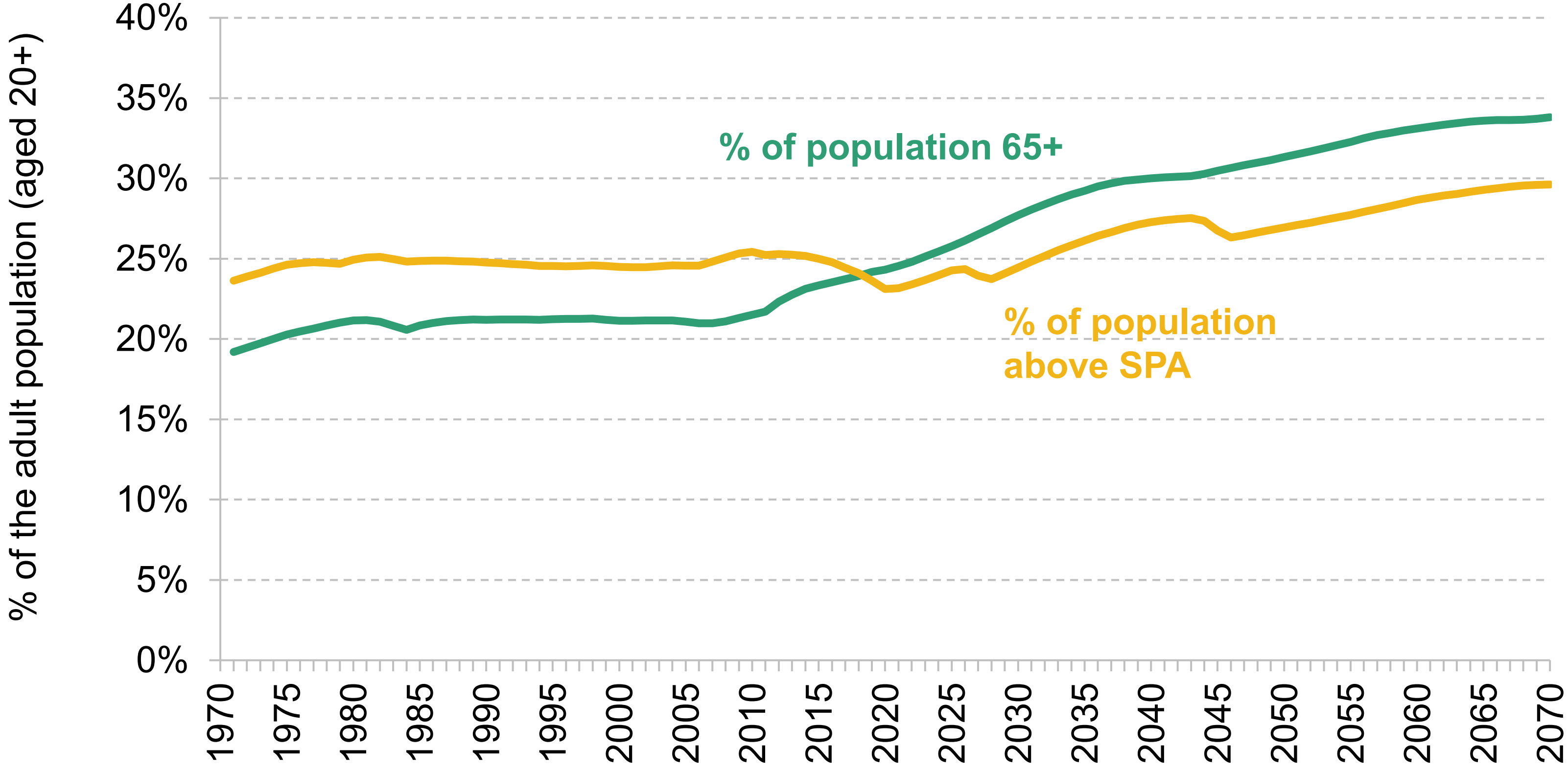
Challenges

- Ageing population adds pressure on public finances and there is a lack of trust in the future of the state pension
- Around 20% of private sector employees and 80% of self-employed are not saving in a private pension
- Significant minority of those saving in DC pensions are set to miss a standard benchmark for an adequate retirement income
- People managing DC pension pots through retirement face too many complex decisions over their (often numerous) pension pots
- Significant rises in income poverty for those in their early 60s following state pension age increases
- Growing numbers of older people living in more expensive and less secure private rented accommodation

State pension

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

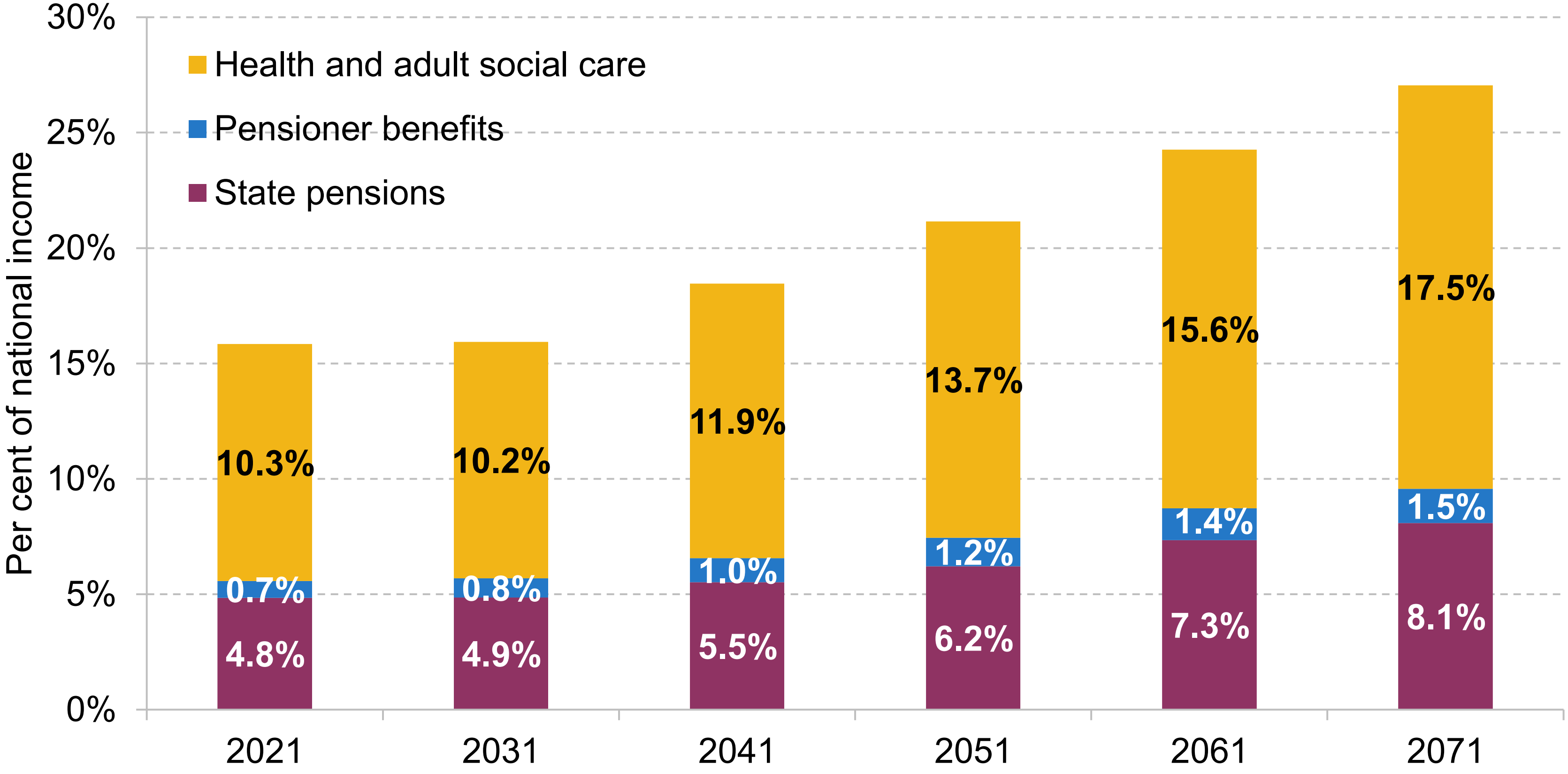
Percentage of the adult population aged 65 or over, or above state pension age, 1971 to 2020 (out-turn) and to 2070 (projected)



Source: Cribb, Emmerson, Johnson, Karjalainen and O'Brien, 2023. Figure 13.

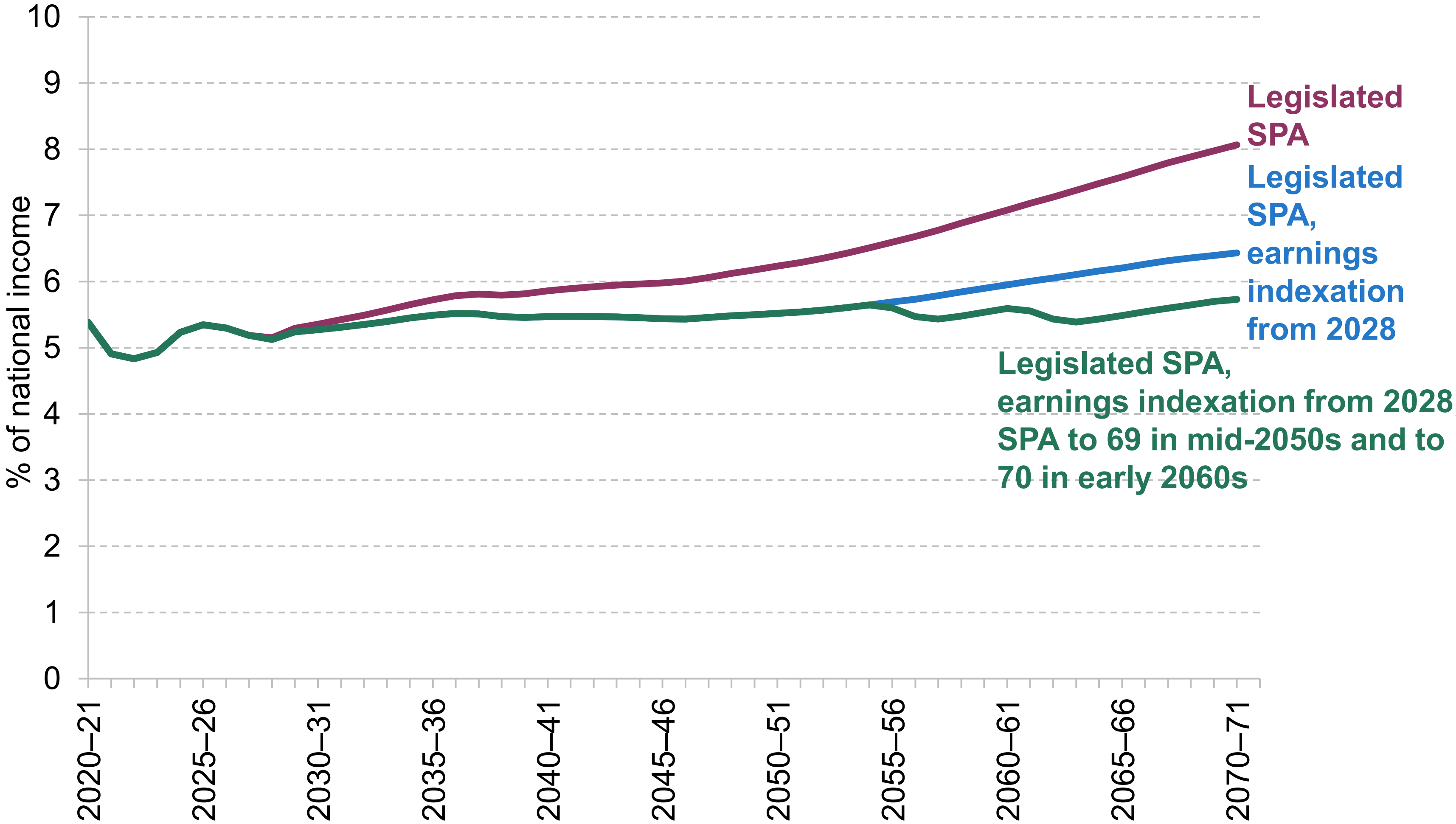
Forecasts show spending on pensions will increase dramatically

OBR projections for public spending, 2021 to 2071



Source: Cribb, Emmerson, Johnson, Karjalainen and O'Brien, 2023. Figure 12.

Limiting projected increase in state pension spending



Source: Cribb, Emmerson and Karjalainen (2025).

Change to SPA vs to indexation

% change in **men's** total lifetime state pension income from increase in **SPA from 66 to 67**, and move from **triple-lock to earnings indexation**

Source: Cribb, Emmerson and Karjalainen (2025).

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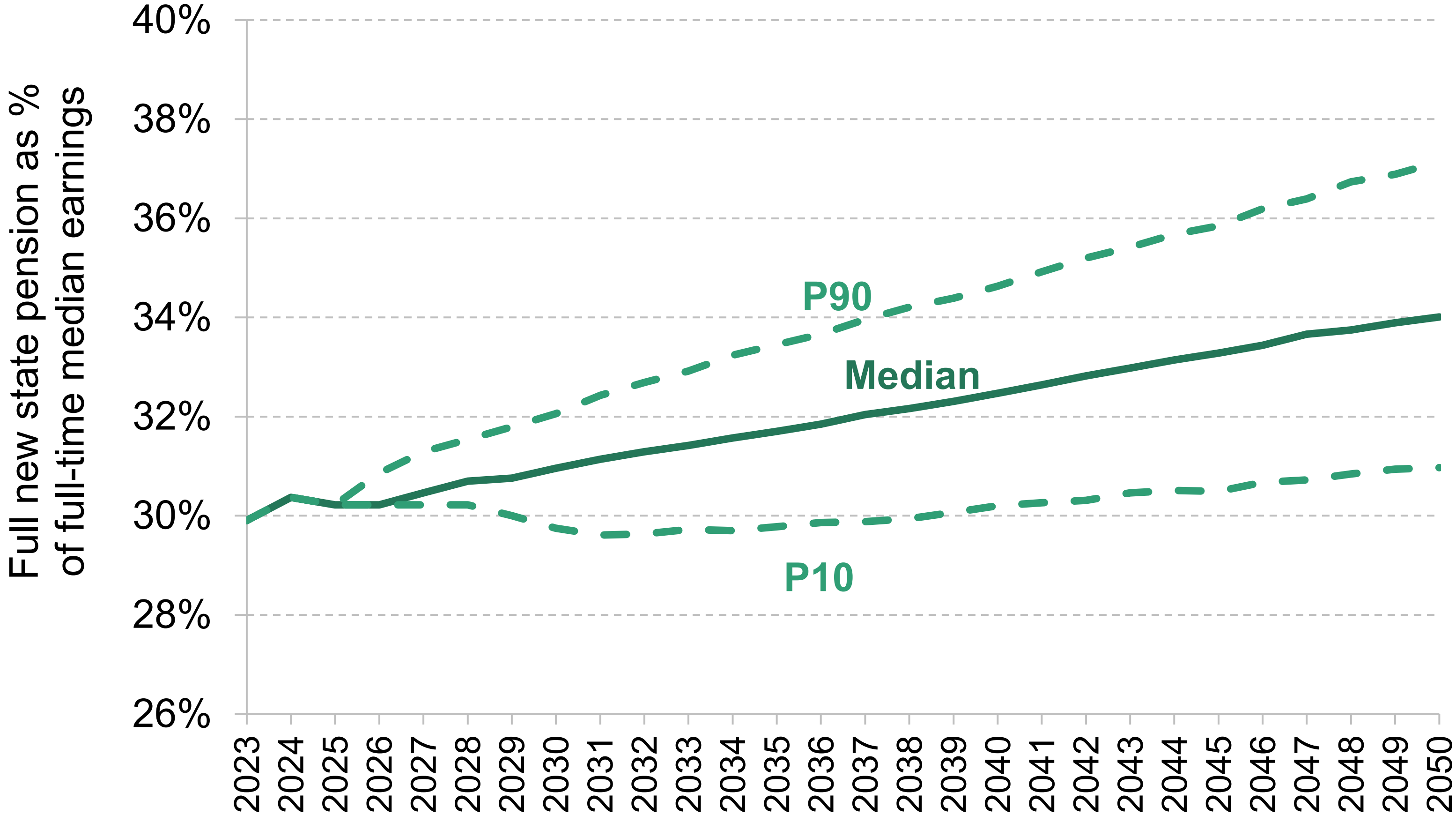
Triple lock adds uncertainty

Value of the new state pension relative to median full-time earnings: 10th, 50th (median) and 90th percentiles of simulated outcomes from 2025 to 2050



Source: Cribb, Emmerson and Karjalainen (2025).

State pension: four-point pension guarantee

1

Long-term commitment to keep the state pension at a **set level relative to average earnings**

2

State pension will **always** be **protected against inflation**

3

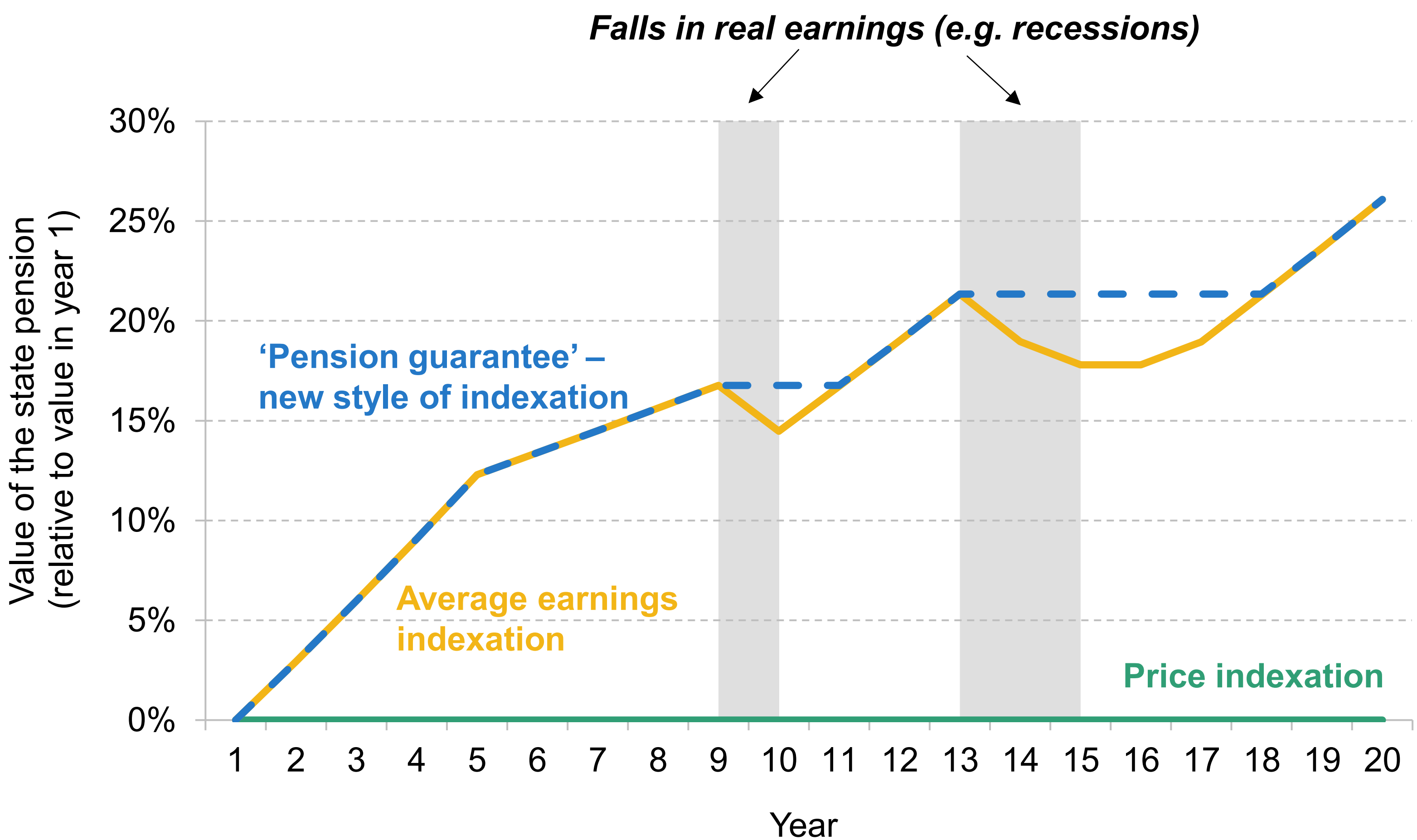
State pension will **never** be **means-tested**

4

State pension age will only go up **when life expectancy increases**

Indexation in the long run

Illustration of how our suggested new style of indexation would operate

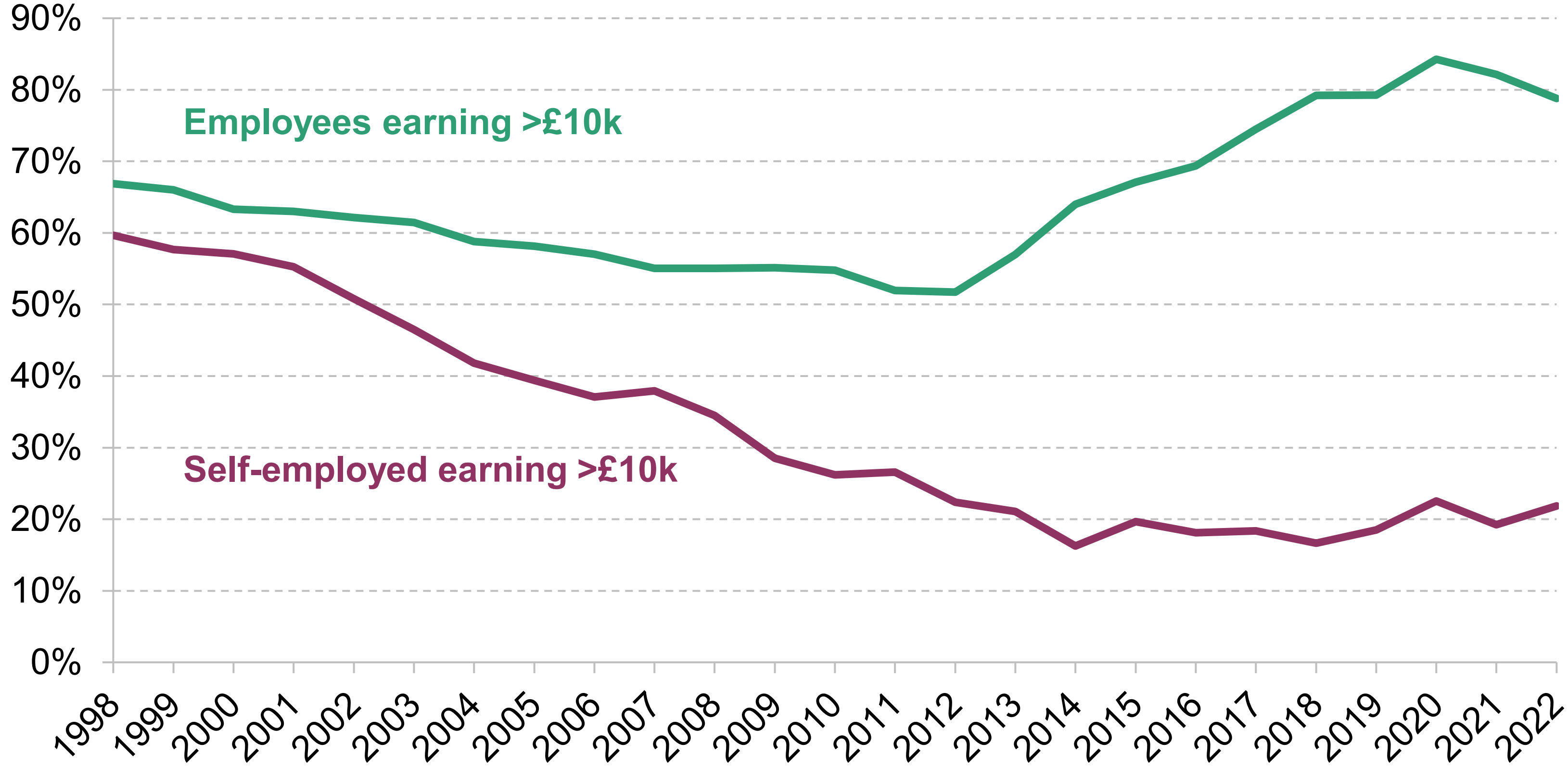


Source: Figure 2.2 from Cribb et al. 2025.

Private pension accumulation

Automatic enrollment has boosted pension coverage among employees

Percentage currently saving into a pension among employees and the self-employed aged 22–59



Source: Figure 1.1, 'Private pensions for the self-employed: challenges and options for reform', Jonathan Cribb, Carl Emmerson, Laurence O'Brien and David Sturrock, IFS Report R330

Automatic enrolment reforms

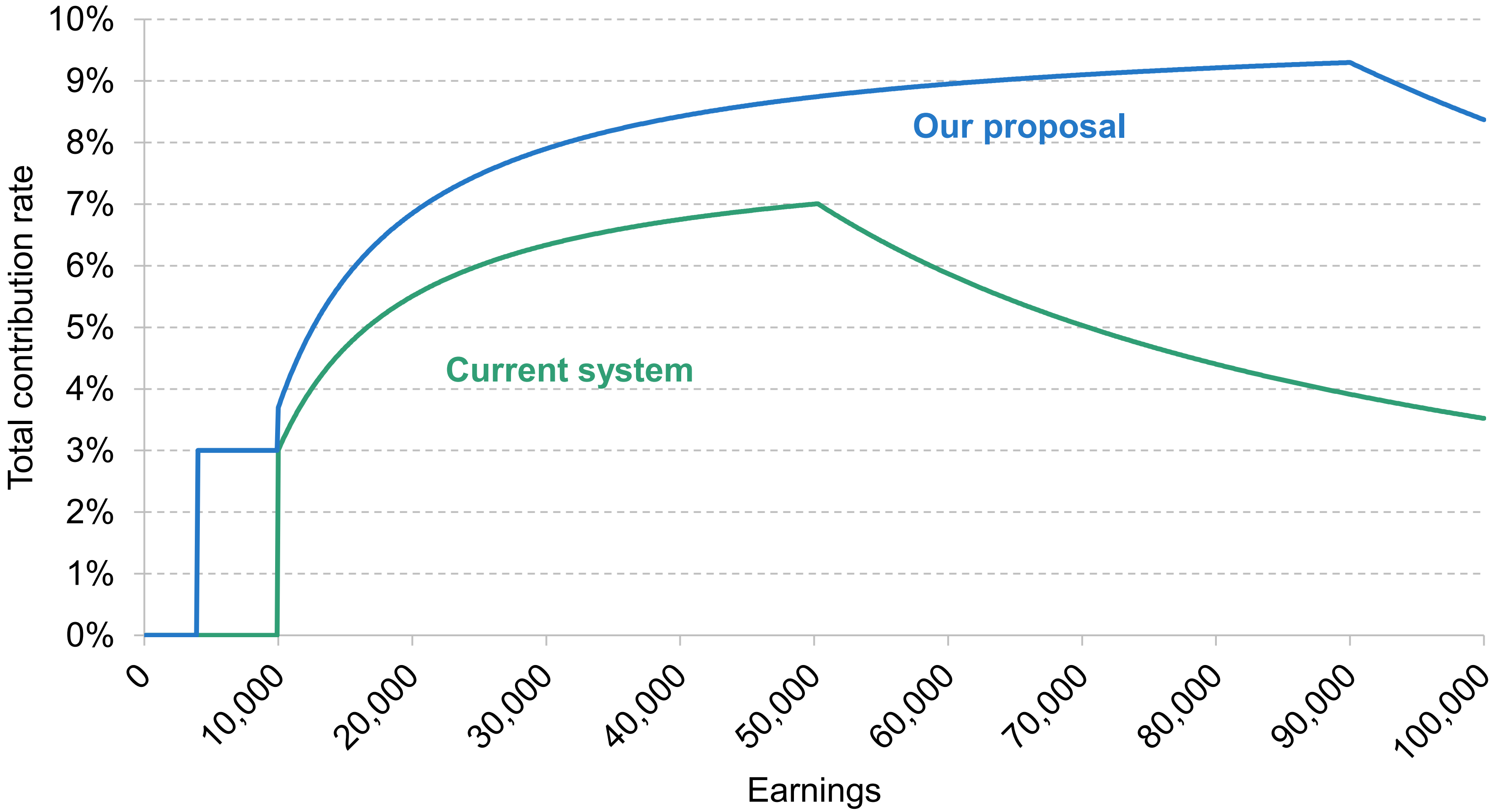
1. **Expand age range for AE** (currently 22-SPA) to 16-74

2. **Minimum employer contribution for almost all employees**
   - Regardless of whether employee makes contribution
   - Prevents employees from missing out on part of compensation
   - Worth 3% of earnings between zero and £50,270

3. **Higher minimum default total contribution rates targeted at average and above-average earnings**
   - Helps people save at points they have higher incomes
   - 3% of £9k + 10% of qualifying earnings (between £9k and £90k)

Minimum total contribution rate

Minimum default total (employee + employer) contribution rate, % of total earnings, under different AE systems



Facilitating pension saving for the self-employed

- Status quo not good enough for **self-employed workers**. Either:
  - Require active choice about pension contribution when filling out Self Assessment tax return
  - OR Automatic enrolment administered at point of Self Assessment

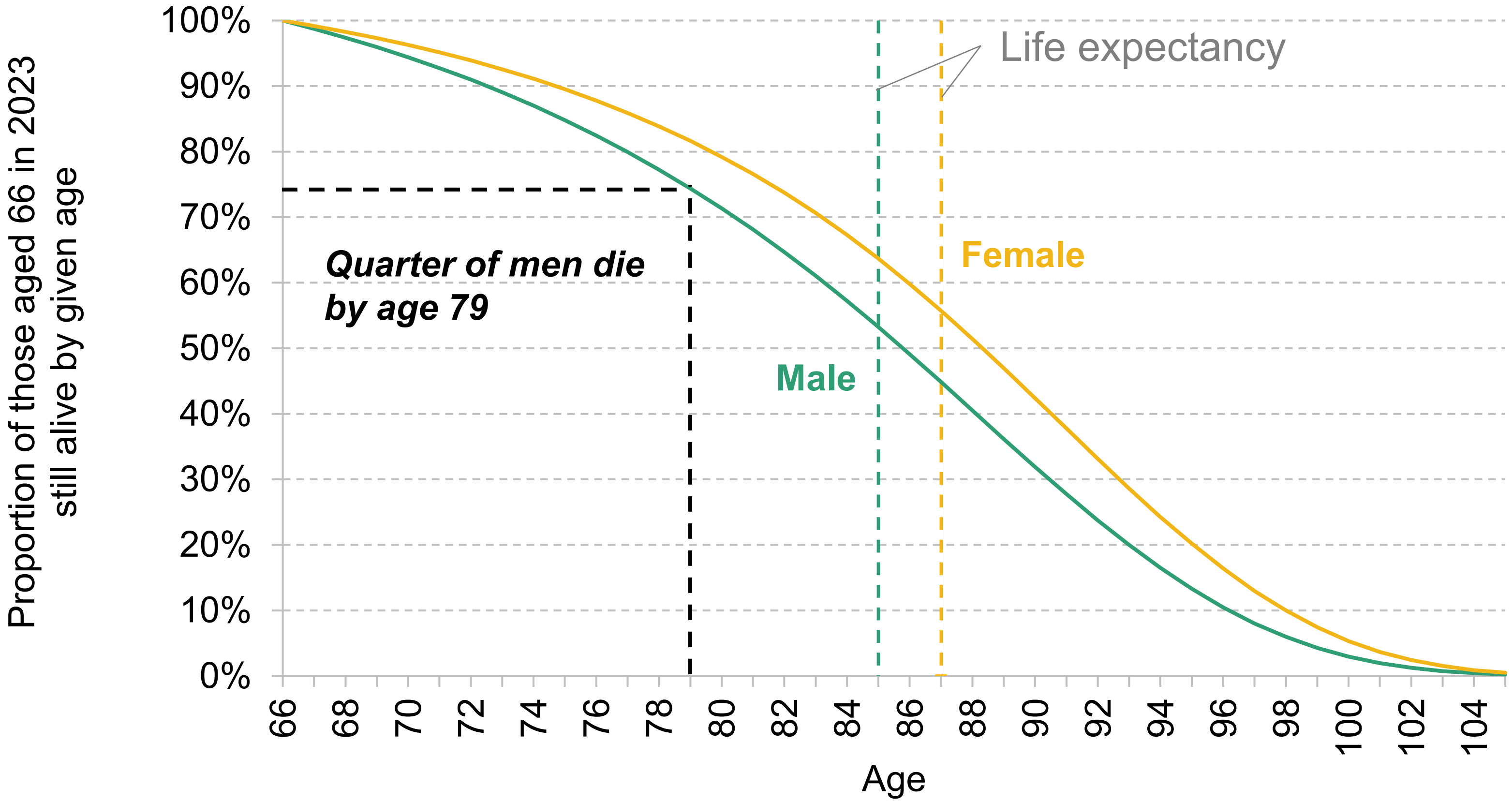
Private pension decumulation

Key challenges

- Most current retirees making (relatively) low-stakes decisions over DC wealth, but the **importance is set to grow rapidly**
- Many don’t access **information, guidance, or advice** at key stages of decision-making about their DC pension
- Exhausting private resources would mean **substantial drops in incomes** for most people with private pensions
- **Range of risks** faced when drawing down pension (and other) wealth through retirement

Uncertainty around life expectancy makes planning difficult

Survival curve of those aged 66 in 2023



Source: Cribb, Emmerson, Johnson, Karjalainen and O'Brien, 2023. Figure 16.

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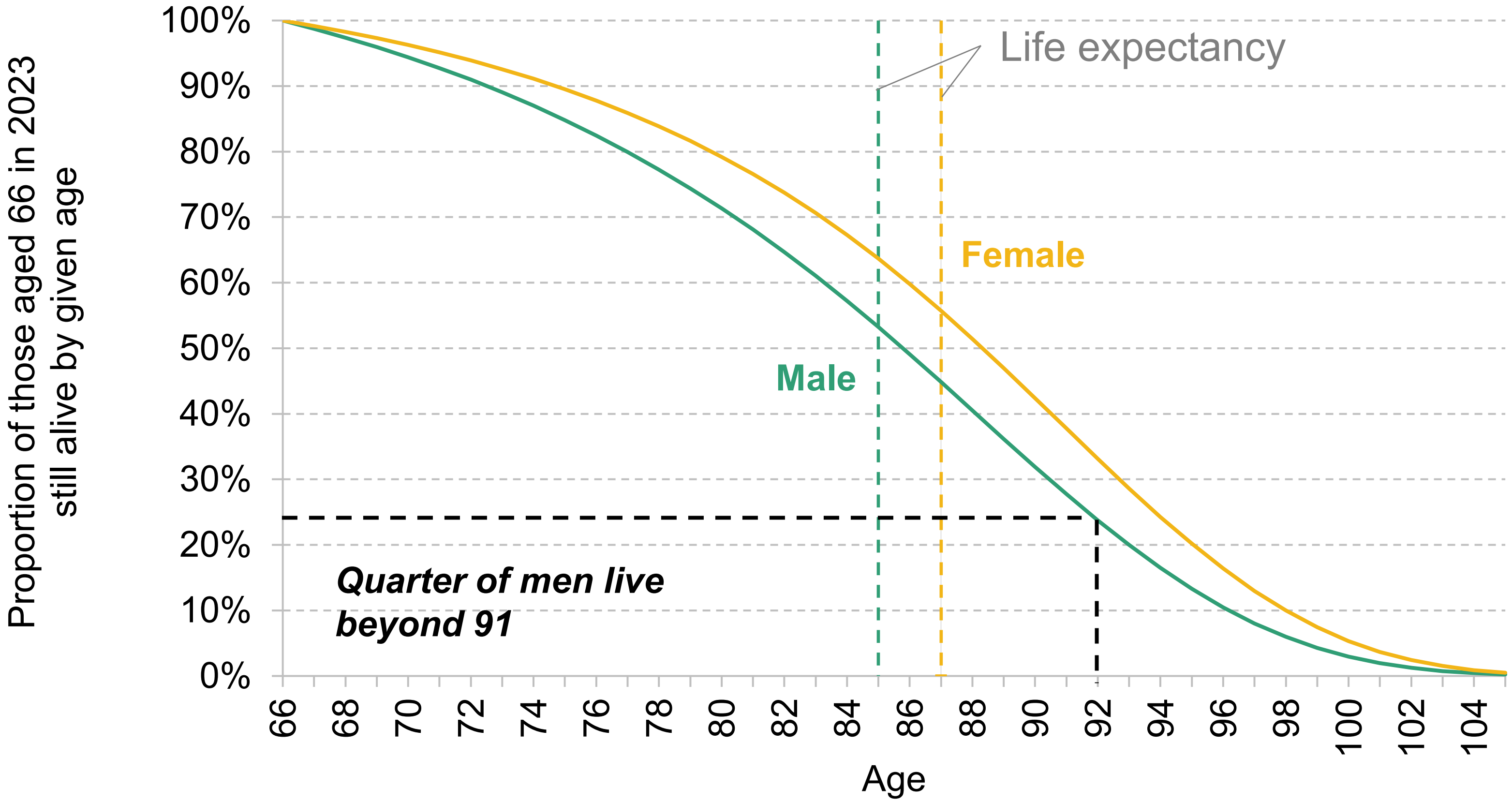

Source: Cribb, Emmerson, Johnson, Karjalainen and O'Brien, 2023. Figure 16.

Recommendations

- Schemes to introduce **default retirement income solutions**
  - Hybrid “flex then fix” models likely to be good for many
- Some will need to **deviate from the path of least resistance**
  - Menu of options should be provided
  - High quality information available without ongoing commitment to expensive financial advice
- People should **“*have a pension and not just a savings pot”:***
  - Pots consolidated by retirement
  - Minimum access age to rise gradually to 60 by mid 2040s
  - Change framing of tax-free withdrawals away from “lump sum”

Summary of recommendations

State pension: **a secure and stable system**

- Four-point pension guarantee to increase predictability

Means-tested benefits: **additional support**

- Targeted at those approaching SPA and private renter pensioners

Private pension saving: **help many save more**

- Near universal employer contribution and higher total contributions for those best placed to save more

Managing wealth in retirement: **simpler decisions**

- Steer many towards “flex then fix”; ensure DC pensions provide an income

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