Glossary

- Pension = retirement income = superannuation

- Public pension = state pension - NZS

- Private pension: DB, DC

- Age of eligibility = state pension age, SPa
Gross pension replacement rates
% of earnings, median earner

Source: OECD Pensions Outlook 2012
Agenda

1. Intense policy activity in UK

2. UK reforms catching up with NZ…
   *Auto-enrolment, Single-tier state pension*

3. …and overtaking
   *Eligibility age, reinvigorating workplace pensions*

4. Enduring themes
## 35 years of policy activity

<table>
<thead>
<tr>
<th>1979-1997</th>
<th>1997-2010</th>
<th>2010-</th>
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<tr>
<td>Diminish state provision</td>
<td>Tackle poverty</td>
<td>Simplify</td>
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<td>Incentivise private pensions</td>
<td>False starts</td>
<td>Secure state and private provision</td>
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<td>‘Scandals’</td>
<td>Strengthen longevity-proofing</td>
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<td>Pensions Commission</td>
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<td>Start longevity-proofing</td>
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<td>1 Minister every 3.6 years</td>
<td>1 every 1.4 years</td>
<td>1 so far</td>
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</tbody>
</table>
Basic State Pension as a percentage of average earnings

Source: Department for Work and Pensions, CM 8528, Jan 2013
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Auto-enrolment

- Phasing in 2012-2018 to 8% band earnings
- UK workers aged 22-SPa earning more than £9,440 a year
- Auto-enrol into any approved employer-sponsored scheme or Government-sponsored trustee-based scheme (NEST).
- No early access. Must buy annuity at SPa or drawdown.
- Early opt-out rate 10%
Current system

Disability and carer benefits: e.g. Carer’s Allowance, Attendance Allowance

Housing Benefit and Council Tax Benefit

- Pension Credit
  - an income-related benefit made up of two different parts, Guarantee Credit and Savings Credit.

- Guarantee Credit – top up to £142.70

- Savings Credit
  - Higher rate for additional needs

Additional/Graduated Pension (AP/Grad)

- including Grad, SERPS and S2P, amount can vary depending on earnings and the years over which contributions were paid (range of AP from £0.01 - £160).

- Inherited AP on bereavement or shared AP on divorce.

- Contracted-out deduction those in certain occupational pension schemes could contract out of AP.

- 25p Age addition (80 yrs+)

- Derived rights to basic State Pension (BSP) those who do not have full BSP in their own right may get some BSP based on the NI record of their spouse or civil partner.

Basic State Pension (BSP)

- full amount is £107.45

Contributory benefits

- Uprated at least by earnings; by triple lock since 2010

Mean-tested benefits

- Uprated by prices

Source:
DWP, CM 8528, Jan 2013
Problems with state pensions after Pension Commission reforms

1. Complexity and uncertainty

2. High levels of means testing: 40% eligible for Pension Credit

3. Inequality: equal outcomes from the state pension by gender by mid-2050s. Self-employed miss out.

Source: DWP, CM 8528, Jan 2013
Eligibility for Pension Credit
Percentage of all pensioners

Source: DWP, CM 8528, Jan 2013
Single Tier detail

- Applies to people reaching SPa from April 2016
- Accrued rights prior to 2016 honoured
- Amount will be higher than means-tested minimum (now £145.40 pw)
- Eligible after 35 years of contributions or credits
- Fully individualised
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Consistent theme of debate

“Faced with the increasing proportion of the population aged over 65, society and individuals must choose between four options. Either:

(i) pensioners will become poorer relative to the rest of society; or
(ii) taxes/National Insurance contributions devoted to pensions must rise; or
(iii) savings must rise; or
(iv) average retirement ages must rise.”

Source: Pensions Commission First Report 2004

Informed by projections of future cohort life expectancy...led to SPa increase
Information & analysis on future cohort life expectancy

Cohort Estimates of Life Expectancy at Age 65
April 2011

Differences in life expectancy between those aged 20, 50 and 80 — in 2011 and at birth
August 2011

Number of Future Centenarians
December 2010

Number of Future Centenarians by Age Group
April 2011

DWP Department for Work and Pensions
Increasing State Pension Age

Pensions Bill 2013 mandates Periodic Review to consider life expectancy and other factors in a regular, structured manner.

Source: PPI
Periodic Review proposals

- First by May 2017, then every 6 years
- Review will be informed by:
  - analysis from the Government Actuary on proportion of adult life individuals can expect to spend receiving state pension
  - independent review of wider factors
- Aim for 10 years’ notice for change

See paper prepared for 2013 Review of Retirement Income Policy for how a “Schedule and Review” framework could work in New Zealand
Concerns with DC

1. **OECD**: “much can be done to improve the design of DC pension plans and to strengthen retirement income adequacy in these plans”

2. **House of Lords**: “the current DC pensions system is **not fit for purpose** for anyone who is not rich, or who moves in and out of work … [need to] tackle the **lack of certainty** in DC pensions and address their **serious defects**”

3. **Office of Fair Trading**: “problems in relying on competition to drive value for money for savers…”

Source: OECD Pensions Outlook 2012; House of Lords Select Committee on Public Service and Demographic Change Ready for Ageing? March 2013; OFT Defined contribution workplace pension market study, September 2013
Reinvigorating Workplace Pensions

Consulting on:
- Scheme governance
- Investment and default options
- Administration
- Scale

Planned for later consideration:
- Charges – cap?
- Decumulation
  - “Defined Ambition”

On back burner for now:
- Contribution levels
- Communications

Source: DWP, Call for evidence, Quality standards in workplace defined contribution pension schemes, July 2012; Cm 8478, Nov 2012
Concerns on the horizon

1. “collective failure to address the implications” of ageing (House of Lords Select Committee)

2. Pensions expected to be part of new solution for long-term care funding

3. Tax relief “expensive, poorly targeted and does not achieve its policy objectives” (PPI)

4. Universal add-ons hard to justify
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Longevity projections UK/NZ are similar

Remaining years of life at age 65 by year of reaching age 65
Females, high-medium-low range

Source: NZ from SNZ (2012) 2011-based projections; UK from ONS (2011) 2010-based
Warning signs

1. Ignoring longevity
2. Increasing relative poverty
3. Complexity
4. Merging Government and market roles
5. Restricting membership