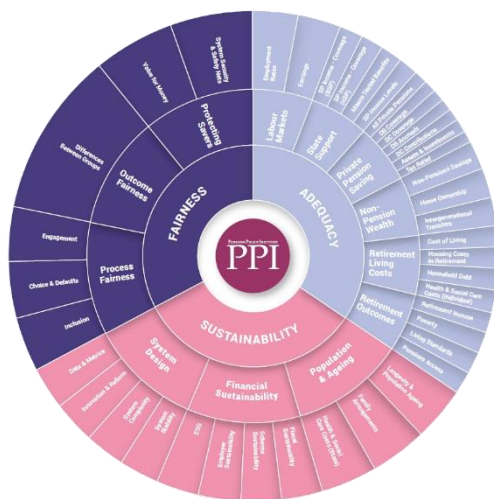


## Launch Event Write Up

### The UK Pensions Framework: Red Sky in the Morning? Emerging inequalities and the UK pension system

#### Overview



On Wednesday 27<sup>th</sup> November 2024, Aviva hosted an event to launch the PPI's report **The UK Pensions Framework: Red Sky in the Morning? Emerging inequalities and the UK pension system.**<sup>1</sup> This is the fourth and most recent report in the PPI UK Pension Framework series funded by Aviva.

The event was chaired by **Chris Curry, PPI Director**. It was attended by around 60 people representing a cross section of the industry.

**Anna Brain, Senior Policy Researcher (PPI)** presented the key findings from the report. She gave an overview of the key conclusions from the research:

- The UK pension system is highly regarded for the success of recent policy reforms that have increased participation in workplace pensions, raised State Pension income among poorer households, and aim to reduce dependency on means-tested benefits in later life.
- Some of the most material differences in pensions adequacy emerge from differences in dependencies. And since the current system design was proposed in 2004, the UK has become a materially more unequal society.
  - Widening health inequalities are making it harder for people from more deprived backgrounds to work a full and continuous career as State Pension ages rise, while pressure increases for those with longer lives to save more for later life.
  - Gaps in absolute wealth are widening as rising asset prices have yielded the greatest gains for those who own the most assets, making wealth and home ownership increasingly less attainable for those on lower incomes.

<sup>1</sup> Brain, A., et al. (PPI) (2024), *The UK Pensions Framework: Red Sky in the Morning? Emerging inequalities and the UK pension system*. Available at: <https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2024/the-uk-pensions-framework-red-sky-in-the-morning-inequalities-savings-gaps-and-the-uk-pension-system/>

- UK home ownership is in decline as rising property prices, widening wealth gaps and low wage growth make it harder for younger households to get on the property ladder, indicating that more people will soon be renting through later life.
- 12 years on from automatic enrolment, the gap in pension participation between large employers and SMEs has narrowed to around ten percentage points but participation and employer contribution rates in the private sector still depend on who you work for.
- The link between pension outcomes and employment or contribution records exacerbates differences in adequacy between those who are able to work full, continuous careers and those whose employment is compromised by social risks, health inequalities or precarious jobs.
- Analysis from the PPI UK Pensions Framework shows that differences in retirement adequacy are reduced by recent pension reforms but widened by socioeconomic inequalities and savings gaps in the UK pension system.
- The links between inequality, savings gaps and adequacy paint an important picture of two contrasting stories.
  - Although the UK pension system is not designed to remedy inequality, policy reforms have made important advances towards better retirement adequacy among at-risk groups. However, not everyone has been able to benefit and there is scope for more improvement.
  - However, further gains are constrained by persistent savings gaps, inconsistent safety nets, and socioeconomic inequalities that are evolving alongside the pension system.
- This century's pension reforms have been a remarkable success, but gains will stall unless the pension system evolves to reduce savings gaps and reflect the growing challenges of modern society.

**Michele Golunska, MD, Wealth and Advice (Aviva)** gave a response to the findings and offered context for pension policy development to address the issues of inequality raised in the report:

- This report prepares the way for the second phase of the government's pension review.
- The success of automatic enrolment has reduced the gap between public and private sector workplace pension provision. But as the DC landscape evolves it does not support people equally towards achieving their retirement expectations.
- The pension system does not operate in a vacuum but is influenced by external factors. The interactions with these vast and complex systems will determine the success of the pension system.
- To make progress requires us to address several questions:
  - Will simplicity need to be compromised to achieve better outcomes for all?
  - Is there a greater need for more targeted interventions?
  - Where should responsibility lie between institutions and individuals?
  - How do we raise awareness and resolve issues outside of the pension system?
- It's essential that the pension system continues to engage with the multiple, complex and interconnected influences that shape retirement outcomes – the big things like health, wealth, housing and employment.

## **Panel discussion, held under The Chatham House Rule**

The panel, Emma Douglas (Aviva & PPI Governor), Anna Brain (PPI), Will Snell (Fairness Foundation), Des Healy (HM Treasury) gave their reflections upon the findings.

### **Direction of travel of inequalities**

- Social determinants are undermining the work undertaken. Without addressing these underlying inequalities, institutions are unable to close gaps.
  - E.g. NHS alone cannot resolve health inequality, DfE cannot resolve educational inequality.
- The degree of inequality observed is expected to increase in the coming years.
  - Wealth inequality, in particular, has increased in recent years and continues to increase further.
- Inequality undermines the political system, including individuals' interactions and expectations of the system.
- In this context it is imperative that the pension system does not make matters worse (and indeed there is no need for it to do so).

### **The pension system**

- There are many successes in the current system which are a force for good and aid equality:
  - Simplicity;
  - Automatic enrolment;
  - New State Pension.
- Currently the system employs a degree of simplicity:
  - This is of benefit to transparency, engagement and understanding;
  - It may be necessary to increase complexity and personalization to improve outcomes;
  - Historically features were introduced which increased complexity and required a lot of time, effort, and money to resolve.
- Investment offerings, including defaults, are becoming more inclusive.
- Proposals on using pension wealth to facilitate housing were not supported:
  - Evidence suggests that this exacerbates housing supply issues;
  - There may not be enough money in the system to have a meaningful impact.
- Overall, the pension system is not able to address all the inequalities and issues observed.
  - But it does have a part to play.

The following discussion areas were raised during the panel discussion.

### **Complexity of the pension system**

- Implementation of defaults versus voluntarism:
  - Defaults work;
  - Individuals don't volunteer for e.g. higher contribution rates;
  - You need to have engagement and knowledge to take an active decision. This is a small pool of people.
- Limited revenue available means universal approaches may not be affordable so targeting, and increased complexity, become a practical reality of reform.

- Where benefits are used as a safety net the application process can be complex, daunting and ultimately off-putting to potential applicants.
- To address the heterogeneity of the self-employed group necessitates increasing pension system complexity.
- Complexity is increased by external, interconnected, factors. Evidence from Whitehall is that departments are able to work together towards common objectives.

#### Health inequality

- To address health inequality there is the need to consider underlying causes – link to deprivation rather than income.
  - Universal basic services mitigate the impact of wealth inequality on health outcomes.
  - It is necessary to consider longer-term outcomes, rather than more immediate metrics.
- Addressing the gap between healthy life expectancy and life expectancy.
- How the state pension could be altered to address health inequality
  - This is a difficult and challenging area (see 2023 DWP report)

#### Housing inequality

- Housing is a basic need. In this context housing cannot be considered as an asset similar to other forms of wealth.
- Proposals to leveraging pension wealth to be able to access house ownership does not address the underlying issues.

#### Investment options and scale of funds

- The government has conveyed the opinion that fund size matters.
- Different thresholds for effective fund size were considered with links to different benefits (economies of scale, affording increased expertise etc.):
  - Consultation on the use of a minimum size for automatic enrolment schemes;
  - International evidence from Australia suggests \$30bn (AUD) is a threshold for effective size.
- Increased scale does not lend itself to customization:
  - It may stifle innovation;
  - It may promote herding. The central fund performance in UK is similar to Australia, but there is greater variation in UK performance. This suggests that the increased scale may reduce the number of poorly performing funds at the cost of the best performing funds.
- The consequences of targeting the fund sizes suggested in the current consultations suggest there will be less choice in the workplace pension model.
  - Currently default arrangements may be able to meet these thresholds, but they comprise smaller funds with transitions between them (e.g. from a growth fund into a consolidation fund).
  - Restricted choice may drive some people from the workplace market to the individual market.

#### Future policy environment and policy making

- There is desire to see a cross-party agreed roadmap laid out.

- This is challenged by external factors, such as the increase in employers' NI rates, which could result in the delay of measures such as increasing contribution rates to lessen the impact resulting from the economic circumstances.
- The rate of movement in the pension landscape is slow, and the impact of workplace pension policy takes decades to have a meaningful impact on retirement outcomes.
- The implications for future retirees (10-20 years' time) who may not meet their retirement expectations under automatic enrolment.
  - The potential damage to trust in the pension system
  - Exacerbated by the inequality of inherited wealth they may receive
- The political environment and whether there is an appetite to undertake more significant change. There are currently many factors at play including:
  - The expectations of phase 2 of the current pension review;
  - The balance of ambition to political realities;
  - Structural barriers to good policy making;
  - The use of longer-term policy with larger time horizons.

