Pensions Policy Institute

Does the UK need another Pensions Commission?

PPI Briefing Note Number 140

Executive Summary

The UK pension system faces significant challenges, including an ageing population, evolving workforce patterns, and concerns about long-term financial sustainability. Many individuals, particularly those in vulnerable groups, including women, part-time employees and gig-economy workers, face an increased risk of having insufficient incomes in retirement. Meanwhile, the complexity of the current pension system may contribute to inequality and hinder effective engagement with pensions.

This Briefing Note examines the potential role of a permanent Pensions Commission in addressing these challenges.

The previous Pensions Commission's reforms improved pension access and retirement outcomes

The establishment of a new Pensions Commission in the UK would not be unprecedented, building on the work of the previous Pensions Commission, known as the Turner Commission, established in 2002. The Turner Commission played a pivotal role in reshaping the UK pension system, addressing challenges such as inadequate retirement savings and the increasing pressure on the state pension due to an aging population. While the Turner Commission's reforms have made significant progress in improving pension access and retirement outcomes, gaps remain. These challenges provide important considerations for any new Pensions Commission as it seeks to address the evolving needs of the UK pension system.

A new Pensions Commission could address the challenges present in the UK's pensions landscape today, but there are trade-offs that need to be considered

The establishment of a new, permanent, Pensions Commission could provide an independent and evidence-based approach to pension reform, ensuring that policies are adapted to changing workforce needs and demographic trends.

A permanent Pensions Commission could:

- Clarify the roles and responsibilities of different stakeholders (government, employers and individuals) in securing retirement income, in order to make positive retirement outcomes more accessible to a greater proportion of the population.
- Provide a long-term outlook and a continuing evaluation of the pensions landscape better suited to the inherent lifelong nature of pensions, which is currently at odds with the shorter electoral cycle.
- Ensure that the pensions system remains financially sustainable, while providing adequate retirement incomes.
- Address the pension needs of self-employed, part-time, and gig economy workers.
- Consider the impact of the climate crisis and wider ESG factors on pension outcomes.
- Promote policies that address demographic and socioeconomic disparities in pension savings and outcomes.

The establishment of a permanent Pensions Commission would need to add genuine value to the pensions landscape and there are various issues, both good and bad, which need to be considered.

Introduction

This Briefing Note explores the potential establishment of a new, permanent Pensions Commission in the UK and summarises the proposals that have emerged so far. As discussions around the creation of a new Commission arise, it is essential to evaluate the suggested approaches, and consider the historical impact of the original Pensions Commission.

This Briefing Note explores:

- The historical impact of the first UK Pensions Commission
- The rationale for another Pensions Commission
- The trade-offs that may need to be considered in establishing another Pensions Commission

PPI Briefing Note Number 140

This Briefing Note is informed by desk research and an interview with Dr Suzy Morrissey, Deputy Director of the Pensions Policy Institute (PPI), and former Director of Policy and Research for Te Ara Ahunga Ora Retirement Commission in New Zealand. Dr Morrissey was interviewed for this Briefing Note for her unique insight into the functioning of New Zealand's Retirement Commission in order to provide further understanding of how a new Pension Commission could function here in the UK.

The original Pensions Commission has had a significant impact on the UK pensions landscape and retirement outcomes

The establishment of a Pensions Commission would not be the first of its kind in the UK. As this Briefing Note considers the potential role of a new Pensions Commission, it is useful to reflect on the achievements of the previous Pensions Commission.

The first UK Pensions Commission was set up in 2002 by the Labour Government and significantly influenced the UK's pension landscape. Led by Lord Adair Turner, the Commission was responsible for assessing the state of private pension savings, and the fundamental principles underpinning the UK pension system. Its reports, published between 2004 and 2006, highlighted critical issues including inadequate retirement savings among workers and the growing pressures on the state pension system due to an ageing population.[1] The reforms that followed the Pensions Commission, particularly the introduction of automatic enrolment in workplace pensions, have had a profound and lasting impact on the pension landscape. For ease of reference, this Briefing Note refers to the previous Pensions Commission as the Turner Commission.

The Turner Commission made key recommendations that reshaped private pension coverage in the UK

A major change that followed from the Turner Commission was the introduction of automatic enrolment into workplace pension schemes from 2012. This policy aimed to increase pension savings by making participation the default option for workers, significantly simplifying the process of joining and staying in pension plans.[2] By 2023, over 10 million people had been automatically enrolled into a workplace pension, increasing the overall pension participation rate from around 55% in 2012 to over 80% in 2023. This expansion was particularly noticeable among demographics with traditionally lower participation rates, such as younger workers, part-time employees, and those with lower incomes, where participation increased by 40 percentage points in some cases.

To support the introduction of automatic enrolment, the Turner Commission proposed the creation of a low-cost, national pension scheme, resulting in the establishment of the National Employment Savings Trust (NEST) in 2011. NEST was designed to provide a straightforward and cost-effective savings option for both employers and employees. By offering a default, low-fee structure, it ensured that even small employers and their workers, who often struggled to access private pension schemes due to high costs, could have access to a reliable pension plan.[3] By 2023, NEST had over 10 million members, showing its success in making pension savings more accessible and enhancing inclusivity across the workforce.

The Turner Commission also addressed the need for reform in the State Pension system

Key recommendations included increasing the basic state pension and introducing a single-tier state pension. These reforms aimed to reduce the system's complexity and offer individuals a clearer and more predictable foundation for their retirement planning. The single-tier pension, introduced in 2016, replaced the previous multi-tiered system, which was often criticised for its complexity and for creating uncertainty around future pension entitlements. This simplification provided individuals with a more straightforward understanding of their state pension benefits, potentially making private savings decisions easier and more informed. Evidence from the Department for Work and Pensions indicates that these changes have led to improved awareness and understanding of the state pension system among the public.

The Commission's work set the groundwork for adjusting the pension age to align with changes in life expectancy and demographic trends. The state pension age has been incrementally raised, with legislation passed to increase it to 67 by 2028. This adjustment reflects the need to maintain the pension system's financial sustainability in the face of an ageing population, ensuring that current retirees receive adequate support while preparing for the future needs of the workforce.

In addition to structural reforms, the Turner Commission emphasised the importance of improving financial education and awareness

The Commission recognised that policy changes alone would not necessarily deliver positive retirement outcomes; efforts to improve the public's understanding of the importance of saving for retirement would also be necessary. This led to increased government and employer initiatives aimed at providing better information and resources. For example, the Money and Pensions Service, established in 2019, offers free and impartial guidance on pensions, reaching millions of workers annually.[4] Surveys show an increase in pension awareness since these educational efforts, with 74% of people in 2021 stating they understood the importance of saving for retirement, up from 61% in 2012.

The reforms recommended by the Turner Commission have had a significant impact on retirement outcomes

The reforms recommended by the Turner Commission have contributed to notable improvements in retirement outcomes for millions of UK workers. The introduction of automatic enrolment has significantly increased pension participation, especially among groups previously under-represented in pension plans. For instance, among eligible employees aged 22 to 29, participation rates increased from 35% in 2012 to 85% in 2023, demonstrating a marked improvement in engagement with pension saving.[5]

The establishment of NEST further contributed to more comprehensive and inclusive pension coverage. NEST's focus on low costs and ease of access has attracted a wide membership, including those from lower-income brackets who traditionally had limited access to pension savings.[6] However, there are still gaps in coverage, as not all workers are automatically enrolled. Those earning less than £10,000 a year or under the age of 22 are not included in automatic enrolment, which means around 15% of the working population is not benefiting from these reforms. This indicates that while the Turner Commission's reforms have made significant strides in expanding pension access, additional efforts are needed to ensure that all workers can achieve a secure and reliable retirement income.

These developments highlight the significance of the Turner Commission's work and provide important insights for the potential new Commission as it seeks to address the evolving challenges of the UK pension system.

A new permanent Pensions Commission could address the challenges present in the UK's pensions landscape today

Given the current challenges within the UK's pension system, there have been discussions around establishing a new Pensions Commission. This note discusses the areas of work for a potential Commission, focusing on key issues like pension adequacy and sustainability in the context of demographic shifts and changes in the workforce. While pension reform would be a primary area of focus, the Commission could also explore related topics such as social security and financial literacy.

A permanent Pensions Commission could play a crucial role in shaping the future of the UK pension system by making decisions that prioritise long-term outcomes over short-term political considerations. By focusing on the enduring nature of pensions, the Commission could work to improve retirement outcomes and address gaps within the current system. These gaps, which the Commission could help to fill, reflect the need for a more robust, inclusive, and future-proof approach to pensions policy.

PENSIONS POLICY INSTITUTE PPI

7 Gaps a new Commission could fill

1. Lack of clarity on the roles of Government, individuals and organisations

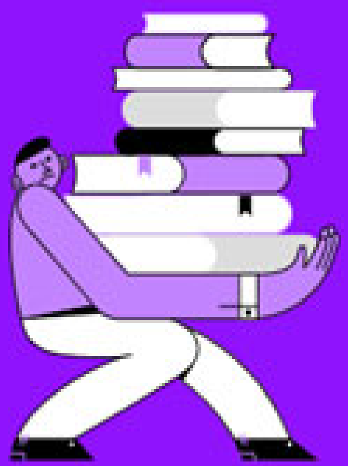
A pensions commission could define target outcomes for retirement savings providing support promoting adequate retirement outcomes in the UK. The shift from DB to DC schemes has facilitated a shift of responsibility in retirement adequacy from employer to employee, it would be helpful for all parties to be provided with clear messaging of their role in retirement savings.

2. Long term monitoring and planning

Rory Murphy (the chair of trustees at the Merchant Navy Officers Pension Fund) highlighted that a new permanent Commission could "provide an ongoing assessment of the strengths and weaknesses of the pensions system" (Professional Pensions, 2024). A new Commission could provide a long-term outlook and a continuing evaluation of the pensions landscape better suited to the inherent lifelong nature of pensions which is now currently at odds with the electoral cycle. This could provide detailed focus on encroaching immediate pensions issues such as renting in retirement, monitoring the long-term outcomes of proposed policy solutions.

3. Independence

An independent body made up of representatives from the pensions industry such as employers, members, trade unions, academics and voluntary organisations could provide focused expertise on all aspects of the pensions landscape, including under pensioned groups that are often forgot about.

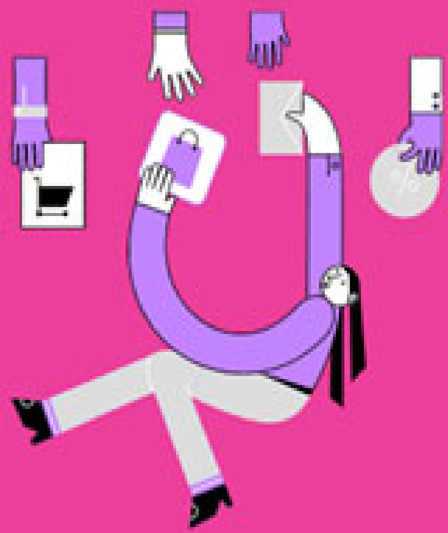


4. Sustainability and Adequacy

Ensuring that the pension system remains financially sustainable while providing adequate retirement incomes, especially considering increasing life expectancy and changing work patterns/cultures.

5. Adapting to the Gig Economy

Addressing the pension needs of self-employed, part-time, freelance, gig economy workers who are often excluded from traditional pension schemes and may be ineligible for Automatic Enrolment.



A permanent Pensions Commission could play an important role in ensuring pension system adequacy and sustainability

With the UK's ageing population and increasing financial pressures, the sustainability and adequacy of the current pension system is a vital consideration. The focus on long-term stability and adequate income for all retirees plays an important role in fostering a fair and inclusive society. A new Pensions Commission could evaluate existing pension frameworks and explore reforms that aim to ensure long-term sustainability while providing adequate incomes for as many retirees as possible, with particular focus on those in vulnerable communities.[7] Research indicates the substantial financial requirements associated with supporting an ageing population. For instance, analysis from the CASPeR project highlights that providing a minimum level of social care to all older individuals with high needs and limited resources is projected to cost £3.6 billion by 2035. Additionally, findings from the same research project estimate that public expenditure on long-term care will increase from £8.7 billion in 2020 to £15.8 billion by 2035, reflecting a growing reliance on public funding. These insights emphasise the challenges of maintaining financial sustainability while addressing the needs of vulnerable groups.

A Pensions Commission could also address inequalities in pension outcomes

In line with the government's commitment to equality highlighted in 'Labour's plan to make work pay', the Commission could focus on addressing the structural issues that contribute to the gender pension gap. The Commission would need to consider the way in which typical working, saving and caregiving patterns experienced by women contribute to the Gender Pension Gap.[8] Women's private pension incomes currently stand at 64% of the population average, with single mothers and divorced women experiencing even greater disparities, at 50% and 55% respectively. Including State Pension and benefits narrows this gap, raising women's retirement incomes to 83% of the population average, but significant inequalities remain. One of the drivers of this gap is women's disproportionately lower eligibility for automatic enrolment into workplace pensions. Despite improvements, data in 2022 showed that 1.9 million women (17% of employed women) remain ineligible, primarily due to low earnings.

A new Pensions Commission could also explore innovative solutions for non-traditional workers, including gig economy workers, freelancers and part-time employees. These groups, who are significantly underrepresented in pension systems, face compounded challenges. For instance, self-employed individuals, who account for a large share of non-traditional workers, receive private pensions averaging only 56% of the population average, with pension participation as low as 15%. Similarly, part-time multiple jobholders often lack eligibility for automatic enrolment, with 79% qualifying compared to 87% of the general population. By improving access to pension provision for these groups, the government could take steps towards reducing disparities in retirement preparedness.

A new Pensions Commission could explore innovation in the tax relief system

The current pension tax relief system has been criticised for its complexity and perceived inequalities. A new Pensions Commission could explore alternative approaches to tax relief, such as the introduction of a flat-rate tax relief system, which could potentially help to simplify the system and provide more redistributive benefits. Evidence suggests that a flat-rate tax relief of 30% could increase savings for basic-rate taxpayers, making the system fairer without penalising higher earners excessively.[9] Additionally, a flat-rate system aligns with goals to reduce systemic complexity and improve transparency, as highlighted in the PPI Pensions Framework's focus on system sustainability and fairness.

However, the concept of fairness in tax relief is subjective, and can vary significantly depending on individual perspectives. It would be important for any assessment of different models to consider the implications for different stakeholders.

A new Pensions Commission could develop a more holistic approach to retirement security

The Commission's exploration of the interaction between pensions and other social security benefits could play a key role in shaping a welfare state where various forms of support such as pensions, housing, and disability benefits are better aligned. By ensuring that these elements work together effectively, the Commission could help create a retirement system that offers stronger protection against poverty and insecurity, reflecting a commitment to a society where everyone is supported.

Expanding eligibility for publicly funded care could significantly impact the number of individuals receiving support.[10] Projections suggest that up to 930,000 additional beneficiaries could be included by 2035, potentially alleviating reliance on unpaid care and addressing gaps in the current thresholds. Such changes would align with principles of universal accessibility within social security systems. The implications of these adjustments include addressing the diverse needs of retirees and ensuring equity and sustainability in the long term.

A new Pensions Commission could focus on improving financial literacy and retirement planning

The Commission could also measures to enhance financial literacy. By recommending initiatives to improve public understanding of retirement planning, the Commission could help make recommendations for individuals from all backgrounds to gain the knowledge and tools needed to make informed decisions about their financial futures. The Pensions Policy Institute report Retirement income and assets: how can pensions and financial assets support retirement?[11] emphasises the increasing complexity of retirement planning, noting that future retirees will likely need to manage income from diverse sources, including state pensions, private pensions, housing assets, and other savings. This underscores the need for financial literacy to help individuals navigate these decisions effectively and achieve their desired retirement outcomes. This is important due to the long-term and often irreversible nature of some retirement-related decisions, where low financial literacy can result in inadequate savings or poorly informed investment choices.

The Commission could explore ways to simplify pension options to make it easier for individuals to engage with their retirement plans. By reducing complexity, the Commission could help more people take control of their retirement savings, potentially leading to better outcomes.

A new Pensions Commission could also explore the impact of climate change and broader ESG factors on later life outcomes

As outlined in Labour's Stronger Together: A Fairer, Greener Future report,[12] the Government's commitment to combating climate change and promoting social justice could guide the Commission's exploration of sustainable and ethical investment opportunities within pension funds. By encouraging or requiring pension funds to invest in environmentally and socially responsible ways, the Commission can help align retirement savings with Labour's broader goals, ensuring that the benefits of economic growth are shared widely and sustainably.

However, there are trade-offs associated with establishing a permanent Pensions Commission

It is important to assess whether a new Pensions Commission could genuinely add value

When asked if there were any similarities between the work of the PPI and New Zealand's Retirement Commission, Dr Morrissey explained how "they're very similar because they've got similar missions of improving later life outcomes", as well as having a shared "idea of evidence-based policies and a strong equity lens". The New Zealand Commission, however, is "bigger, twice the size, we were funded by government, so we also knew how much funding we were getting each year, whereas the PPI as a charity needs to fundraise through its sponsors and conduct research that it's paid to do".

The establishment of a new Pensions Commission would represent a significant decision, particularly in a landscape already rich with research, analysis, and policy development. The UK pensions sector is supported by numerous industry groups, think tanks, and research institutions.

For any new Pensions Commission, collaborating with established organisations, and leveraging existing data and research could be most effective. Engaging with existing research could provide a solid foundation for the Commission to identify areas where additional insight and analysis may be needed. By building on current knowledge and incorporating diverse perspectives, the Commission could enhance its efforts and address the evolving challenges of the UK pension system whilst avoiding overlap.

There may be other ways for existing gaps to be addressed

There are other possible ways that gaps in the pensions landscape could be filled. Pensions regulators, research organisations (including the PPI) and analysis already exist in many varying forms throughout the landscape. Elements of what could be achieved through a new Pensions Commission, whether it be monitoring, analysis, research, advice or policy recommendations, may already be provided by existing private and public organisations, including The Pensions Regulator, The Pensions Ombudsman, the Pensions Protection Fund, and industry/research organisations. While a Pensions Commission could provide a more centralised, cohesive and comprehensive review, it is important to consider whether it is the most effective and efficient way to do so.

There are various issues which need to be considered when deciding whether to introduce a Pensions Commission

Before establishing a new Pensions Commission, the Government should consider a number of potential positive outcomes and opportunities as well as some potential drawbacks and difficulties.

Potential positive outcomes and opportunities include:

- **Independent Expertise**: Independent evidence-based analysis and recommendations, free from political influence.
- **Dedicated, expert support for under-pensioned groups**: Both Ireland and **New Zealand**'s Pension Commissions have departments or teams dedicated to the monitoring of under-pensioned groups. New Zealand has a Māori development team, while Ireland's Commission exists under its "Social Protection Policy", fighting to provide support and ensure equitable and adequate outcomes for those who cannot work or can only work part-time due to illness, disability, or caring responsibilities.
- **Comprehensive Review**: Allows thorough examination of the current pension system, identifying strengths, weaknesses, and areas needing reform. Dr Morrissey illustrated how **New Zealand's** Retirement Commission allowed for a long-term comprehensive scope; "when discussing the pension landscape and retirement outcomes, it's important to view it as a life course. You can't expect good retirement outcomes if you only start thinking about it at 65. The Retirement Commission's impact lies in changing behaviours across this life course, encouraging people to start saving for retirement at a much younger age."
- **Go Beyond Scope of Pensions Policy**: A board of experts from various policy fields would allow for an interdisciplinary outlook on issues that affect the pensions landscape. For example, the **New Zealand** Retirement Commission exists within the broader government infrastructure to enable older New Zealanders to live well, and could potentially consider cross-policy solutions in areas such as health care, housing, and transport. When asked about the impact the **NZ Retirement Commission** has on cross-policy analysis Dr Morrissey replied "The benefit of the Commission is it's able to look at, for example, health for when people need care at home, or going to a residential care home because they can't look after themselves… having something like a Commission allows you to look across a broad scope of policy issues."
- **Stakeholder Engagement**: Ensure diverse perspectives by involving a wide range of stakeholders including employers, employees, and pension providers. The **Nigerian Pension Commission** has a clear premise of their role and functions for varying stakeholders (Pensioners, Contributors, Government, General Public, Employers, Pension Operators).

However there are also some potential drawback or difficulties:

- **Independence vs. Policy Power**: Ministers may be reluctant to cede any policy power to unelected officials. Maintaining the delicate balance of independence can be challenging.
- **Historical Ineffectiveness**: The past Commission failed to address identified issues in a timely manner. Issues identified decades ago remain unresolved, being left to worsen, suggesting the commission struggled with implementation.
- **Expensive**: The possible costs of a new permanent Commission must also be evaluated, especially against existing bodies that currently fulfil some tasks that might be allocated to a Pensions Commission.
- **Conflicting Priorities**: Having an interdisciplinary board with members from varying industries and policy sectors could come with difference in issues deemed most important and urgent. Furthermore, issues that are deemed crucial by the Commission may not be received the same way in Parliament.
- **Expensive**: The possible costs of a permanent commission must also be evaluated, especially considering there are other existing bodies that currently fulfil some elements of a PC.
- **Slow Moving Process**: Some pension issues require immediate action, but commissions can be slow-moving.
- **Ill-defined Remits**: A lack of clarification on whether something is the role or responsibility of the Pension Commission itself or the Government. Dr Morrissey commented that New Zealand's Retirement Commission's legislative mandate "gives it scope to look at broader aspects other than just the state pension and private pension."

A new permanent Pensions Commission may be the most effective means for filling existing gaps in the pensions landscape but the potential pros and cons would need to be considered. Concerns around 'historical ineffectiveness' and slow-moving processes were possibly caused by the impermanent nature of the previous commission, simply not having a wide enough scope or enough time to address the issues identified.

PPI Briefing Note Number 140

Examples from across the world highlight the successes of Permanent Commissions, with New Zealand's Retirement Commission helping to create a simple, practical and cost-effective retirement landscape, including the production of a 'Review of Retirement Income Policies' that takes place every three years and enables changes to be monitored and to track progress over time.

Conclusions

The UK pension system faces significant challenges, including an ageing population, changing workforce patterns, and concerns about financial sustainability and adequacy. While the original Pension Commission's reforms improved pension access and outcomes, there are challenges within the landscape today that may require further assessment and action. A new, permanent Pensions Commission could build on the work of the previous Commission by providing independent, long-term oversight, clarifying the roles of different stakeholders, ensuring financial sustainability, and addressing the needs of a diverse workforce.

References

1. House of Commons Work and Pensions Committee: Pension Reform, Fourth Report of Session 2005–06, Volume I.
2. Department for Work & Pensions. *Workplace Pension Participation and Savings Trends of Eligible Employees: 2009 to 2023.*
3. National Employment Savings Trust (NEST) Annual Report and Accounts 2022–2023.
4. Department for Work & Pensions. *Planning and Preparing for Later Life: Findings from the 2020/21 Survey.* Research and Analysis
5. Department for Work & Pensions. *DWP Annual Report and Accounts 2022 to 2023.* Corporate Report.
6. Department for Work & Pensions (2024) *Review of the Automatic Enrolment Earnings Trigger and Qualifying Earnings Band for 2024/25*
7. CASPeR (2019) *"Economic Affairs Committee Inquiry into Social Care Funding: Evidence"*
8. PPI (2022) *The Underpensioned Index: 2022 Edition*
9. PPI (2022) *UK Pensions Framework: The Indicator Appendix*
10. CASPeR (2018) *Final Summary Findings: Press Release. "The Costs and Trade-offs of Reforming Long-term Care for Older People"*
11. PPI (2009) *Retirement Income and Assets: How Can Pensions and Financial Assets Support Retirement?*
12. Labour Party (2022) *Stronger Together: A Fairer, Greener Future*

This Briefing Note is authored by interns:
Rosa Wright and Bethel Kyeza
For more information please contact John Adams.
e: john@pensionspolicyinstitute.org.uk
w: www.pensionspolicyinstitute.org.uk