The Brain behind the framework

> **PPI research associate, Anna Brain, talks to Tom Dunstan about the PPI's new research framework**

> **Could you please explain what the UK Pension Framework is, such as how it's constructed and what areas it looks at?**

Anna Brain: The UK Pension Framework is a long-term analytical instrument that we have constructed, dedicated to understanding the UK pensions system.

When we thought about building this project, we realised that, at the time, there was no single resource dedicated specifically to bringing together analysis from across the system. What we mean by that is there was huge, vast amounts of research into single or specific dimensions of the system such as adequacy or inequalities, but what we were missing was an instrument that allowed us to look across the system to understand the cumulative impacts of change, and when or where interactions and trade-offs might exist that affect people's experiences in later life.

The framework has three main components – adequacy, sustainability, and fairness. The components were chosen to reflect the strategic objectives of the pension system in the UK, looking specifically at the extent to which people are meeting their financial needs in later life, the affordability of the system, the stability of the system and how efficiently and/or fairly the outcomes might be distributed, recognising that everybody has a very different experience in retirement.

> **What was the process of launching the framework and how long have you been working on it before it was launched?**

Brain: We designed the framework throughout the course of 2021. The idea for it has been in discussion for a couple of years, and our sponsor Aviva are hugely supportive of the need for evidence-based policy analysis that really can support wider policy debate and decision making.

We launched the project back in January of last year with consultation from experts from across the pension's world. Over the course of the year, we've spoken with around 70 people from across government, policy, industry, academia, consumer groups and they have collectively given us some very valuable insight into what's needed and what's important for pensions analysis in the UK, and how unique nuances of the system are important in the outcomes that people have.

Throughout the year much of our work was built around these conversations. We started by thinking about the question of what is the UK pensions system trying to achieve? That might sound like quite a straightforward question but, after speaking to a lot of different people, there is no one singular answer that you find across literature or across policy.

We summed it up and said: "In our view, the UK pension system is looking to help people to achieve financial security in later life." Then we thought, what does financial security mean and what does it look like, and we used that approach to then think through the objectives that there are within the pensions system. These are not specifically documented objectives, you'll see them being used quite widely in international research for a comparative perspective, but we chose adequacy, sustainability and fairness.

Within all three of those objectives, we built a series of indicators that give us information by which to analyse the extent to which these three key objectives are being achieved and they also help to relate the findings to tangible real-life outcomes upon which policy debate can be had and decisions can be made.

> **What were the challenges when creating the framework?**

Brain: The biggest challenge has been knowing the right amount of content to include. The system is vast with more than 12 million people over state pension age at the moment and over £9 trillion in accrued assets and liabilities across the state, DC and DB pensions. The scope of this framework includes the state system, private pensions and, crucially, includes non-pension factors that affect financial security in later life. Determining how far to go in order to produce a really meaningful and in-depth analysis, recognising that this has to be a resource that really paints a

picture of the whole system and looks at the big picture outcomes, was definitely the most challenging part.

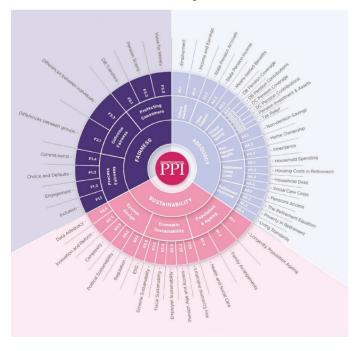### ▶ Why was it felt that the framework was needed?

Brain: There is no single resource right now that is dedicated to analysis of the UK pension system. There are some superb pieces of analysis and research that exist across the pensions world, particularly those that compare pensions on an international basis, but every pension system is very different, and the UK very much has its own characteristics and nuances. We wanted to build a long-term resource that can help us track how changes in a system are impacting outcomes over time as well as being able to look at these long-term implications.

We also wanted to understand where those implications are coming from, and for that reason policy interactions and policy trade-offs are absolutely central to this research. We want to understand what the implications for policy in one area of the pensions system will be if you make a change in another. How do those trade-offs and interactions build up

over time to produce the system that we have at the moment, and how can we measure that going forwards?

▶ The first full analysis of the framework is expected to be published in Q4 2022, but are there any general trends that have emerged already that you would be able to share with me now?

Brain: We're looking to produce the baseline analysis for the report towards the end of this year. At the moment we are developing the indicators, so one of the key takeaways from the report will be to understand where the trade-offs are that are taking place at the moment. In terms of giving a little snapshot of what it might look like, we need to build these up first but what I can do is refer you to the case study in the report on the PPI website. This is based on hypothetical analysis and existing scenarios, if not based on actual data, but it gives you an idea on how the framework will work.

▶ What are your objectives for the framework? What strengths and weaknesses exist within the framework?

Brain: Our objectives with the framework are two-fold. Firstly, we will be looking to build a long-term resource that documents change across the pensions system over time. That's something that people will be able to continuously come back to. This is really remembering that a lot of policy changes

take a long time before any impact becomes observable, so it gives you a resource against which you can refer and compare changes over time to understand what their implications might be.

Secondly, we aim to provide a tool with which we can simulate the potential effect of policy proposals or socio-economic change. By looking at the baseline analysis this year we will be able to say 'what might happen if, for example, automatic enrolment thresholds were changed, or contribution rates were changed' so we will be able to model against that over time.

There is overwhelming consensus from across the industry that the strength of this research is in the big picture that it can give you in how the system is working overall, whilst also enabling you to drill down into where those impacts are coming from and how they're being determined.

Our limitation is how far can we go. Recognising that, from a number of different perspectives, there is always more information that we would like to be able to include. The pensions system is a continually changing and evolving system in itself so making sure we are able to respond to those changes yet maintain the integrity of the long-term research going forward will be a challenge, but it is one that we are aware of and are looking to build in.

▶ Is there any way the industry can get involved with the formation of the framework?

Brain: If anybody is interested in participating in the design of the research then we always welcome input in terms of the indicators and how we might be able to use the research going forwards. Anyone with an interest in the research is very welcome to get in touch.

▶ Written by Tom Dunstan