20 years of the PPI

Chris Curry looks back at all the significant changes that have occurred across the pensions landscape during the Pensions Policy Institute's 20 years

The world was a different place 20 years ago. Tony Blair was still in his first term as the New Labour Prime Minister, with the opposition led by the quiet man, Iain Duncan Smith. The Secretary of State in the newly-formed Department for Work and Pensions (a merger of the Departments of Social Security and Employment) was Alistair Darling, and Ian McCartney took over from Jeff Rooker as the Minister for Pensions (the first in what for a while seemed like regular changes in that post).

The state pension age was 65 for men and 60 for women, although this was set to be equalised at age 65 by 2020 according to legislation passed a few years earlier. The basic state pension was £67.50 a week, and a married woman might be able to get £40.40 based on her husband's contributions. In the private pensions world, there were more active members in DB schemes than in DC schemes, but most people in work didn't have a private pension.

Public service pension schemes were final salary, and the latest innovation in the pensions market were stakeholder pensions – low charging, flexible arrangements that most employers had to make available to their employees but didn't have to contribute.

PPI launch

And also in 2001, the members of the Pensions Provision Group (PPG) – originally formed by the DSS in 1997 to determine the current levels of pension provision in the UK, and likely future trends – launched a new educational research charity called the Pensions Policy Institute (PPI).

The remit given to the PPI was to continue the work of the PPG, who published a forerunner to the Pensions Commissions reports in 1998 called *We all need pensions*. This report had identified the gaps in the state pension system, increasing reliance on means-testing in retirement and the partial coverage of the private pension system. But the group also identified a need for better data and independent analysis, providing a firm base of evidence on which to basis future policy decisions.

And it seems like the PPI was launched at the perfect time. The early research was based heavily around state pensions, with our first published work looking at the issues surrounding potential increases to state pension age, which of course was later to become a central recommendation of the Pensions Commission. Both the coverage and level of the basic state pension were also the subject of analysis, as well as the role of earnings-related state pensions at a time when the state second pension was increasingly expected to evolve into another flat rate pension. Simplicity seemed a long way away at that point.

Following on from the Pensions Commissions' proposals for automatic enrolment, the state pension system came under further scrutiny and in particular examining the relationship between workplace pension saving and means-testing, and the impact on incentives to save. This would of course eventually result in the introduction of the flat-rate single state pension, rolling up the complexities of a system built up over decades – although of course with a very long transition period.

But it wasn't long before the private pension system was being subjected to the same examination by the PPI. The PPI has a strong history of looking at who does well and who does badly in the UK pension system, and frequently monitors the situation of those who are under-pensioned and more likely to have low incomes when they retire. Specific analysis has highlighted the issues for women, those from ethnic minorities, those with disabilities and those who aren't in permanent full time employment (including the self employed). By looking away from the average and stereotypes, you get a much better idea of just how well they system is working.

DC

DC schemes came more sharply into focus as they caught up with, and then overtook, DB schemes in terms of active members – although of course DB schemes will provide more retirement income for many years to come. That doesn't mean that DB has been ignored, and managing the continued payment of pensions from schemes that are not having money paid in to them is a challenge, either with or without the advent of new forms of consolidation.

Given that the risks of DC typically fall more squarely in the individual, there has been a lot of analysis of the specifics on how DC operates – how much they cost, how they are charged for and the value for money they represent, how they are invested, how they are governed and in particular how they are accessed. While early research looked at the possibility of withdrawing money early for uses other than retirement, that was of course all overtaken by the radical shake up in 2014 that lead to the end of compulsory annuitisation and pension freedoms.

Pension freedoms in turn have cast a light into other areas of the system. The taxation of the withdrawal of DC pensions is only facet of the tax treatment of pension saving that has evolved over time, been analysed many times, and comes under intense scrutiny at this time every year (and this year is no different). And the choices opened up to individuals not just at the time that they choose to retire, but throughout their retirement as money is managed against a backdrop of decline in both physical and cognitive health has led to study of individual behaviours, engagement and the role of guidance and advice.

Perhaps the biggest change to the pensions landscape in the 20 years since the PPI was formed has been the successful introduction of automatic enrolment. Not only has this significantly increased the amount of money being saved in workplace pensions and the number of people saving, it has also acted as a catalyst for many other of the changes to the system already highlighted.

But successful as it has been, there are still challenges for automatic enrolment. Are people saving enough? If they need more, should it be achieved through higher compulsory contributions, or engagement to save on top? What will be the impact of the multitude of small pension pots created by the system? How will individuals keep track of a more fragmented pension system?

And this highlights why the PPI is likely to be just as busy in just as many areas in the next 20 years as it has been in the past 20. The pensions landscape will continue to evolve, just as the world around us evolves.

There will be obvious challenges – the impact of Covid-19, the role of pensions, savings and investments in addressing climate change, the continued inequality in pension outcomes – and some which are not obvious now but will become very important. Another Pension Schemes Bill has just passed through parliament, collective DC is now possible, as is DB consolidation. Pensions dashboards are on the way.

As the amount of money invested in DC increases, how that money is invested will come under increasing scrutiny. Funding retirement is becoming more complex with more interactions between pensions, savings, other forms of wealth (such as housing) and work. Each new generation faces a different set of challenges. Will the UK pensions system deliver better outcomes in the future? The only thing that is certain is that things will look very different again in two decades time.

And we have come almost full circle with state pension age again about to be a big topic of discussion. The next independent review of state pension age is due to conclude in 2023, but this time with considerable uncertainty about longevity set against challenging government finances.

While many things are now very different, the remit of the PPI remains the same – and just as important – today, as it did 20 years ago.

Written by PPI director, Chris Curry