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State pension provision – A suitable case for treatment?

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State pension provision – A suitable case for treatment?


- Is means-testing effective?
- What's the latest on Pensions Credit?
- Can the earnings link be afforded?
- The future for contracting-out



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State Pension reform- background

- Green paper responses
- State Pension Age
- Costs are apparently stable for 50 years
- System is one of the most complex in the world



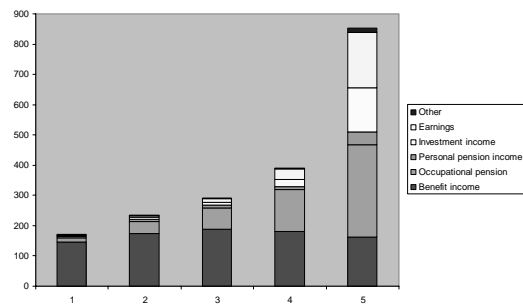
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Is means-testing effective?

- There will always be means testing
- Pensioners' income is very skewed
- Pensioner poverty has reduced but low take-up by poorest pensioners
- Effect on savings incentives

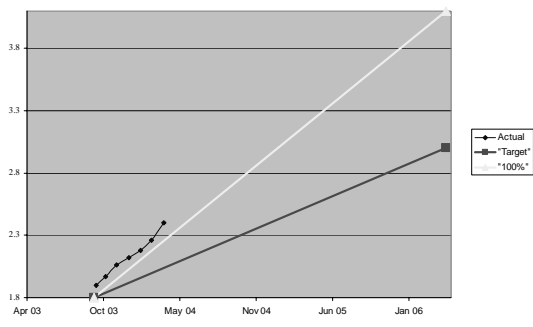
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Weekly Income of Pensioner Couples by Quintile 2002/03



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Households claiming Pension Credit (millions)



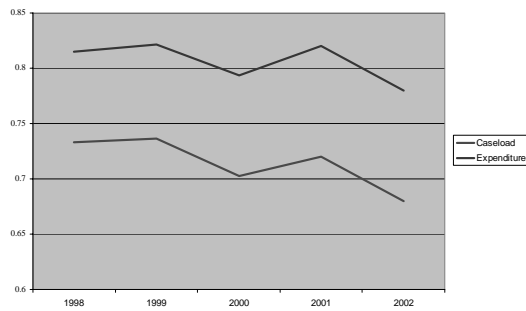
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What's the latest on Pensions Credit?

- Take-up is ahead of target
- Knowledge of the benefit was poor, but is improving
- Support by telephone with some home visits
- Claim form is complex
- Most benefit is payable for five years
- Changes of circumstances must be reported

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MIG take-up by caseload and expenditure



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Details of the Conservative Party proposal

- Basic pension to be linked to earnings for the first parliament
- *"We are confident that we will be able to identify the savings that will enable us to carry on with this process. Provided that these are achieved, successive Conservative Governments will raise the basic pension up to the value of the means-tested benefit."*
- State Second Pension accruals (and contracting-out) to cease after consultation about new incentives to save.

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Aims of the Conservative Party proposal

- Reverse the spread of means testing
- Restore incentives to save
- Make state pensions simpler

All within an affordable budget

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Can the earnings link be afforded?

- What is “affordable”
- First term funded by
 - cuts in the New Deal and
 - offsetting savings in means-tested benefit
- Contracted-out rebates and S2P accrual more than cover the cost in a second term
- The earnings link is not intended to be open-ended

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Alternative policies

If Labour confirm the link of PC to earnings, Tories will need to revise their proposal, but will have more money to spend.

Lib Dems are expected to propose to increase State Pension at high ages.

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The future for contracting-out

- Latest numbers actually contracted-out
- Assumptions made in calculating rebate
- Balance of risk for employers
- Simplification

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An unreformed State Pension is

- Unsustainable
- Complex

and will lead to

- Planning blight



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