

Charlotte Clark, head, workplace pension reform policy,  
United Kingdom's Department for Work and Pensions  
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## **Introduction to UK Pension Reforms**

### Background to reform

Like most industrialised nations, the UK is facing the substantial challenge of an “aging society”. In 1950, a man aged 65 could expect to live to the age of 76. Today he can expect to live to 85, and this longevity continues to increase.

At the same time lifestyles and expectation for working life and retirement are continuing to change. When the current UK state pension system of National Insurance was set up in 1948 divorce and remarriage were relatively rare and it was not unusual for a man or woman to spend their whole working life with one employer.

In order to look at these issues and the challenges they posed in 2002 the UK Government set up an Independent Pensions Commission to look at the problem and to put forward possible solutions. Their first report put forward 4 broad possible options:

- Pensioners could be poorer
- More state spending via taxation
- People could work longer
- People could save more

The option of having poorer pensioners was dismissed. But the UK government has been taking forward policies under each of the other options.

### Working longer and increasing state spending

This includes increasing the age at which individuals are entitled to their pension from the state, which increases from 65 to 67 to the 2020s and increases by a year in each of the following decades so that by 2050 it will be 69.

The state pension increases in its generosity and the conditions under which people become entitled mean that more people, particularly women, will become entitled to more.

### Saving more

One of the central parts of the overall reform is to get people to save more for their own retirement. Current estimates are that around 7m (or about a quarter) of working age people are not saving enough for their retirement.

As part of the reform programme we have pulled together a sizeable amount of evidence looking at the problems with the pensions market in the UK and why there is an apparent market failing in the provision of pensions. Behavioural economics has helped illuminate why the demand for pensions may be below the “rational” level.

The saving more policy is based around three pillars:

- Automatic enrolment – from 2012 all employers in the UK will be required to automatically enrol their employees into a pension. This is designed to combat inertia.
- Mandatory employer contributions – employers will be required to pay a minimum contribution of 3% into the scheme, if their workers do not opt out of the scheme.
- The set up of the Personal Accounts Scheme – to help with the supply of pensions to small and moderate employers, the government is setting up a scheme which employers can choose to contract with if they do not wish to run their own scheme.

### Impact of reforms

We estimate that the reforms will lead to more than

- 6-9 million people newly participating or saving more in workplace pensions
- Contributions to pension schemes to increase by £10bn by 2015.