PEF, **2** (1): 67–89, March, 2003. © 2003 Cambridge University Press
DOI: 10.1017/S1474747203001227 Printed in the United Kingdom

Privatising provision and attacking poverty? The direction of UK Pension Policy under new Labour

TOM CLARK* and CARL EMMERSON
Institute for Fiscal Studies, 7 Ridgmount Street, London, WC1E 7AE
(*e-mail:* Carl_Emmerson@ifs.org.uk)

Abstract

This paper analyses the thrust of the UK Government's pension reforms in the context of the system they inherited. The reforms represent continuity with what went before in seeking to continue the privatisation of pension provision, but herald a new emphasis on pensioner poverty reduction. There is a clear broad strategy even though not all of the reforms fit obviously within it – a generous means-tested system, extensive private provision and a diminished contributory pension. In the long term, this strategy has advantages in terms of containing public sector liabilities, but involves further downgrading the contributory principle. It will also affect the incentive to save for many individuals. Individuals currently on means-tested benefits will be able to keep more of their savings as a result of the reform. But those currently outside the means-tested benefit regime who expect to be brought into it as a result of the reforms will face a diminished incentive to save.

1 Introduction

Over the decades, the UK pension system has evolved to be distinctive in several dimensions. It has an unusually high degree of private provision, and an unusually significant element of consumer choice. Spending on the state pension system is relatively modest and – even more distinctively – is forecast to remain so. Finally, a large proportion of pensioners are entitled to one or more means-tested benefits. Many of these features can be directly related to the reforms of the Conservative governments, who were in power from 1979 to 1997.

Financial support from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS (grant number M535255111) is gratefully acknowledged. Responsibility for the interpretation of data, and any subsequent errors, is that of the authors alone. We thank seminar participants at the conference on 'Retirement pensions schemes' in Bordeaux, 19th September 2002, Richard Disney and an anonymous referee for useful comments that have improved the paper greatly.

* Tom Clark worked on early drafts of this paper written before he left the Institute for Fiscal Studies in September 2002. He has not been involved in the subsequent revisions.

Since being in power in 1997, the new Labour government has introduced a number of pension reforms, but most of these have involved developing the distinctive features of the UK system, rather than a fundamentally different strategy. The desire to privatise provision and contain state expenditure is consistent with the policies of the previous Conservative governments. But in one respect there has been a marked change of emphasis – the reduction of pensioner poverty has also become a priority. This paper aims, first, to outline Labour's pension reforms in the context of the system that they inherited. Secondly, it aims to evaluate their implications for the future and their coherence. Finally, we seek to assess how realistic is the aspiration to continue to increase reliance on private pension provision given the determination to reduce pensioner poverty through increased income redistribution.

The paper starts in Section 2 by outlining the distinctive demographic and institutional background against which the current UK pension system has evolved. Section 3 outlines how the various 'tiers' of the current system operated before looking at Labour's reforms to each of these. The main structural reforms introduced by new Labour – the Pension Credit, the State Second Pension and Stakeholder Pensions – are examined in Section 4. In particular we consider how they look set to evolve in the future in terms of coverage. In the light of this analysis we consider whether the system that they collectively constitute is coherent, and ask what its implications are for cost, pensioner incomes and the incentive to save. Section 5 concludes.

2 Background to the UK public pensions system

2.1 Demographic background

All major economies are experiencing an increase in the number of pensioners, and the UK is no exception. But the UK is distinctive in that ageing started unusually early. The number of pensioners in the UK has increased rapidly almost for the whole of period since the Second World War. Between 1960 and the start of the 1990s the number of pensioners increased by nearly 40%.[1] By contrast the non-pensioner population of the UK increased by just 5% over this period.

Forecasts for the pensioner population over the next 50 years implies growth in the pensioner population will continue at a comparable rate. Official estimates are shown in Table 1, which reflect both previous birth rates and also improving life expectancy (in particular male life expectancy at age 65 has increased sharply since the 1960s).[2] The number of pensioners in the UK is set to increase by just short of 50% between 2000 and 2051 – from 10.8 million to 15.9 million.

Table 1 also shows the projected working age population from 2000 through to 2061 – over this period this is set to increase from 34.0 million to 35.0 million. This increase is small, particularly given the planned increase in the state pension age of women from 60 to 65 that is set to take place between 2010 and 2020. (The state pension age for men is set to remain unchanged at 65). The implication is that the ratio of working age adults to pensioners will fall, even with the planned increase in

[1] Dilnot, Disney, Johnson, and Whitehouse (1994), p. 29. Based on GAD data.

[2] Banks, Blundell, Disney, and Emmerson (2002) present data on increases in life expectancy at birth and also at 65, both in the UK and elsewhere.

Table 1. *Demographic forecasts for the United Kingdom population, 2000–2061*

	2000	2010	2020	2031	2041	2051	2061
Population in millions aged:							
19 and under	15.0	14.3	13.8	14.0	13.7	13.4	13.4
20 to the state pension age[a]	34.0	35.4	38.0	36.7	36.1	36.0	35.0
State pension age and above[a]	10.8	12.0	12.1	14.8	16.1	15.9	16.1
Ratio of:							
Working age to pension age[a]	3.1	2.9	3.1	2.5	2.2	2.3	2.2
(without pension age change)	3.1	2.9	2.6	2.0	1.9	1.9	1.8

Note: [a] State pension age for women is set to be increased from 60 in 2010 to 65 in 2020.
Source: Authors' calculations using the 2000 based population projections from the Government Actuary's Department (www.gad.gov.uk).

the state pension age for women. If those aged 19 and under are included as dependants then the fall in the number of workers to the number of dependants is less severe – from 1.3 in 2000 to 1.2 in 2061. This is because the number of individuals aged 19 or under is expected to fall from 15.0 million in 2000 to 13.4 million in 2061.

But as we have indicated, this projected growth in pensioner numbers is no more rapid than that which the UK has already experienced over the last forty years. The degree of projected ageing is modest by international standards. The ratio of individuals age 65 and over divided by the population age 15 to 64 in the UK is forecast to rise by 15 percentage points between 2000 and 2050 (United Nations, 2001). This compares to a forecast increase across the European Union as a whole of 30 percentage points. Particularly large increases are forecast for Italy (41 percentage points), Spain (49 percentage points) and Germany (31 percentage points).

The relatively early ageing of the UK population has perhaps had important implications for policy. It may have helped make the expenditure constraint on pensions policy more transparent. In turn, this may have helped ensure that the most generous types of state schemes seen in parts of continental Europe were never adopted in the UK. The more transparent cost constraint may also have encouraged the public expenditure reducing reforms of the 1980s. As we will show in the next section these have insured that the UK state pension system, in its current guise at least, is sustainable in terms of its financial cost.

2.2 Institutional background – a large private sector

The UK has a long tradition of private pensions, most particularly occupational schemes in which benefits are directly related to salary. Already by the 1960s around half of the workforce was part of an occupational pension scheme, a figure that is high by international standards.[3] Between the 1960s and the late 1980s, membership

[3] We are not aware of direct evidence on pension coverage across countries and over time, but see Chapter 1 in Disney and Johnson (2001) for some suggestive comparative evidence. That the UK had early and wide pension coverage is evident in the fact that receipt of private benefit income by pensioners in 1996 is far wider than in most OECD countries including France, Germany and the US. It is also evident in the fact that the *stock* of pension funds as a share of GDP is far higher in the UK than in most of the

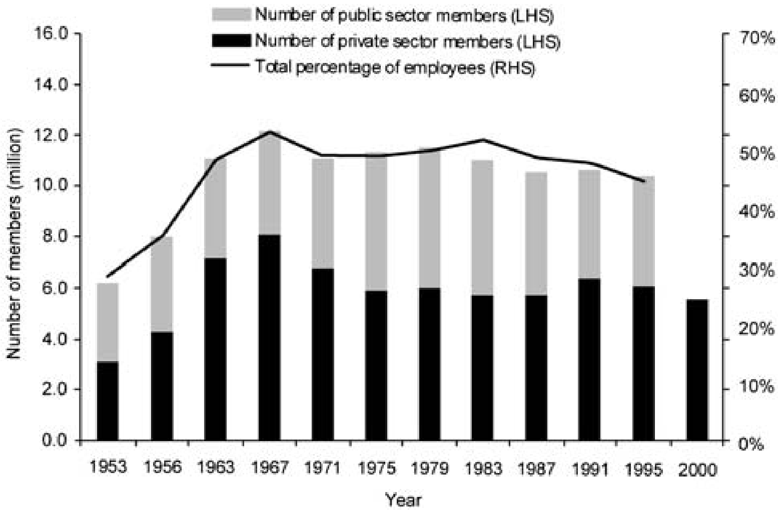


Figure 1. Occupational pension scheme membership, 1953–2000
Note: Figures for 2000 are provisional and data on public sector employees is not yet available. In addition in 2000 some public sector members have been counted as private sector members. In addition no adjustment has been made in 2000 for those private sector employees who are still members of a public sector occupational pension.
Source: Government Actuary's Department (2002); Pension Provision Group (1998).

of private sector occupational pension schemes fluctuated at around 50 % of employees (Pension Provision Group, 1998).

Figure 1 charts the total number of occupational scheme members over time, split by whether the scheme is a private sector scheme (financed on a funded basis) or a public sector scheme (which can be financed either on a funded or on a pay-as-you-go basis). After growing dramatically over the 1950s membership remained at between 11 and 12 million individuals over the period from 1963 to 1983. It is notable that there has been a slight decline in the numbers covered over the 1990s, in spite of the growth in the employed population over these years. The line shows, on the right-hand axis, the percentage of employees covered by an occupational pension. This grew to 53 % by 1967 and was still over 50 % in 1983. Since then it has fallen, reaching 45 % in 1995.

This longstanding pattern of widespread occupational pension coverage has translated into a relatively high proportion of pensioner income coming from private sources: in 2000–01 just over half (51 %) of the income to pensioner families came from Government, with the remainder coming from private sources such as occupational pensions, investment income and earnings (Department for Work and Pensions, 2002a). The high level of private coverage has surely affected the evolution of pensions policy. It helps explain why a significant earnings-related state pension

countries that the study compares. By contrast, the study shows that in terms of the proportion of the *current* workforce covered by occupational schemes the UK is not exceptional.

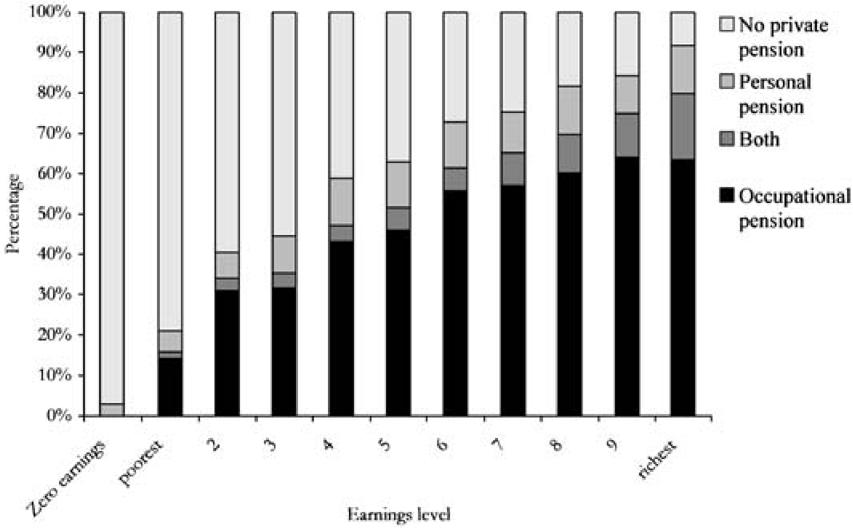


Figure 2. Private pension coverage in the UK, by earnings decile, 2000
Note: Sample includes only individuals aged 20 to 59 who are not currently self-employed. Total sample size is 9,329 individuals. These are split between 2,373 in the zero earnings category and approximately 696 in each of the ten earnings deciles.
Source: Banks, Blundell, Disney, and Emmerson (2002).

scheme was only introduced in 1978, late by international standards, and also affected the form of that scheme (as we will see in section 3.2).[4] In addition, widespread private pension coverage perhaps helps explain how it was politically possible for the 1979–97 Conservative governments to scale back considerably the increases in public pension expenditure implied by the pension system that they inherited from Labour in 1979.

But while private pension membership may be widespread, it is far from universal, and there are important differences in the extent to which different socio-economic groups are covered. Variation in pension coverage by earnings level has, perhaps, recently attracted most attention from policy makers. Banks, Blundell, Disney, and Emmerson (2002) illustrate this considerable variation using data from the *British Household Panel Survey*. This is reproduced in Figure 2. Overall 53 % of those in paid employment report being a member of an occupational scheme (of whom a minority, 7 % of the population, also report membership of a personal scheme). This figure jumps to 80 % among the highest earning 10 %, but falls to 16 % among the poorest decile. Although personal pension coverage is less closely related to earnings levels they cover far fewer workers and so the overall story remains clear: lower earners are far less likely to be covered by private pensions. As we will see in Section 4, New Labour pension policy has aimed in particular at changing this position.

[4] There was an earlier state earnings-related pension – the graduated pension introduced in 1961. In practice, this had only a marginal effect on pensioner incomes, principally owing to the effects of inflation in eroding the benefits' value.

The UK has experienced a shift in the type of private pension coverage over the last two decades. In particular there has been a move away from the traditional salary-linked ('defined benefit'), employer-provided schemes.

One feature has been growth in personal pensions – a type of tax-privileged individual retirement account – at the expense of employer schemes. These were first introduced in 1988. The move from employer to individual provision means that, in spite of strong growth in occupational pension coverage among women, private occupational pension coverage has failed to grow in recent years, as Figure 1 showed.

But among employer schemes there have been changes. The latest figures from 2000 show that just over four out of five members of private sector occupational pension schemes were members of a defined benefit scheme (Government Actuary's Department, 2002), while almost all public sector schemes operate on a defined benefit basis. Despite this dominance of defined benefit schemes, membership of defined contribution schemes is growing more rapidly. Concern has recently started a growing trend for 'conversion' from defined benefit to defined contribution schemes, sometimes for new entrants, but sometimes for existing members as well. This pattern has actually been going on for a number of years although recent press discussion suggests that this is now occurring at an increasing rate.

Two main concerns have been raised with the shift from defined benefit to defined contribution pension schemes. First the transfer of both equity and annuity risk from the employer to the employee (although the fact that some occupational schemes are legally moving existing members from defined benefit to defined contribution schemes suggests that the *ex-ante* risk was often not genuinely held by the employer). Second employers may decide to contribute less to a defined contribution pension scheme then they did to the defined benefit scheme, either immediately or at some point in the future.[5] This is not anything to do with the nature of defined benefit and defined contribution schemes – employers who switched schemes could, if they wanted, choose to contribute more to a defined contribution scheme. According to the Government Actuary's Department survey employer contribution rates to defined benefit schemes in 2000 averaged 9.9 % compared to just 4.3 % among defined contribution schemes. This is likely to reflect, at least in part, other differences between the types of employers that offer defined benefit and defined contribution pension schemes – for example larger and more established companies are more likely to have defined benefit schemes (Department for Work and Pensions, 2002d).

Some individuals might prefer to be in a defined contribution rather than a defined benefit pension scheme. For example there is greater flexibility over how benefits from a defined contribution scheme can be drawn. In addition schemes that provide a pension depending on an individuals final salary may be particularly unattractive to those who expect to have short job tenure. Empirical evidence from the UK suggests that individuals who subsequently move job select pension arrangements that a priori impose lower costs on job mobility (Disney and Emmerson, 2002).

[5] Future contribution rates in a defined benefit scheme would rise automatically if longevity increased and all other factors remained unchanged. In a defined contribution scheme the employer's contribution will not automatically rise – instead the annuity rates would fall and individuals would receive a lower pension.

3 Overview – three tiers of provision

The UK pension system is very complicated due to numerous reforms over the last quarter of a century. Figure 3 provides a 'simplified' picture of the UK pension system that was in place when Labour came into power in 1997. This can be split into three main tiers. The bottom tier comprises of the mandatory, flat rate state pension and the means-tested safety net. The second tier is also mandatory for employees, although they have considerable choice over the type of pension that they can accumulate. The third tier consists entirely of voluntary private savings. Public policy remains important for the third tier though, in terms both of tax treatment and regulation.

This section gives a brief outline of each tier in turn. More detailed descriptions can be found in, for example, Disney (1996) and Disney, Emmerson, and Tanner (1999). Finally, it turns to cost projections for the system before Labour's reforms.

3.1 The first tier – the basic state pension and the means-tested benefit system

This tier is entirely publicly provided and funded on a pay-as-you-go basis. The structure of the Basic State Pension has largely been unreformed since it was introduced in 1948.[6] It is a flat rate, contributory benefit to which rights are established through National Insurance Contributions. Over the period from 1948 to 1975 this was increased on an *ad hoc* basis and actually grew relative to average earnings. The Social Security Act of 1975 formally linked the Basic State Pension to the greater of growth in prices or in earnings. This settlement lasted until 1980. Since then the pension has by default increased only in line with prices.[7]

In theory at least, no individual is left reliant on just the Basic State Pension for income in retirement. This is due to the level of means-tested benefits being higher than the level of the Basic State Pension. This has generally been the case over the last fifty years, even though it was never what Beveridge, the architect of the UK social security system, had intended. In 1997, when Labour came to power, the basic single person's pension stood at £62.45 whereas the means-tested income support for a single pensioner was worth a minimum of 9% more, at £68.80. (Low-income pensioners may also claim other means-tested benefits to help with housing costs and local taxes.)

Means-tested benefits – especially after 1997, as we will see – have become an increasingly important part of the system as Governments have sought to concentrate additional resources on low-income pensioners. This has come with at least two possible disadvantages. First, many pensioners do not take up the means-tested

6 Although the pension itself has changed little since the 1940s, changes to the National Insurance system have taken it further and further from being an insurance benefit. Originally National Insurance was paid on a flat-rate basis, this being seen as appropriate because of the flat-rate nature of the benefits conferred. But reforms, starting in 1961, have linked the contributions paid made ever-more closely to income. In addition, a series of changes have ensured that many who do not themselves pay National Insurance can be awarded 'credits' for benefit entitlement – for example, carers, the disabled and, in recent years, certain low earners.

7 Banks and Emmerson (2000) provide details of the level of the Basic State Pension in real terms and relative to average earnings over time.

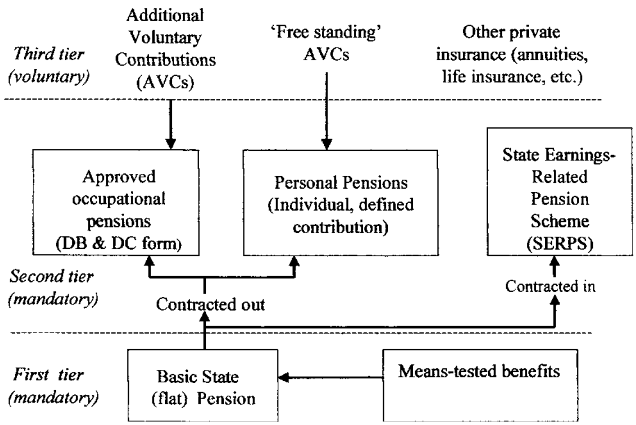


Figure 3. Schema of the UK Pension System that new Labour inherited

benefits to which they are entitled – the most recent official estimates suggests that between 36% and 22% of entitled pensioners do not claim.[8] The result is that the poorest pensioners are those left reliant on a level of income below the supposed safety net. Secondly, means testing necessarily involves withdrawing benefits from those who have built up private pension rights. This can dampen the financial incentive to save (see Section 4.2).

3.2 The second tier – SERPs and rebates into private schemes

The second tier is compulsory to all those in paid employment who earn above the lower floor of the National Insurance system (although not the self-employed). The default for individuals is to be a member of the state scheme, which, like the Basic State Pension, is financed on a pay-as-you-go basis.

The State Earnings-Related Pension Scheme was introduced in 1978.[9] Since its inception, individuals have been able to 'opt out' of SERPs into a private pension. Between 1978 and 1988 this had to be a defined benefit (final salary) scheme that guaranteed to pay at least as generous a pension as the state alternative. In return for forgoing their rights to SERPS individuals and their employers paid a lower rate of National Insurance contribution. Since 1988 individuals could choose instead to 'opt out' of the state scheme into a defined contribution pension scheme.[10] These could either be provided by employers or on an individual basis in accounts known as approved personal pensions. As with defined benefit schemes the incentive to contract-out into an occupational defined contribution pension scheme is that both employees and employers National Insurance rates are reduced. With approved

[8] Figures for 1999–2000. Take-up by expenditure is estimated to be higher at between 74 and 86%. Pensioners are found to have a lower take-up rate than non-pensioners (Department of Social Security, 2001).
[9] For a more detailed discussion of SERPS see Emmerson and Johnson (2001).
[10] Individuals were also allowed to choose not to join their employers pension scheme and instead choose to open their own personal pension or revert to the state scheme.

personal pensions the incentive is different. Instead of awarding individuals a National Insurance reduction for such schemes, the Government instead pays an amount directly into their fund each year. The amount that is paid in depends on an individual's age and earnings, with older individuals receiving a larger percentage of their earnings since they have less time to accrue a fund of the same value.[11]

National Insurance rebates that are paid to individuals to 'opt out' of SERPS have typically been more generous than is actuarially fair. In part this reflected the drive to move towards privatisation of part of the second tier of pension coverage. The policy of giving people the right to opt-out of SERPs has come at considerable cost to the Exchequer.[12]

3.3 The third tier – voluntary private schemes: tax relief and regulation

Employers and individuals can also make additional contributions to a private pension. The maximum amount that can be contributed depends on an individual's age and earnings, subject to a ceiling. The state supports this saving through tax relief.[13] Pensions are not the only tax-privileged form of savings – housing is another option, as are various tax-privileged accounts for holding cash and equities, which have the advantage of being more accessible. But the popularity of pensions perhaps reflects the fact that the tax privileges that they convey are relatively more generous, at least for those who do not expect to retire on means-tested benefits (Emmerson and Tanner, 2000).

3.4 Costs

Despite the forecast ageing of the population state pension spending as a share of national income is forecast to remain relatively stable over the next forty years, before falling over the following twenty years. Table 2 shows the projected financial cost of the state system inherited by Labour in 1997. This is due to the assumed indexing of the Basic State Pension to prices (which rise more slowly than national income), the planned increase in the state pension age of women and two reforms to SERPS which substantially reduced its future generosity and hence expenditure.[14]

There are several reasons why these figures understate likely actual Government expenditure on future generations of pensioners. First there is the cost of National Insurance rebates. Second there has been a tendency for demographic forecasts to underestimate improvements in mortality (Disney, 1998). In addition, the Government Actuary's projections, shown in Table 2, do not include the cost of means-tested benefit and other state expenditure that goes to pensioners. Table 3 shows that in 1996–97 these payments were worth £14.8bn in 2002–03 prices (1.6 % of GDP). This

[11] For more details of the contracting out arrangements see Disney and Whitehouse (1992), Dilnot, Disney, Johnson, and Whitehouse (1994) and Disney, Emmerson, and Wakefield (2001).

[12] See Budd and Campbell (1998) for more details. The voluntary nature of contracting out means that the arrangements are likely to cost more than the savings to the state from the reduced future pension expenditure (Disney, Emmerson, and Wakefield, 2001).

[13] See Section 6 of Banks and Tanner (1999) for more details.

[14] See Johnson, Disney, and Stears (1996) for more details of the cuts to SERPS announced in the Social Security Acts of 1986 and 1995.

Table 2. *Forecast state expenditures on pensioners, 2000–01 to 2060–61 under the pension system that Labour inherited in 1997*

	2000–01	2010–11	2020–21	2030–31	2040–41	2050–51	2060–61
Basic State Pension (£ billion)	33.7	37.5	40.4	48.7	52.2	50.5	50.0
SERPS (£ billion)	5.0	9.8	12.5	14.8	14.9	15.7	17.9
Total State Pension (£ billion)	38.7	47.3	52.9	63.5	67.1	66.2	67.9
Total State Pension (% of GDP)	4.2	4.4	4.2	4.4	4.0	3.4	3.0
GDP per pensioner spending (2000–01 = 100)	100.0	94.6	90.7	76.3	64.1	55.0	48.1

Note: Figures exclude the cost of expenditure on means-tested benefits to pensioners.
Source: Government Actuary's Department (1999) and Authors calculations using the 2000 based population projections from the Government Actuary's Department (www.gad.gov.uk). Figures as a share of national income assume real GDP growth of just 1.5% a year.

Table 3. *Additional state spending on means-tested and other benefits on pensioners in 1996–97* (*in 2002–03 prices*)

	Pensioners' share (%)	£bn
Means-tested benefits		
Income support (later known as MIG)	100	4.4
Housing benefit	33	4.4
Council tax benefit	45	1.2
Health related benefits		
Attendance Allowance	100	2.8
Disability Living Allowance	27	1.4
Other benefits		
Miscellaneous other benefits	n/a	0.6
Total		14.8
% of GDP		1.6

Note: Figures are for estimated out-turns.
Source: Department for Work and Pension website (www.dwp.gov.uk/asd/asd4/expenditure.htm).

is considerable relative to the amount spent on the main state pension schemes shown in Table 2. The biggest items of expenditure are on income support and housing benefit (£4.4bn each).

In addition, given demographics, it might have become politically necessary to change the pension system in order to increase spending beyond that implied by the 1997 pension system. This is because state expenditures remaining broadly constant as a share of national income during a period of increases in the proportion of the population aged over the state pension age (as discussed in Section 1.1) imply that the proportion of national income publicly spent on each pensioner is set to fall. Table 2 shows that by 2050 state expenditure on each pensioner will be just 55.0 % of the level relative to national income of that seen in 2000–01.

We have seen that the complex UK pension that the Labour Government inherited in 1997 had a number of distinct features. Private provision played an unusually large role, state spending was relatively low and means testing was important. In the next section we will turn to consider the various reforms that Labour made.

4 New Labour's pension reforms

Labour has introduced a vast array of reforms to the pensions system since 1997. These are outlined in Table 4. We do not attempt to outline all of these in detail.[15] Instead, at the outset we assert that in combination these measures imply a particular pensions strategy, its key elements being state expenditure control and poverty reduction.

In historical terms, new Labour's policy offers something old and something new. On the one hand, the continued emphasis on containing state spending – through a combination of private pension reform and attempting to increase the basic state pension only in line with prices – new Labour's reforms have been continuous with what went before. On the other, the emphasis on reducing pensioner poverty – something that will be attained chiefly through large increases in means-tested benefits – is new.

In terms of which has been the main priority Department for Work and Pensions (2002b) states 'In 1997, we recognised that there was much to reform in the field of pensions. But by their very nature, this is a long-term process. Our first priority was to address the low incomes amongst current pensioners'. With this in mind we now go on to look at particular policies in detail before returning to consider whether the path that the Government has apparently chosen for the long-term is sustainable and desirable.

4.1 The pension credit

The pension credit will restructure means-tested support for pensioners to address perceived shortcomings in the current system. So to understand its intended purpose, it is necessary to grasp the existing structure of benefits for pensioners. Most pensioners receive the flat-rate basic state pension, which in April 2003 will stand at £77.45 per week for single people (£123.80 for couples).[16] Since the early 1980s, it has been indexed only with prices (which tend to rise slower than earnings) and so it provides a living standard that is increasingly meagre in relative terms. Therefore,

[15] If more detail is required on the Minimum Income Guarantee, the State Second Pension and Stakeholder Pensions then see Disney, Emmerson, and Tanner (1999). For details of the Pension Credit see Clark (2001).

[16] The couple rate applies where one partner is without a full National Insurance contribution record. If both have full records, they receive twice the single rate. Where one record is partial, the couple receives whichever is the greater of the couple rate and the sum of their individual entitlements.

Table 4. *Pension policy reforms announced 1997–2002*

More generous means-tested benefits:
- Frequent large increases in the MIG from April 1999 onwards.
- Pension Credit to be introduced in October 2003.

Non-means tested support targeted at moderate earners:
- SERPs replaced by the State Second Pension from April 2002.

General increases in support:
- 'One-off' real increases in basic pension in April 2001 and April 2002.
- Annual winter fuel allowance introduced from autumn 1997.
- Free TV licenses for those aged 75 and over from autumn 2000.

Private pension reform:
- Stakeholder pensions introduced in April 2001.
- Tax rise on pension funds by abolition of dividend tax credit in July 1997.

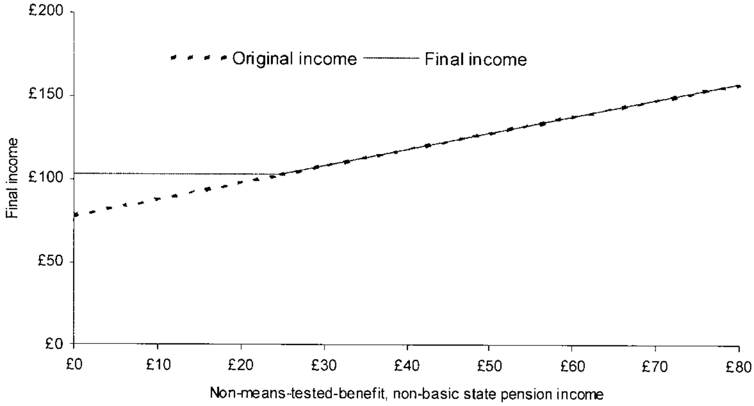
when recent governments have had money to spend on pensioners, they have tended to target it on those who would otherwise have only the basic pension to survive on.

To do this, benefits that provide pensioners with an income 'safety net' – the minimum income guarantee (MIG) and its predecessor, income support – have been increased.[17] These benefits 'top up' the poorest pensioners' incomes. Crucially, topping-up is to a fixed level, regardless of whether the claimant has private income or not. So, for the poorest pensioners, any private income possessed is worthless – because, pound for pound, it reduces the amount of 'top-up' received. Figure 4 illustrates how the system works for a single 65-year-old, with benefit rates in April 2003, when the MIG is expected to be £102.10. If his/her only income is the (full) basic state pension, the figure shows he/she will receive a £24.65 top-up (£102.10 MIG minus £77.45 original income). If, instead, the pensioner has the basic state pension plus £10 of private income (total pre-means-tested-benefit income of £87.45) then we can see he/she receives only £14.65 top-up (£102.10 MIG minus £87.45 original income). So, final income is the same (£102.10) in the two cases. Indeed, Figure 4 shows that a pensioner's original income has to exceed the MIG before it affects final income.

This situation could be deemed problematic on two counts. First, it distorts the incentive to save: in particular, making saving unappealing for low-wage workers who expect to retire on a low income. The specific concern is that people in this situation would decide not to save at all, which would reduce their private incomes and so increase the means-tested benefit bill. Secondly, on grounds of fairness, it might be felt that it is unacceptable that those low-income pensioners who have saved to achieve some private income should go entirely unrewarded for their thrift.

The situation has become more pressing recently as the Labour government has increased the value of the MIG far more rapidly than that of the pension. In the first year of the current government, 1997–98, income support for a 65-year-old stood at

[17] This happened under both Conservative and Labour governments. For a 65-year-old pensioner, the real-terms increases in the maximum means-tested benefits were 7% between the introduction of income support in 1988 and 1997 and 25% between the election of the Labour government in 1997 and 2001.



Notes: Income disregards, taxation and other means-tested benefits ignored.

Figure 4. Illustrative budget constraint under the Minimum Income Guarantee, for a single pensioner in receipt of a full basic state pension, April 2003

£68.80 (in current cash terms) while the retirement pension was £62.45, a gap of just £6.35, compared with the £24.65 expected in 2003–04. This means that, in real terms, the private income that such a 65-year-old must possess before it has any effect on his/her final income will have roughly tripled in six years.[18]

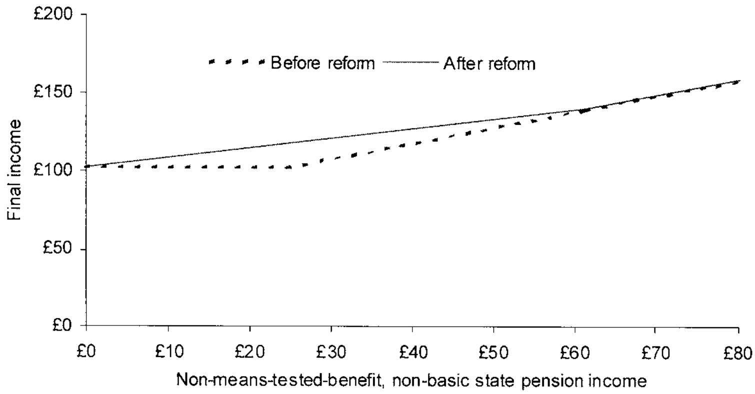
In the absence of reform, these tendencies would have been exacerbated in the more distant future, because the government 'aspires' to increase the MIG every year in line with earnings, whereas the expectation is that the basic pension will continue to rise roughly in line with prices.[19] This means that the gap between the MIG and the pension should rise faster than earnings. In turn, this suggests that a growing number of pensioners will find that their basic pension entitlement together with their private income is below the MIG, and so their private incomes will have no effect on their final income.[20] The concern was, therefore, that the government's strategy of targeting help for pensioners 'where it is needed most' implied ever-more pensioners failing to be rewarded for their thrift.

All this pointed to reform, and proposals for the pension credit followed. Figure 5 shows how it will work for a single pensioner who receives a full basic state pension. Before the reform, each £1 of private income immediately above the basic pension left final income unchanged; afterwards, each £1 increases final income by 60p; i.e. abstracting – for now – from taxes and other income-tested benefits, this means the effective marginal tax rate implied by the pension credit will be 40 %, compared with

[18] Total inflation between April 1997 and April 2003 would be 16.3 % if inflation keeps to the government's target of 2.5 % inflation target in 2001–02 and 2002–03. This would imply that the gap between the MIG for a 65-year-old and the pension would have to have been just £7.40 in 2003 to maintain its 1997 value.

[19] Although in the 2001 Pre-Budget Report the Chancellor announced that there would be a real increase in the Basic State Pension if inflation falls below the central target of 2.5 %. However this pledge is currently set to last only for the duration of this parliament.

[20] This holds even if pensioners' private incomes rise in line with earnings over time, as long as patterns of state pension entitlement and the distribution of private pensioner incomes have fixed shapes.



Notes: Income disregards, taxation and other means-tested benefits ignored.

Figure 5. Effect of the pension credit on a single pensioner in receipt of a full basic state pension, October 2003

the 100% rate that the MIG currently imposes.[21] This 40% withdrawal continues until all pension credit entitlement is exhausted, at around £62 per week of income from sources other than the basic state pension. This is equal to £139 per week of total income once the £77.45 of basic state pension income is included. The chart shows that the lower withdrawal rate means single pensioners with non-means-tested-benefit and non-basic state pension income of anywhere between £0 and £62 per week will gain. (This is equivalent to income including the basic state pension of anywhere between £77.45 and £139).[22]

The government's stated aspiration is that the pension credit guarantee (the re-labelled MIG) will rise in line with earnings. In contrast, it is content that the basic state pension will increase only in line with prices. Maximum pension credit entitlement for someone with a full state pension is given by the gap between these two. If both the state pension and the pension credit grew in line with earnings, then the gap between the two would grow in line with real earnings; because the state pension is actually set to be frozen in real terms, the gap between the two must actually grow *faster* than real earnings. This implies that the private pension income required to exhaust entitlement (a multiple of this gap) will grow very rapidly over time (by more than earnings growth), and that, as a result, it is likely that ever-more pensioners will be brought into the means-tested system.

Table 5 shows how the system looks set to evolve. This takes a system with a basic state pension of £77 per week and a minimum income guarantee of £100 per week, and therefore a 'gap' of £23 per week (values that are close to the ones that have been set by the Government for April 2003 of £77.45 and £102.10 respectively). The 'gap'

[21] This is true of unearned income. The MIG disregard means that the first few pounds (standardly, £5 for a single person and £10 for a couple) of earnings are exempt from the 100% withdrawal rate.

[22] The government describes the calculation for those over 65 in two parts – a pound-for-pound income top-up (100% withdrawal) followed by payment of a 'savings credit' (at 60% of private income possessed). But the process is more simply captured by being described as a single calculation with 40% withdrawal (100% minus 60%).

Table 5. *Effects of differential indexation of MIG and the basic state pension*

	Pension credit guarantee	Basic state pension	Gap	Rate of growth in gap	Private pension required to exhaust entitlement	Required private pension as a fraction of contemporary average earnings
2003	£100	£77	£23		£58	12.3 %
2004	£102	£77	£25	8.7 %	£63	13.1 %
2005	£104	£77	£27	8.2 %	£68	13.9 %
2006	£106	£77	£29	7.7 %	£73	14.7 %
2007	£108	£77	£31	7.3 %	£78	15.5 %
2008	£110	£77	£33	6.9 %	£84	16.2 %
2009	£113	£77	£36	6.6 %	£89	16.9 %
2010	£115	£77	£38	6.3 %	£95	17.6 %
2011	£117	£77	£40	6.1 %	£100	18.4 %
2012	£120	£77	£43	5.8 %	£106	19.0 %
2013	£122	£77	£45	5.6 %	£112	19.7 %
2014	£124	£77	£47	5.4 %	£118	20.4 %
2015	£127	£77	£50	5.3 %	£125	21.0 %
2016	£129	£77	£52	5.1 %	£131	21.7 %
2017	£132	£77	£55	4.9 %	£137	22.3 %
2018	£135	£77	£58	4.8 %	£144	22.9 %
2019	£137	£77	£60	4.7 %	£151	23.5 %
2020	£140	£77	£63	4.6 %	£158	24.1 %
2021	£143	£77	£66	4.4 %	£165	24.7 %
2022	£146	£77	£69	4.3 %	£172	25.2 %
2023	£149	£77	£72	4.2 %	£179	25.8 %
2024	£152	£77	£75	4.2 %	£186	26.3 %
2025	£155	£77	£78	4.1 %	£194	26.9 %

Notes: The Government is going to relabel MIG as pension credit guarantee. All cash values are expressed in 2003 prices. Average weekly earnings for all persons were £409.20 in April 2000. Real earnings growth of 2 % is assumed. Private pension income includes income from second-tier pensions such as the graduated pension, pensions from the State Earnings-Related Pension Scheme (SERPS) and the new state second pension (S2P).

is set to grow rapidly, initially at 8.7 % a year in real terms, although this growth rate will very gradually tend back towards growth in average earnings in the very long run. The private pension required to keep one out of pension credit entitlement grows at the same rapid rate. As a result, the proportion of average earnings that one must have from a private pension to avoid being on pension credit grows from 12.3 % in 2003 to 26.9 % in 2025. It is likely that an increasing proportion of the population will not have savings on this scale.

If we are prepared to assume steady demographics, steady patterns of pension coverage and a steady shape to the earnings distribution, we can move from this analysis to an estimate of the proportion of pensioners who will be entitled to pension credit at various points in the future. Such analysis was undertook in Clark and Emmerson (2002). Where future estimates of these trends are available (as in the case of demographics, where we have a robust prediction that the number of pensioners will rise), they can be used to colour interpretation of our results. Where such estimates are not available, or not considered reliable, they should be seen as reducing the accuracy of our results.

We applied the (suitably indexed) IFS tax and benefit model (TAXBEN) to the 1998–99 Family Resources Survey under the further assumption that all the incomes that pensioners receive from sources other than benefits rise in line with 2% real earnings growth. This crude assumption will approximate the actual outcome if pensioners' private incomes relate closely to their earnings over their working life and if demographics, patterns of pension coverage and the wage distribution are constant over time.

This methodology yielded the following results:

- 52% of adults aged 65 or over would be (or have partners who would be) eligible for pension credit if it were introduced today.
- In 2025, this rises to 73%.
- By 2050, it rises again, to 82%.

The above figures might overstate the number of families entitled to pension credit since they ignore the introduction of the state second pension. While it is unlikely that the state second pension will ever be sufficient on its own to keep a family off means-tested benefits, it might be sufficient if considered alongside private savings.[23] Working in the other direction is the fact that the increased generosity of means-tested benefits will, for many, lead to a reduction in the amount that they will save privately for their retirement. Individuals who look forward to retirement and see that they are likely to be entitled to means-tested benefits face a less sharp incentive to save than individuals who will not receive means-tested benefits. For those expecting to be on means-tested benefits, the effects of benefit withdrawal means that each pound of savings buys less net income in retirement than it otherwise would have done. Also, the increase in their expected retirement income decreases the urgency of their need to save.

Hence it seems clear that the government's existing strategy, if continually implemented, will see a rapid increase in the proportion of pensioners on pension credit over the long term.

Some families may find that they retire above the means-tested floor but subsequently become entitled to means-tested benefits as these increase in line with earnings during their retirement. This is due to the fact that much of an individual's retirement income, such as that from the basic state pension and state second pension, once they have reached the state pension age, will only increase in line with prices. Income from defined benefit pensions is also likely to increase in line with prices while the majority of those reaching retirement with a defined contribution pension actually choose to purchase a nominal rather than a price indexed (or for that matter an escalating) annuity with their fund (Inland Revenue and Department for Work and Pensions, 2002). The increasing generosity of means-tested benefits actually provides an incentive for individuals to choose nominal annuities since it will

[23] For a discussion of the state second pension, see, for example, Agulnik (1999) or Disney, Emmerson, and Tanner (1999).

make them more likely to qualify for benefits at some point in their retirement. The future generosity of council tax benefit and housing benefit will also be important.

Another risk that will complicate saving decisions is that we cannot be sure that the current and future governments will maintain their current pension strategy. In the past, the pension system has been revised quite dramatically – for example, SERPS was introduced in 1978, was dramatically cut in 1986 and 1995 and has since been replaced with a different scheme.

This political uncertainty brings into question whether the Governments aspiration to index the Pension Credit by growth in average earnings will be delivered.

The Government has also stated as one of its objectives a desire to increase the proportion of pensioner income that comes from private sources. In particular the 1998 Green Paper stated that presently 40% of pension income came from private sources (out of a total 10% of GDP) and that this should be increased to 60% by 2050 (out of a total of 12% of GDP). This would still imply the proportion of national income going to each pensioner falling. This is because in 2000 the 10% of GDP going to pensioner incomes was shared among 10.2 million people over the state pension age while the projected 12% of GDP in 2050 would be shared among 15.9 million people. Since then the Pension Credit, if indexed to earnings, will add up to 1.3% of GDP to state spending on pensioners in 2050 (Department for Work and Pensions, 2002c). If we assume private pension income per pensioner remains unchanged relative to national income, state pension spending would still decline so that the share of national income going to each pensioner would still fall. And in these circumstances the Government's objective of increasing the proportion of pension income from private sources to 60% would not be met. Whether this matters or not will depend on whether this objective of policy was considered to be desirable.

4.2 The State Second Pension

The State Second Pension (SSP) replaced SERPS in April 2002. The initial SSP scheme will be more generous than SERPS and especially so for lower earners. This is shown in Figure 6. This also shows the eventual long-term level of SSP when it has been proposed it will become a flat rate top up to the Basic State Pension (Department of Social Security, 1998). The recent 2002 Green Paper stated that the Government is still keeping this position under review, and that factors such as progress on stakeholder pensions will be considered (Department for Work and Pensions, 2002d). Middle and higher earners would under the flat rate scheme have a strong incentive to 'opt out' of SSP into a private pension since under the current arrangements they will continue to receive an earnings-related rebate. After the transition, SSP would effectively form a top-up to the basic state pension for those whose earnings are too low to make joining a funded scheme worthwhile. The proposed flat-rate SSP would be worth less than SERPS for everyone earning more than around £15,000. It is clear that SSP has a progressive redistributive effect. The main beneficiaries of SSP are women. This is because they are more likely to be lower earners and they will also be the main beneficiaries from the payment of credits during some periods spent out of the labour market caring for others.

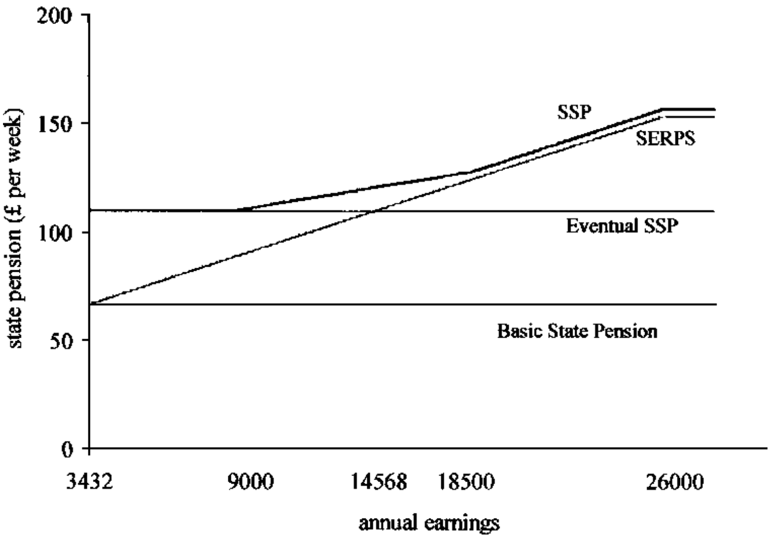


Figure 6. Comparing SERPS with the short run and long run SSP
Source: Disney, Emmerson, and Tanner (1999).

If the State Second Pension does, as proposed by the Government, eventually become a flat rate top-up to the Basic State Pension then the structure of the contracted-out rebates could be re-considered. If the rebates remain related to an individual's earnings then this will provide a very strong incentive for middle and higher earners to contract out of the state scheme. The alternative, given that individuals are choosing to contract-out of a flat rate benefit, would be to have a flat rate contracted-out rebate – i.e. one that varied with age but did not vary by earnings level. This would mean that the rebate could, under certain assumptions, leave individuals with a more finely balanced decision as to whether or not to contract-out of the state scheme.

The Government could also reconsider the generosity of the State Second Pension. Rates were set in 1998 in a way that ensured that individuals in receipt of the full amount would not be in receipt of means-tested benefits when they reach retirement. There are a number of problems with this. First while individuals receiving just a full basic state pension and state second pension would not have been eligible for means-tested benefits immediately on retirement they would expect to become eligible at some point in their retirement. This is because in receipt state pensions increase only in line with prices while the Government's aspiration is to increase means-tested benefits in line with earnings. Second the generosity of means-tested benefits has increased substantially since 1998. Third many individuals who contribute to the state second pension will not be able to contribute for the full 49 years required to receive the full amount. Banks, Blundell, Disney and Emmerson (2002) show that in 2000 among low earners aged 25–59 who do not have a private pension 64.2 % experienced a period out of paid employment over the period 1992–99. This compares to 31.0 % across all of those in paid-employment.

4.3 Stakeholder Pensions

The Government has also stated that it would like to increase private pension coverage further. Stakeholder Pensions, introduced in April 2000, were intended to be primarily targeted at 'middle earners', defined as those individuals who earn between £9,000 and £18,500 a year who do not already have a private pension. This would represent a further shift towards individual funded provision rather than collective provision financed on a pay-as-you-go basis. Stakeholder Pensions are defined contribution individual pension schemes, very similar to personal pensions. Stakeholder Pensions will differ from personal pensions in having a more highly regulated cost and cost structure. The other difference is that employers are obliged to provide details of a stakeholder pension to their employees, although there is no obligation at present for an employer to contribute to an employees' scheme.

The Government's target group for Stakeholder Pensions is currently very small. Table 6, taken from Banks, Blundell, Disney, and Emmerson (2002), shows that of the 1,121 middle earners (defined as earning between £10,000 and £21,999) in the British Household Panel Survey in Autumn 2000 just over three out of four were already a member of a private pension in that year, which is prior to the introduction of Stakeholder Pensions in April 2001. Looking at the characteristics of these middle earners over the previous eight years reveals that 48.4% of those middle earners who did not have a private pension experienced a period out of employment compared to 23.8% of those who did have a private pension. On average those who did not have a private pension also had lower levels of earnings when in paid employment. It is therefore not surprising that these individuals would want to save less for their retirement. Those without a private pension also had lower levels of more liquid financial assets – median wealth among this group was just £300 compared to £1,400 among middle earners who had taken out a private pension. This suggests that if they were able to save then it might well be more appropriate for them to hold these savings in a relatively liquid form rather than tie them away for retirement (Disney, Emmerson, and Tanner, 1999). The decision to exclude smaller employers from having to designate a stakeholder scheme might reduce take up of Stakeholder Pensions among the target group further. This is particularly true since middle earners without a private pension are more likely to work for a smaller employer (Emmerson and Tanner, 1999).

While the current target group for Stakeholder Pensions is small, demand from future generations could be considerably larger. For example many individuals in the current population who purchased a personal pension with up-front costs may not be well advised to switch provider but perhaps would have taken out a Stakeholder Pension in the first place had that option been available to them. Of course this will still only apply to those who feel that they do want to tie their savings up until retirement rather than hold them in a more liquid form. Individuals who do not expect to be constrained by the pension contribution limits in the future can also choose to save in a more liquid form and transfer the funds into a stakeholder pension at a latter date and still receive the same tax treatment as if they had made an employee contribution direct to their pension (Clark and Emmerson, 2002). The

Table 6. *Characteristics over the period 1992 to 2000 of 'middle earners' in 2000, by whether or not they have a private pension in 2000*

	No private pension in 2000	Has private pension in 2000
Sample Size	250	871
% Experiencing a period out of employment	48.4	23.8
Median earnings when employed	£13,017	£15,341
Median financial wealth in 1995	£300	£1,400
% With <£1,500 in financial assets in 1995	64.8	50.4

Source: Banks, Blundell, Disney and Emmerson (2002) using data from the British Household Panel Survey.

latest Government proposals suggest that individuals should be allowed to contribute up to 100% of their earnings each year into a private pension, subject to a cap on the fund at retirement of £1.4 million. This will mean that fewer individuals will expect to be constrained by the contribution limits in the future, and therefore increase 'the scope for savers to roll savings from ISAs into pensions' (Department for Work and Pensions, 2002d).

One important factor that could potentially hinder the Government's efforts to increase take-up of private pensions further down the earnings distribution is the significant amount of means-tested support for lower-income pensioners. Some individuals who expect to retire on a relatively low income in retirement will face a disincentive to save due to the high marginal withdrawal rates arising from combinations of means-tested benefits. The MIG is currently withdrawn at a rate of 100%. As discussed in section 4.1, the Pension Credit will be withdrawn at a rate of 40%. While this will reduce the marginal withdrawal rate faced by many lower-income pensioners it will also bring more people onto means-tested benefits and hence increase their withdrawal rate. In addition many pensioners will be eligible for council tax benefit and housing benefit, which, even post reform, will combine to produce high marginal withdrawal rates. Around 30 per cent of the current generation of pensioners are expected to face a withdrawal rate of greater than 50% once the Pension Credit reform is in place (Clark, 2002). Whether this really matters will depend on how much these individuals would have saved in the absence of the high withdrawal rate.

5 Conclusions

Compared to other EU countries the UK is in a very different situation regarding pension policy. The choice of a largely flat-rate state pension system rather than one with a significant amount of earnings-related provision is related to two institutional factors. The first is that the UK population began ageing at a relatively early time.

This meant that the cost of significant state involvement (in terms of the tax rate on earnings required to fund the expenditure) would have been initially higher than compared to a country whose population structure was yet to age. The second is that there has been more widespread coverage of occupational pensions. In part this will have occurred because of the lack of an earnings-related state pension and in part will have partially mitigated the need for such a policy.

The successive Conservative Governments from 1979 to 1997 reduced expected future state expenditures by substantially reducing the generosity of the state pension schemes. They also introduced strong financial incentives to encourage even greater private pension saving. These incentives came at a net cost to the exchequer, but meant that the explicit promises made by the state pension schemes did not require tax increases to finance them.

Since 1997 Labour has complimented this drive to increase private provision with a focus on reducing pensioner poverty. In order to achieve these aims the Government has used three key policies. First it has restructured the non-means tested state pension scheme to make it more generous to lower earners. Second it has encouraged the introduction of stakeholder pensions in order to entice more middle earners to save for retirement in a private pension. Third it has substantially increased the generosity of means-tested benefits to which the poorest, and lower-income, pensioners are entitled. Arguably it is the last of these that will be of the most significant in terms of the impact on individuals' living standards.

However there are some tensions inherent in this approach to pension policy. According to the Governments own estimates half of pensioner families will be entitled to the new means-tested Pension Credit when it is introduced in October 2003. This paper has shown that the proportion of pensioners entitled to some Pension Credit is likely to increase further if the Government's aspiration to increase the generosity of this benefit in line with earnings is met. This increased reliance on means testing seems at odds with the Governments attempts to increase coverage of private pensions. In particular the objective of increasing the proportion of pensioner income that comes from private sources from 40% at the start of this century to 60% by the middle of this century seems extremely unlikely to be met if the Pension Credit is to be indexed to earnings while all else remained equal. A feature of the State Second Pension as initially designed was that no individual with a full contribution record would be eligible for means-tested benefits in retirement. Increased means-tested benefits mean that this is unlikely. In any case the desirability of extending private pension coverage to those middle earners who do not already have a private pension is open to question given the characteristics of those in this group. It is far from clear that many of them can afford to save sufficient amounts to make individual private coverage a sensible option, in particular given the low level of liquid financial assets that they tend to hold.

The disincentive to save in a private pension faced by those who expect to be in receipt of means-tested benefits in retirement should not be overstated. Many of these individuals might not have saved much even in the absence of such wide-scale means testing. Among those on lower incomes who are able to save for retirement then they might still be best advised to save (although not necessarily in a private pension) since there is a large degree of uncertainty over future government policy. If so then the increased reliance on means-tested benefits are well targeted at reducing pensioner poverty, both among pensioners today and in the future. The problem that needs to be faced at some point is whether combining such generous increases in means-tested benefits can really be compatible with an objective to increase private pension coverage further down the earnings distribution.

The Government now sees the immediate policy issue as addressing 'obstacles in the way of an effective voluntary system', and it 'believes that those who seem to be saving too little will save more' if this is done. (Department for Work and Pensions, 2002d). But should this approach not prove successful the Government seems at least to countenance increased compulsion for it has set up a pensions commission to report on how effectively the voluntary system is developing to provide people with the pensions that they are likely to want.

References

Agulnik, P. (1999) The proposed State Second Pension. *Fiscal Studies*, **20**(4): 409–422.

Banks, J. and Emmerson, C. (2000) Public and private pension spending: principles, practice and the need for reform. *Fiscal Studies*, **21**, March, 1–64.

Banks, J., Blundell, R., Disney, R., and Emmerson, C. (2002) Retirement, pensions and the adequacy of saving: a guide to the debate. Briefing Note No. 29. London: Institute for Fiscal Studies (www.ifs.org.uk/public/bn29.pdf).

Banks, J. and Tanner, S. (1999) *Household Saving in the UK*. London: Institute for Fiscal Studies.

Budd, A. and Campbell, N. (1998) The roles of the public and private sectors in the UK pension system. In Feldstein, M. (ed.), *Privatizing Social Security*. National Bureau of Economic Research, Chicago: Chicago University Press.

Clark, T. (2001) Recent pensions policy and the pension credit. Briefing Note No. 17. London: Institute for Fiscal Studies (www.ifs.org.uk/pensions/bn17.pdf).

Clark, T. (2002) Rewarding saving and alleviating poverty? Briefing Note No. 22. London: Institute for Fiscal Studies (www.ifs.org.uk/pensions/bn22.pdf).

Clark, T. and Emmerson, C. (2002) The tax and benefit system and the decision to save in a stakeholder pension. Briefing Note No. 28. London: Institute for Fiscal Studies (www.ifs.org.uk/public/bn28.pdf).

Department for Work and Pensions (2002a) The pensioners' income series 2000–01. London: Department for Work and Pensions (www.dwp.gov.uk/asd/asd6/pi_series_001.pdf).

Department for Work and Pensions (2002b) Opportunity for all: Fourth Annual Report 2002. Cm5598, London: The Stationary Office (www.dwp.gov.uk/publications/dwp/2002/oppal-fourth/index.htm).

Department for Work and Pensions (2002c) The pension credit: long-term projections. London: DWP (www.dwp.gov.uk/publications/dwp/2002/pencred/pencred.pdf).

Department for Work and Pensions (2002d) Simplicity, security and choice: working and saving for retirement. Cm5677, London: The Stationary Office (www.dwp.gov.uk/consultations/consult/2002/pensions/index.htm).

Department of Social Security (1998) A new contract for welfare: partnership in pensions. Cm. 4179. London: DSS (www.dwp.gov.uk/publications/dss/1998/pengp/index.htm).

Department of Social Security (2001) Income related benefits: estimates of take-up in 1999–2000. London: DSS (www.dwp.gov.uk/asd/tu9900f.pdf).

Dilnot, A., Disney, R., Johnson, P., and Whitehouse, E. (1994) Pensions policy in Britain: an economic analysis. Institute for Fiscal Studies, London.

Disney, R. (1996) *Can We Afford to Grow Older? A Perspective on the Economics of Ageing*. Cambridge, MA: MIT Press.

Disney, R. (1998) Social security reform in the UK: a voluntary privatisation. Paper presented to 'Social Reform: International Comparisons' conference, Rome, 16–17. March.

Disney, R. and Emmerson, C. (2002) Choice of pension scheme and job mobility in Britain. Working Paper No. 02/09. London: Institute for Fiscal Studies (www.ifs.org.uk/workingpapers/wp0209.pdf).

Disney, R. and Johnson, P. (eds.) (2001) *Pension Systems and Retirement Incomes Across OCED Countries*. Cheltenham: Edward Elgar Publishing.

Disney, R. and Whitehouse, E. (1992) *The Personal Pension Stampede*. London: Institute for Fiscal Studies.

Disney, R., Emmerson, C., and Tanner, S. (1999) Partnership in pensions: an assessment. Commentary No. 78. London: Institute for Fiscal Studies (www.ifs.org.uk/pensions/comm78.pdf).

Disney, R., Emmerson, C., and Wakefield, M. (2001) Pension reform and saving in Britain. *Oxford Review of Economic Policy*, **17**(1): 70–94.

Emmerson, C. and Johnson, P. (2001) Pension provision in the United Kingdom. In Disney, R. and Johnson, P. (eds), *Pension Systems and Retirement Incomes across OECD Countries*. Aldershot: Edward Elgar.

Emmerson, C. and Tanner, S. (1999) The government's proposals for stakeholder pensions. Briefing Note No. 1. London: Institute for Fiscal Studies (www.ifs.org.uk/pensions/stakeholder.pdf).

Emmerson, C. and Tanner, S. (2000) A note on the tax treatment of private pensions and Individual Savings Accounts. *Fiscal Studies*, **21**, March, 65–74.

Government Actuary's Department (1999) National Insurance Fund long term financial estimates: Government Actuary's quinquennial review of the National Insurance Fund. Cm4406, London: The Stationary Office (www.inlandrevenue.gov.uk/nifund/qrs.pdf).

Government Actuary's Department (2002) Occupational pension schemes 2000: eleventh survey by the Government Actuary, preliminary results for private sector schemes. London: Government Actuary's Department (www.gad.gov.uk/policy_and_stats/opss/results.htm).

Inland Revenue and Department for Work and Pensions (2002) Modernising annuities: a consultation document. February 2002, London: Inland Revenue (www.inlandrevenue.gov.uk/pdfs/mod_annuities.pdf).

Johnson, P., Disney, R., and Stears, G. (1996) *Pensions 2000 and Beyond: Analysis of Trends and Options*, vol. 2. London: Retirement Income Inquiry.

Pension Provision Group (1998) We all need pensions. London: The Stationary Office Limited.

United Nations (2001) World population ageing 1950–2050. United Nations (www.un.org/esa/population/publications/worldageing19502050/index.htm).