

Spotlight on Pensions

PRESENTS

LeGrand View



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Pensions policy – time to consider a more nuanced approach?

As anyone involved in devising pensions policy will confirm, getting it right is no picnic. Financial provision for those who through age and/or deteriorating health can no longer earn their living involves a range of issues, which must be integrated into a coherent and effective collective approach.

The policies need to be founded upon accurate information on current circumstances and the best available assessments of the future. The costs involved mean that planned action over a long timescale is imperative. On the positive side that timescale does at least allow opportunities for necessary amendments along the way - provided that substantial direction changes do not occur so often that the benefits afforded by longer timescales are undermined.

The complexity of the issues involved inevitably encourages blunt interventions and simplified broad-brush policies, rather than nuanced changes to address the personal circumstances of 66 million-odd individuals. That may have to change.

Current policy approaches

State pension cost projections and the need to maintain an appropriate proportion of the population in the workforce are driving a steady increase in the state pension age and a reduction in the state pension amount. Private provision, boosted by automatic enrolment, is starting to provide supplements up to more acceptable income levels. Although far from solving the problem, future developments are likely at least to increase both coverage, and capital sums accrued by members.

The private pension system already features some flexibility to accommodate individual circumstances, notably through the “pension freedoms” introduced in 2015. However, they only apply to defined contribution arrangements, leaving those with defined benefit pensions with fewer options in comparison and less personal control. The practical effectiveness of such flexibilities depends upon having a sufficiently large accrued fund and access to appropriate knowledge and expertise, neither of which is universally available.

Missing out

There is a cohort of citizens who have not accrued large (or any) private pension funds and who will not have sufficient time to accrue them, even with the benefit of automatic enrolment, before ceasing active employment. They will be heavily reliant upon state benefits, in many cases coinciding with a time when those benefits are becoming less generous. However, UK pensions policy is based largely around a simplistic model that assumes that the population will live progressively longer, will correspondingly remain healthy and active in the workforce for longer, and will accrue significant personal pension assets by the time they are needed.

Although the attraction of a simplistic approach is understandable, there are signs that it may need to be nuanced, specifically in respect of those retiring in the next two decades. This view has strengthened with the publication of the [second Marmot Review](#) by the Institute of Health Equity. This assesses changes in health inequalities in England since 2010, but its findings in respect of health in later life, and for life expectancy itself, have direct implications for the current UK pensions model - particularly over the short to medium term. Although the study relates solely to England, the principles it identifies as driving the results can reasonably be expected to apply across the whole of the UK.

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The Marmot findings

Several of the review's headline findings have a relevance to pensions:

- Since 2010, life expectancy in England has stalled. More than 80% of the slowdown, between 2011 and 2019, results from influences other than winter-associated mortality.
- Life expectancy follows the social gradient - the more deprived the area the shorter the life expectancy. This gradient has become steeper; inequalities in life expectancy have increased. Among women in the most deprived 10% of areas, life expectancy fell between 2010-12 and 2016-18.
- There are marked regional differences in life expectancy, particularly among people living in more deprived areas. Differences both within and between regions have tended to increase. For both men and women, the largest decreases in life expectancy were seen in the most deprived 10% of neighbourhoods in the North East and the largest increases in the least deprived 10% of neighbourhoods in London.
- There has been no sign of a decrease in mortality for people under 50. Mortality rates have increased for people aged 45-49.
- The gradient in healthy life expectancy is steeper than that of life expectancy. It means that people in more deprived areas spend more of their shorter lives in ill-health than those in less deprived areas.

These findings suggest that at least in the short to medium term there may need to be policy changes in the pensions arena.

Policy responses

The underlying issues that are the focus of the review are primarily those of health, but also involve those of wealth. It may be too late for many older individuals to address either. Consequently the numbers of people needing to retire earlier than the current system is designed for, and with need for greater state financial help during retirement, will be an issue for the retirement system to address. Although for the affected groups aggregate pension costs may reduce due to shorter life expectancy, financial welfare needs will peak at earlier ages and perhaps more sharply than currently expected.

This suggests that this cohort at least may need to be treated differently from others. Furthermore, the Marmot findings show significant differences between members within cohorts. The differences have become so large that it is difficult to see where the level of a single policy should be pitched. This reflects a wider underlying societal problem of inequality, but that will not be solved quickly enough to allow the current pension system to provide an adequate solution in all cases.

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Part of the solution may involve an extension of the welfare system, providing greater means-tested benefits. However, now may be the time to consider a more flexible or nuanced pension system, that is better able to help offset the effects of these growing inequalities in later life. It will not be an easy task, not least because of the difficulties in classifying groups requiring particular policy interventions. Certainly, although there is a correlation between socially deprived areas and poorer health, blunt tools such as postcode selection are unlikely of themselves to provide the answer.

The only way to ensure every person's circumstances are catered for would be to adopt a personalised approach, but that is simply impractical for a whole country's welfare system. But seeking a solution that introduces some increased flexibility while keeping the number of options at a manageable level is certainly a subject that should be on the Government's agenda for consultation and debate. The Marmot Review's authors call for a national strategy for addressing health inequalities. Given the impact of the highlighted health issues upon retirement finances, the pension implications must form part of that strategy.

Although the most pressing need is to help those closest to their retirement age, the principles eventually employed may then be usefully rolled out for all future cases, regardless of which cohort they fall into. Finding an appropriate balance will be difficult, but that does not mean that we should not try.

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