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Barcelona, **29-30 / octubre / 2013**

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Changes in the Pension Market – A UK Perspective

Dave Hodges
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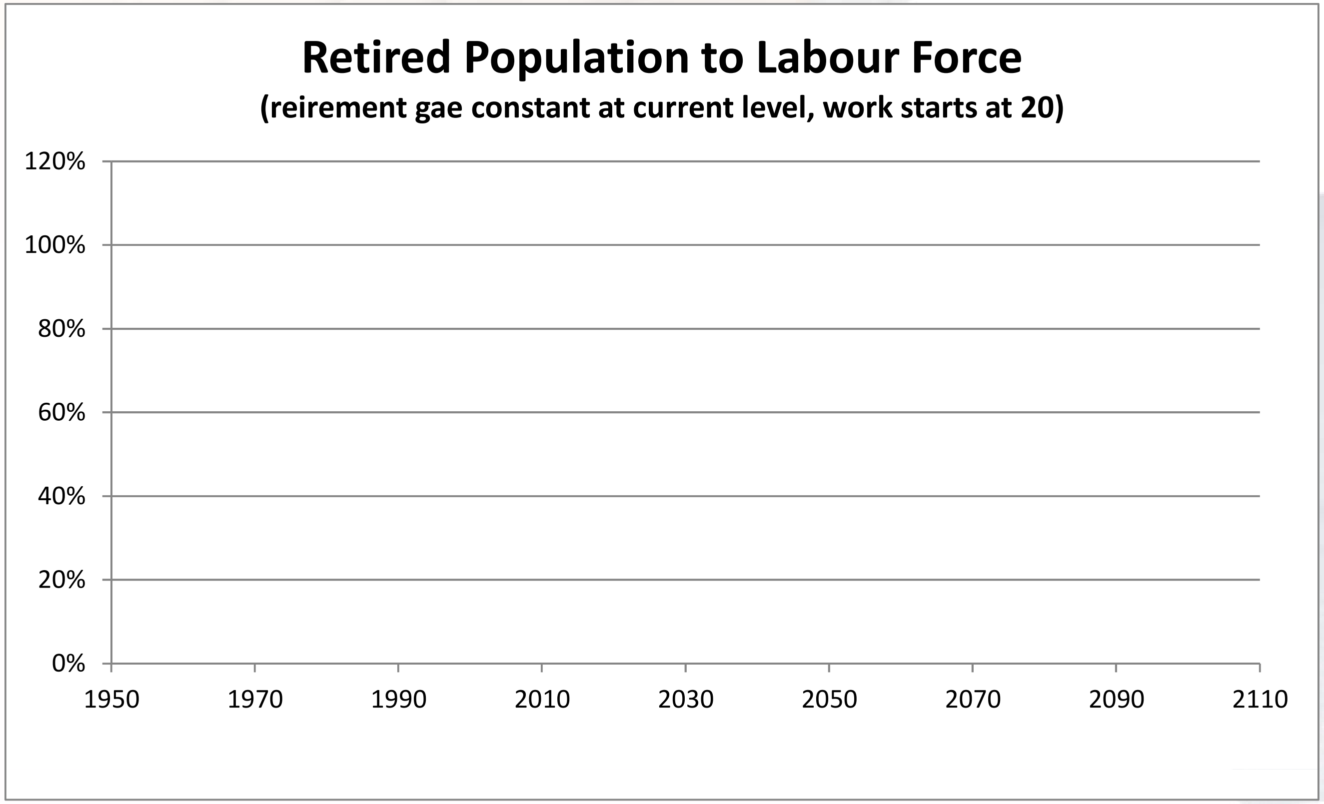
State Spending on Pensions in the UK is Relatively Low

Rank	Country	Level of State Spending (% of GDP)
1	Italy	14.1
2	France	12.5
3	Germany	10.7
4	Spain	8.0
5	Sweden	7.2
6	US	6.0
7	UK	5.4
8	Ireland	3.6

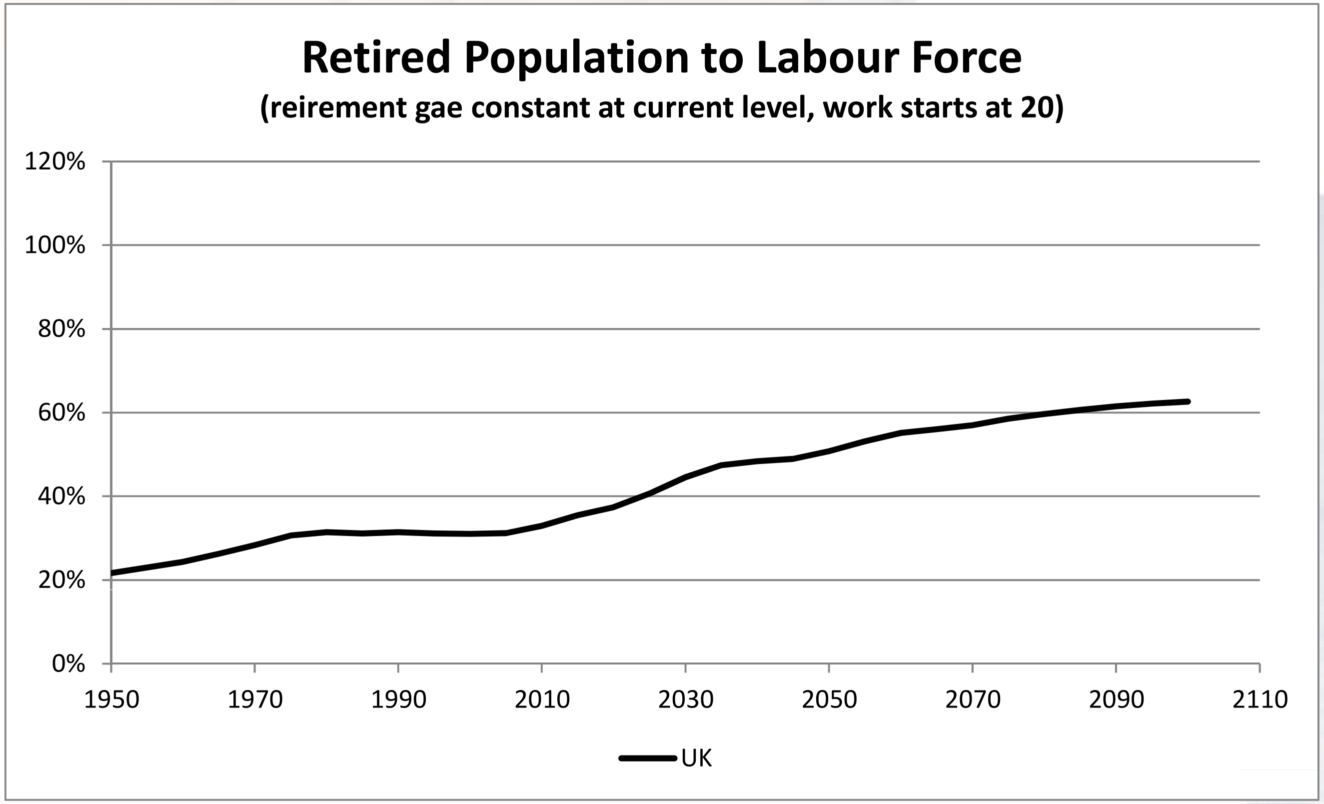
Public Expenditure on old-age and survivors benefits in 2007. Source: OECD

Ageing of UK workforce is likely to be relatively smooth



Source: UN, OECD and own calculations

Ageing of UK workforce is likely to be relatively smooth



Source: UN, OECD and own calculations

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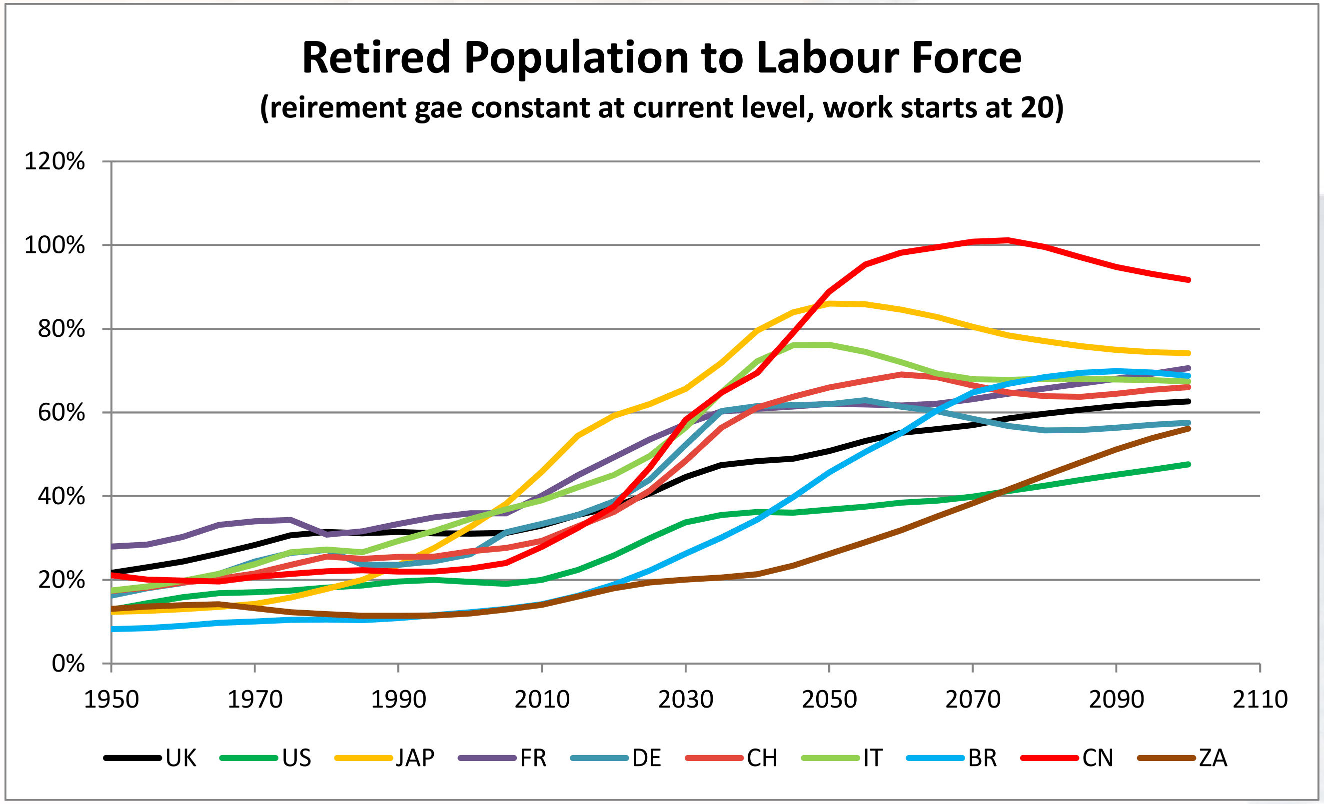
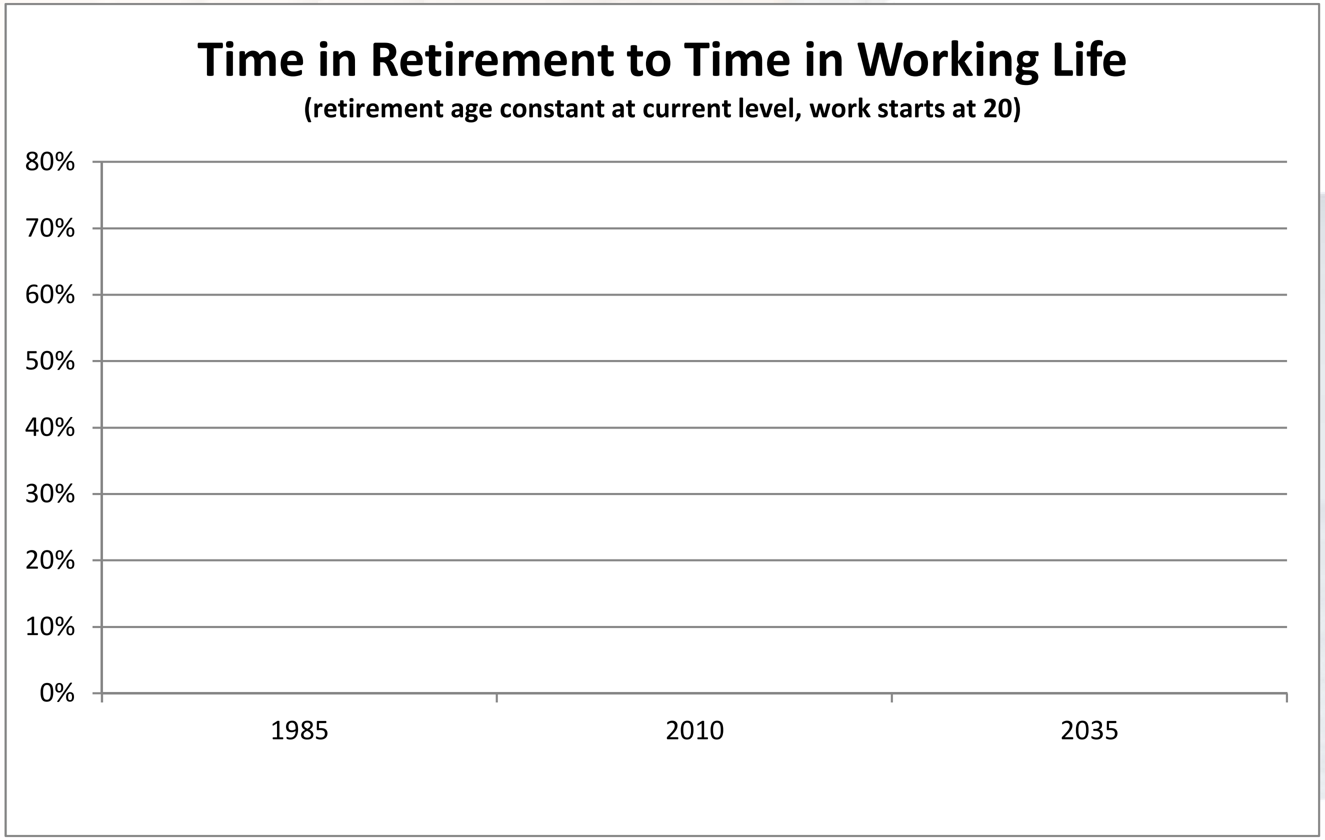


Source: UN, OECD and own calculations

Scope for UK workers to have longer working lives



Source: UN, OECD and own calculations

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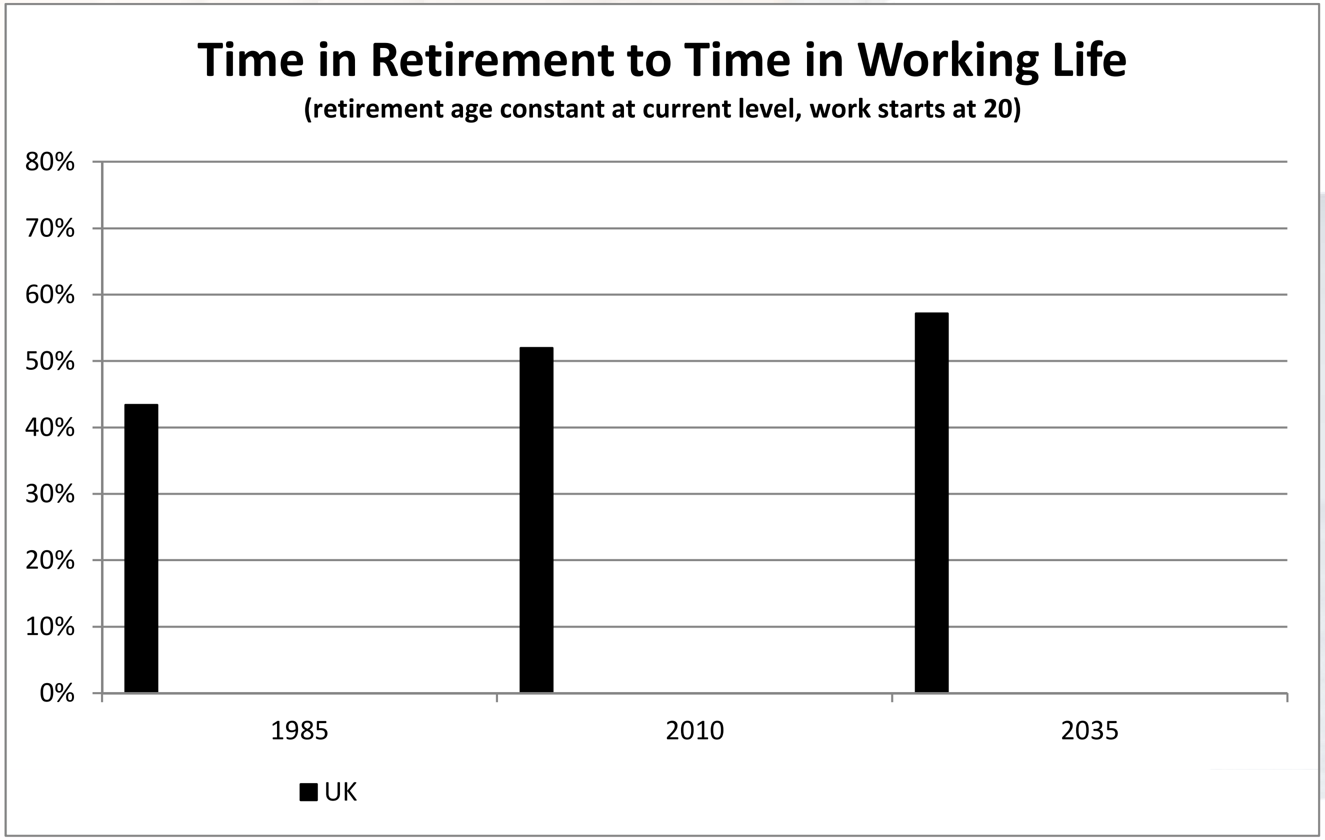
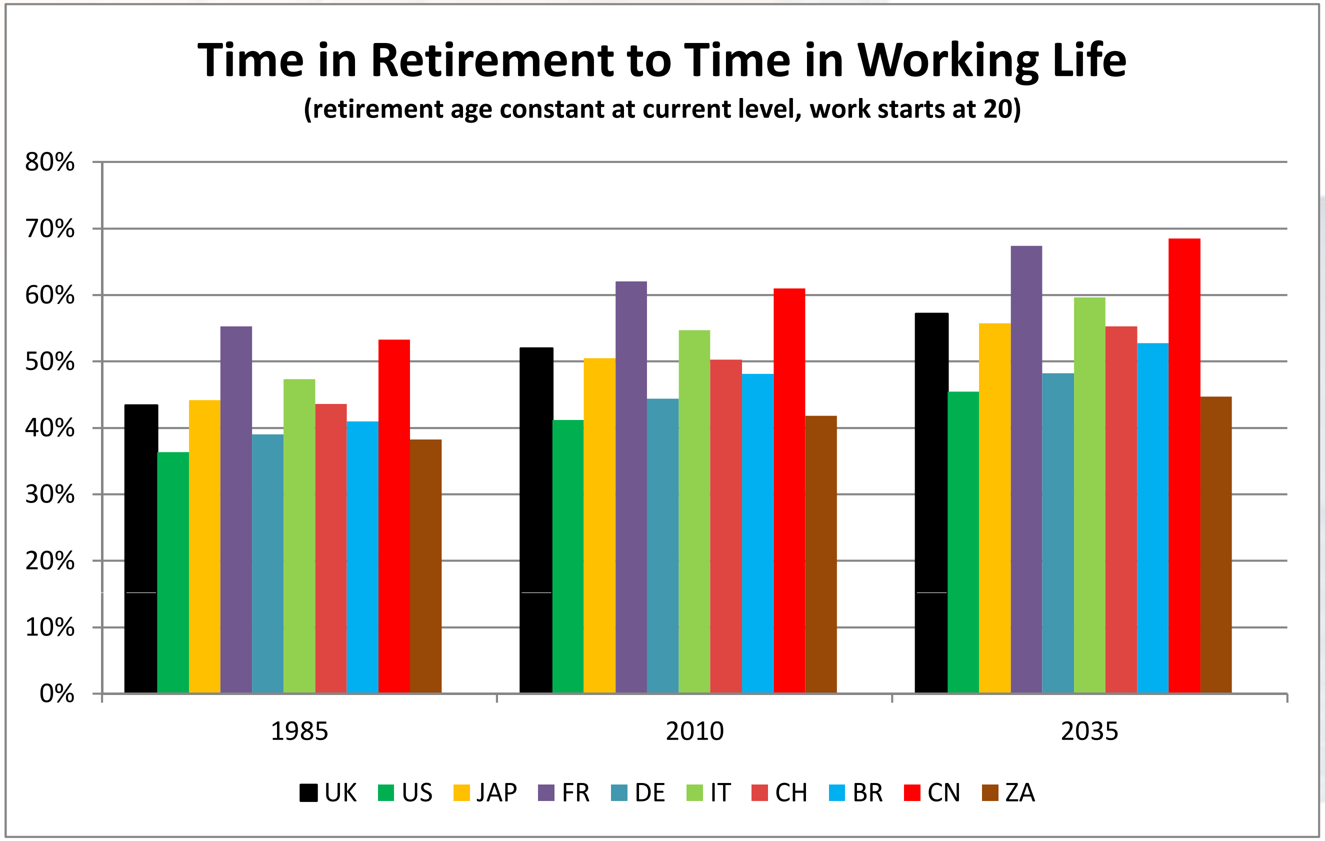


Source: UN, OECD and own calculations

Scope for UK workers to have longer working lives



Source: UN, OECD and own calculations

Financially, the UK State Pension System is Relatively Sustainable

Rank	Country	Required increase in premia (%)	Required increase in retirement age (years)
1	China	132	10
2	Germany	81	6
3	US	78	7
4	Ireland	76	6
5	Spain	73	6
6	Italy	66	6.5
7	France	50	6.5
8	UK	44	5.5
9	Sweden	43	5

Required changes in premiums or retirement age over the next 25 years to keep current level of pensions in a pay-as-you-go system. Sources: OECD, UN and own calculations

BUT – UK's Reliance on Pre-Funded Pensions Means Bigger Savings Challenge

Rank	Country	Required increase in premia (%)	Required increase in retirement age (years)
1	China	19	3
2	UK	16	2.5
3	Germany	12	1
4	Sweden	11	2
5	Ireland	10	2
6	Italy	9	2.5
7	US	9	1
8	Spain	9	1
9	France	8	1.5

Required changes in premiums or retirement age over the next 25 years to keep current level of pensions in a pre-funded system. Source: OECD, UN and own calculations

How is the UK Tackling the Issue?

- Increasing State Pension Age

  State Pension Age will be increased from 65 to 67 by 2028

- Moving to a universal, flat rate state pension
  - Will be £144 per week (approximately 28% of average full time earnings in the UK)
  - Will increase by greater of price, earnings or 2.5% (the 'triple lock')
  - Will provide a firm platform for saving and remove most disincentives to save created by means-tested income benefits

Dave Hodges, Director, Client Relations & Servicing, Zurich Corporate Savings

How is the UK Tackling the Issue?

- Auto-Enrolment
  - Employees earning more than £9,440 a year will have 4% of earnings taken out of salary and placed into funded pension
  - Employers will choose funded pension, and will have to pay in 3% of salary for all enrolled employees
  - Tax relief will be paid on pension contributions, worth an additional 1% of salary
  - Employees can choose to opt out of auto-enrolment, but they will lose the matching employer contribution if they do

Progress So Far

- Auto-enrolment has only been implemented for larger employers (up to March 2013, only those with more than 6,000 employees)
- Initial minimum contribution rates are 0.8% for workers and 1% for employers, increasing gradually to 4% and 3% respectively by 2018.
- Amongst employers with more than 6,000 employees, opt out rates are better than expected – only 9% against expectations of more than 15%
- Across a sample of 42 employers, overall participation increased from 61% to 83% (from 1.2 to 1.5 million employees).
- Amongst employees who had previously been required to actively join their workplace scheme, participation increased from 36% to 71%

Source: HMG, Department of Work and Pensions

Outstanding Issues

- Self employed exempt from auto-enrolment
- Contribution rates are low – according to UK Government research, even with auto-enrolment, 12 million workers in the UK will still be heading for a significant drop in living standards, unless they increase voluntary saving
- Will auto-enrolment work amongst small employers?
- What about other risks – e.g. disability insurance and long-term care insurance?
- Is this the first step towards compulsory saving, along the lines of Australia and Switzerland?