## THE FUTURE OF PENSIONS: REFORMS AND THEIR CONSEQUENCES

The goal of this conference will be to discuss with academics and policy makers the future of pensions both in the UK and in an international context.

- Dr Chiara Rosazza Bondibene (NIESR) will be organising the event, alongside guest co-organisers:
- Prof Richard Disney (*University of Sussex*)
- Prof Peter Dolton (*University of Sussex*)
- Prof Alexander Danzer (*KU Eichstätt-Ingolstadt*).

**Date:** Friday 11 December 2015
**Time:** 10.00 am – 5.15 pm
**Venue:** NIESR, 2 Dean Trench Street, Smith Square, London SW1P 3HE

## Programme

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| *9.30 am* | *Registration & coffee* |
| *10.00 am* | *Introduction* |
| **Session 1** | |
| *10.10 am* | The Evolution of UK Pensions: an Economic Analysis<br>**Richard Disney** (*University of Sussex*) |
| *10.35 am* | Pension Policy in Practice<br>**Steven Webb** (*former Minister of State for Pensions*) |
| *11.00 am* | Old Age Provision in Germany: One Pillar Crumbling, the Other too Short<br>**Martin Werding** (*Ruhr-Universitaet Bochum and CESifo Research Network*) |
| *11.25 am* | *Q&A* |
| *11.40 am* | *Tea/ coffee* |
| **Session 2** | |
| *12.00 am* | Who Wins? Evaluating the Impact of Public Sector Pension Reforms across UK Occupations<br>Alexander Danzer (*KU Eichstätt-Ingolstadt*), **Peter Dolton** (*University of Sussex*) and Chiara Rosazza Bondibene (*NIESR*) |
| *12.25 am* | Workplace Pensions and Remuneration in the Public and Private Sectors in the UK<br>**Jonathan Cribb** (*Institute for Fiscal Studies*) and Carl Emmerson (*Institute for Fiscal Studies*) |
| *12.50 am* | Q&A |
| *1.00 pm* | *Lunch* |

**Session 3**

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| *1.45 pm* | Policy Uncertainty and Pension Reform: the Role of Expectations<br>Emanuele Ciani *(Bank of Italy),* Adeline Delavande *(ISER)*, Ben Etheridge *(University of Essex)*, **Marco Francesconi** *(University of Essex)* |
| *2.10 pm* | Linking Retirement Age and Life Expectancy in a Bismarckian System: Effects on the German Pension Insurance<br>**Valentin Vogt** *(KU Eichstätt-Ingolstadt)*, Jörg Althammer *(KU Eichstätt-Ingolstadt)* |
| *2.35 pm* | Pension Incentives and the Retirement Decisions of Couples<br>**Kadir Atalay** *(University of Sydney)*, *Garry Barrett* *(University of Sydney)* |
| *3.00 pm* | *Q&A* |
| *3.15 pm* | *Tea/ coffee* |

**Session 4**

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| *3.35 pm* | Annuities and Uncertain Survival Rates<br>**Martin Weale** *(Monetary Policy Committee, Bank of England and NIESR)* |
| *4.00 pm* | The Effect of the Relaxation of Compulsion on Annuity Demand<br>Edmund Cannon *(University of Bristol)* **Ian Tonks** *(University of Bath)* Rob Yuille *(Association of British Insurers)* |
| *4.25 pm* | Swimming against the Tide? Liberalising Annuitisation Requirements for Defined Contribution Pensions in the UK<br>**Gemma Tetlow** *(Institute for Fiscal Studies)* |
| *4.50 pm* | *Q&A* |
| *5.05 pm* | *Overview of the day* |
| *5.15 pm* | *Close* |

## A summary of the papers:

### *Old-age Provision in Germany: One Pillar Crumbling, the Other too Short*

Public pay-as-you-go pensions still form the dominant pillar of old-age provision in Germany. This is in marked contrast to the situation in the UK. It has advantages if labour markets are strong, following a quick recovery from the Great Recession. It has disadvantages, as Germany will be ageing very rapidly in the near future. Following a series of reforms, benefit levels will decline, and additional cover from private or occupational schemes is urgently needed. Thus far, steps in this direction have been half-hearted, and the financial crisis impedes a further shift. Nevertheless, despite the different traditions, current debates converge to those held in the UK or the US.

### *Who Wins? Evaluating the Impact of Public Sector Pension Reforms across UK Occupations*

Radical changes have been announced to pension schemes across the UK public sector from April 2015 which change the computation of public pension entitlements fundamentally and will affect public sector employees of both sexes in various occupations very differently. This paper simulates how these changes will affect the lifetime pension wealth across public sector occupations and how the negotiated pensions compare across the NHS, teachers', Local Government, Civil Service, Police, Armed Forces and Firefighters schemes. Specifically, we simulate the occupation specific Defined Benefit (DB) pension wealth accumulated by a representative employee at career start over the lifecycle by factoring in the recent changes to pension conditions. Our research takes a lifecycle perspective which is different from a static aggregate analysis. The approach allows comparing the accumulated lifetime pension wealth at every point in a typical career. These evaluations reflect average changes to pension wealth within a sector and highlight the major differences in pension schemes such as moving from a final salary to a career average system.

### *Workplace Pensions and Remuneration in the Public and Private Sectors in the UK*

Workplace pensions form an important part of remuneration but are not often considered when comparing public and private sector pay. We estimate the changing value of occupational pensions and incorporate pensions into an estimate of the public sector pay differential. Measured by pay only, the differential was 7.1% in 1997 and 2.3% in 2007. Including workplace pensions, the differential rose from 17.9% in 1997 to 20.2% in 2007. By 2012, as cuts to public service pensions came in, the public sector differential including pensions fell to 16.8%, compared to an increase in the differential to 4.6% for pay only.

### *Policy Uncertainty and Pension Reform: The Role of Expectations*

This paper estimates the effect of uncertainty about pension reform in Europe. Using data on subjective beliefs from SHARE, we document that household expectations correlate well with existing pension entitlements and have responded to past pension reforms. We also provide evidence of considerable uncertainty about the future path of pension provision. To assess the effects of this uncertainty we formulate and estimate a rich life-cycle model of saving, labour supply and pension wealth accumulation. A new contribution of the model is that it allows for the evolution of subjective beliefs within a subjective expected utility framework. We find that uncertainty has overall moderate effects. Some parts of the population, however, face high welfare costs associated with uncertainty, the highest of which are among the unemployed approaching retirement with greater shares of pension wealth. We also show that uncertainty about the generosity of benefits is more costly than uncertainty about pensionable age.

### *Linking Retirement Age and Life Expectancy in a Bismarckian System – Effects on the German Pension Insurance*

In times of decreasing mortality, one way to stabilise a PAYG pension system is to interrelate the retirement age to the anticipated average lifespan. This paper investigates two

approaches for Germany: one is to keep the average retirement duration constant, the other one to define a constant share of the total lifespan for the retirement period. The simulation model applied here uses a Leslie matrix population projection, a Solow-Swan growth model and a detailed pension insurance budget projection. Our results show a considerable impact on the net insurance level and a rather small impact on the contribution rate, which is typical for a Bismarckian system.

### Pension Incentives and the Retirement Decisions of Couples
Recent reforms to social security in many countries have sought to delay retirement. Given the family context in which retirement decisions are made, social security reforms have potentially important spill-over effects on the participation of spouses. This paper analyses the impact of women's pension incentives on the retirement decision of their husband. The 1993 Age Pension reform in Australia increased the eligibility age for Age Pension benefits for women. This reform caused an increase in participation of men married to women in the affected cohorts. The behavioral responses are due to wealth effects and preferences for shared leisure.

### Annuities and Uncertain Survival Rates
Annuity rates have fallen sharply in the last decade both because interest rates have fallen but also, perhaps because life expectancy has risen and providers of annuities have not wanted to take the risks associated with rising life expectancy. As a result the demand for annuities has declined very sharply with the end of near-compulsory annuitisation. This paper reviews the benefits of annuitisation as a means of insuring against individual survival risk and the financial hazards of long life, showing the substantial value of these. It suggests a form of annuity with which annuitants are largely protected from the financial consequences of uncertainty about individual lifespans but nevertheless carry the risks associated with uncertainty about cohort mortality rates. Illustrations are set out of the way in which such annuities might work and fan-charts of possible outcomes are provided.

### The Effect of the Relaxation of Compulsion on Annuity Demand
This paper investigates the effect of recent regulatory changes to the compulsory annuitisation of tax-privileged pension savings, on the demand for annuities and other retirement products.

### Swimming against the Tide: Liberalising Annuitisation Requirements for Defined Contribution Pensions in the UK
This article examines what the effects might be of the Budget 2014 decision to remove the compulsory annuitisation requirement for DC pension funds and describes how widely the effects might be felt. To do so, this paper draws on existing evidence and new analysis of existing data. It then goes on to discuss what more we need to know and monitor going forwards

## Short-Bios

*Kadir Atalay* received his PhD in Economics from McMaster University, Canada. His research interests are in applied econometrics, public economics and labour economics with a particular focus on the inter-temporal decision making of individuals. The main focus is on labour supply and consumption/saving choices. One strand of his research focuses on retirement.

*Jonathan Cribb* is a Research Economist at the Institute for Fiscal Studies. His research focuses on the effects of pension reforms and labour market programmes on individuals' behaviour, the labour market in the public sector and poverty, inequality and living standards in the UK.

*Alexander M. Danzer* is Professor of Economics at KU Eichstätt-Ingolstadt, Germany, and research fellow at CReAM London, IZA Bonn and CESifo Munich. His research focuses on labour and development economics, with special emphasis on labour supply, pensions, poverty and migration.

*Richard Disney* is Professor of Economics at the University of Sussex, Research Fellow at the Institute of Fiscal Studies and Visiting Professor of Economics at the University College, London. Previously, he was Professor of Economics at the University of Nottingham. He has several years of experience as an advisor on pension policy to the OECD, IMF, World Bank and Department of Work and Pension.

*Peter Dolton* is currently Professor of Economics at the University of Sussex and Senior Research Fellow at the Centre for Economic Performance at the LSE. He has published over 120 papers in Economics journals, served on 3 different government Pay Review Bodies, and acted as a consultant to many government departments and international organisations.

*Marco Francesconi* is Professor of Economics at the University of Essex. His research interests are in labour and family economics, and he has published his research in many of the top economic journals. Marco is a Research Affiliate at the Institute for Fiscal Studies and Research Fellow at the CEPR (London), IZA (Bonn), CESifo (Munich), and CHILD (Turin). He is a Fellow of the Academy of Social Sciences and the 2017 President-Elect of the European Society for Population Economics.

*Chiara Rosazza Bondibene* is a Research Fellow at the National Institute (NIESR). Her main areas of interest are applied labour economics with a special focus on policy evaluation, pay and pensions. She has examined the impact of the UK National Minimum Wage on various outcomes, publishing in academic journals and producing several reports for the Low Pay Commission.

*Gemma Tetlow* is Programme Director of the IFS's work on pensions and public finances. Her work has included examining pension and savings reforms in the UK and examining their effect on the public finances, retirement behaviour, labour market mobility and saving behaviour.

*Ian Tonks* is a Professor of Finance in the School of Management at the University of Bath. His research focuses on pension economics; fund manager performance; executive compensation and directors' trading, and market microstructure. He has written a book on Annuity Markets (with Edmund Cannon) and has published in leading economics and finance journals. He has acted as a consultant to a number of commercial and regulatory organisations including the London Stock Exchange, the Competition Commission, and the Financial Services Authority, and has advised the Department of Work and Pensions, the

Bank of England, and the House of Commons Select Committee (Work & Pensions) on issues in pensions.

*Valentin Vogt* is a research assistant at the Chair of Economic Ethics and Social Policy at the Catholic University of Eichstaett-Ingolstadt. He has studied Economic Mathematics at Ulm University and Charles University in Prague, and is currently conducting research on demography and social insurance systems.

*Martin Weale* is an external member of the Monetary Policy Committee and a Principal Research Fellow at the National Institute (NIESR) where he was Director from 1995 to 2010. He has published on a wide range of macro and microeconomic issues including work on pensions and social security. He was appointed CBE for services to economics in 1999 and is an Honorary Fellow of the Institute and Faculty of Actuaries.

*Steve Webb* was Minister of State for Pensions between 2010 and 2015, the longest-serving holder of the post. During that time he implemented major reforms to the state pension system, oversaw the successful introduction of automatic enrolment and played a key role in the new pension freedoms implemented in April 2015. Steve was a Liberal Democrat MP from 1997 to 2015. Before this he was professor of social policy at Bath University for two years, having previously worked for nine years as an economist at the Institute for Fiscal Studies. Steve graduated with a first class honours degree in PPE from Oxford University in 1986.

*Martin Werding* is Professor of Social Policy and Public Finance at the University of Bochum, Germany, since 2008. Before, he chaired the Dept. of Social Policy and Labour Markets at the Ifo Institute for Economic Research, Munich. He is a regular advisor of the German Federal Ministry of Finance on issues of demographic ageing and fiscal sustainability.