

## Annex 3.1

This Annex presents updated pension indicators, compiled using European data sources.

### *Adequacy*

1. The latest EU-SILC data on the risk-of-poverty indicate that the UK continues to have significantly higher risk of poverty rates for the elderly compared to the EU25 average. It should, however, be noted that starting from 2005 there is a break in series in the UK's figures for the risk-of-poverty. This explains why data on the risk-of-poverty in these years are higher than in 2000.<sup>1</sup> National data, which is based on a consistent time series, indicates that the pensioner poverty rate remained stable between 2005 and 2006, and was significantly below the levels in 2000. If one takes into account housing costs, national data indicate that the risk of poverty among pensioners in the UK has now fallen below that for the rest of the population.

2. Similarly to what happened in the EU25, the relative income ratio in the UK declined slightly in 2006. However, in contrast with the EU25, this was due to developments in non-pension income. The aggregate replacement ratio, which measures the generosity of pension income, in fact, rose significantly between 2005 and 2006.

3. Moreover, looking forward, reforms to the UK system introducing earnings indexation to the basic State Pension is expected to ensure that state pensions better maintain their value, and along with the introduction of Personal Accounts should help the UK system to guarantee pension adequacy. Taking into account longer working lives (in reaction to the increase in SPA) and saving into personal accounts,<sup>2</sup> the overall gross replacement rate in 2046 for average earners should increase slightly from its current level. By contrast, in the absence of reforms the gross replacement rate would have dropped by 8 percentage points, and average earners would have been eligible for income-related benefits.

### *Sustainability*

4. The UK's spending on pensions<sup>3</sup> rose to 11% of GDP in 2005, up from 10.8% in 2003. Spending in the UK, however, remains slightly below that in the EU25.

---

<sup>1</sup> The new data, for instance, ignore the impact of personal pensions, a growing component of pensioner incomes.

<sup>2</sup> The calculations assume that the introduction of personal accounts does not result in a change in private pension contributions. They, however, would still improve replacement rates as they are projected to have significantly lower administrative costs.

<sup>3</sup> Note that this statistic is based on the ESSPROS definition of pension spending, which includes both state and occupational pensions.

5. Eurostat data confirms that the UK continues to have a very high employment rate for people aged 55-64, nearly 14 percentage points above that of the EU25 average. This surplus in the employment rate is relatively unchanged from its level in 2000, despite the substantial increase observed in the employment rate in the EU25 since then. In fact, the effective labour market exit age rose by 1.2 years in the UK during the period 2001-2006 – a slightly higher increase than that observed in the EU25.

6. Whilst state pension expenditure is expected to rise in both the UK and EU25, the UK is expected to maintain a lower proportion of spending as a proportion of GDP compared to the EU25 average. In 2050, despite the projected increase, the UK is projected to be spending less than the current pension expenditure of the EU25.<sup>4</sup>

### *Modernisation*

7. Eurostat data for 2006 indicate that the gap in the risk of poverty between elderly men and women in the UK is slightly smaller than that in the EU25. This is a very significant development as in 2000, the gender gap in poverty rates in the UK was much more pronounced than that in the EU25.

8. The relative income of women aged 65+ is now significantly close to that of men in the UK. This development appears to be mainly due to the increased generosity of pension income, with the increase in the aggregate replacement rate for women exceeding that for men during recent years. This is also evident when looking at older women (i.e. those aged 75+), and confirms the beneficial effect on poverty alleviation exerted by recent pension policy.

---

<sup>4</sup> Note that the AWG projections presented in the tables below do not take into account the increase in spending resulting from the provisions of the Pensions Act 2007.

## Statistical information<sup>5</sup>

### Adequate pensions

#### Primary Indicators

##### 1. At-risk-of-poverty rate of elderly people (%)

*Proportion of the population aged 65+ with income less than 60% of median equivalised disposable income*

	Risk of poverty	0-64			65+		
		Men	Women	Total	Men	Women	Total
2006	UK	17	18	<b>18</b>	25	30	<b>28</b>
	EU25	15s	16s	<b>16s</b>	16s	21s	<b>19s</b>
2005	UK	18b	18b	<b>18b</b>	24b	30b	<b>26b</b>
	EU25	15s	16s	<b>15s</b>	16s	21s	<b>19s</b>
2000	UK	16b	19b	<b>17b</b>	18b	28b	<b>24b</b>
	EU25	-	-	-	14s	19s	<b>17s</b>

Data source: Eurostat/SILC

##### 2. Relative income of people aged 65+ (relative to the complementary age groups) (%)

*Median equivalised disposable income of people aged 65+ as a ratio of income of people aged 0-64*

		Men	Women	Total
2006	UK	0.73	0.72	<b>0.72</b>
	EU25	0.88s	0.83s	<b>0.85s</b>
2005	UK	0.75b	0.72b	<b>0.73b</b>
	EU25	0.89s	0.84s	<b>0.86s</b>
2000	UK	0.77	0.73	<b>0.76</b>
	EU25	-	-	-

Data Source: Eurostat/SILC

##### 3. Aggregate Replacement Ratio

*The aggregate replacement ratio is the ratio of median personal (non-equivalised) income from pensions of persons aged 65-74 relative to median personal (non-equivalised) income from earnings of persons aged 50-59.*

		Men	Women	Total
2006	UK	0.42	0.45	<b>0.44</b>
	EU25	0.54s	0.50s	<b>0.51s</b>
2005	UK	0.41b	0.43b	<b>0.41b</b>
	EU25	0.54s	0.50s	<b>0.51s</b>

Data Source: Eurostat/SILC

<sup>5</sup> s – Eurostat estimate  
b – break in series

#### **4: Theoretical Replacement Rate**

##### ***Change in Gross Replacement Rate between 2006 and 2046: Base case – Worker retiring after 40 years with average earnings***

	<i>Total</i>	<i>Statutory</i>	<i>Occupational</i>
UK	<b>-6</b>	-6	-1
EU25*	<b>-6</b>	-10	4

\* Average across all countries weighted by population size.

9. In the UK's case the replacement rate from the occupational pillar is derived assuming that the hypothetical individual contributes 8% of income into a Defined Contribution scheme for 40 years, earning a net real return of 2.5%.

10. This indicator may not be representative of the generosity of the post-reform pension system in the UK. This reflects the effects of two assumptions: the 40 years contribution period and the constant contribution and net real return on private pensions. Regarding the first point, the 2007 Pension Reform Bill increased the State Pension age in the UK to 68, and thus individuals in 2046 are not likely to have the same career length as in 2006. As regards private pension saving, where in 2006 this is assumed to be in stakeholder pensions, by 2046 this is assumed to be in personal accounts or in a workplace pension scheme which meets the minimum qualifying conditions (see section on "Reforms improving the adequacy of private provision" for more details). The latter schemes will be designed to have significantly lower administration costs.

11. The Table below presents the change in replacement rates that seems more likely in view of the rise in SPA and introduction of personal accounts. Note that these figures differ from the ISG base case in that an individual is assumed to work for 43 years and the net real rate of return on private saving is assumed to be 3.1% (up from 2.5% in 2006).

##### ***Change in Gross Replacement Rate between 2006 and 2046 – taking into account higher SPA and introduction of personal accounts***

	<i>Total</i>	<i>Statutory</i>	<i>Occupational</i>
UK	<b>2</b>	-5	7
EU25*	<b>-4</b>	-10	6

\* Average across all countries weighted by population size.

12. In the absence of reform, the trend in gross replacement rates for the UK would have been significantly different, as can be seen below. An important change induced by the reform, but not shown here, is that whereas under the pre-reform system by 2046 this average earner would be eligible for means-tested benefits, this is no longer the case for the post-reform system.

*Change in Gross Replacement Rate between 2006 and 2046 had the pre-reform system remained in place*

	<i>Total</i>	<i>Statutory</i>	<i>Occupational</i>
UK	<b>-8</b>	-7	-1
EU25*	<b>-6</b>	-10	4

\* Average across all countries weighted by population size.

*Secondary indicators*

**1. At-risk-of-poverty rate of older people (%)**

		<b>0-59</b>			<b>60+</b>		
		<b>Men</b>	<b>Women</b>	<b>Total</b>	<b>Men</b>	<b>Women</b>	<b>Total</b>
<b>2006</b>	<b>UK</b>	17	18	<b>18</b>	23	27	<b>25</b>
	<b>EU25</b>	15s	16s	<b>16s</b>	15s	19s	<b>18s</b>
		<b>0-74</b>			<b>75+</b>		
	<b>UK</b>	18	19	<b>18</b>	29	34	<b>32</b>
	<b>EU25</b>	15s	16s	<b>16s</b>	19s	24s	<b>22s</b>
		<b>0-59</b>			<b>60+</b>		
<b>2005</b>	<b>UK</b>	18b	18b	<b>18b</b>	24b	26b	<b>25b</b>
	<b>EU25</b>	15s	16s	<b>16s</b>	15s	19s	<b>17s</b>
		<b>0-74</b>			<b>75+</b>		
	<b>UK</b>	18b	18b	<b>18b</b>	27b	32b	<b>30b</b>
	<b>EU25</b>	15s	16s	<b>16s</b>	19s	23s	<b>21s</b>
<b>2000</b>		<b>0-74</b>			<b>75+</b>		
	<b>UK</b>	16	19	<b>17</b>	23	36	<b>31</b>

**Data Source:** Eurostat/SILC

**2. Relative income of elderly people (relative to complementary age groups) (%)**

*Median equivalised income of people aged 60+ as a ratio of income of people aged 0-59*

		<b>Men</b>	<b>Women</b>	<b>Total</b>
<b>2006</b>	<b>UK</b>	0.78	0.76	<b>0.76</b>
	<b>EU25</b>	0.91s	0.86s	<b>0.88s</b>
<b>2005</b>	<b>UK</b>	0.77b	0.74b	<b>0.75b</b>
	<b>EU25</b>	0.92s	0.87s	<b>0.89s</b>

**Data Source:** Eurostat/SILC

**3. Aggregate Replacement Ratio (incl. other social benefits)**

		<b>Total</b>
<b>2006</b>	<b>UK</b>	<b>0.44</b>
	<b>EU25</b>	<b>0.51s</b>
<b>2005</b>	<b>UK</b>	<b>0.41b</b>
	<b>EU25</b>	<b>0.51s</b>

**Data Source:** Eurostat/SILC

**4. Inequality of income distribution (S80/S20 income quintile share ratio) among people aged 65+**

		<b>0-64</b>	<b>65+</b>
<b>2006</b>	<b>UK</b>	5.5	4.4
	<b>EU25</b>	4.9s	3.9s
<b>2005</b>	<b>UK</b>	6.0b	4.2b
	<b>EU25</b>	5.0s	4.0s
<b>2000</b>	<b>UK</b>	5.4	4.2
	<b>EU25</b>	-	-
<b>Data source: Eurostat/SILC</b>			

**5. Relative median at-risk-of-poverty gap of elderly people (aged 65+ and 75+ at the 60% threshold) - %**

		<b>65+</b>	<b>75+</b>
<b>2006</b>	<b>UK</b>	19	20
	<b>EU25</b>	18s	19s
<b>2005</b>	<b>UK</b>	19b	19b
	<b>EU25</b>	18s	17s
<b>Data Source: Eurostat/SILC</b>			

**6. At-risk-of-poverty rate of pensioners aged 18 and over (by gender) - (%)**

		<b>Men</b>	<b>Women</b>	<b>Total</b>
<b>2006</b>	<b>UK</b>	26	30	<b>28</b>
	<b>EU25</b>	15s	17s	<b>16s</b>
<b>2005</b>	<b>UK</b>	27b	29b	<b>28b</b>
	<b>EU25</b>	15s	17s	<b>16s</b>
<b>Data Source: Eurostat/SILC</b>				

**7. At risk of poverty rate of elderly people (aged 60+, 65+ and 75+) by housing tenure status - (%)**

		<b>60+</b>			<b>65+</b>			<b>75+</b>		
		Owner	Renter	<b>Total</b>	Owner	Renter	<b>Total</b>	Owner	Renter	<b>Total</b>
<b>2006</b>	<b>UK</b>	25	25	<b>25</b>	28	26	<b>28</b>	34	28	<b>32</b>
	<b>EU25</b>	18s	17s	<b>18s</b>	19s	17s	<b>19s</b>	23s	18s	<b>22s</b>
<b>2005</b>	<b>UK</b>	26b	21b	<b>25b</b>	28b	20b	<b>26b</b>	33b	21b	<b>30b</b>
	<b>EU25</b>	18s	17s	<b>17s</b>	19s	17s	<b>19s</b>	23s	17s	<b>21s</b>
<b>Data Source: Eurostat/SILC</b>										

**8. At-risk-of-poverty rate at 50% and 70% of median national equivalised income for elderly people (aged 60+, 65+, 75+) - (%)**

		<b>50% median income</b>			<b>70% median income</b>		
		<b>60+</b>	<b>65+</b>	<b>75+</b>	<b>60+</b>	<b>65+</b>	<b>75+</b>
<b>2006</b>	<b>UK</b>	15	16	19	37	42	47
	<b>EU25</b>	10s	10s	12s	28s	30s	34s
<b>2005</b>	<b>UK</b>	14b	15b	17b	37b	40b	36b
	<b>EU25</b>	18s	17s	17s	27s	29s	33s
<b>Data Source: Eurostat/SILC</b>							

## Sustainable pensions

### Primary Indicators

#### 1. Total Current Pension expenditure (% of GDP in current prices)

	2000	2003	2005
<b>UK</b>	12.1	10.8	11.0e
<b>EU25</b>	12.3	12.3	12.2e

**Data Source:** ESSPROS/Eurostat

#### 2. Employment rate of older workers, aged 55-64 (%)

		Men	Women	Total
<b>2006</b>	<b>UK</b>	66.0	49.1	<b>57.4</b>
	<b>EU25</b>	53.0	35.0	<b>43.7</b>
<b>2005</b>	<b>UK</b>	66.0	48.1	<b>56.9</b>
	<b>EU25</b>	51.9	33.8	<b>42.6</b>
<b>2000</b>	<b>UK</b>	60.1b	41.7b	<b>50.7b</b>
	<b>EU25</b>	48.0	26.9	<b>36.6</b>

**Data Source:** Eurostat Labour Force Survey

#### 3. Effective labour market exit age

		Total
<b>2006</b>	<b>UK</b>	<b>63.2</b>
	<b>EU25</b>	<b>61.0e</b>
<b>2005</b>	<b>UK</b>	<b>62.6</b>
	<b>EU25</b>	<b>60.9e</b>
<b>2001</b>	<b>UK</b>	<b>62.0</b>
	<b>EU25</b>	<b>59.9</b>

**Data Source:** Eurostat Labour Force Survey

#### 4. Projections of Pension expenditure, public and total, 2004-2050 (% of GDP)

	Public Pensions		Public pensions including statutory pensions		Total pensions (projections for occupational schemes not available for UK)	
	2004	2050	2004	2050	2004	2050
<b>UK</b>	6.6	8.6	6.6	8.6		
<b>EU25</b>	10.6	12.8			11.9	14.6

**Data Source:** Ageing Working Group (AWG)

## Secondary indicators

### 1. Total Social Protection expenditures (% of GDP in current prices)

	2001	2003	2005
<b>UK</b>	27.3	26.2	26.8e
<b>EU25</b>	26.8	27.4	27.4e
<b>Data Source:</b> ESSPROS/Eurostat			

### 2. Decomposition of the projected increase in public pension expenditure (2005-2050) in percentage points

	2005 level	Change 2005-2050 (p.p.)	Dependency Ratio	Employment	Take-up	Benefit ratio	Interaction
<b>UK</b>	6.7	1.9	4.7	-0.1	-	-	-2.6
<b>EU25</b>	10.6	2.2	8.6	-1.1	-2.1	-2.7	-0.4
<b>Data Source:</b> Eurostat							

## Context Indicators

### 1. Old-age dependency ratio (Current and projected for 2010, 2030, 2050)

	65+/15-64				60+/15-59			
	2004	2010	2030	2050	2004	2010	2030	2050
<b>UK</b>	24.3	25.1	37.3	45.0	34.6	38.0	54.6	62.8
<b>EU25</b>	24.5	26.3	40.1	52.4	35.1	38.4	58.5	71.7
<b>Data Source:</b> Eurostat (2005).								

### 2. Evolution of life expectancy at birth and at age 65, by gender (current and projected)

		2004	2010	2030	2050
<b>UK</b>	Males				
	At birth	76.4	77.6	80.7	82.4
Females	At birth	16.1	16.9	19.2	20.4
	At 65	80.9	82.1	85.1	86.7
<b>EU25</b>	Males				
	At birth	19.0	19.8	22.1	23.3
Females	At birth	73.7	74.9	78.4	80.5
	At 65	15.1	15.8	18.0	19.3
Females	At birth	80.4	81.4	84.1	85.6
	At 65	18.6	19.3	21.3	22.5
<b>Data Source:</b> Eurostat (2005).					

### 3. Contribution to public pension schemes

(% of GDP)

	2004	2010	2020	2030	2040	2050
<b>UK</b>	5.7	5.9	6.2	6.3	6.3	6.3
<b>EU25</b>	8.7	8.5	8.5	8.8	8.9	8.9
<b>Data Source:</b> AWG						

## Modernised pensions

### Primary Indicators

#### 1. Gender differences in the at-risk-of-poverty rate of people 65+ (percentage points)

		Men	Women	Total	Absolute difference between males and females
2006	UK	29	38	<b>36</b>	-9
	EU25	20	28	<b>26</b>	-8
2005	UK	25b	35b	<b>32b</b>	-10
	EU25	19s	27s	<b>25s</b>	-8

**Data Source:** Eurostat/SILC

#### 2. Gender differences in the relative income of older people

For 65+ and below 65

		Men	Women	Total	Absolute difference between males and females
2006	UK	0.70	0.72	<b>0.71</b>	-0.02
	EU25	0.87s	0.81s	<b>0.81s</b>	0.06
2005	UK	0.73	0.73	<b>0.72</b>	0.01
	EU25	0.89	0.83	<b>0.82</b>	0.06

**Data Source:** Eurostat/SILC

#### 3. Gender differences in the aggregate replacement ratio (%)

		Men	Women	Total
2006	UK	0.42	0.45	<b>0.44</b>
	EU25	0.54s	0.50s	<b>0.51s</b>
2005	UK	0.41b	0.43b	<b>0.41b</b>
	EU25	0.54s	0.50s	<b>0.51s</b>

**Data Source:** Eurostat/SILC

### Secondary indicators

#### 1. Gender differences in the relative median income ratio (alternative age comparisons) (%)

		75+/0-74				60+/0-59			
		Men	Women	Total	Gender Difference	Men	Women	Total	Gender Difference
2006	UK	0.76	0.78	<b>0.74</b>	-0.02	0.69	0.73	<b>0.68</b>	-0.04
	EU25	0.89s	0.87s	<b>0.85s</b>	0.02s	0.87s	0.80s	<b>0.80s</b>	0.07s
2005	UK	0.75b	0.79b	<b>0.76b</b>	-0.04	0.70b	0.72b	<b>0.70b</b>	-0.02b
	EU25	0.92s	0.89s	<b>0.86s</b>	0.02s	0.87s	0.81s	<b>0.81s</b>	0.06s

**Data Source:** Eurostat/SILC