

# **PUBLIC PRIVATE PARTNERSHIP IN UK SOCIAL SECURITY**

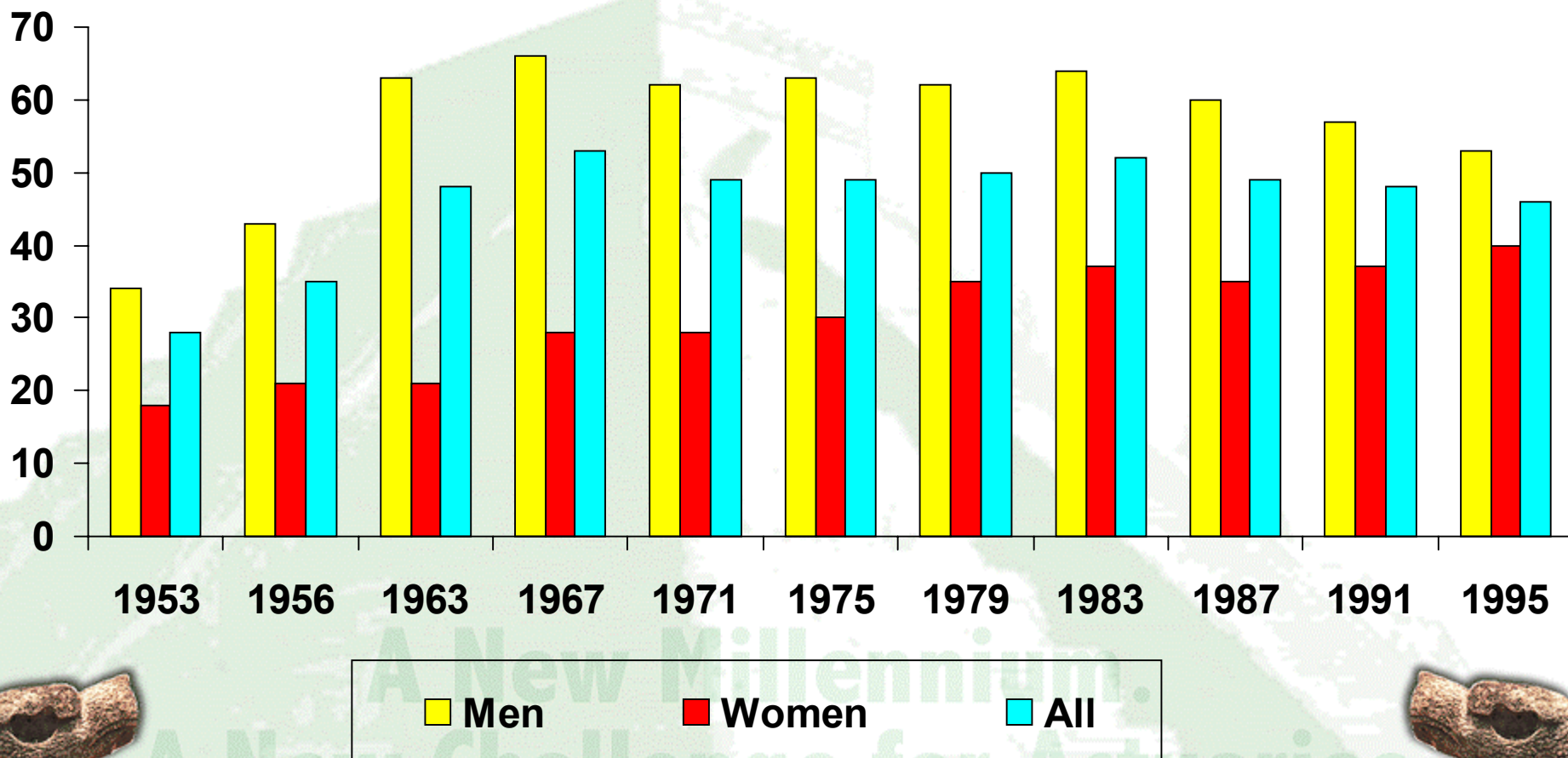
**Chris Daykin**

# THE BEVERIDGE CONCEPT (1948)

- universal coverage
- comprehensive social security
- flat-rate safety net
- actuarially determined contributions
- responsibility of individual and employer

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# GROWTH OF OCCUPATIONAL PENSION SCHEMES





# **SOCIAL SECURITY PENSIONS ACT 1975**

- process of evolving earnings related scheme
- State earnings-related pension scheme (SERPS)
- opportunity to contract out
- partnership between public and private
- contracted-out contribution rebate

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# ORIGINAL CONTRACTING OUT CONDITIONS (1978)

- scheme must offer requisite benefits
- guaranteed minimum pension (GMP)
  - \* for member
  - \* and for spouse
- actuarial certification of fund adequacy
- flat percentage contribution reduction

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# PERSONAL PENSIONS (1987)

- defined contribution contracting-out
- Appropriate Personal Pensions (APPs)
- Contracted out Money Purchase Schemes
- flat-rate rebates and incentive payments
- optional membership of occupational plans
- some consequences

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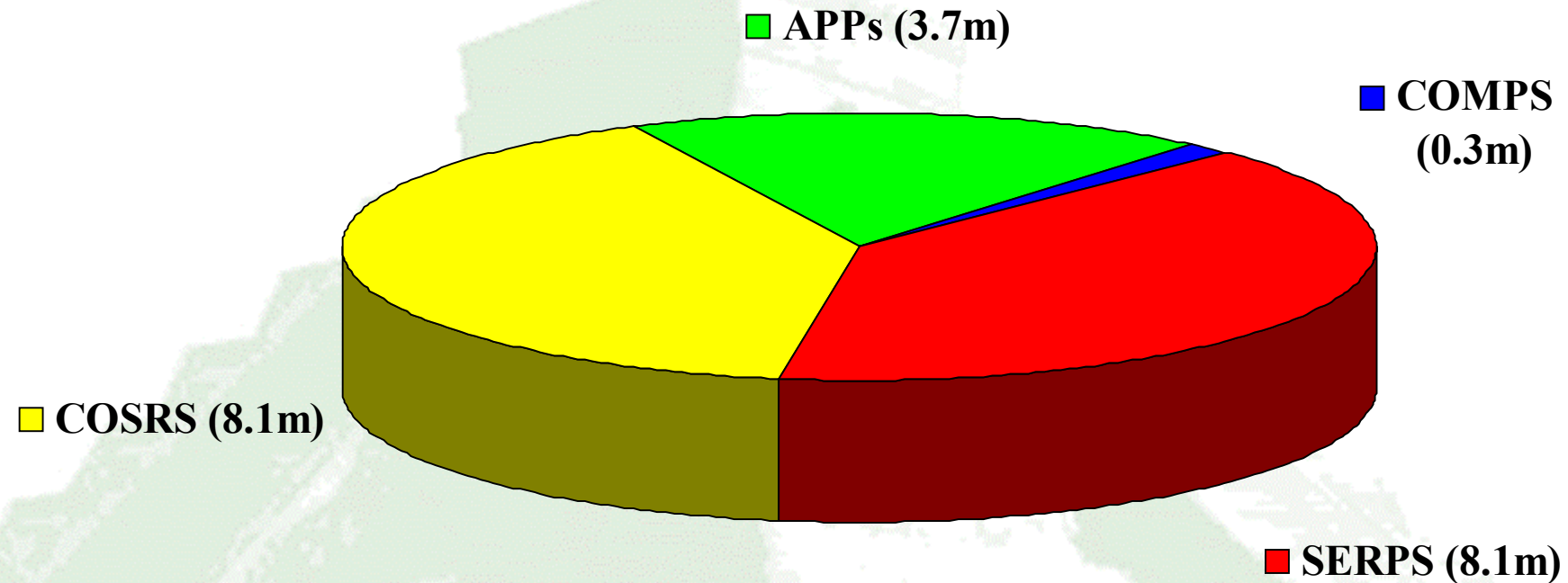


# CONTRACTING OUT CHOICES

- compulsory flat-rate basic pension
- compulsory earnings-related pension with...
- ...choice of State earnings-related pension scheme
- or...contracting out by means of:
  - salary related occupational pension schemes
  - defined contribution occupational pension schemes
  - personal pensions
  - stakeholder pensions (from 2001)

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# POPULATION CONTRACTED-OUT



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# CHANGES TO CONTRACTING-OUT (1997)

- age-related rebates (APPs and COMPS)
- contracted out means completely out
- no GMP requirement in future
- reference scheme test (scheme quality)

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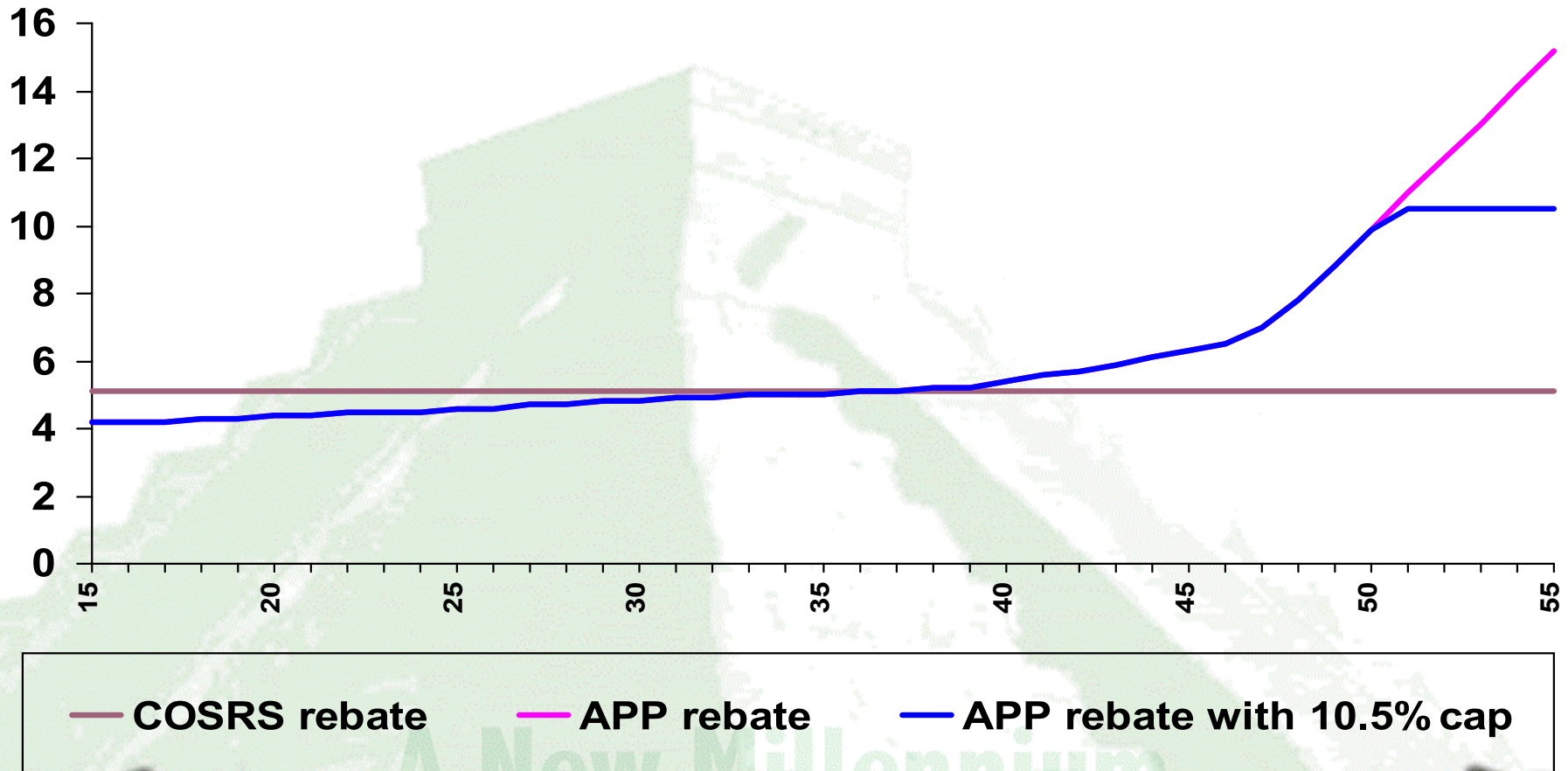
# DC CONTRACTING-OUT

- age-related rebates
- expense loading
- 10.5% cap on rebate (9% at first)
- can remain contracted-out to 65
- regulatory requirements for advice

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# AGE-RELATED REBATES

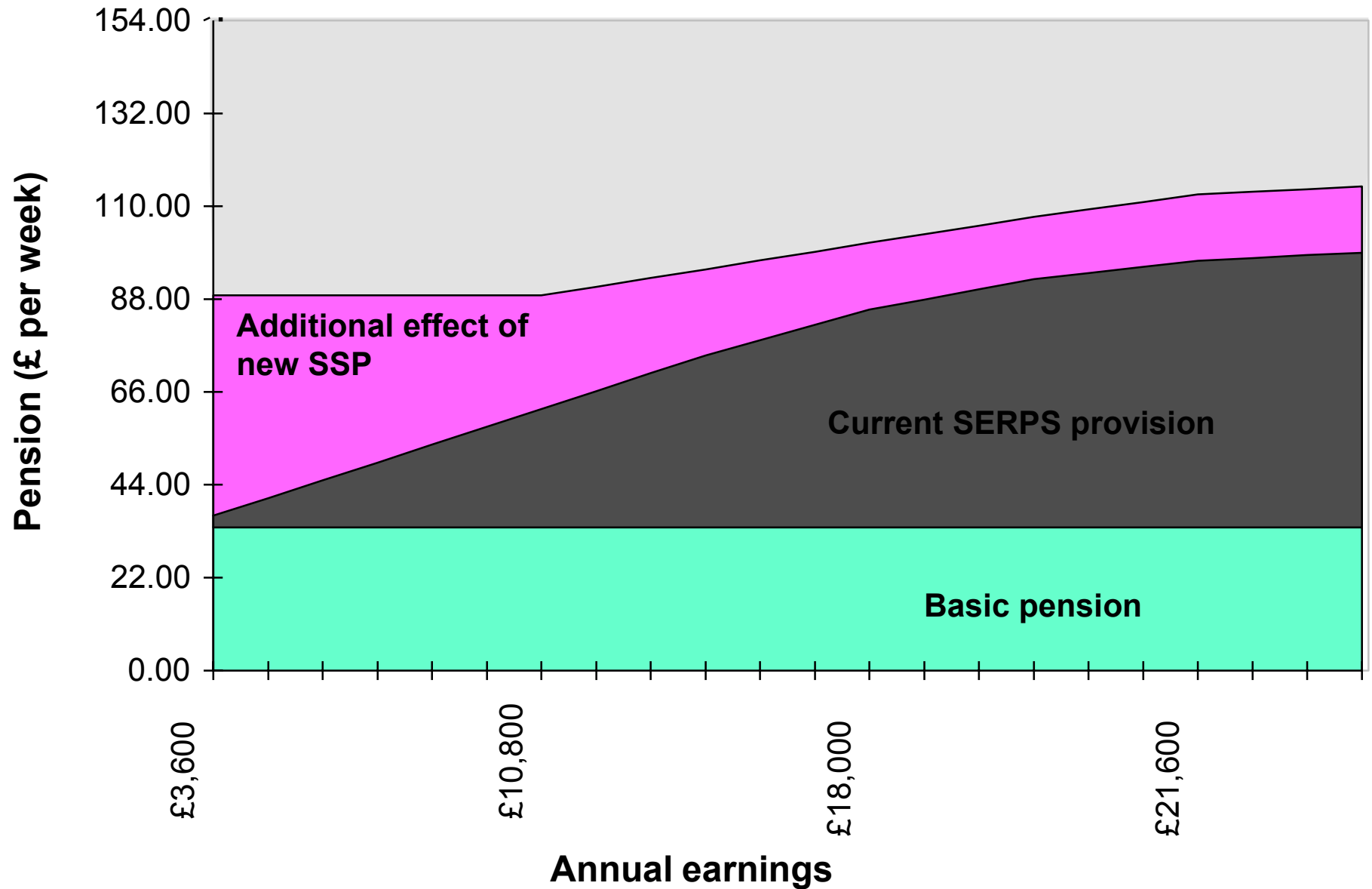
as % of relevant earnings



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# IMPACT OF NEW STATE SECOND PENSION IN 2052/53



# FUTURE EVOLUTION

- State Second Pension on earnings up to £10,800
- all high and medium earners contracted-out
- flat-rate benefits for low earners ( $<£10,800$ )
- minimum pension guarantee maintained (for intermittent earners) – means-tested
- compulsory private provision for  $> £10,800$

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# WHAT ARE STAKEHOLDER PENSIONS?

- alternative to personal pensions
- secure, flexible and value-for-money
- trust-based
- money purchase
- available for contracting out
- targeted on middle income earners

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