

Data adequacy to support evidence-based policy

The Pensions Commission's terms of reference asked us to comment on the adequacy of available data to support evidence-based pension policy: *"To keep under review the regime for UK private pensions and long-term savings... assessing the information needed to monitor progress."*

Our First Report included an appendix looking at this issue. It came to the conclusion that present data sources were significantly deficient as a basis for some aspects of evidence-based policy making. We also noted that some improvements were planned. This review of data adequacy has two main aims:

- to review data improvements and progress made since our First Report, following the areas we considered previously;
- to highlight areas where data would need to be developed to monitor pensions policy in the future if our recommendations, or other reforms, were implemented.

This Appendix focuses on:

1. Data on individual wealth and savings behaviour and on individuals' pension scheme participation
2. Data from employers, schemes and administrative sources on trends in pension provision, membership and contribution rates
3. The Department for Work and Pension's (DWP) modelling capabilities
4. Aggregate national data on total levels of pension contributions and benefits
5. Data on demographics issues and the healthy/unhealthy ageing debate
6. Other areas of analysis
7. Some general principles and developments that would be required to monitor and evaluate pensions policy in the future in light of our recommendations or other reforms
8. Summary of recommendations and conclusion on data improvements

1. Information on wealth, savings and pensions

In our First Report we outlined in detail the ideal dataset for policy development in this area and noted the importance of the following data:

- pensions stocks and flows;
- membership of different types of scheme;
- non-pension financial assets and liabilities; and
- housing net assets and flows.

To be able to analyse this data effectively a range of individual and household characteristics, including employment status, age and income also needs to be available. We also emphasised therefore the importance of:

- longitudinal data;
- identification within couples of individual and shared wealth;
- an ability to link data between different sources; and
- individual measures of assets that produce a good comparison with aggregate data.

Details of the main data sources were outlined in full in our First Report. We now review the developments made and planned since Autumn 2004.

British Household Panel Survey (BHPS): The 2005 wealth module will include additional questions on type of current occupational pension, length of membership and contributions made, expectations of income in retirement from any previous occupational or private pensions and views on the likely sufficiency of retirement income. These questions were last carried in the 2001 survey as part of the ageing and retirement module but have been reintroduced in the wealth module following a request from the DWP.

Family Resources Survey (FRS): A review of the current pension module is underway with the aim of introducing a revised set of questions from April 2006. The research conducted to date has focused the review on improving identification of pension types and scheme membership. Work is continuing to produce a derived measure of net housing wealth. The Pensions Commission hope that the new module will collect good quality pensions data.

As a result of the 2004 FRS Strategic Review, a project has been set up to link records held on the FRS with administrative data held by DWP. This will include both DWP benefit records and HM Revenue and Customs (HMRC) employment records. The employment records include information on employment start and end dates, earnings data and also self-assessed data for

the self-employed. A strategy is now in place to take the project forward and this will develop over the next three years. From April 2006 the FRS questionnaire will be developed to include questions to seek informed consent from respondents for DWP to use their personal details to link to administrative data held by the Department. One anticipated benefit from linking the administrative and benefit data is to improve the quality of the survey data by for example confirming benefit receipt. It is expected that some initial linked results will be available in late 2007. These improvements to analytical capability will be beneficial to all areas of policy development and monitoring within the Department, including pensions and we therefore support the project. At the moment DWP envisages that the biggest early gain from this development would be in the measurement of benefit take-up, in particular Pension Credit.

Annual Survey of Hours and Earnings (ASHE): In October 2004 the Annual Survey of Hours and Earnings (ASHE) replaced the New Earnings Survey (NES). It is the best source of information on the distribution of earnings. Coverage of the survey has been improved and survey results are weighted to compensate for differential non-response rates. A new questionnaire was piloted in 2004 and has been introduced for the 2005 survey. For pensions, the new questionnaire has changed the definitions of pension types and has added new questions on pension contributions from the employer and the employee. The results from the new questions on pension contributions will be analysed to assess their quality and fitness for publication as a National Statistic, hopefully in the first half of 2006. In our First Report we welcomed the piloting of the new questions on employer and employee contributions. The Pensions Commission hope that the new questions are successful as collecting good quality information on employer, and indeed employee, contributions is difficult. If this approach is not successful the issue may need to be reconsidered.

General Household Survey (GHS): All members of the European Community are now required to collect some cross-sectional and longitudinal statistical information on income and living conditions (EU-SILC). From April 2005 these requirements are being met using the GHS. The GHS was identified as the best vehicle for this work because there are many overlaps in the topics covered. One of the main features of the EU-SILC requirement for the GHS is the provision of both cross-sectional and longitudinal data to investigate major issues of social concern. This requirement has resulted in a change to the GHS sample design to a four yearly rotation, an increase in the sample size, and additional core questions. To reflect its longitudinal element, the GHS is now known as GHS(L). The change of design may limit analysis of pensions issues for certain groups, for example ethnic minorities and divorced women, in the future from this data source. This suggests that other sources such as the FRS will increase in importance.

English Longitudinal Study of Ageing (ELSA): This survey is continuing with wave 2 data expected to be available from the UK Data Archive in January 2006. Fieldwork for waves 3, 4 and 5 should follow as planned in 2006, 2008 and 2010, therefore building a good longitudinal dataset for analysis.

Pension wealth calculations (accrued state and private pension wealth for each individual, and predictions of wealth accrued by the time they reach State Pension Age) for the wave 1 sample have been carried out and analysed, and a description of the methodology has been published as a working paper by the Institute for Fiscal Studies. Pension wealth calculations have been calculated based on imputed earnings histories since the access to the linked National Insurance (NI) records is not yet operational. Pension wealth data is now available as a supplementary public release data file from the UK Data Archive. The Commission believe that the ELSA project is vital in collecting data to monitor trends in pension accumulation and retirement trends as recent analysis using it has shown, and so adequate funding for the survey in the future should be ensured.

Expenditure and Food Survey (EFS): For the first time the Office for National Statistics (ONS) has published results on an equivalised income basis for a number of types of retired households. Tables of household expenditure by different household types by equivalised gross income decile groups are published in *Family Spending 2004*. We noted these plans in our First Report. We believe that this development should help improve analysis of consumption patterns of the retired in the future.

Household Assets Survey (HAS): ONS continues the development phase of a household wealth and assets survey. A feasibility study was undertaken in June 2005. Results from this study suggest respondents generally accept the content of the survey. A pilot study will be conducted in early 2006 on a larger sample, and will provide a test of the revised content of the survey, and a dress rehearsal for all survey procedures. It is anticipated that the survey will go into the field in July 2006, with first results being available later in 2007.

Other ongoing work includes investigating methods to supplement the survey sample to adequately capture those at the higher end of the wealth spectrum. Potential linkages to administrative data are being explored. Administrative data provides a rich source of information on an individual's pension wealth, income, taxation and benefits. It is hoped technical and legal issues can be resolved to further enhance the value of the survey. In our First Report we noted that this survey should be a major priority, and we continue to believe this. The Pensions Commission welcome the progress that has been made, and fully support these developments. This is a very important project, and if the survey could be developed with a longitudinal element this would enhance the usefulness of the data.

2. Other sources on pension provision, membership and contribution rates

In our First Report we outlined in detail the ideal dataset for policy development in this area. In short we noted the importance of the following data:

- membership of each type of scheme, together with details of those schemes; and
- data from employers on the pension schemes they provide, participation rates and contribution rates.

The Government Actuary's Department (GAD) Occupational Pension Schemes Survey (OPSS): Since the First Report of the Pensions Commission, GAD has published a new survey of occupational pension schemes (OPSS 2004). The results of the survey, which relate to April 2004, were published in June 2005, and are available from the GAD website. GAD is currently working towards a further survey (OPSS 2005), for which results will relate to April 2005. It is anticipated that this will be published in May or June 2006.

In the longer term, the Morris Review of the Actuarial Profession, which also included a review of GAD, recommended that responsibility for the survey be moved to either the Pensions Regulator or to the ONS. The Government accepted the latter recommendation, and from 2006 onwards these surveys will be conducted by the ONS.

However, the survey will become less effective over time as more pensions are provided in a Group Personal Pension (GPP) form, rather than under the trustee-based occupational form, on which the GAD survey exclusively focuses. We noted in our First Report that GAD and the new Pensions Regulator should give consideration as to how such data can be gathered and to the co-ordination of their data gathering. Those with responsibility for the survey in future therefore need to consider if there is a practicable way to collect useful information on membership and contribution rates in GPPs in a manner consistent with how the survey collects this information for occupational schemes. The Commission hope this useful survey will continue in the future. The ONS will want to see how this survey fits in with their current data collection plans and liaise with the Pensions Regulator.

Employers' Pension Provision survey (EPP): DWP aims to conduct further surveys in 2007 and 2009. As noted in our First Report the Commission hope that this survey will continue to be undertaken every two years in the future.

HM Revenue and Customs (HMRC) statistics: Following the recommendation in our First Report, HMRC published a consistent series of contributions to all non-occupational pension schemes derived from various administrative sources from 1990/91 to 2003/04. This includes contributions to personal

and Stakeholder Pensions, retirement annuity and free-standing additional voluntary contracts. The series forms part of its suite of National Statistics on pensions and savings and will be updated annually. In addition, at the end of May 2005 HMRC also published for the first time a full set of distributional tables of funds held in personal and Stakeholder pensions for 2002/03. These break down fund size by earnings, age, gender and region of residence. These will also be updated annually. The Commission welcome these developments.

Lifetime Labour Market Database (LLMDB2): Providing all of the legal obligations are met, the LLMDB2 will be linked, by National Insurance number, to a 1% extract of the Work and Pensions Longitudinal Study (WPLS). The WPLS is DWP's linked database, incorporating information on individuals' benefit receipt and New Deal activity over time as well as employment information from HMRC about work activity, earnings and savings. This will allow a combined analysis of interactions with both the National Insurance Recording System (NIRS2) and the benefit system, offering the chance to explore, in more detail, benefit claimants' behaviour. The Commission support the use of linked administrative data where the quality justifies this.

In our First Report we welcomed the better information that was likely to emerge from data sharing between DWP and HMRC made possible by the Pensions Bill at that time. Following the introduction of new data-sharing provisions in the Employment Act 2002 and the Pensions Act 2004 the DWP is able to receive more data on employment from HMRC.

As well as supporting the working age agenda, the database will significantly improve the analytical evidence base for pensioners. It will inform both private and state pension policy, and will provide an important source for monitoring pensions' developments in the future both for existing and prospective pensioners. It will also improve capability surrounding Pension Credit take-up campaigns.

Market data from the pensions industry: The Association of British Insurers (ABI) collects a variety of data from insurance companies about premiums flowing into long-term savings including pensions. It collects data on "new business" for policies sold during the year, and also for "business in force" (including premiums for policies put in place in previous years). The new business figures are under constant review, and in 2005 the distribution channels have been amended to take into account the changes in distribution following depolarisation in late 2004. Additionally, new product lines have been included to allow collection of data on the new Stakeholder suite of products from April 2005.

The annual returns that enable the ABI to report on business in force are undergoing a major review at the end of 2005. The main reason for such a review is the introduction of International Accounting Standards in 2005 that are initially being adopted by some, although not all, of its members. The new

standards will have a significant impact on the way income and benefits paid figures are collected and reported. The data requirements of insurers, the ABI and other organisations will be considered during this review.

The Commission hope that the review provides an opportunity to review consistency of treatment of different parts of pension business to maximise the accuracy and usefulness of the survey.

ABI statistics need to be interpreted carefully in order to develop a true picture of trends in pension saving since:

- (i) The "business in force" figures are broken down into "regular premiums" and "single premiums". While the latter include some genuine flows of new money from personal sector savers, they also include a large element of money transferred from existing pension policies with other providers. Adjustments to exclude these transfers can be made using other data available to the ABI.
- (ii) The "new business" figures may also include money being transferred from existing policies (although this is identified separately). Even if this is not the case "new business" premiums may be matched by the cessation of payments to an existing policy.

There are no plans to enhance the reporting of transfers further within the new business forms at present.

The Pensions Regulator: The Pensions Regulator is the new regulator of work-based pension schemes in the UK. Created under the Pensions Act 2004, the Regulator has wider powers and a new proactive and risk-focused approach to regulation. As part of the new organisation's approach to regulation, a scheme return form has been created that all work-based pension schemes with two or more members will be required to complete. By July 2005, 8,000 scheme returns had been mailed out to all Defined Benefit (DB) schemes with five or more members. A further 4,000 revised scheme return forms will be mailed to all DB schemes with between two and four members in January 2006. The mailing of returns to Defined Contribution schemes is scheduled for 2006, as work needs to be carried out to tailor the form appropriately. The Pensions Regulator intends to publish statistical information from the scheme returns during the second year of its operation, providing an overview of the membership, status and finances of pension schemes in the UK.

In addition to this, the Pensions Regulator plans to collect other data to assist in the development of the Regulator's approach to scheme risk mitigation. One such project that is currently underway focuses on scheme governance. An external working party has been established to assist in the set up of this work. Findings from this work will be published in Spring 2006.

The Pension Protection Fund (PPF) will be using the pension scheme data collected by the Pensions Regulator to build up a database in order to conduct modelling work for calculating the levy. The aim is to see how the levy may be calculated for relevant schemes from 2006/07. This work will inform its thinking and help with further calculations of the Risk Based Levy.

In our First Report we welcomed the plans that the Pensions Regulator had outlined for its scheme return. However, we were concerned that this was developed with little if any input or consultation with other relevant analysts, for example from DWP. We were also concerned that the content of the detailed return was necessarily limited to the regulatory information required. This seems to be an opportunity lost to collect additional, useful analytical information on work-based pension schemes through this administrative process, or to looking at reducing the burdens on survey respondents by bringing together the return information with other surveys such as the GAD and EPP surveys. The Commission believe there is a lesson to learn here for the future if new administrative systems are developed.

Annual Business Inquiry – Financial Questionnaire (ABI2): During our work over the past year we became aware of another official survey that included questions on employer pension contributions. The Annual Business Inquiry is carried out by the ONS. UK businesses are sampled according to their employment size and industry sector. The sample is drawn from the Inter-Departmental Business Register (IDBR). The sample design is a stratified random sample, and almost 80,000 businesses are contacted in total. Response rates for the survey are good. The Annual Business Inquiry is conducted in two parts: one dealing with employment (ABI1), the other with financial information (ABI2). The main reason for splitting the form into two parts is that the employment data are available much earlier than the accounting data. The financial inquiry covers about two-thirds of the UK economy. Currently this situation is under review and work is continuing to see if data quality from the financial sector can be improved so that the data can be used, and if the Annual Business Inquiry can be expanded to include the agriculture sector. The coverage of the employment inquiry is wider. Financial data collected include information on company turnover, capital expenditure, employment costs, including employer pension contributions, value of purchases and employment information.

Companies are sent a paper questionnaire. The majority of respondents receive a standard form type but derivations of this standard form are used for certain industries. For most of these full form types there is a corresponding short form type, which does not contain the detailed breakdowns requested on the full forms. This short form is sent to a proportion of respondents in each size band in order to minimise the burden on businesses. The proportion varies by size so that most small businesses receive the short form while all large businesses receive the full form.

In particular interest to the Pensions Commission, and other pension analysts, the short form only asks for total employment costs whereas on the full form

costs are divided into four categories: gross wages and salaries, employers' NI contributions, employer contributions to pension funds, and redundancy and severance payments.

The financial questionnaire was reviewed in May 2004, with recommendations including investigation of possibilities to expand ABI2 coverage, review the use of long forms and whether it was feasible to increase the number of variables included on the inquiry form. Work is planned in the near future to review the sample, both in terms of sample size, distribution and long/short form types. The form content itself is reviewed annually.

The Pensions Commission believe that this could be a useful source to investigate the level of employer pension contributions at an aggregate, and sectoral level, if employer pension contributions were separately identified on the short form. Indeed, having the more detailed information on the components of employment costs available would help to monitor the effect of the introduction of the National Pension Savings Scheme (NPSS) we propose on wages and employer pension contributions.

3. DWP modelling capabilities: Pensim2

We noted last year that the Pensions Commission would need access to the DWP's 'dynamic microsimulation' model, Pensim2, to estimate the likely impact of different policy regimes on the long-run level and pattern of pensioners' incomes. We have indeed made extensive use of the Pensim2 model in developing our recommendations, and more detailed information on the model itself, and the use we have made of it, is described in Appendix F. We recommend that DWP publish a paper describing the model and what it does, including a range of analysis to illustrate its capabilities and limitations.

In the debate over options for pension reform that we hope will follow our report, Pensim2 will be an important tool for government and we would regard maintaining DWP's capacity to use and develop the model as of very high importance. Ideally it would be very helpful if a version of the model were available to specialist external analysts. Clearly this facility would need to balance providing access and limiting the resource costs of supporting users. We recommend that the DWP investigate the best way to provide such access.

4. Aggregate national data on pension contributions and benefits

ONS published an article in July 2005, and subsequently in the September edition of *Economic Trends*, describing the progress that has been made in the surveys of pension funds and insurance companies; updating estimates of pension contributions; and explaining how the new estimates and methodological improvements have been incorporated in the National

Accounts dataset released on 30 June 2005. We noted its previous article in August 2004 describing how the surveys to pension funds and insurance companies had been modified in Appendix A in our First Report.

In summary, changes to pensions measures have now been incorporated into the latest view of the economy published in the National Accounts. The impact of the changes on national accounts aggregates was broadly in line with the provisional estimate published in the August 2004 *Economic Trends* article.

In our First Report we welcomed the work of the Pension Statistics Task Force (PSTF) in improving the aggregate data. We hope that this work will continue.

In our First Report we proposed that HM Treasury, DWP, ONS and HMRC should consider whether there were wider lessons to be learnt from the severe problems that had occurred in aggregate pension statistics looking in particular at (i) cross-departmental co-ordination, (ii) high-level credibility checks and (iii) resource adequacy within ONS.

The PSTF was wound up in October 2005 and was replaced by a new Pensions Analysis Unit in ONS. This new unit will build on the work of the PSTF, developing a work programme designed to deliver better use and analysis of existing pensions data and to improve the quality, range and accessibility of these data.

The new unit will continue to produce analysis and publications on pension statistics, including updating *Pension Trends* (see below), to support the pensions debate and enable greater understanding of issues, and to work to achieve improvements in relevant data sources. These cover a wide range of ONS sources including financial surveys, ASHE, the planned Household Assets Survey and estimates used in compilation of national accounts. The Pensions Analysis Unit will continue to develop relations with customers and stakeholders, consulting on potential developments and issues as well as keeping up-to-date on developments within the pensions sector.

The Commission hope that the new unit will become a centre of expertise in pension statistics and will encourage developments in a range of relevant data sources in the coming years, working together with interested analysts and policymakers. It is vital that the Pensions Analysis Unit maintains good links with data providers and policymakers so it is aware of key policy issues and developments. The PSTF Advisory Group has met regularly during the past year and we recommend that a similar group consisting of representatives of the main data providers, and other experts, should continue as one way for analysts to keep in touch with developments and plans across departments.

5. Demographics, health and longevity issues

As we have noted in terms of pensions reform good quality data on demographics issues, including healthy ageing, are vital. Some developments are already planned in this area, but more needs to be done.

Demographics situation following Morris Review: The Morris Review of the Actuarial Profession published its final report on 16 March 2005, including a review of the future role of the GAD. This included a recommendation that the responsibility for the national population projections and associated demographic work be transferred to the ONS. The Government has in principle accepted this recommendation. A recent announcement confirmed that the transfer will take place on 31 January 2006 when the National Statistics Centre for Demography is created within ONS. The Commission hopes that a centre of expertise in demographics can be developed which will work with policymakers to continue progress in this important area. In addition it is vital that communication of the trends in life expectancy, and in particular what they mean for individuals are made clear so that they can make the choices they need to about the savings/retirement trade-off.

International migration: As individuals become more mobile during their working lives, and there are indications that more people are planning to retire abroad, but would still be eligible for pension provision from the UK, we believe that this is an area that requires further investigation. If significant numbers of people living overseas, who do not appear in the national population projections, are eligible for UK pensions this could have an effect on forecast pension expenditure and measures of adequacy. And if patterns of migration are changing this increases the uncertainty in the projections. We recommend that the National Statistics Centre for Demography, in conjunction with relevant policymakers and analysts throughout government, should undertake a feasibility study into this area to see if any existing data sources could be developed to monitor these issues more effectively in relation to future pension reforms.

The ONS Longitudinal Study: The ONS Longitudinal Study (LS) is a dataset containing linked census and vital event records for 1% of the population of England and Wales. The LS started in 1974 with a sample drawn from the 1971 Census, based on those born on one of four birth dates. The same dates were used to identify and link LS members' records from the 1981, 1991 and 2001 censuses. Approximately 500,000 LS members are found at each census. New LS members enter the study through birth or immigration and leave through death or emigration from England and Wales.

The LS was first established to inform a range of research and policy topics. Its primary objective was to permit more accurate prospective analyses of mortality. Linkage of census and death records has allowed the LS to produce more reliable statistics on socio-demographic differences in mortality. At death registration, the socio-demographic information collected is limited and information from an informant is likely to differ from that obtained when the

person was still alive. The LS is continually updated with information on life events, including births to sample mothers, cancers, widow(er)hoods and deaths. The latest data released in September 2005 included births and deaths occurring up to 2003, immigration and emigration up to 2004 and cancer registrations up to 2001.

ONS is currently reviewing life expectancy methodology and the attribution of social class over time. Preliminary findings from this work will be available in Spring 2006. We welcome this development.

The ONS Longitudinal Study is a key source of information. When it was established in the 1970s the Census was the best available source of information to investigate these issues. However, the meaning of social class has changed over time, and this is an issue in interpreting the results. New administrative sources may have opened up opportunities to look at mortality issues by a variety of other factors or characteristics, in addition to social class, for example earnings levels, which are not available from the Census. Therefore as a supplementary approach to the ONS LS we recommend that a feasibility study be undertaken by DWP and the National Statistics Centre for Demography to investigate whether alternative administrative sources could be used to look at past life expectancy trends, identify key factors influencing longevity, and investigate whether future projections can be made on this basis. We believe this is an area where data holders such as DWP would need to work carefully with demographic experts, and the results of such a feasibility study should be made publicly available.

We have noted previously the importance of the ELSA data in collecting information on pension wealth, but another important element will be the information it collects on both physical and mental health issues. It will therefore be possible to investigate issues around health inequalities in more detail in the future. And the longitudinal element of the survey will enable the process of ageing to be examined too. With its multi-disciplinary focus incorporating high-quality measurement of health and a longitudinal design, ELSA provides a unique opportunity to understand these relationships. As noted above we believe that the ELSA project is vital in collecting data to monitor trends in health issues, and so adequate funding for the survey in the future should be ensured.

In our First Report we proposed that DWP and the Department of Health (DH) should consider how best to share insights and co-ordinate research into the healthy/unhealthy ageing debate, and that the relevant research councils (Medical Research Council (MRC) and Economic and Social Research Council (ESRC)) should also note the issue as a key one for society.

Since then government departments have collaborated on a number of activities related to healthy ageing. These include:

- Publication of *Opportunity Age*, the first government strategy on ageing, which highlights the importance of healthy ageing and sets out a series of specific proposals to help deliver policies across a wide range of areas.

- DWP and DH jointly developing outcome indicators, related to Opportunity Age initiatives, which include healthy ageing.
- Publication of the DWP *Five Year Strategy*, which outlines the ageing society as the main future challenge for the Government, and the need to respond to this challenge across the lifecycle. Healthy ageing is a key part of this, and cross-cutting work is starting in DWP in order to prioritise how evidence and analysis can build the foundation for an even longer term strategy aimed at tackling the multi-faceted issue of population ageing.
- The establishment of a cross government research and analysis group where the ageing society, including healthy ageing, has been identified as one of the major challenges facing government.

The ESRC, Engineering and Physical Sciences Research Council (EPSRC), Biotechnology and Biological Sciences Research Council (BBSRC) and MRC, with input from DWP and DH, have developed a major new interdisciplinary research programme on ageing – The New Dynamics of Ageing. One element of this programme focuses on the issue of active ageing, to try and understand how factors occurring earlier in the lifecourse affect well-being in later life. But there are many other strands to this programme, which should shed light on issues relating to ageing. This is a welcome initiative: research and investigation into issues around healthy ageing, and their communication to the public, are important for policy development in many areas, not just pension reform.

6. Other areas of analysis

During the past year plans have also been developed in other areas that may prove useful to the pensions debate.

Public attitudes to pensions and saving for retirement survey: We used the National Statistics Omnibus Survey to collect data on attitudes and expectations of individuals to retirement and pension planning to inform our recommendations (more details of this research are described in Appendix D). We also drew on a number of other surveys and research reports produced by a number of public and private sector organisations. And surveys such as the British Social Attitudes Survey are useful in monitoring trends in attitudes over time. A DWP survey is currently under development to examine public attitudes to pensions and financial planning for retirement. It is anticipated that the survey will be repeated every two years. It aims to provide a picture of the level of knowledge and public attitudes to and confidence in pensions and how these change over time and to examine how attitudes translate into intended or actual saving behaviour. We support this development.

Continuous Population Survey (CPS): ONS plans to integrate the major government household surveys on which it leads into one survey. The five surveys to be integrated are the Labour Force Survey (LFS) and associated boosts, the General Household Survey, the Expenditure and Food Survey, and the

National Statistics Omnibus Survey. The CPS sample will be composed of the cumulative total sample size of the component surveys, making it the largest ever, continuous survey to be conducted in this country. While continuing to meet the information needs currently met by the five separate surveys, the CPS is designed to deliver improvements in the quality, precision, range and coherence of outputs. A central aim of the project is to deliver these quality improvements while maintaining the integrity of key time series. A comprehensive development programme to meet these aims is ongoing, with the survey due to go live in January 2008. The Commission believe it is important that this new development is considered as one strand of the evaluation strategy for the National Pension Savings Scheme (NPSS) that we propose.

Labour market projections: ONS is working on producing labour force, or activity rate, projections updating work that was last published in June 1998. Essentially, the work involves modelling forward trends in activity rates, and then applying these modelled activity rates to population projections from GAD. In modelling the activity rates, ONS looks at a number of groups disaggregating by age, sex, and, for the younger age groups, student status. The aim is to project activity rates out to 2020, and as part of this ONS is trying to make some allowance for the change in the State Pension Age for women between 2010 and 2020. Publication of the results of this work is planned for 2006. The Commission believe this work may be helpful in making future assessments of the dependency ratio and therefore informing pensions policy.

LFS Retirement module: In April-June 2006 an ad hoc module will be included in the LFS considering issues around the transition from work into retirement. This is a special module agreed in consultation with the EU's Member States. The EU sees the promotion of active ageing and prolongation of working life as priorities for action. Therefore the module will attempt to identify how people make or expect to make the transition towards full retirement. There is an interest in knowing more about plans for transitions towards full retirement and plans for exit from work. The module also aims to discover which factors are at play in determining the exit from work, and which factors could make someone postpone the exit from work. The questions are to be asked of LFS sample members aged between 50 and 69 who are either in work or who had been after the age of 49. The Commission hope that this module is useful to analysts and policymakers and, if it is successful, that a repeat module may be considered in the future to identify any change in retirement behaviour over time.

Index of Labour Costs per Hour: The ONS has published experimental data for an index of labour costs per hour and work is continuing with the aim that the series becomes a National Statistic. The new index goes beyond existing earnings indicators to include non-wage costs such as pension contributions. The index will help in monitoring inflationary pressures emanating from the labour market. This index, once fully developed, may be able to help monitor changes in wage growth occurring around the time that reforms, such as our proposed NPSS, were introduced.

Pension Trends: ONS recently published the first edition of *Pension Trends*, which brings together key findings from a wide range of data sources. The main focus is the individual and the demographic, economic and social context for current and future pensioners. Specific topics include: incomes received in retirement, expectations of retirement, state provision and private provision, contributions, pension wealth and other sources of household wealth. The publication also considers pensions from the national accounts perspective and the perspective of the providers: covering businesses, pension schemes and the financial sector, and the investment behaviour of pension funds. We welcome this publication as it brings together existing statistics from a range of sources to illustrate the economic and social issues that shape trends in pension provision, and presents the data in a straightforward way that is accessible to a wide range of users. We hope it will prove a useful publication in the future.

7. Future data requirements to monitor pension reform

This section considers three important areas for future development:

- (i) Monitoring of the four options.
- (ii) General principles to improve data adequacy in the future.
- (iii) Analysis that would be required to monitor and evaluate the introduction of the proposed National Pension Savings Scheme (NPSS).

(i) Monitoring of the four options

In our First Report we stated that faced with the increasing proportion of the population aged over 65, society and individuals must make choices between four options:

- pensioners will become poorer relative to the rest of society; or
- taxes/NI contributions devoted to pensions must rise; or
- savings must rise; or
- average retirement ages must rise.

We reported what the present situation was for each of these four indicators. It is important therefore that these four indicators continue to be monitored in the future so that people can see what choices both individuals, and society as a whole, are making. The government and others can then try to evaluate the impact of future pension reform in terms of the balance of action between these choices.

A range of data on pensioners' incomes and pensioners' position in the income distribution are already published by the DWP. This should continue in the future. Indeed, DWP has commissioned research into pensioners' experiences of poverty that should help policymakers to understand these issues better. The government should also continue to publish data indicating both current and planned expenditure on pensions and pensioners, and highlighting the range of uncertainty in the figures depending on the demographic scenario used. And a number of the surveys highlighted above will provide information on the value of savings in the future, either at an individual or aggregate level, and the Household Assets Survey could play an important role in this.

Monitoring changes in average retirement ages for various groups will be important in the future, especially to evaluate the impact of the change in women's State Pension Age. We suggest that DWP and ONS analysts work together to agree the best approach to monitor this. And alongside this headline measure attitudinal information and qualitative research will be required on people's expectations of longevity and the length of time they will spend in retirement, and whether people are working longer or changing their retirement plans.

Although a number of indicators relating to the four options are published at the moment, it is important that their publication and consideration is undertaken in the round, with the implications for society and pensions policy drawn out. We recommend that a publication of this sort is developed. Who takes responsibility for this is a matter for the government and will depend on any future institutional reforms. However, this could fall under the remit of our proposed Pensions Advisory Commission (as described in Chapter 11).

(ii) General principles to improve data adequacy in the future

Although the Commission have not been able to consider all of the data implications of our recommendations, and indeed these will become clearer as the fine detail of the proposals are considered, there are some general principles that can be outlined, and should be taken into account, in an effort to ensure that good quality data will be developed and be available in the future. When the implementation of any reform following our recommendations is reviewed in the future the necessary data should be readily available.

Good quality and timely survey and administrative data will be required to monitor future pension reform – both have an important role to play. Current, and planned, surveys will need to review their contents to see if they need to be adapted to take into account any pension reforms. And as administrative data are developed consideration should be given to linking the data to other relevant datasets such as the LLMDB2, so that a more complete picture of what is happening can be developed. The linking to other datasets would also facilitate the provision of Combined Pension Forecasts to individuals.

Relevant provision will need to be made in future legislation to enable sharing of data from administrative and regulatory sources. In particular, to allow data linking of information across key departments so that analysts can use data effectively, while also ensuring that data confidentiality safeguards are maintained. Such changes could reduce the need for specialist surveys in some areas.

We have noted that data developments will take time. Therefore we believe that investigation of the options in more detail and planning for changes need to start to take place now so that baseline data can be collected before the introduction of any new scheme. This should be the responsibility of a single, accountable body, possibly DWP or our proposed Pensions Advisory Commission, and we recommend that this body should develop a fuller evaluation strategy and report publicly on a regular basis on progress being made. We also recognise that in order for good quality data to be available these developments will require sufficient funding and resources being made available in a number of different departments such as DWP, ONS, DH and HMRC.

We also recognise that collecting data from people, and businesses, does impose a burden. We hope that as the statistical approach for monitoring our reforms is developed that all relevant agencies within government, and the relevant regulatory authorities will work together to try and minimise duplication in order to try and reduce burdens. For this to be possible data sharing will be required for both survey and administrative data.

And it is important that in this key policy area that affects everyone, public confidence in the data and analysis published is developed.

(iii) Analysis which would be required to monitor and evaluate the introduction of a National Pension Savings Scheme (NPSS)

In monitoring the introduction of a NPSS there are two broad issues to consider:

- the development of administrative data to be able to provide business management information; and
- wider data developments to capture more fully the impact of the scheme on a variety of issues.

The different elements of the system should provide administrative data based on individuals, employers, investment funds and decumulation choices. Therefore, as the detailed design of a new scheme is developed (whichever approach is taken to organising and running the scheme) analysts, policymakers and regulatory authorities should work together to make sure that adequate data collection systems are in place at the time when the new system is implemented. Only by doing this will administrative data be available to monitor the impact of the new system from day one. It will be

important that headline figures relating to participation and contributions to the scheme, from both individuals and employers, are available in a timely fashion from the administrative systems that are developed. Regular information on investment choices, returns and pensions payable will also be required. It is important that the scope of information collected is not narrowly defined or geared too much to the early stages of any new pension scheme. Instead a broad range of useful and accurate analytical information for both short and long-term analysis should be collected, while avoiding adding significantly to the administrative requirement on businesses.

In a broader context, the introduction of a new pensions system of the type we recommend would require monitoring and evaluation of its effectiveness on a range of indicators and areas of policy, as well as monitoring the impact on current pension provision. In addition good quality data would be required to inform any future modelling, such as the development of Pensim2, so that forecasts under the new system can be developed. Data would be required to consider the impact on a number of different elements including: people, employers, schemes, and funds. Therefore there will be a need for comprehensive and robust data to both complement, and be compatible with, existing data sources and developed administrative systems. This would require the establishment of new data collection mechanisms and the development of current data sources to take account of the new pension system, and also the regular undertaking of qualitative research to consider aspects of the new system, and attitudes to it, in more depth.

People

Policymakers would want to know what difference the new system makes to individuals and households. A number of questions would need to be considered, both in relation to the new scheme itself, and to the impact on pensions overall:

- Who is eligible to join or participate?
- What is the level of participation?
- Why are people not participating? Are they in their employer's scheme instead? Do people join the scheme at a later date after having opted-out?
- Are unemployed, economically inactive and self-employed people joining the scheme?
- What contributions are being made? Are people contributing above the minimum level? If so, who are they?
- What choices are people making in terms of investment funds, and why?

- What is the effect on the accumulation/decumulation of other assets people hold?
- What do people do with their pension pots at retirement, what choices do they make?

All of these questions would need to be considered at both a personal and household level, together with a range of characteristics including age, income, ethnicity, employment status and so on, as well as aggregate numbers. In particular policymakers will want to be able to see if there are vulnerable groups that continue to under save following the introduction of the new scheme, and understand the reasons for this.

And as we noted previously both cross-sectional and especially longitudinal data will be needed to monitor the impact of the new scheme effectively. This suggests that the Household Assets Survey, in particular, could have an important role to play, especially if it is developed with a longitudinal element, along with a number of the other data sources mentioned earlier in this chapter, such as ELSA.

And of course in all these developments safeguards need to be in place consistent with the Data Protection Act and other good practice so that people can be reassured that any information relating to them is being used in accordance with the law.

Qualitative research would have an important role to play by helping to put some of the numerical data into context by exploring people's attitudes, understanding and expectations for retirement and retirement planning. Issues to be explored could include seeing if people have a better understanding of the key issues and choices, what are their views of the reforms and do they have confidence in them. And qualitative research would be required to understand people's views of the new scheme and the decisions they are making.

Employers

Policymakers would need to see what the impact of the new system has on employers and their current pension provision. For example:

- What schemes will employers continue to provide?
- What contributions levels are made to existing schemes and the new scheme?
- Are employers paying above the minimum level of contributions?
If so, what are their characteristics, and why are they contributing more?
- Is there an impact on wages, employment levels?

- Is there a change in recruitment practices?
- Is there any effect on overall remuneration and benefit packages?

Again data will be required so that any differential effects by size of firm, and industry sector can be considered. This suggests that the Employers' Pension Provision Survey would continue to be a key data source, as would the Annual Survey of Hours and Earnings, especially its longitudinal element, but additional employer-based data sources may also need to be considered.

Pension schemes

In addition to specific information on the new scheme, information would also be required on the impact of its introduction on existing schemes.

- Is there an increase in schemes closures?
- Is there an impact on scheme membership levels?
- Is there a change in contribution levels?
- Is there any change to scheme rules for example in terms of accrual rates, access and eligibility, and the benefits available?

Again, differences between the different types of scheme and between the public and private sector schemes will be important. This suggests that the Occupational Pension Schemes Survey could have a role to play, but additional data in this area could be required. And of course, as well as the impact on occupational schemes, the impact on personal pensions would also be important considering issues such as participation levels, contributions, investment decisions and persistency.

Pension funds

The first indicators required to monitor pension funds are measures of contributions, both in terms of stock and flow. And this would include both regular contributions, and lump sum transfers into the accounts. In terms of assessing pension adequacy it is important to know what investment choices are being made as this will have a direct impact on what pension level is achieved. Therefore information would be required on the asset allocation of funds and individuals and the level of assets in funds. In particular policymakers would need to know who is using the default fund for their investments, and whether they actively chose this fund or not. Of special interest would be the performance of individuals' accounts – what are the investment returns, and the distribution of those returns, at an individual and aggregate level? The level of administration costs would also need to be monitored.

Decumulation phase

Again, in terms of adequacy of income in retirement, the choices that people make when it comes to the decumulation phase and the age at which they make this choice are important issues to monitor. For example, policymakers would want to see what types of annuities are bought: joint or single life, index-linked or level, or other types of annuity or income withdrawal products.

Macroeconomic impact

The previous paragraphs have highlighted analysis required to monitor the introduction of the NPSS at a microeconomic level by focusing on the actions of individuals and firms. However, it will also be important to consider the effects to the UK economy as a whole, for example in terms of employment trends, aggregate savings, inflation, wage levels, GDP and so on.

Conclusion

Both survey and administrative data covering a variety of issues, and at both a microeconomic and macroeconomic level, would be required to evaluate the impact of pension reform in the future. And we recommend that a single, accountable body, possibly DWP or our proposed Pensions Advisory Commission should develop an evaluation strategy and review data requirements and developments to contribute to this analysis.

The development of the administrative data available from the new scheme is of vital importance. Analysts need to be involved in the development of the relevant forms and systems so that useful data can be collected in a timely, consistent and comprehensive manner. The ability to use the administrative data for longitudinal analysis is also important in order to get a lifelong picture of pension right accumulation and decumulation.

As New Zealand proceeds with its planned “Kiwisaver” scheme then there should be lessons to be learnt from its introduction and evaluation that can be taken on board by the UK. The situation here should be kept under review.

8. Summary of recommendations and conclusion on data improvements

This section summarises both likely developments already in hand which the Pensions Commission welcomes, and recommendations on further improvements which should be considered.

We welcome in particular:

- The FRS data-linking project.

- The anticipated pension contributions data from the ASHE survey.
- The continuing development of the ELSA project, both in terms of pension wealth, and health analysis.
- Progress that has been made in the development of the Household Assets Survey, which we continue to regard as a major priority.
- Developments that have occurred so far in the GAD Occupational Pension Schemes Survey, and we hope this continues to develop when the ONS takes responsibility for the survey in the future.
- The creation of the Pensions Analysis Unit in the ONS to build on the work of the PSTF, and continue the publication of Pension Trends.
- The creation of the National Statistics Centre for Demography in the ONS and hope it will become a centre of expertise, working closely with policymakers.
- The planned research and collaboration in the area of healthy ageing.
- The planned DWP survey on public attitudes to pension issues.

We make the following recommendations on priorities:

- We recommend that DWP publish a paper describing Pensim2 and what it does, including a range of analysis to illustrate its capabilities and limitations.
- We recommend that DWP investigates the best way to provide access to Pensim2 for specialist external analysts.
- We recommend that the PSTF Advisory Group, or a similar group, should continue as one way to facilitate cross-departmental co-ordination in pension data issues.
- We recommend that the new National Statistics Centre for Demography in ONS, in conjunction with relevant policy makers and analysts throughout government, should undertake a feasibility study to investigate issues of migration in relation to pension reform.
- We recommend that DWP and ONS undertake a feasibility study to investigate whether administrative data sources could provide supplementary measures of longevity to complement the ONS Longitudinal Study.
- We recommend continued monitoring, and publication, of measures of the four options, so that the impact of pension reform in relation to these choices can be measured.

- We recommend a single, accountable body, possibly DWP or our proposed Pensions Advisory Commission should develop an evaluation strategy as pension reforms develop, and report publicly on a regular basis on progress being made.

We make the following proposals for government consideration:

- Thought still needs to be given as to whether it is possible to collect information from GPPs.
- The Annual Business Inquiry should consider if employer pension contributions can be separately identified on the short form.
- DWP and ONS analysts should work together to agree the best approach to monitor the impact of the change in women's SPA.
- Analysts, policymakers, and regulators need to work together on the development of administrative systems for the proposed NPSS.
- Existing surveys are changed to take account of the proposed NPSS.
- Lessons need to be learnt from the development of "Kiwisaver" in New Zealand as it proceeds.

We welcome the developments made during the past two years, and those planned for the future, which should considerably help future policymakers and organisations considering the area in the future. These are areas affecting very large proportions of national income and assets. We hope that progress will continue to be made in the areas we have identified.

