

## Jobs & Pensions

CPF

Discussion Brief 2022#3



CPF Discussion Briefs exist to stimulate debate. They do not necessarily represent the views of the Conservative Party.

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Dear Colleagues,

## 2022#3 Jobs & Pensions

Thank you to everybody who participated in our consultation on strengthening the United Kingdom. Following last year's consultations on Our Relationship with the State and on Planning & Housing, this is another in our series on topics decided by you, the members, rather than being chosen to align with the Government's priorities. It invites your input on jobs and pensions.

As usual, please send your responses to the questions in this briefing paper to [CPF.Papers@conservatives.com](mailto:CPF.Papers@conservatives.com), using the associated response form published alongside the paper on the CPF website. The deadline for submitting your response is 4th September. We aim to publish our next discussion paper, gathering ideas for our next manifesto, on 5th September.

A summary of responses to this consultation paper will be sent to the Prime Minister's Policy Unit, relevant Ministers, Party Chairman and CPF Chairman by early-October. We look forward to hearing your ideas.

Kind regards,

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## The Challenge

*"It's important that everyone has the opportunity and support to find a good job to help them get on in life. That's why we're doubling down on our Plan for Jobs with this new campaign to harness the talent of jobseekers and support employers to fill vacancies, find work and create new opportunities."*

(Rishi Sunak, Chancellor of the Exchequer, 27 January 2022)<sup>1</sup>

**Jobs:** The Government continues to help more people to start, stay and succeed in work. Through its *Way to Work* campaign, it met its target to get 500,000 people on Universal Credit into work in the first six months of this year.<sup>2</sup> There are a record number of employees on payrolls, youth unemployment level at a near record low and unemployment at 3.8%.<sup>3</sup> Government has also made work pay by introducing the National Living Wage, increasing the Universal Credit work allowance and cutting the taper rate.

In 2021, there were 5.6 million UK private sector businesses, an increase of over a million since 2010.<sup>4</sup> Government help for small businesses includes funding, guidance and advice.<sup>5</sup> Yet, more needs to be done to help the economy to grow, businesses to fill their vacancies and people across the United Kingdom to cope with the rising costs of living. Most occupation groups in the public sector on average earn more than similarly skilled occupations in the private sector across most firm sizes (see Chart 1).<sup>6</sup>

**Pensions:** Income from occupational and personal pensions is a relatively important source of pensioner income in the UK, in contrast to most other advanced economies, where state provision (financed either through social insurance contributions or general taxation) is dominant.<sup>7</sup>

The two main types of occupational schemes are Defined Contribution (DC), in which contributions are made to a fund that is invested and used to provide an income in retirement, and Defined Benefit (DB), in which pension benefits are based on salary and length of service. The rollout of automatic enrolment (AE) from 2012 onwards led to a tenfold increase in total membership of DC schemes, from 2.1 million in 2011 to 21 million in 2019. Employers contribute a minimum 3% and employees 5%, part of which includes tax relief.<sup>8</sup>

As a result of auto-enrolment, 79% of all employees participated in a pension in 2021, compared to 47% in 2012 (see Chart 2). Among private sector eligible employees (i.e. those who meet the auto-enrolment age and earnings criteria), participation rose to 86% (14.4 million) in 2021; among public sector eligible employees, participation remained stable at 93% (5.6 million). There is a persistent gap, however, in participation rates among micro (1 to 4 employees) and small (5 to 49 employees) employers in the private sector (57% and 80%, respectively) compared with other sized employers (see Chart 3).<sup>9</sup> As of 2019, public sector employees accounted for 6.3 million out of 7.6 million (87%) of all those actively contributing to a DB pension scheme (see Chart 4).<sup>10</sup>

For employees with a workplace pension, the average value was £10,300 in the private sector compared with £65,400 in the public sector.<sup>11</sup> Employer contributions across the four main public service pension schemes increased to 24.3% in 2019-20.<sup>10</sup> The annual cost to the taxpayer of public-sector pensionable payroll totals is about £95 billion.<sup>12</sup>

According to the Association of British insurers, there could be as many as 1.6 million lost pension pots, with a potential aggregate value of around £19.4 billion.<sup>13</sup> In addition, the Government estimates that 850,000 eligible households are not claiming Pension Credit worth £1.7 billion.<sup>14</sup>

## Questions for discussion

1. In what ways do you think the Government should increase support for microbusinesses?
2. How could the Government and employers make it easier for people to progress in work?

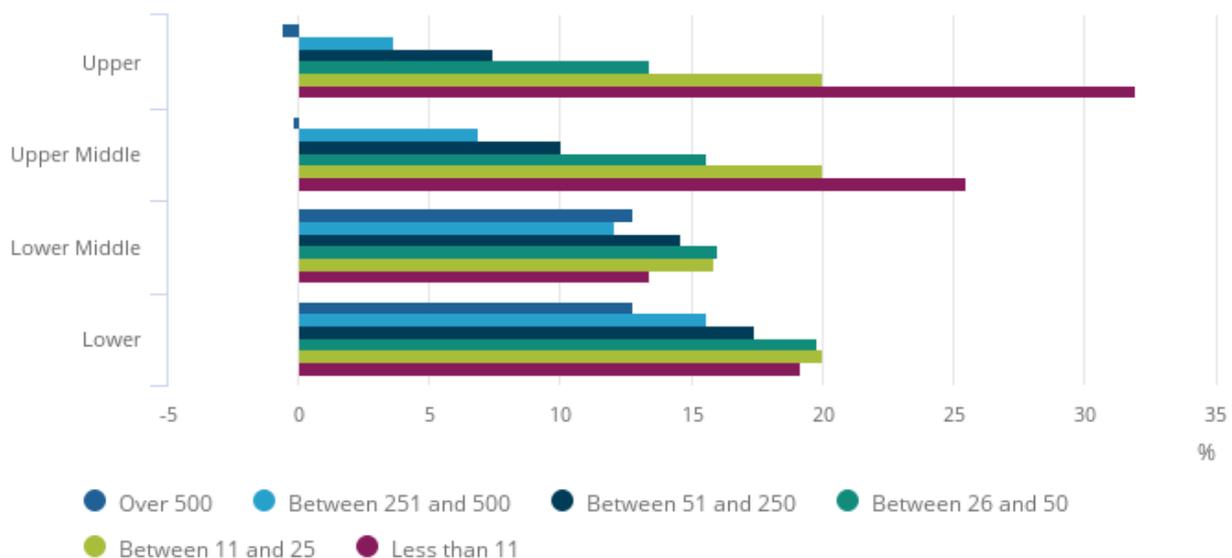
3. What steps should the Government take to help those who may need more support to work, e.g. people with disabilities or health conditions?
4. In what ways could the Government help businesses to improve the recruitment and retention of older workers?
5. How can the Government build on and engage with the increasing numbers of people saving into workplace pensions?
6. How can the Government raise awareness about pension entitlements?
7. Is there any other observation you would like to make?

## Recent Government Action

- Delivering the biggest net cut to personal taxes in a quarter of a century and increasing the National Living Wage by 6.6% to £9.50 an hour, boosting the incomes of the lowest paid.<sup>15,16,17</sup>
- Reducing the Universal Credit taper rate from 63% to 55% and increasing Universal Credit work allowances by £500 a year to make work pay.<sup>15,16,18</sup>
- Launching our Plan for Jobs, which includes:<sup>19</sup>
  - the £2 billion Kickstart Scheme, which has made 163,000 jobs available for young people;<sup>20</sup>
  - the £2.9 billion Restart Scheme, providing almost a quarter of a million long-term unemployed people with up to 12 months of support to find sustained employment;<sup>21</sup> and
  - the Lifetime Skills Guarantee, offering 11 million adults the opportunity to gain a new qualification for free, to help them to gain in-demand skills.<sup>22</sup>
- Between January and June 2022, over 500,000 more people found work through the Way to Work campaign.<sup>23</sup>
- The number of disabled people in employment has increased by 1.3 million since 2017, delivering on a government goal to see one million more in work by 2027.<sup>24</sup>
- The Government’s £37 billion package of support to help households with the cost of living mean that over 8 million households will receive up to £1,200 in support this year.<sup>25</sup>

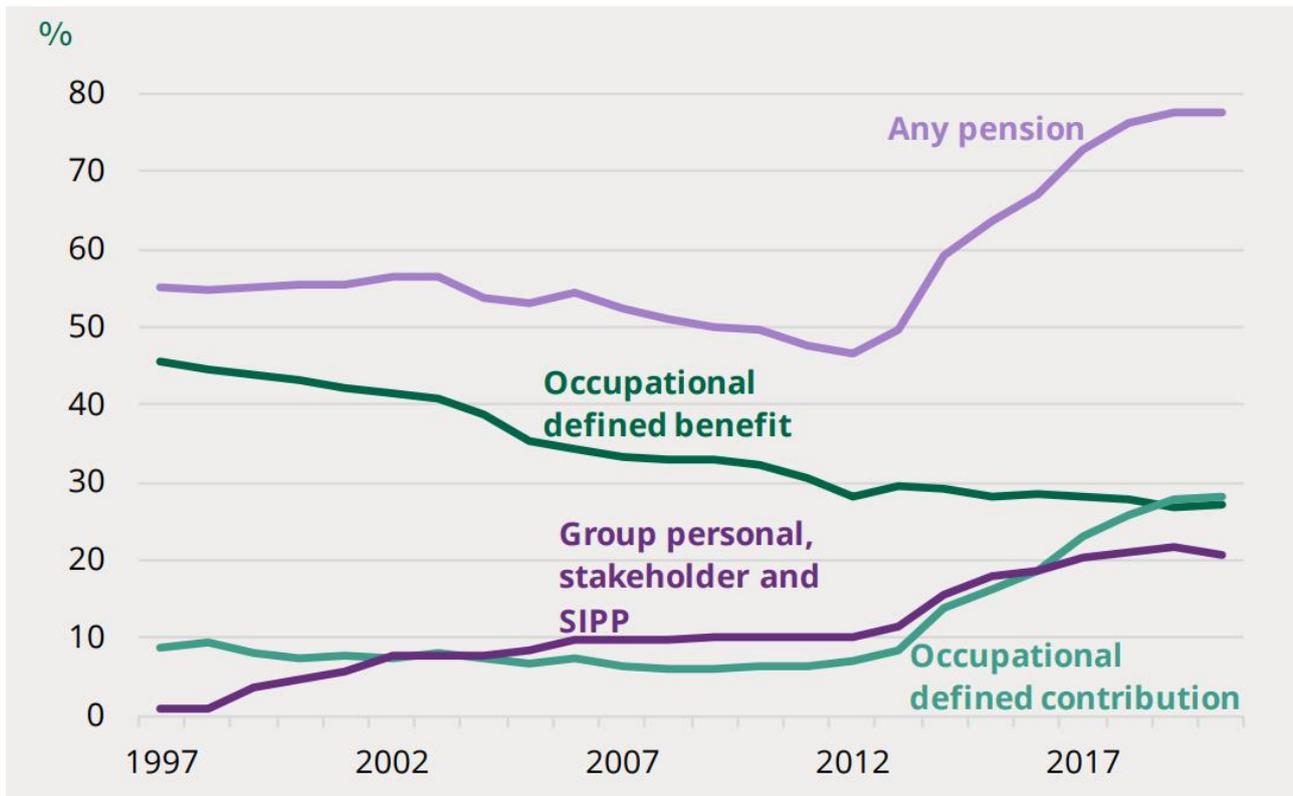
## Context: Charts and Data

**Chart 1: Total remuneration modelled public sector earnings premiums by occupational groups and firm sizes 2019<sup>6</sup>**

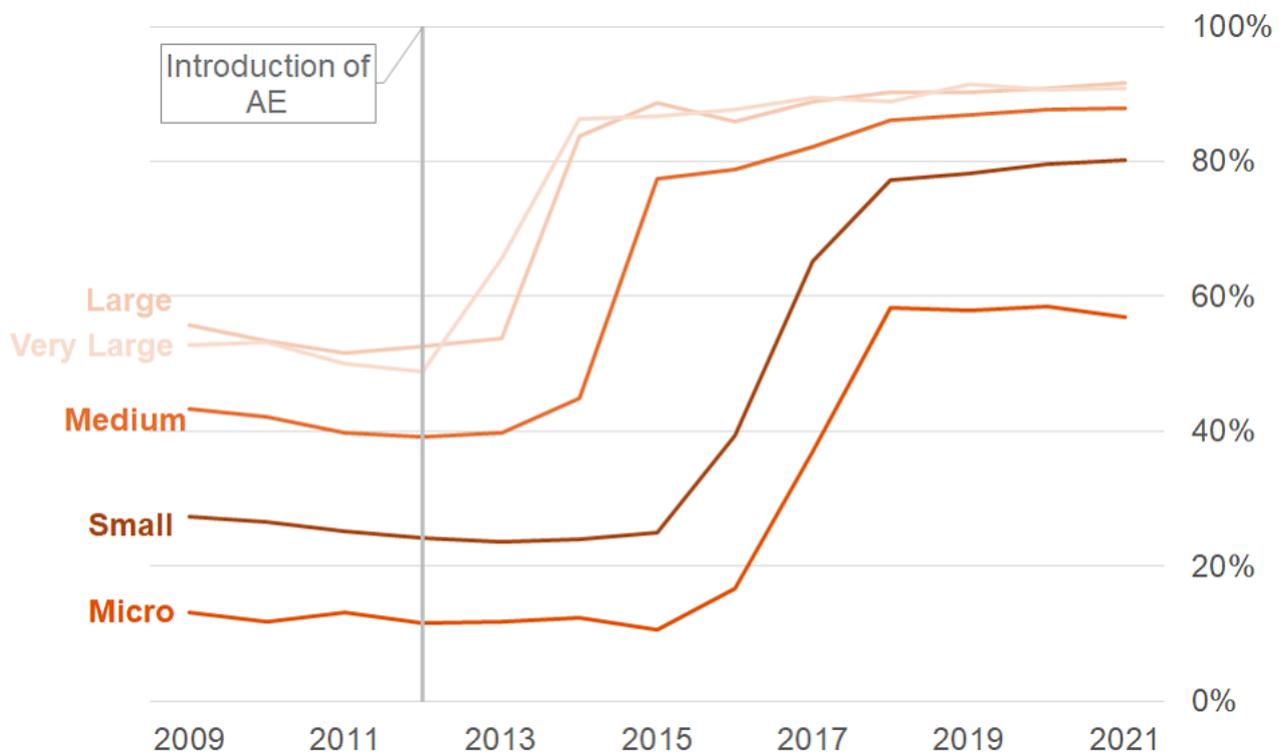


Bars show the percentage by which public sector earnings are higher or lower than private sector earnings. The negative values show how much the private sector earns more than the public.

**Chart 2: Proportion of employees with workplace pensions by type of pension<sup>8</sup>**

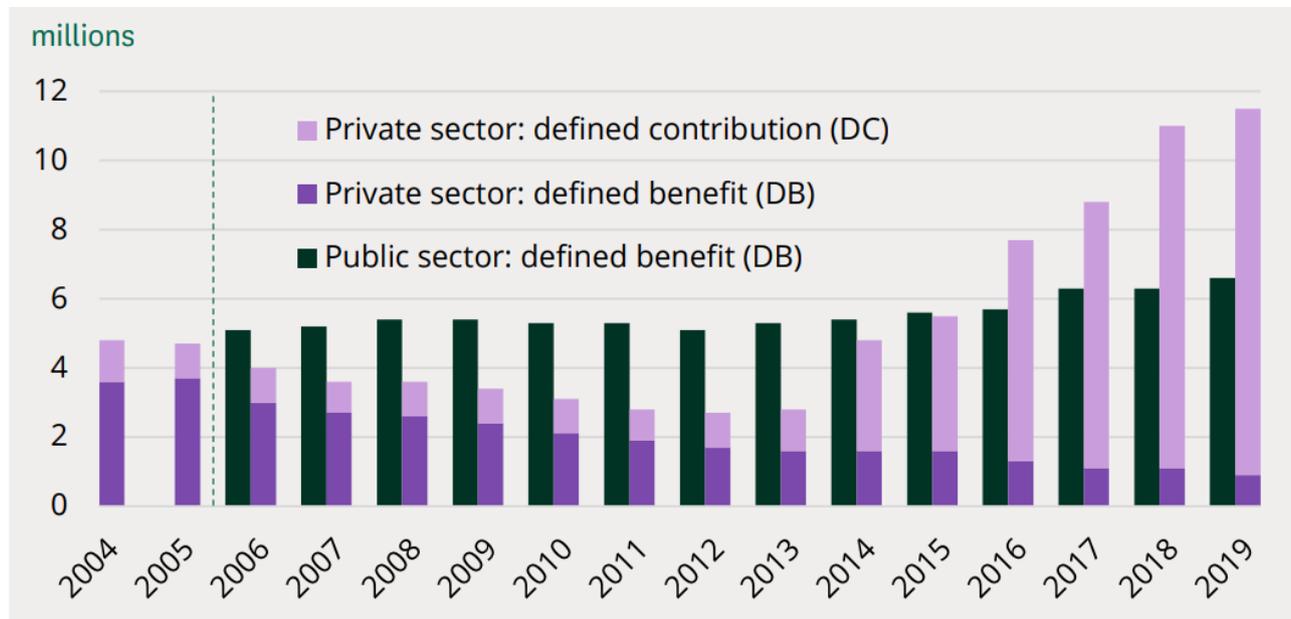


**Chart 3: Private sector eligible employees participating in a workplace pension<sup>9</sup>**



#### Chart 4: Active members of occupational pension schemes by benefit type<sup>10</sup>

82% of employees in the public sector contributed to DB pensions, compared with just 7% of employees in the private sector. 39% of employees in the private sector contributed to DC pensions.



Note: Changes to methodology from 2006 onwards mean comparisons with prior periods should be treated with caution. (a) The 2005 survey did not cover the public sector.

**The six largest public service pension schemes in the UK** are statutory defined benefit (DB) pension schemes: those for the NHS, Teachers, the Civil Service, Armed Forces, Police and Firefighters (which operate on a pay-as-you-go basis) and the Local Government Pension Scheme (which is funded).<sup>25</sup>

**Pension liabilities of central and local government** in 2018 comprised:

- £4.8 trillion of state pension entitlements (224% of 2018 gross domestic product (GDP))
- unfunded defined benefit workplace pension entitlements for public sector employees estimated at £1.2 trillion (55% of GDP)
- funded defined benefit workplace pension entitlements for public sector employees worth £413 billion (19% of GDP)

**Non-government pension liabilities for private sector employees** in 2018 comprised:

- £2.2 trillion of defined benefit and hybrid workplace pension entitlements (103% of GDP)
- £347 billion of defined contribution workplace pension entitlements (16% of GDP)<sup>26</sup>

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