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THE POLITICS OF PARALLEL PENSIONS: LESSONS FROM THE UNITED KINGDOM FOR THE UNITED STATES

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The public pension system in the United Kingdom is unusual in several ways, most notably in having an earnings-related pension tier in which private providers operate in parallel with (as an opt-out from) the state system rather than as an additional tier. As a result of widespread opting-out, the U.K. ranks very low among OECD countries both in terms of current pension expenditures and its anticipated long-term pension expenditure burden. British pension policy has also been characterized by frequent tinkering, however, especially regarding rules governing the interaction between the state earningsrelated pension and private alternatives. This paper argues that British pension policy has been driven by the policy legacy of a very late move toward earnings-related public pensions and strong pressure to restrain public spending that the current Labour government inherited from its Conservative predecessor. The result has been a pension system that ranks fairly highly in terms of affordability for government but poorly on most other measures, including clarity for workers and recipients, riskiness for workers, administrative effectiveness and efficiency, encouraging continued employment for older workers, and macro-economic efficiency.

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