Britain: Government advisor urges radical pensions overhaul

Neil Hodge
8 October 2002

Companies are not meeting pension responsibilities, not enough Britons are saving for their retirement, yet people are living longer. This is the background against which the Labour government is continuing to run down the state pension and force people to take out private provision.

The Blair government has been keen to wean people off the idea that the state will provide a full pension throughout a person's retirement and has sought assurances from various experts that self-provision (at this stage, at least partial provision) is the way forward.

One of Labour's first initiatives after its 1997 election focused on private pension provision. Stakeholder pensions were introduced in a drive to persuade low earners—or those without a salary—to put something by for their old age, and help plug the £27 billion ($41.7 billion) gap between what Britons are estimated to need to save for comfortable retirements and what is actually being invested.

The government appeared ignorant, however, that the company pension sector was neither as robust nor as reliable as had been thought. The number of firms closing their final salary schemes—which pay in retirement a guaranteed proportion of a former employee's earnings—has prompted the most concern.

So in September 2001 the government ordered Alan Pickering, the former chairman of the National Association of Pension Funds, the principal UK body representing the interests of the occupational pensions movement, to look at the wider challenges facing the sector and to suggest solutions.

The key theme running through his 98-page report issued in July is that the UK's pensions regime is too complicated. The "simple concept" of saving for old age has been made "extremely complicated", the report begins. Whether it be occupational, stakeholder or private, "a pension is a pension is a pension", Pickering says—repeatedly. The recurring theme of his solution to pensions problems is "less prescription, more pension". He argues that the onus for saving has swung too far from individuals towards employers, with the result that firms are becoming increasingly unwilling to provide schemes.

Pickering's proposals on "ending red tape" would in fact enable workers taking out pensions to be fleeced with even greater ease than is presently the case. "Payouts from company pensions should no longer be forced to rise in line with inflation," he says. Responsibility for saving should be switched to workers, who could be forced to join company pension plans. "Employers should be allowed to make membership of their pension scheme a condition of employment."

Amongst the report's other proposals is ending the obligation to pay benefits to pensioners' widows. In an effort to present this as a measure encouraging gender equality, the report states: "In the modern world, many couples would prefer to ... ensure they both have an independent income in retirement rather than relying on derived rights."

The document admits that with company pension schemes freed from some performance constraints final payouts could be lower. "We acknowledge that ... the guaranteed future pension benefits for those in pension scheme may be scaled back somewhat," the document says.

Many observers have raised concern about the relaxation of pensions red tape that was tightened, in part, after the 1990 scandal in which Robert Maxwell raided the Mirror Group's pension fund. Pickering brushed aside such concerns. "If there were to be another Maxwell, he would have an easy way in,"

© World Socialist Web Site

Pickering has said. "All he would have to do is hide under a mountain of red tape and no one would see him coming." He proposes a "new kind" of regulator, acting as adviser as well as watchdog. "The regulatory regime should place greater reliance on professionals exercising and backing their judgement," the report said.

Pickering's findings will be considered by the government before it produces yet another consultation paper on pensions this autumn. In a statement to the House of Commons, Work and Pensions Secretary Andrew Smith welcomed the report, describing it as "radical, ambitious and pragmatic." He said that the government would look at the proposals to end compulsory indexation, but added, "On the first reading these proposals are not attractive."

In the meantime, companies have another pensions problem to deal with—falling stock markets. In British Telecom's case, for example, assets have been left in deficit by an estimated £5 billion.

Pickering's recommendations have been welcomed in the expected quarters. Joanne Segars, head of pensions at the Association of British Insurers, the trade association for the UK's insurance industry, said, "Alan Pickering's ideas for a simpler pensions framework will help Britain to save. This will help employers run and maintain schemes and encourage more people—including the self-employed —to save for retirement."

But trade unions have criticised the report's suggestions. Amicus General Secretary Roger Lyons described it as a "sell-out of millions of workers". "Removing the obligation on employers to increase pension benefits with prices would inevitably lead to pensioner poverty in the long term," he said, "and removing survivor benefits would be a disaster for practically every couple in the country."

Pickering's report in any case only tinkers around the edges of the substantive problem, which is that while pensions are getting more expensive as people live longer, people are not able and companies are not willing to pay any more for pensions. Successive governments in the UK have done little to provide a tax and regulatory environment that encourages individuals and employers to provide decent pensions. The fact that millions of people have been mis-sold pension policies and endowment mortgages for the past 15-20 years has not done much to boost public confidence in financial products.

For example, the Financial Services Authority (FSA), UK financial watchdog, announced at the end of June that the pensions mis-selling scandal will have cost insurers and financial advisers at least £11.8 billion in compensation payments. More than one million customers who were mis-sold personal pensions and pension top-ups are in the process of receiving payouts.

Since the beginning of the review into pensions mis-selling, the FSA has taken disciplinary action against 346 firms, resulting in fines totalling a relatively paltry £10 million. In addition to a review of pensions, the FSA has also been undertaking a review of how top-up schemes—so-called free-standing additional voluntary contributions, or FSAVCs—were sold. The FSA has been looking at whether some people were wrongly advised to take out an FSAVC when they would have been better off joining their company's voluntary contribution scheme.

The personal pensions mis-selling review began in 1994, and was aimed at people wrongly sold personal pensions between 29 April 1988 and 30 June 1994. The second part extended the review to younger consumers, typically in their thirties and forties. The FSAVC review has looked at about 10 percent of FSAVC sales.

It is implicit within Pickering's recommendations that individuals must save more themselves or accept that they will have to work longer. According to research recently published by the Association of Consulting Actuaries, only 37 percent of final salary schemes are open to new members. They are being replaced with low-value defined contribution schemes. This is storing up a huge potential problem when the new "defined contribution generation" wants to retire in 20 years time.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site