Britain: Facts and myths about Turner's plans for pensions

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This is the first of a two-part series examining Lord Turner's proposals for reforming Britain's pensions.

Lord Turner's long-awaited proposals for pension reform have been almost universally portrayed as reasoned and necessary, to be supported by all right-minded people as a step towards decent pension provision for all. Some commentators have gone so far as to hail Turner as a second Lord Beveridge—the architect of Britain's social insurance, which included pensions and was implemented in the aftermath of World War Two—and even as the champion of the poor.

Nothing could be further from the truth. His proposals constitute a major attack on the right of ordinary people to a decent retirement and signal the destruction of the gains made in the post-war period.

This is clear in Turner's plan "to safeguard retirement," as *Financial Times* columnist Nicholas Timmins described it.

The first key element is that workers will be required to take financial responsibility for their own retirement. There will be a New Pensions Saving Scheme (NPSS) into which employees are automatically enrolled, providing an earnings-related pension.

This is described as "soft compulsion," since it looks like increased voluntary national insurance contributions. But its voluntary nature is fraudulent, as a person can opt out only within one month of joining an employer. With this proposal, Turner has recommended, in all but name, what the City, the corporate bosses and their mouthpieces in the press and Parliament have long been calling for—compulsory personal savings.

Employees should contribute 5 percent of salary (4 percent after tax) to the fund and employers 4 percent, Turner has recommended.

Secondly, and even more importantly for Britain's financial elite, while the state will collect and administer the fund, it will invest the expected annual inflow of £7.5 billion in a range of up to 10 stock-market-based schemes, similar to the 401(k) pension schemes in the US.

The third element of Turner's plan is that the basic state pension—set at a mere £75 a week in today's money, which is less than the current £82 basic state pension for a single person for those with maximum entitlement—should become a universal "citizen's pension." Payment is to be based on residence rather than on a record of national insurance contributions paid from wages.

Turner said this measure was aimed at the millions of people (largely women), who, due to their caring responsibilities for children, sick or elderly relatives, or divorce, have made little if any contributions to the national insurance fund, and thus have little or no pension under the present arrangements. It would rise slightly by indexing it in line with earnings rather than prices from 2010-2011. But the fact remains that no one can live on such a sum.

The second state pension, for those with a full work record or credits for caring, would be worth about £53 a week, which together with the basic state pension would total £128, or about 29 percent of average earnings. This is higher than the present threshold of £109 to qualify for means-tested benefits. Without this, Turner estimated that a massive 70 percent of Britain's pensioners would be dependent upon the hated means-tested benefits—pension credits—by 2050.

Presented as a major advance, it will nevertheless leave a third of all pensioners dependent on means-tested benefits in order to receive a meagre handout, the same as today.

Turner's motivation was partly based on the calculation that relying on unpopular means-tested benefits was politically and financially unsustainable. But he also calculated that without increasing the pension, and thus reducing the reliance on means-tested benefits, there would be no incentive for workers to save for their retirement—the very core of his proposals.

Supposedly, in order to pay for this purportedly generous plan, Turner recommends that the state pension age rise to at least 68, if not 69, years of age, by 2050, making Britain the fifth country among the advanced capitalist economies to raise the pension age for all. This is despite the fact that the government has already raised the retirement age for women from 60 to 65, meaning that Turner's proposed Scrooge-like "improvements" to the state pension are already self-financing.

He has also proposed that employers no longer be able to dismiss people on the grounds of age pay reduced national insurance contributions for those who stay on beyond state pension age. People would be able to take part of their state pension and keep working.

Apart from his suggestion that the basic state pension should be paid on a residency basis to the over-75s, Turner's plans do nothing to remedy existing pensioner poverty. He recommended that his proposals be implemented by 2010 at the latest.

Turner claims that his two key proposals for a national pension savings scheme and modifications to the state pension system will:

* Deal with gaps in the existing state provisions for women and carers
* Overcome barriers of inertia and high cost that deter voluntary private pension provision
* Maintain employer involvement in occupational pensions
* Prevent the spread of means testing
* Be sustainable
* Be less complex and more understandable

Every one of these claims is false. As to the final one, it leaves the most complex pension system in the world in place with the added complication of a new pension savings scheme.

The Turner Commission has not recommended that the government move immediately to a residence-based pensions system that would deal with the gaps in state provision for women and carers. It merely calls for this to be applied to those aged 75 and over, at a net cost of 0.15 percent of gross domestic product (GDP).

As to the barriers to new private pensions, these are to be overcome by the simple expedient of making them all but compulsory. On the question of cost, Turner proposed that the new pension be publicly administered to save money. Immediately, there were cries of angry protest from the insurance and pension fund industry, demanding that they manage the fund—demands to which the government is likely to concede, with all the consequent implications for higher costs.

Many employers have protested at the increased cost that the new pensions would bring—a mere 0.63 percent—and threatened to close their own, relatively advantageous occupational schemes in favour of the new private pension, thereby cutting their own costs. Thus, “maintaining employment involvement in occupational pensions” means little more than paying into the new pension fund.

The claim that the plan will prevent the spread of means testing is bogus on many counts. Turner has refused to do anything to address the appalling level of poverty that one third of today’s pensioners face. The commission did not recommend raising the basic state pension level to the Pension Guarantee Credit, which would have reduced the need for means-tested benefits, rejecting it as too costly.

The report is aimed at the so-called middle-income group who have small or no occupational pensions. Turner admits that with the decline of occupational pensions, these people will become more dependent upon means-tested benefits in the future. His plan also excludes those earning less than £5,000 a year and the self-employed—a growing number as a result of the spread of part-time “home workers.”

While the average annual earning is £22,000 a year, median earnings are very much lower, as the average is skewed by the minority who earn phenomenally high salaries. A worker who is paid £15,000-£16,000 would see a reduction of at least £12 a week in his or her take-home pay of £250. Lower-paid workers could see their take-home pay dip below the minimum level needed to avoid poverty.

At best, if all goes well, such savings “*might* secure a median earner a pension at the point of retirement of about 15 percent of median earnings, on top of the 30 percent which state provision will deliver under our proposals” [emphasis added]. For someone on £250 a week, this would mean an income of £145, just £35 above the threshold of the means-tested benefit level. Thus, this pension pot becomes little more than a cruel joke: poverty during one’s working life to pay for the privilege of poverty in retirement.

None of this forced saving *guarantees* a pension in retirement. The record of such pensions has been dire, whether due to financial scams, mismanagement, or stock market falls, as the demise of some of the most well-known pension funds and insurance companies testify.

The extension of the age of retirement to 68 would mean that in Britain’s poorest cities, male workers would live on average but one year after retirement age. Even this assumes that there will be jobs available for older workers. The reality, of course, is that they will constitute an additional pool of cheap labour that will serve to force down wages.

In short, far from resolving the problem of hardship, misery and penury in old age, the Turner Commission’s proposals will only exacerbate them and create new ones. But then, they were never designed to resolve the pensions crisis for workers, only that of the corporate bosses and financial elite.

Chancellor of the Exchequer Gordon Brown immediately said that the proposals were unaffordable. This led to pages of press commentary about splits within the government between Brown and Prime Minister Tony Blair. The net impact of this speculation was to present Brown as the miser standing in the way of a wonderful package—urging the public to accept that they would have to work longer and pay more to get a pension that could be worthless.

In nineteenth century Britain, the infamous Poor Laws gave little support to the poor and the elderly unless they were prepared to give up their homes and enter workhouses. Demands for pensions grew in the 1870s due to the increasing poverty among the elderly who could not work. Two thirds of those over 65 were forced to work.

The first British pensions, enacted in 1908, rejected the contributions-based insurance approach pioneered in Germany, in favour of an extension of one aspect of the Poor Law system. While there would be subsistence-level support that would not necessitate entering the workhouse, it would be subject to means- and morality-testing, and only those over 70 years of age would qualify.

The inter-war years saw the growth of contributory pensions for workers, some occupational pensions—mainly for men—and widows’ pensions. But widespread unemployment in the Depression years, the patchwork arrangements, and the lack of a comprehensive system meant that the vast majority of people were dependent upon means-tested benefits to eke out a wretched existence in their old age if they could not work. The system was widely reviled and became politically discredited.

The 1942 Beveridge report (whose chief concerns were labour mobility and flexibility) that laid the foundation for Britain’s welfare state recommended a universal flat-rate state pension. It would be set initially at survival level, and later raised to subsistence level, based upon a National Insurance scheme with contributions from workers and employers.

However, the post-war Labour government implemented a scheme that was not universal. Pensions would be paid to those workers who had contributed to the fund, and their wives. It assumed that women would be dependent upon their husbands.

While it set up a scheme based on workers’ contributions to the national insurance fund, the scheme is not strictly speaking an individual or even a social *insurance* scheme, but a pay-as-you-go (PAYGO) system. As such, it provides old-age pensions based on intergenerational transfers. Today’s retirees paid into the National Insurance fund during their working life amounts that went to pay pensions for their parents. They, in turn, now receive pensions funded by the National Insurance contributions of their children. In other words, pensions are socially provided by the existing workforce.

Neither was the final scheme as generous as even the meagre one that Beveridge had envisaged. The poorest pensioners, and particularly women, continued to depend upon means-tested benefits. And no subsequent government, even during the post-war boom, ever moved to a subsistence level pension as a right.

The emergence of generalised retirement for people over 65 years of age was only established in the 1950s, and even then, 33 percent were still working. Even in the 1980s, 10 percent of the over-65s were still working.

As the state pension was so miserly, there was an increasing dependency on occupational pensions that constituted deferred wages. Such pensions served to tie workers to their jobs when skilled labour was scarce in the years of the long boom, or to compensate for low wages in the public sector.

Although a Labour government finally introduced an earnings-related state pension in the 1970s, successive Conservative governments sought to dismantle the state pension system in the 1980s. They ended the indexation that pegged the increase in the basic pension to average earnings in favour of pegging against prices—an effective reduction. They also encouraged workers to contract out of the earnings-related pension system and buy private pension plans that turned out to be fraud-ridden and often worthless.

The net result was to make the British state pension system the meanest in the developed world, and Britain more dependent upon occupational and private pensions than any other industrial country, under conditions that were eroding both their value and their coverage. The 50 percent of retirees who were solely reliant on the state saw the basic state pension shrink to just 15 percent of average male earnings. More than one third of pensioners were on income support, while many more did not know they were entitled to it.

Alongside the declining value of the state pensions went cuts in the welfare system, social support for the elderly, and the privatisation of long-term care. The mounting pension crisis saw more and more elderly people reduced to selling their homes in order to survive.

To be continued