

# OECD finds UK pensions amongst lowest in world

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British state pensions are among the lowest in the world, paying out a mere 38 percent of what the recipient earned when working, according to the Organisation for Development and Cooperation (OECD).

The OECD report, *Pensions at a Glance*, makes a comparative study of pensions in 34 countries. Only in Chile and Mexico was the replacement income as a proportion of average earnings lower than in the UK. The figure of 38 percent compares with 90 percent in the Netherlands and 80 percent in Spain and Italy.

For the 1.29 million pensioners who have to survive on the state pension alone, this means extreme hardship. The maximum weekly state pension in the UK is currently set at a miserly £115.95, so that retirees are reliant on either an occupational or private pension to supplement this meagre amount. However, a third of 40- to 60-year-olds cannot afford to pay into a second pension.

Pensions have come under sustained attack by the previous Labour, Conservative/Liberal Democrat coalition and present Conservative governments, intensifying since the fallout from the 2008 bailout of the banks.

This is an indictment of the pseudo-left backed Trades Union Congress (TUC), and its affiliated partners, who betrayed the struggle of public sector workers in defence of their pensions in 2011/2012. Despite mass support for the one-day strike in support of public sector pensions, the unions agreed separate deals that have resulted in workers having to work longer and pay more for an increasingly smaller pension when they retire.

On top of this, for new retirees, the more generous final salary pension is being replaced by an average salary pension. The take-up of the final salary scheme

has dropped from 43 percent in 2006 to 13 percent in 2015.

The Blair Labour government initiated the assault on final salary pensions when Chancellor Gordon Brown in 1997 scrapped tax relief on pension firms' dividends. This saved the treasury £7 billion a year at the expense of workers' hard-won pensions, making the final salary scheme much more expensive to run.

Another concession made by the TUC and public sector unions was accepting a hike in the retirement age. This is to be raised in phased stages from 60 years for women and 65 years for men, to 65 years for both sexes by 2018, 66 years in 2020 and 67 years by 2028. It is to be reviewed regularly thereafter, with a possible target of 70 years of age.

Mark Pearson, deputy director of the OECD directorate for Employment, Labour and Social Affairs, said, "UK citizens are in general not healthy enough to go on working into their late sixties." One in two people in the UK over 60 years of age suffers from chronic health problems.

April 2016 will see the introduction of a new flat rate state pension (nSP) of £155.65 a week, which will replace the current two-tier system, part of which is earnings related. Still a miserable amount to live on, this sum is hardly an increase when the loss of the pension-credit safety net, which presently makes up the weekly income to £151.20, is factored in.

According to Malcolm Mclean, senior consultant at the actuarial firm Barnett Waddingham, only one in three retirees will qualify for the full nSP. Recipients will need to have paid in 35 years of National Insurance contributions to qualify, compared to 30 years in the old scheme.

The nSP is leading to the loss of thousands of pounds for as many as a million people. Those who retire after

April 5, 2016 on a final salary works pension will lose inflation proofing for part of their income. Some could lose up to £28,000 under the new rules.

The OECD is sanguine about these pension changes, however, stating: “The newly designed system *could* provide both an adequate retirement income and be financially sustainable.” In contrast, a more realistic assessment that takes into account the impact of the parlous state of the global economy on pensions, by the same authors, says, “The likely protracted uncertainty in financial markets ... cast doubts on the ability of defined contribution systems and annuity schemes to deliver adequate pensions.”

With quantitative easing and low interest rates, the danger is that pension funds will be invested in riskier ventures that could compromise their solvency. PPF Pension Funds have reported a £367.5 billion deficit in UK pension funds in 2015 due to low interest rates.

Increasing unemployment due to austerity cuts, an end to a “job for life”, zero hours contract working, low wages, precarious employment—all these factors mean less income from taxes (National Insurance) to sustain pensions. Regardless of poverty wages, however, the government is automatically enrolling, or rather forcing, all workers earning as little as £10,000 per annum into a company pension scheme. This is to prepare for the complete scrapping of state pensions.

In the UK, only 5.6 percent of GDP is spent on state pensions, compared to an average 7.9 percent in the other OECD countries. This is despite the fact that the UK has an older population. The charity Independent Age recently reported that 750,000 pensioners are being forced to choose between paying for food or heating. While 1.6 million pensioners live in poverty, 900,000 pensioners live in “severe poverty” (on incomes of less than half of median income).

Particularly at risk of pension poverty are the self-employed, as well as the burgeoning numbers on low incomes. The labour market has changed to such a degree that since 2001 the number of self-employed workers has increased by 40 percent.

By 2050, the OECD report predicts that 18 percent of the UK’s population will be over 65 years of age, an increase of 8 percent over present numbers. Increasing longevity has been cited as a reason for the looming crisis in pension liquidity, to justify attacks on pensions and cover up for the unravelling of the capitalist-based

economy.

Despite increasing pensioner poverty, the OECD report says that pensioners on average enjoy a larger weekly income after housing costs than people of working age. Particularly hard hit by the recession are young people, either indebted with student loans though working in non-graduate jobs, unemployed, or working as cheap labour. Low paid work and the denial of housing benefit for those aged under 21 years of age means that youth are increasingly dependent on the older generation. Many are forced to reside in the family home into their thirties, unable to afford to buy a house or pay exorbitant rents in private accommodation.

Under another of the government’s changes to occupational pensions, workers over 55 years of age can withdraw their pension pot—even if they have not retired—and invest it as they choose. They may be tempted to use the money to pay off the student loans of their children or pay for a deposit so their offspring can buy a house, thus risking extreme poverty in old age.

Cash reserves in the National Insurance Fund, which finances pensions, has plummeted in the past few years. The Centre for Policy Studies present a bleak picture of the under-45 age group facing tax hikes and a later retirement age, while those under 35 years of age can expect the state pension to be scrapped altogether.



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