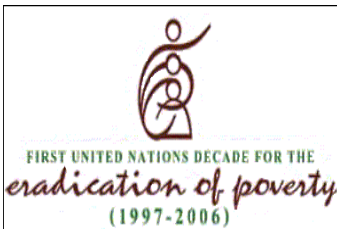


NEW PENSIONS FOR OLD: THE KEY TO WELFARE REFORM

Peter Townsend



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INTRODUCTION

In 1996, when in opposition, Labour set out its ideas about future policies on pensions. It sought to make a break with past policies and introduce a new package – including a minimum pension “guarantee” and a cheaper and better regulated form of private pension schemes – called “stakeholder” pensions.

In December 1998, the Labour Government issued a Green Paper setting out these ideas in greater, but not complete, detail (Cm 4179; and see also the critical reviews offered by the Government’s own Pension Provision Group, the Ross Reports, 1998 and 1999; and by Barbara Castle and others, 1998). The fact that the proposals were only in a Green Paper meant they were not set in stone. Time was allowed for consultation and comment until 31 March 1999.

Why write another pamphlet? The Government has received a lot of advice already. My point in writing is to argue that, unless certain changes are made, the Government’s own stated objectives are not going to be fulfilled. “Security for all” will not materialise. The “guarantee” will be a chimera. Inequality among pensioners will go on increasing. Poverty among pensioners, in a real sense, will grow. The proposals are fraught with problems for future generations.

The alternative is not necessarily the spectre of Old Labour policies conjured up by some New Labour extremists. It is more in the nature of being a last ditch compromise between extremes to get things right. This compromise also involves addressing the future needs of the UK as judged in the year 2000. They are quite different from the year 1900 because of the rapid growth of the global market. Although the Government, and its advisers, have become more aware of this fact than many of its critics, they have been slow to work through to the full implications and the necessity for different kinds of collective provision.

Within the framework laid down by the Government, it would be possible to provide a better minimum pension for those with below average earnings, which could be guaranteed to lift future pensioners out of poverty and which is as affordable as the scheme broadly described in the Green Paper. So long as the public sector plays a sufficiently strong part, genuine *security* is within the nation’s grasp.

What is required is a defined “adequate” pension, matched by regular “working investments” (paid and/or unpaid) from individuals, employers and sponsoring organisations drawing on paid or unpaid services. What is also required for the “partnership in pensions” that the Government properly seeks is a 60:40, or even 50:50, mix of public and private sectors in the development of the strategy rather than the 40:60 mix set out in the Green Paper. The public side of the equation has to be stronger or there will be divisions and disarray and not just greater inequality and poverty.

Some such amendment to the Government’s strategy would ensure a minimally adequate rate of pension for all pensioners. It would be simpler than the scheme put forward saving administrative waste in labour and money. On the basis of precedent, it would obtain popular consent.

1. THE GROWING DIVIDE: 1979-1997

During the Conservative Governments of the 1980s and 1990s, both poverty and inequality increased. The trends were more pronounced than in any other industrial country and have been documented extensively – in official reports, like *Social Trends* and *Economic Trends*, and in independent publications, like those from the Joseph Rowntree Foundation, Barnados, the Coalition Against Poverty, the Child Poverty Action Group, each of the principal Churches, Help the Aged and Age Concern.

The trends apply to the elderly as well as to other sections of the population. To reverse them will require massive action of a structural kind over ten years. This was re-affirmed by the recent Acheson Report (1998) on Inequalities in Health. Even to change the direction of the trends will require substantial action. That depends on whether a strategic plan – rather than piecemeal adjustments of a fragmentary and sometimes contradictory kind – can be put in place.

The alternatives are stark. While, theoretically, there are intermediate positions, there is a big difference between the Government’s approach to welfare reform – illustrated by the give and take on lone parents and disability benefits or the low key approach in the Department of Health’s “Action” report responding to Acheson’s recommendations on Inequalities in Health (Department of Health, 1999) - and a thoroughgoing regeneration and greater inclusiveness of British society. Good social relations depend on the success of a multiple assault on deprivation in all its forms. The basis of a successful strategy has to be social or collective, not individual or selective.

A pre-condition is not to minimise the scale of the problem. In its 1998 report on low incomes – *Households Below Average Income* - the DSS showed that, by one authoritative measure, there were still more people living below real 1979 standards of low income than in 1979 itself. In a national MORI survey, 20% of a sample of the general population (including 24% of single pensioners) gave an estimate of their disposable income which turned out to be insufficient to take them above their own standards of “absolute” poverty (Townsend *et al*, 1997). The risks of premature mortality continue to widen between rich and poor (Acheson Report, 1998). In its annual audits of the richest 500 people in Britain, the latest of which was published on 11 April 1999, the *Sunday Times* shows that the wealth of these 500 has been multiplying at more than 20% a year and, if even an average rate of interest were applied to that wealth, the yearly amount of interest alone would more than pay for the entire costs of the personal care of the disabled and chronic sick elderly in Britain.

What has been happening to pensioners' living standards has been debated at length. In the 17 years after 1979, average income of people of all ages, after tax, grew by over 50% after allowing for inflation. The average income of pensioners grew faster, to over 60% (Cm 4179, p.11). However, the main reason for this was that those joining occupational schemes and the State Earnings Related Pension Scheme (SERPS) in earlier years, because of the policies of previous Labour Governments, began to receive additional pensions to the basic state retirement pension once they reached pensionable age. Even small additions meant valued percentage increases for those on very low incomes. What also added to the growth in average pension income was the sharp increase in private pensions and lump sums arising from the burgeoning wealth of the richest elites in the population. Inequality between pensioners in their living standards increased rapidly during the same years and the incomes of the poorest have been dragging along at unacceptably low levels. Compared with the average pension in Europe, the UK state pension is very low.

During the 1980s and 1990s, the Conservative Government slashed welfare spending by huge amounts. This was counterbalanced by the growth of unemployment and of premature retirement and its accompanying costs. More people were no longer in paid work and this increased costs. However, at the same time, levels of benefit, absolutely and relatively, were reduced. State retirement pensioners were deprived of having a share in the growth of the economy because the basic state retirement pension was no longer updated annually according to the growth of earnings, but only according to

the growth of prices. The additional value of SERPS, which was supposed to get larger year by year, because newly retiring pensioners would have contributed to the scheme for longer than their predecessors, was cut savagely for future pensioners, first in the late 1980s and then in 1995. All this has been documented by organisations like the National Pensioners Convention and, memorably, in the work of Barbara Castle.

Other benefits, some of the most important also applying to pensioners, were savagely cut as well. For example, savings in disability benefits amounting to £5bn per annum were set in place during the late 1980s and 1990s through (1) abolition of the earnings-related component of invalidity benefit for new claimants, and freezing for others; (2) extending the definition of short term incapacity from 26 to 52 weeks; (3) abolishing age additions for those aged 45 and over; and (4) abolishing non-contributory sickness benefit paid to people unable to work because of an industrial accident or disease.

The cumulative total "saved" by linking disability benefits - invalidity allowance, attendance allowance, severe disablement allowance, invalid care allowance and incapacity benefit – to increases in prices rather than earnings, had reached £19bn by 1995/96 and was then running at £3bn a year (*Hansard*, 10 February 1997, cols. 77-79, and 19 March 1997, cols 680-682).

Through a paradoxical combination of unknowing and vindictive steps affecting millions of people, the Tory Government widened the divisions between rich and poor.

2. THE INTERNATIONAL CHALLENGE

Therefore, the new Labour Government elected in 1997 inherited two huge problems – rising social inequality, including among pensioners, and rising poverty, because of inadequate benefits as well as inadequate wages among millions in the poorest two-fifths of the population. The strategic problem has to be addressed in relation to the economy, political institutions and also globalisation. The primary causes of growing inequality are structural and hence remedial action has to be structural too – in terms of earned income, taxation and benefits, as well as rights to full participation in all evolving institutions and not just labour market institutions concerned with employment. Decisions are being taken outside the UK, for example by trans-national corporations, and international agencies like the World Trade Organisation, the European Union and NATO, which have a big impact on levels of employment in different localities but also on access to viable living

standards, and means of communication and cultural benefit. Levels of employment locally; access to information; availability of services; up-to-date technology; marketed goods; and the perquisites of health and education – all are affected in every community in the UK by the globalisation of the market. International treaties like Maastricht are shaping conditions for pay and prices, but also social inclusion and exclusion.

What used to be known as the "social contract", fostered over many decades by welfare state provisions in different countries, has been brought increasingly under the scrutiny of those concerned with international competitiveness. Cuts have been sought, and secured, in the "social" costs of labour by international agencies like the World Bank and the IMF, and in liberalisation, privatisation, structural adjustment and "targeting" programmes across many countries.

Cuts have also been secured by national governments in similar programmes which have compliantly accepted as their working assumptions the "need" for reduced public spending, for reduced numbers "dependent" on welfare, and for tough action on fraud to reduce the numbers who gain undeservedly from over-generous welfare policies.

These pinchpenny national and international programmes draw, of course, on influential theories, especially economic theories, of the day. The gospels of monetarism and quasi-monetarism, have gained many adherents. They have spawned specific fashions - like rational choice theory. However, fashionable theories do not always turn out to be correct.

For the purposes of backing up general arguments, people often search for examples. There are examples of particular theories being developed to back up the general ideology of monetarism. So-called "rational choice theory" is one such example. One observer refers to the irony of this theory gaining adherents at the same time as scientific investigation has been uncovering its grave limitations. Not only are its basic assumptions questionable in the light of new empirical evidence, but they have been shown to be seriously incomplete in addressing different social problems. They take insufficient account of the interconnection between national institutions. They take insufficient account of public psychology. The substitution of welfare markets for public services can obtain higher public rating in the early months than subsequently – once the public begins to learn what are the down-sides of welfare markets. These markets enjoy a "moral legacy" in the transition from

public to private which get depleted as experience of those markets becomes widespread (Taylor-Gooby, 1999).

The conclusion to be drawn is that modernisation must involve the reconstruction of international institutions and relationships to an extent which Labour has not yet accepted. The success of de-regulation at home depends on the introduction of new regulation globally or internationally. The success of changes to national systems of taxation now depend on putting in place international agreements or laws of taxation. The same is true of the minimum wage and minimum levels of benefit. National provisions will continue to be undermined if corresponding international standards are not adopted. The need to put in place an international welfare state to control and meet the challenges of the 21st Century will have to be done brick by brick over many years.

3. THE NATIONAL CHALLENGE

The Labour Government's improvements in welfare have been selective, some of them more than balanced by substantial associated cuts and others, like the minimum wage, undermined by growing insecurities in the labour market at home and overseas. There are improvisations in policy which baffle many observers.

The Government is not addressing the inadequacy in general of the incomes of millions of disabled and elderly people, and relating trends in such incomes to the world-wide inequality of incomes. Instead, it seeks cuts overall in social security expenditure, while continuing with further means-testing and privatisation, neither of which can be claimed to deal substantially with poverty and severe forms of social inequality.

Despite the growth in numbers in the elderly population and despite the manifest inadequacy of pensions for many of the retired, the Government has proposed to cut public spending on pensions as a percentage of GDP from 5.4 to 4.5 during the next 50 years. Public spending as a share of total private and public spending on pensions is to be reduced from 60% to 40%. The promise in the long years of opposition to restore the earnings link with benefits has been abandoned. In March 1999, Alistair Darling has reaffirmed that the minimum income guarantee will only be linked with earnings if the Chancellor decides it is "prudent for the economy" at the time, or, in the words of the Green Paper, "as resources allow."

This is another example of the growing power of discretion of successive Chancellors of the Exchequer to deny the fruits of economic growth to selected groups of the population. However, the revenue raised for the Exchequer increases automatically with such growth, and ordinarily those in paid employment get corresponding increases. The fact that lower earners tend no longer to get the average proportion adds a new twist to the problem of two nations. In relation to trends in income inequality throughout the world, there are big questions about the scale as well as the coherence of welfare strategy of the Government that is unfolding.

The question of “adequacy” has not been addressed. Some reasoned case has to be developed to show what is the minimum desirable income required at different stages and in different circumstances of retirement. The likelihood of hundreds of thousands of people not receiving their theoretical rights to pension income has to be investigated. The coherence of a scheme incorporating a minimum income “guarantee” that is not a guarantee, and a state retirement pension “foundation” that is not a foundation (if it continues to diminish as a percentage of earnings) is difficult to justify.

Before 1997, Labour was strongly opposed to the cuts in benefits made by Margaret Thatcher, Norman Fowler and Peter Lilley. In government, Labour is not explaining why the cuts cannot be restored, even in part. A meticulous account of the effects on income distribution of each of the Tory Government’s major policies, and therefore of the prospective effects of Labour’s new policies, has not been given. This makes for incoherence and improvisation from day to day. It is a step back from planning – not a step forward into planning.

In the Appendix at the end of this pamphlet, I have set out the Government’s proposed policies in the Green Paper (Cm 4179). The strategy turns on two measures: more means-testing and more private pensions. The evidence presented for these two is unconvincing. The basic state retirement pension is continuing to fall in relative value. In partial substitution, a State Second Pension (SSP) is proposed, in a first stage to persuade the low paid to contract out of SERPS, and in a second stage becoming flat-rate for the low paid.

The two stages have led to public confusion. The plan to make the SSP flat-rate (Cm 4179, p.40) does not substantiate the claim that this scheme is a “replacement” of SERPS. This State Second Pension operates as a flat-rate top-up of the existing flat-rate basic state retirement pension, but merely

restores, and only for the low paid, the additional weekly income that they would have received automatically if the earnings link had been renewed for everyone in 1997 or 1998.

If people are found to be ineligible for these two, or they turn out to be insufficient, there will be the safety net of the minimum income guarantee, fixed by the Chancellor at £75 per week from April 1999. Three schemes have now been devised – the basic state retirement pension, the SSP and the minimum income guarantee – to achieve a “basic” income in retirement when one scheme – the basic state retirement pension - could have done the same job more simply, more effectively and more cheaply. Thus, taxation could be invoked to reduce the public pensions of the rich and administrative costs cut drastically.

The Stakeholder Pension is cast as the second, earnings-related, top-up pension. It is supposed to make the SERPS pay-as-you-go scheme unnecessary so that it can be terminated. The problem is that, when SERPS is abandoned, as anticipated in the Green Paper, the SSP is intended to operate as a substitute only for five transitional years and only for very low wage-earners. At the second stage, when the SSP becomes flat-rate, it is hoped more people will be edged into Stakeholder schemes and almost certainly more people edged into substituting Stakeholder money-purchase schemes for occupational pension schemes.

At present, private schemes are heavily subsidised by tax reliefs as well as direct Treasury payments. The Green Paper suggests that the Stakeholder scheme will also be heavily subsidised. The Stakeholder Pension seems to be planned to set a standard for private schemes but the Green Paper does not suggest it will be anything like as economical or as well-regulated as SERPS. By abandoning SERPS, a standard of benefit which applies to occupational as well as private schemes and anchors them more securely to the public interest, has been abandoned. This opens the door to extortionate practices. I do not believe the Government has yet grasped the disastrous implications of terminating SERPS.

The Stakeholder Pension is intended to operate as a model for the private sector. However, in legislating the framework, the Government has been extraordinarily lenient about prospective fees and charges and has not explained whether or not the new proposals undermine existing final-salary or pay-as-you-go schemes (Brazier *et al*, 1999). The Government has also not

attempted to explain the poor coverage of similar schemes overseas, for example in Chile (Du Boff, 1997) or historically in Britain (Whiteside, 1997).

4. THE CHALLENGE OF THE GLOBAL MARKET

The two strategies in the Green Paper – more means-testing and privatisation of pensions - are wasteful and divisive. On a large body of evidence, I believe they can be shown not to work. In its latest (March 1999) estimates, even the DSS admits there will be hundreds of thousands of pensioners eligible for, but not receiving, the minimum income guarantee in the early years after its introduction. It is not a guarantee.

Available international and national evidence does not suggest that the Stakeholder Pension is likely to be very different in its charges and administration from private pension schemes, with their low combined coverage and high administrative costs. In a flexible labour market, millions will find they cannot be covered or they will fall out of membership – as in Chile, despite the claims made by its advocates (Genesis, 1996; Du Boff, 1997; UNCTAD, 1995).

One of the claims made repeatedly for privatisation is that, because of rising numbers of elderly people, future commitments under the state scheme will not be honoured. Detailed studies in different countries do not support such claims. During the next half century in the United States, for example, “there is little danger that the system will fall into insolvency. Privatising social security is not necessary to assure the integrity of future pension benefits. Furthermore, the cost-benefit ratio of privatisation appears to be unfavourable, as borne out by the mandatory private pension plan in effect in Chile” (Du Boff, 1997).

A number of studies have rejected claims that privatisation “would increase economic growth, reduce the [national budget] deficit, make the nation more competitive in the global economy, protect workers against payroll tax increases, protect [future pensioners] against pension benefit cuts, and increase confidence in social security” (Williamson, 1997, and see also Atkinson, 1998).

Ultimately, privatisation will move the costs of providing for retirement and disability “from the public purse to millions of private ones. The burden will not be eliminated or reduced, only shifted, with each shift multiplying the costs of society as a whole.....Privatising social security would disenfranchise millions who have neither the education nor the experience to

make 'rational choice' decisions in this increasingly complex financial environment. Some will do very well, others will incur risks they do not understand, and everyone will be exposed to scandals and swindles that always multiply in an age of de-regulation" (Du Boff, 1997).

One problem in the UK is in obtaining reliable comparative information for the private and public sectors. One measured investigation has called attention to the multiple forms that any comparison must take and in three test-cases finds that "the prospects for further involvement of the private sector are not good....The distributional impact of moving from a collectively-financed to an individually-financed system is likely to be regressive" (Burchardt, 1997, and see also Burchardt and Hills, 1997).

In Europe, there has been strong pressure for cuts in pension provision. However, there are two schools of thought. Among economists, the most prominent group "holds that social welfare has negative effects on national competitiveness and employment, and that it thereby harms economic efficiency. The other, in contrast, defends the idea that the relationship between social welfare and economic efficiency is not oppositional but complementary and that the preservation of social cohesion is itself a condition of economic efficiency" (Reynaud, 1998). An eminent European mathematical and political economist points out that there is no evidence that states spending a high percentage of GDP on welfare have smaller economic growth than those spending a low percentage (Atkinson, 1998). Some governments have been modernising their schemes without dismantling them or imposing huge cuts in social insurance and taxation. The exercise is more one of fine-tuning than of wholesale destruction.

5. A NEW LABOUR PLAN

In the UK, where the process has been taken furthest, what might now be done in the interests of the young generations? In the next years, there is scope for a two-tier approach - one broadly public, the other broadly private. That would be fulfilment - of a tangible kind - for the Government's objective of "a new public-private partnership". The Government might sponsor a new social contract - designing an income "floor" of a minimal but adequate kind as a first tier, to which everyone contributes "working investments" (a percentage of income or number of unpaid working hours) and which encourages both single and multiple forms of employment.

The second tier would be a "quality" income, financed predominantly by the private sector but also involving a number of non-government and collaborative

organisations operating within guidelines and regulations approved by Government. In the first tier might be the basic state pension, plus a new SERPS or occupational alternative eventually guaranteeing between them 40-45% of average life-time earnings (and in the case of occupational pensions sometimes more), and stakeholder provision covering another 55-60% and more, according to individual preference and willingness to pay for additional costs. The first tier would be “pay-as-you-go” and the second regulated “money purchase.” This recommendation gains support from recent UN reviews of private and public provision (UNCTAD, 1995).

The public sector possibilities are not addressed in the Green Paper. This is partly because the Government has not been pressed about the likely failure of both the minimum income “guarantee” and the stakeholder pension to fulfil the Government’s sweeping and undocumented expectations. It is partly because the likelihood of enhancing the economy as well as individual security by strengthening the basic state retirement pension and SERPS has been ignored.

There are strong arguments for 1) invoking SERPS Mark II (perhaps, because of necessary changes, re-cast as the “Contributory Additional Pension 2000”) as a more secure method of reducing dependence on Income Support and ensuring security in retirement, thereby enhancing greater willingness to save among the whole population by strengthening the contributory principle; 2) mobilising public support for linking the basic state retirement pension to earnings; and 3) exploring new as well as established popular forms of social insurance. To place false hopes in the private insurance market and to revert to 19th Century standards of Poor Law coercion as well as mean levels of public benefits for the elderly seems an unlikely course for a Labour Government to take.

Alternative schemes aim to pay attention to the neglected questions of “adequacy” of pension income and the speed and extent of any feasible reduction in pensioner poverty. They also take seriously the social and not just individual meaning of contributory social insurance and the benefits of public schemes as compared with the disadvantage of privatised schemes (as discussed, for example, by Williamson, 1997). They point out that the likely effectiveness of a minimum income guarantee and of stakeholder pensions have so far been left unexplained. Government representatives do not argue their merits – for example in coverage, security, cost and adequacy – in relation to state pensions.

6. STATISTICAL BACK-UP FOR CHANGE

Does statistical evidence from official sources support the changes proposed above? The broad answer is that, in many respects, it does. Within the framework of the Government's statement of principles and objectives, the definition of a minimally adequate pension for all citizens, payable through individual and employer contributions, with a corresponding transformation of private provision to allow more people to have the opportunity of generous topping up of that pension, can be shown to be achievable and affordable. I will quote from data provided in 1998 and 1999 about all the key issues.

(i) National Insurance Contributions in the pipeline are more than sufficient to cover the renewal of the earnings link with the basic retirement pension for several years (See Table 1). In the two financial years 1997-1999, more than £4bn surplus income from contributions was added to the National Insurance Fund. In the longer term, extension of contributions among low-earners and a small percentage increase to the rate for high earners would cover costs emerging in later decades. Renewal of the link would improve "targeting" as proposed in the Green Paper because increases would reach all poor pensioners and not only those who apply for the minimum income guarantee (MIG) (or Income Support). By making targeting effective within the contributory social insurance and tax schemes, unnecessary administrative expenditure would be saved and the MIG would become a much reduced element in social security – dealing perhaps with pensioners with exceptional needs only. If there was political pressure to reduce costs, renewal of the link could be combined with "claw-back" or higher-rate taxation of increases to state pensions in the case of the very rich, or from those with high pensionable income from different sources. This would meet objections from people arguing that rich people do not require support from state benefits, while ensuring that all poor pensioners actually receive increases agreed collectively.

(ii) The administrative costs of means-tested benefits (such as Income Support and the proposed MIG) are several times larger than those of publicly administered National Insurance and non-contributory benefits for groups of beneficiaries (See Tables 2.1 and 2.2). The same is true of the planned Stakeholder Pensions and private pensions. This is a strong reason for the state, or the public sector, to play the major role in pensions strategy. More than £2bn a year in administrative costs could be saved from publicly administered means tests for the elderly alone and much more from private and stakeholder provisions for those with low and middling-to-low earned incomes.

Compared with an administrative cost of 1% for the basic state retirement pension, estimates for private schemes generally vary from 10% to 25%. The Government's proposals suggest that approval of stakeholder schemes is unlikely to be given unless administrative costs and charges are in the lower part of this range. However, there is no suggestion in the Green Paper that administrative costs can be kept close proportionately to the extremely low levels of the National Insurance scheme. The pensions industry itself gives figures suggesting a minimum rate of 10%.

(iii) Hundreds of thousands of elderly people receiving the basic state retirement pension will not be covered in future by means-tested Income Support or by the equivalent means-tested minimum income guarantee to which they are entitled (Table 3). Neither will many on low incomes be covered by Stakeholder and private or personal pensions. This evidence supports lower tier collective or state provision for a minimally adequate pension in retirement for all aged 65 and over.

While data on the coverage of state benefit schemes are published annually, data on the possible coverage of Stakeholder Pensions – like that on private or personal pensions - is hard to come by. The Government has said there are 5 million potential beneficiaries earning between £9000 and £20,000: over 2 million currently in SERPS, 2 million who are in “Appropriate Personal Pensions” (most of whom are paying nothing except their rebated National Insurance contributions), and 1 million self-employed (*Hansard*, written answer, 18 January 1999, col. 371). The Government has made no estimates of year by year growth of numbers towards this figure of 5 million. Delay in putting new machinery into use and failure to benefit many for whom the change is intended can undermine the future security of millions.

(iv) The apparent preference for pre-funded money-purchase private or Stakeholder Pensions will accelerate the decline of final salary-related occupational pension schemes (Table 4). This will probably result in further erosion of pension income in retirement – especially for those with middle and low earned income.

The Pension Provision Group, appointed by the Labour Government and chaired by Tom Ross, say, “There are no indicators that on current policies these trends will reverse in the future” (p.103)

In its report on the pensions Green Paper, the Group say, “We are concerned about the impact that the stakeholder pension scheme proposals could have on occupational provision, particularly for employees earning below the national average, who are least able to carry investment risks” (p.2)

The Pension Provision Group itself has stated, “More pre-funding is not a panacea”. They call attention in their 1998 report to the fact that SERPS was “better than many people think”. They argue in their 1999 report that the Government’s assumptions imply that “the cost of financing state pensions will fall more and more on the lower paid”.

When “pay-as-you-go” and pre-funding pension schemes are multiply compared, the balance of evidence favours the former. The Government should greatly strengthen this element in the package of proposals.

(v) The cost of state rebates and tax relief for private pension schemes is very large (Tables 5.1 and 5.2). These costs need to be compared with the element of redistribution to the lower paid built into the existing National Insurance scheme.

The redistributive cost of using National Insurance Contributions to guarantee minimally adequate pensions for the middle and low paid, subject to the restrictive conditions of the global market, has to be weighed against the redistributive cost of tax reliefs and government subsidies used for private pension subsidies – the value of which goes predominantly to the rich.

(vi) The Government’s proposed cover for state pensions is set too low. The basic state retirement pension (currently tied to prices) and the proposed State Second Pension for low earners, are planned by the Government in future to provide an unnecessarily meagre joint amount of pension income for many years ahead (Tables 6.1 and 6.2).

Tables 6.1 and 6.2, based on written answers in Parliament, show that the introduction of the State Second Pension will result in a smaller fall in contributions than induced by previous Tory Government policies but there will still be a fall. The two pensions are estimated to provide only 21% of average earnings in the middle of the new century for people with average earnings of £9000 or less a year and only up to 26% for those on incomes higher than £9,000 a year.

Another Parliamentary written answer reveals that expenditure on State Second Pensions “will be lower than on SERPS over the first twenty years or so because the provision for carers and the long term disabled will take longer to build up than the previous Government’s policy of extending Home Responsibilities Protection to SERPS (which is included in the SERPS baseline)” (*Hansard*, written answer, 1 March 1999, col. 597). Credits for carers are more restricted in important respects than previously.

Finally, there is the issue of statistical illustration of what people of different age and labour market situation can expect from the new proposals. In the Green Paper, there is no staged exposition of coverage or the emerging value of pension entitlements for men and women of different ages during their careers covering the next half-century. This is a big gap. The public cannot judge what they can expect to get from the new scheme. Nor was the Government Actuary invited to work out approximate benefits according to alternative sets of assumptions, so that the virtues of a different mix between private and public sectors, or between means-tested and unified contributory schemes, or funded and pay-as-you-go schemes, or contributory social insurance and tax models for raising revenue, could be compared and discussed publicly. In exchanges about the proposed scheme, therefore, the best that can be done is for commentators to provide such information about costs, benefits and coverage as can be extracted from different official reports but also answers to Parliamentary questions.

7. A COLLECTIVE LOWER-LEVEL PENSION

How do the new proposals for state provision compare, in cost and benefits, with the existing or previous system? When linked with earnings, the basic state retirement pension of the late 1970s would have continued to provide about 20% of the average lifetime earnings of those reaching 65. The State Earnings Related Scheme, beginning in 1978, was planned to add approximately a further 20 or 25%. The combined percentage of 40 or 45, or even the existing basic state pension and SERPS of 15% plus up to 20%, conforms with the recommended level of public provision now considered by the UN to be the right basis for public/private partnership in the provision of retirement income.

The Government’s proposals fall far short of this UN level approved on the basis of international experience (UNCTAD, 1995). As explained above, the combined value of the basic state retirement and State Second pensions is not expected to reach more than 21-26% of average earnings for low and middle earners by the middle of the new century. Even the Government’s

own appointed advisory committee, the Pensions Provisions Group, has made clear in two reports that it considers the state's role to be too small. The proposals on state pension rights were "cautious". Higher costs could be considered. The State Second Pension would "not have a significant impact on pensioners' incomes in the first half of the next century – particularly over the next 25 years" (Ross Report, 1999, p.1)

The correct reasoning is that the SSP makes up for the declining relative value of the basic flat rate state retirement pension and, in two stages, the SSP becomes flat rate itself. The Pensions Provision Group offers a range of arguments including the lengthy qualifying time for credited pension, and likely public disenchantment with falling expectations about National Insurance benefit returns for their contributions.

The State Second Pension is therefore more of a replacement for the low paid of the extra gains from sharing in economic growth that they would have otherwise obtained from the re-linking of the basic flat rate retirement pension with earnings. This means that the proposals for a Stakeholder pension, as an addition to state provision, have to be treated as the planned substitute for SERPS.

The evidence is that, for millions of people, a Stakeholder Pension would be costlier for the same contributions, less secure, less reliable and, because the links with National Insurance are broken, less of a passport to other benefits in disability and other contingencies.

The Pension Provision Group confirms that the trend towards greater inequality among pensioners will continue under the Government's pension plans. "A further rise in pensioner inequality seems likely." On extensive past evidence, hundreds of thousands (if not millions) of pensioners eligible for Income Support or the minimum income guarantee will not, in the event, receive such support and, without an improvement in basic state provision as of right, many will experience poverty. In 1997, a national survey by MORI found that 24% of single pensioners considered themselves to be in "absolute" poverty (Townsend *et al*, 1997).

8. CONCLUSION

Why write another pamphlet on pensions? Because the proposals in the Government's Green Paper have to be greatly improved if they are to substantially reduce pensioner poverty or establish pensioner security. Because getting pensions policy right ensures security not just for existing

pensioners but also for young and middle-aged people - especially women - who are Britain's future pensioners. And because policy for pensioners, who already number more than 10 millions, is by far the biggest ingredient of welfare reform. Not only is pensions policy dominant in welfare reform because it affects tens of millions of people, it is dominant because policies for people with disabilities, lone parents and other major groups in the population, and because equality for women and much, much more, are unavoidably connected.

The test of this pamphlet is whether readers accept its argument that the Labour Government should reduce both means-testing and privatisation in its proposed strategy laid out in the Green Paper (Cm 4179) and ensure that a first tier of adequate income in retirement, say 40% of previous earnings, is provided collectively. Let me summarise this argument.

First, **means-testing**. When in opposition Labour vigorously opposed Tory substitution of means-tested benefits for benefits earned as of right through contributions from earnings. As a percentage of the costs of social security, means-tested benefits increased under Tory Governments between 1979 and 1997 from 17 to 34%. By adding the means-tested Working Families Tax Credit and Minimum Income Guarantee schemes and limiting annual increases in disability and National Insurance benefits to annual increases in prices, not earnings, the Labour Government will continue the trend. But all the reasons given formerly for *diminishing* and not *increasing* means-tests still apply.

A minimum income guarantee to replace discredited means-tested national assistance had been proposed long ago by the Wilson Government of the 1960s. This proved to be a failure. In those years this means-tested scheme was found to have been disguised as a "guarantee". A lion turned into a mouse. All that ensued was that so-called "Supplementary Benefits" took the place of "National Assistance". Only a small additional number of pensioners not then drawing means-tested national assistance – to which they were entitled – were drawn into means-tested supplementary benefits in 1967 (Atkinson, 1998; Parker *et al*, 1970). No convincing reasons have been given by the Government that the minimum income guarantee for pensioners will work better and be more effective this time.

Second, **privatisation**. Something like the "stakeholder" scheme now proposed – the "approved society" schemes of the 1930s - were judged in 1941 by Beveridge to have been a failure and he sought to replace them by

simpler, and fairer, public provision (See Whiteside, 1997). Pensions mis-selling after the Tory subsidies for contracting out of the State Earnings Related Pensions Scheme after 1987 has been shown to be widespread, and the present Government's intention to expand similar types of private pensions is difficult to understand or justify.

Caution is also justified from international experience and commentary. The World Bank and the IMF have strongly advocated the privatisation of pensions in the past two decades. This has led to huge problems not only in Eastern Europe but in other countries, and some in these organisations have now begun to argue differently. Although some observers argue that the change is more apparent than real (Ferge, 1999) there is no doubt that, compared with the 1980s and early 1990s, the international agencies are beginning to recognise the historical and contemporary strengths of public sector schemes. They are also being obliged to admit that the economic arguments are by no means as favourable to private pension schemes as many economists have believed and still believe. There are signs of accepting substantial public first tier pension schemes which still allow considerable private "topping up" (See, for example, UNCTAD 1995).

Clearly, the level and type of pensions in any country are relevant to the question of competitiveness in the global economy. Some countries are strongly competitive and yet invest heavily in collective social insurance. A variety of issues are involved in the debate about pensions and economic competitiveness. These include the labour market; the special interests of the financial agencies; the major economic strategy of privatisation; cuts in public spending; "reining-in" the power of labour: structural adjustment, and liberalisation. However, economists have pointed out there is no evidence that countries with "weak" pension provision are more competitive, or grow faster, than those with "heavy" pension provision (Atkinson, 1995; 1998).

Countries with substantial public sector schemes are often also those making the heaviest personal savings in the economy. Money-purchase schemes can be much less secure than pay-as-you-go contributory schemes. For example, periods of deflation can seriously reduce the likely benefits of money-purchase schemes. The fashion in the 1980s and 1990s of switching to pre-funded or private money-purchase schemes has been found to be ill-conceived in a large number of countries.

As one economist wrote of experience under the previous Government "the switch from state to private pensions may negatively affect the rate of capital

formation, reversing the conclusion that is conventionally drawn” (Atkinson, 1995).

In this pamphlet, I have argued for the state or public sector to play a much larger role than the Government has so far suggested in pensions policy. One positive argument for stronger **collective provision** lies in the evidence from public opinion. There is continuing massive public support for National Insurance benefits and especially the old age pension, as testified in a range of regular surveys (for example, Jowell, 1991-98; and see also the Fabian Society, 1998); and there are also submissions reviewing the evidence from social scientists; and clearly formulated reactions from campaigning groups, especially the National Pensioners Convention, the Coalition Against Poverty, Barbara Castle’s influential “Security in Retirement for Everyone,” Age Concern, Help the Aged and the Disability Alliance, as well as representations from the principal Churches and even some of the financial and insurance companies – some of which believe a division of labour between public and private sector bodies is desirable as well as efficient. This range of evidence was not discussed in the Green Paper.

The evidence also comes, for example, from a quarter which the Government is likely to find embarrassing. In late 1997, the Department of Social Security commissioned 16 group discussions (focus groups) with members of the public. Among the principal findings was the following: “Most people feel the state should provide a ‘bread-and-butter’ pension. This would be higher than the current basic pension which is generally felt inadequate. Most people thought the single person’s pension should be between £80 and £120...Working people were usually willing to pay enough extra National Insurance to fund another £10 a week ... and probably to add £20-£30...Most people are strongly opposed to means-testing the basic state pension. Everyone who pays in should be able to draw out as of right” (Hedges, 1998, p.1).

Under its existing proposals, the Government is restricting public provision of an eventual as well as the existing state pension to an unnecessarily low flat-rate amount, on test of means and mainly for the low paid. The Government does not envisage that the combined value of the basic state retirement pension and the proposed State Second Pension will reach more than 21-26% of average earnings by the middle of the next century.

Many thousands in the population will not obtain even this measure of “security”. They will have to depend on the means-tested minimum income

guarantee – or Income Support as it is presently known. Such means-tested schemes are notorious for missing hundreds of thousands of pensioners.

For the middle and high paid the Government offers a mixture of untried, expensive and unpredictably variable money-purchase private schemes. These measures will not enable the great majority of retired people to escape poverty or means-tested Income Support and will introduce greater insecurity into retirement. On the evidence of past experience, three new measures - the proposed Minimum Income Guarantee, the State Second Pension and the Stakeholder Pensions - will not work or combine well together to achieve the Government's stated objectives.

9. RECOMMENDATIONS

What practical recommendations therefore arise from these arguments to reduce the elements of both means-testing and privatisation in the Government's proposed strategy? There are five:

(i) The pension scheme should consist of two tiers – with the lower tier being a defined minimum but *adequate* income, financed by collective provision through weekly individual “working investments” as a percentage of earnings. A realistic, affordable and economical partnership between public and private schemes can be constructed – with the former making up the lower tier, upon which all in the population can depend, and the latter the higher tier, of pensionable income. This change, together with supporting proposals made below, is necessary to the achievement of the principles and objectives declared in the Government's Green Paper (Cm 4179) – namely to retire “on a decent income” and in “security” with pensioner poverty greatly reduced.

The definition of a minimally adequate pension would arise in part from the Government's new “poverty audit” and from DSS and other evidence about the income required to meet “absolute” needs as set out by 117 countries in the 1995 Copenhagen World Summit (UN, 1995). In Britain, an opinion poll conducted by MORI in 1997 found that single pensioners estimated that the weekly income required to meet the absolute necessities of life was £118 (Townsend *et al*, 1997). A DSS research report concluded, in the same year, that the basic pension should be between £80 and £120 (Hedges, 1998).

Affordability depends on only minor modifications to contributions and taxes. Between 1979 and 1997, the Tory Government had already substantially reduced prospective and current pension benefits as a percentage of GDP

(Brazier *et al*, 1999; Eurostat, 1998; Cm 4199, 1999). Relative to GDP, the UK raises less revenue than average in Europe by social insurance contributions and different taxes. Moreover, revenue raised through social insurance contributions from employers is especially low (Eurostat, 1998). The Chancellor has shown that the National Insurance Fund is buoyant and that a surplus of magnitude (approximately £2bn a year) has been derived from the first two years of Labour Government. Everything is therefore in place for a moderate increase in the basic state retirement pension and reconstruction of contributions to the state earnings-related element, as the **“Contributory Additional Pension 2000.”**

(ii) **Entitlement to the basic state retirement pension should be widened and its link with earnings restored.** For the low paid the proposed State Second Pension is intended to roughly replace the additions they would otherwise have expected to get if the earnings link with the basic retirement pension were to be restored for everyone. In a flexible global and national labour market, the aim is unlikely to be achieved. People will have complex problems maintaining entitlement to a “decent income in retirement” during variable paid and unpaid work experience and of transferring from one pension scheme to another. This additional scheme is unnecessary. Extension of entitlement through social insurance and renewal of the earnings link would be simpler, administratively less costly, more effective and still easily affordable. If considered necessary, steps could be taken to tax back pension increases to the rich.

(iii) Because coverage of those on middle and low incomes by the proposed Stakeholder Pension scheme is likely to be poor, certainly in the first 10 to 20 years, **an option to join a new scheme, the “Contributory Additional Pension 2000,” based on the former SERPS, should be built into new legislation, to reinforce and enlarge the lower tier of pensionable income.** This would reflect some of the aims of the SSP and the Stakeholder Pension but would ensure better coverage of the different groups of working age, especially women, and would ensure a level of pension of at least 40% of previous lifetime earnings, so removing for most people the need to seek a means-tested addition. There would be a smoother transition from the existing to a future scheme.

(iv) As a consequence, **the Stakeholder Pension should be a major or even the primary element of the second tier of pensionable income** – enabling everyone covered by the basic state retirement pension and SERPS or a good occupational scheme to bring their retirement income up

from at least 40% to a level closer to their previous average earnings. This would be a second tier of what might be described as “quality” income. Employers, insurance companies and other organisations would then have opportunities to introduce schemes to match the provisions of the Stakeholder Pension.

(v) Means-testing could then be diminished by treating the basic retirement pension as the Government’s “minimum income guarantee” and raising it in value first to catch up a little of what has been lost in the previous 20 years, and second to ensure an annual share in national economic growth. At present, the “guarantee” is intended to be means-tested and, like Income Support, will therefore not reach a million of the poorest elderly. Means tests are poor in coverage as well as socially divisive. They deter people from saving and taking paid work. Action to modernise social insurance for the elderly, through the basic state retirement pension and SERPS, is the only practicable and effective way of meeting poverty among those not being reached by means-tested schemes.

If the Government could accept these recommendations, the problems of saving for pensions in a flexible labour market would be a lot easier for individuals and families to surmount, and understand. Two additional elements of an already complex package for future pensions – the State Second Pension and the minimum income guarantee – would become unnecessary (and major savings made). Poverty, and social inequality, would be more effectively reduced and welfare reform in its most positive sense would be back on track.

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APPENDIX I: TABLES

Table 1: Surplus contribution income after payment of benefits (£m)

	1997-98	1998-99	1999-2000
Surplus contributions after benefits paid	1,871	2,645	1,385
Balance in National Insurance Fund at end of year	9,608	12,253	13,639

Source: Cm 4199, 1999, Uprating Orders, Government Actuary.

Table 2.1: Retirement pension and Income Support (administrative cost)

	Admin Cost (£m)	Admin Cost as a % of benefit	Admin cost per beneficiary per week (£)
Retirement pension	303	0.9	0.55
Income Support (excluding the unemployed)	877	7.2	4.20

Source: Cm 3913, 1998, Social Security Departmental Report, The Government's Expenditure Plans 1998/99, London, The Stationery Office.

Table 2.2: Retirement pension and Income Support (total and average cost)

	Cost 1998-99 (£m)	Number of recipients (000s)	Average per recipient
Retirement pensions	35,648	10,661	64.30
Income Support for elderly	3,776	1,711	42.44

Source: Cm 3913, 1998, Social Security Departmental Report, The Government's Expenditure Plans 1998/99, London, The Stationery Office, p93 and p97.

Table 3: Official estimates of the take-up of different means-tested benefits

	Those eligible who are receiving benefit (%)	Estimated savings from low benefit take up (£m)
Income Support	Between 76 and 82	Between 1,210 and 1,870
Housing Benefit	Between 89 and 94	Between 410 and 760
Council Tax Benefit	Between 74 and 82	Between 370 and 620
Family Credit	70	300

Source: *Hansard*, written answer, 24 February 1998, col. 209.

Table 4: Members of occupational pension schemes

	1967	1995
Number of employees	12.2m	10.5m
Per cent	53	46

Source: Pension Provision Report, 1998, London, The Stationery Office, p.62.

Table 5.1: Cost of National Insurance Contribution rebates

Tax year	Rebate (£bn)
1988-89	5.1
1989-90	7.7
1990-91	7.8
1991-92	8.5
1992-93	8.8
1993-94	7.9
1994-95	7.0
1995-96	7.1
1996-97	7.4
1997-98	7.6

Source: *Hansard*, written answer, 12 March 1999, col. 397.

Table 5.2: Total value of tax relief on contributions to non-state pensions (£bn)

Year	Employees' contributions to occupational pensions	Employees' contributions to personal pensions	Employers' contributions to occupational and personal pensions
1995-96	2.6	2.1	3.9
1996-97	2.6	2.1	4.6
1997-98	2.7	2.2	4.9
1998-99	2.9	2.3	5.5

Source: *Hansard*, written answer, 4 February 1998, col. 710.

Table 6.1: Combined value of basic state pension and State Second Pension, fulfilling the conditions after a full working life, as a proportion of national average earnings in retirement

Annual earnings (£)	%
4,500	21
9,000	21
13,500	23
18,000	25
22,500	26

Source: *Hansard*, written answer, 20 January 1999, col. 471.

Table 6.2: Net impact on employee contribution rates following the introduction of State Second Pensions

Year	Current policy (winding down SERPS)	Introducing State Second Pension
2010	8.5	8.5
2020	8.1	8.1
2030	8.3	8.7
2040	7.7	8.3
2050	6.8	7.9

Source: *Hansard*, written answer, 11 February 1999, col. 377.

APPENDIX II

PENSIONS TODAY AND TOMORROW: LABOUR'S PROPOSED SCHEME

The Present Scheme

1) The basic state retirement pension. The single weekly rate from April 1999 is £66.75 and the rate for a couple is £106.50. There are nearly 11 million pensioners receiving, in total, £33bn per year (compared with over £100bn total social security expenditure).

2) The state earnings-related pension. SERPS adds 10-15% of average earnings to the basic retirement pensions of those retiring in the early years after 2000 and not contracted out. The average currently being paid is £20 per week for men and £11 per week for women. Since new retirees became entitled to additions at the end of the 1970s, more of them have been "floated" off the need to claim supplementary means- tested benefits. Conservative legislation at the end of the 1980s reduced the additional pensions expected by people retiring after 2000, especially of women surviving their husbands. Currently about 7 million economically active people are not contracted out, mainly low paid and especially women.

3) State Income Support. This adds about £15 a week on average to the basic retirement pensions of single people with no other resources (Cm 4179, p.33), though the rate addition is only about £5 per week. About 1.8 million pensioners received Income Support in 1996 – 15% of all aged 60 and over (*Hansard*, 4 Feb 1998, col. 699).

4) Occupational pensions. The number of people retiring with an occupational pension has grown steadily in recent years. However, the number of economically active members of occupational schemes has fallen (currently there are about 10.5 million) and, once stakeholder pensions are introduced, is set to decline faster.

5) Personal pensions. The number in such schemes (now 10.5 million) increased rapidly from the end of the 1980s when an incentive, in the form of tax relief as well as subsidy, to contract out of SERPS was introduced, and SERPS itself was sharply reduced in scale of prospective benefits. The total includes some who no longer pay contributions (Cm 4179, 1998, p.19, and

some whose only contributions are derived from rebates received after contracting out of SERPS).

The Proposed Scheme

There is to be a “new insurance contract for future pensioners”. As expressed in the Green Paper: “Our package of reforms is aimed squarely at the real problem – ensuring that we all have security on retirement.” Help “will be targeted on ensuring that everyone has a decent minimum income in retirement, that those unable to work because of caring responsibilities do not lose out, and that those on middle incomes are encouraged to save for themselves” (Cm 4179, p.7). There has been an important shift to “targeting” and privatisation, or “stakeholding.”

(1) The basic state retirement pension. This is still declared to be the “foundation” of the new scheme (although in a written answer in *Hansard*, 5 July 1999, Stephen Timms stated it would remain “the key building block” – not “foundation” of the pension system). Since it is to be set to prices and not earnings, it will diminish relative to earnings. The Institute of Fiscal Studies calculate that this will mean that, from 20% of average earnings in 1980, it will have “a slow death” reaching the low figure of 6% in 2058.

(2) The State Second Pension. This is a proposed new pension. SERPS is to be wound up. The SSP purports to be a replacement but that is not strictly true. As a number of commentators agree, “it is questionable whether SSP really is a secondary pension – in reality it operates as a top-up to basic pension for low earners” (Rake, Falkingham and Evans, 1999). It is planned for those earning less than £9,000 a year, tapered for earnings between £9,000 and £18,500 and adjusted to include credits for those caring for children (but only those with children under 5), the disabled and elderly. The claim that it will be more generous than SERPS depends on whether the original or the post-Tory Government version of SERPS is compared, how the system of crediting contributions will work, and whether reasonably comprehensive cover of the low paid is sustained. For the first five years it will be earnings-related but once another new pension scheme, the “Stakeholder” pension scheme, becomes established it will become flat rate. Eventually, it will be worth “almost” £50 per week, and lift pensioners to the level of the minimum income guarantee in retirement. However, written answers to Parliamentary questions show that, even in 50 years time, if the new proposals are implemented, many pensioners will have to depend on Income Support soon after their retirement. This has caused expert analysts

to conclude the “despite its apparent generosity, at its optimal value SSP combined with the basic pension does little to lift pensioners out of means-testing” (Rake, Falkingham and Evans, 1999).

Over the next decades, the SSP will gradually become more dominant in value than the basic state retirement pension for the low paid and the latter will become a very minor element in pensionable income. In practice, average and below average earners will become entitled to a smaller combined state pension than they are entitled to at present under “basic plus SERPS.” This must be the presumed result, since public pensions spending is to be reduced from 5.4% of GDP to 4.5% of GDP by the year 2050. The proportion of pensioner income coming from private sources is planned to rise from 40% to 60% at the same time (Cm 4179, p.8). Moreover, the combined value of basic state pension and the proposed state second pension of those with annual earnings of £9000 retiring in 2051 is expected to reach only 21% of average earnings. (*Hansard*, 20 Jan 1999, col. 471).

There is widespread agreement that the Government’s proposals offer inadequate security and do not greatly reduce exposure to means-testing. Thus, Stephen Timms, Minister for Pensions, stated that “Our objective is...to make sure that after a lifetime of hard work people do not arrive at retirement certain to depend on income-related benefits” (*Hansard*, 5 July 1999, cols 354-355). However, expert assessment of the value of the Minimum Income Guarantee and the State Second Pension to low earners is that they “are insufficient to lift people out of means-tested retirement” (Rake, Falkingham and Evans, 1999). These commentators go on to call for an extension of contributory insurance in coverage and amount.

3) The Minimum Income Guarantee/Income Support. From April 1999, the new “guaranteed” rate of £75 a week for a single person was introduced. This compares with the expectation of about £72.20 from Income Support (£74.50 for those aged 75-84 and £77.50 for those aged 85+). “Our long term aim is that the new minimum income guarantee should rise in line with earnings.” However, this is an aspiration dependent on “resources at the time,” not a commitment. The administrative cost of Income Support (and therefore the minimum likely cost of the MIG) is currently 9%, compared with 1.1% for retirement pensions (*Hansard* 4 Feb 1998, cols 699-700). There is a major problem of take-up. Estimates of pensioners entitled to Income Support but not receiving it vary from 750,000 to 1.2m. In the Green Paper, MIG is referred to as an entitlement, for which there is to be a publicity campaign, backed by research into why the level of take-up is not higher than

it is, and nine pilot exercises in Glasgow, Stroud, Preston, Torbay, York, East Renfrewshire, South Staffs, Torfaen and Lambeth to test ways of identifying pensioners not claiming. The MIG is unlikely to work any, or little, better than Income Support.

4) Stakeholder pensions. Intended for those earning £9000 to £18,500 (because “those earning over £18,500 are almost all in private schemes” (Ibid, p.6). Although reduced benefit will be available towards a state second pension for those earning between £9,000 and £18,500 there will be rebates “making funded pensions – occupational, personal or stakeholder schemes – more attractive” (Cm 4179, p.40). These will be new money purchase schemes, subject to minimum standards including a limit on the level of charges. Money purchase schemes are something of a gamble, because the value of the pension depends on long-term investment yields and annuity values. Although the aim is for low costs the Green Paper concedes that SERPS is “very low cost.” (p.5). These stakeholder schemes are going to be set up by “representative” organisations, financial service organisations and employers. This is expected to impel a further reduction in final-salary occupational schemes. No references have so far been made in Government briefs to the unexplained return to something like the “approved schemes” of the 1930s rejected then by Beveridge. (see the work of the social historian Noel Whiteside, 1997).

5) Occupational pensions. These are beginning to dwindle, as Government Actuary reports demonstrate. Without SERPS acting as a standard, and with government support for employers who develop stakeholder schemes and for subsidies for entry into personal pension schemes, it is almost certain that final salary schemes are going to crumble in number.

6) Personal pensions. These “can have high administrative costs” – especially for low and middle earners (Cm 4179, p.19). They “can be poor value for those who cease contributing in the first few years or who have extended periods when they cannot contribute.” A third stop contributing after three years. In addition, individuals in the pensions market have “limited power.”