THE UK PENSION SYSTEM: THE BETRAYAL BY NEW LABOUR IN ITS NEOLIBERAL GLOBAL CONTEXT

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ABSTRACT

The purpose of this paper is to explain how the current “crisis” in the UK pension system arose. I argue that it is a result of a combination of changes in government policy and basic instabilities always inherent in the financial system. Policy changes increased the vulnerability of the pension system to those instabilities. The background to these changes and also the frame of reference in terms of which the “crisis” itself is now phrased is broadly neoliberal. Its theoretical roots are in ideas of the efficiency of free markets. Its policy roots are expressed in a series of similar neo-liberal policy tendencies in other capitalist states. I further argue that neoliberal solutions to the pension crisis simply offer more of the very matters that created the problems in the first place. Moreover, the very terms of debate, based in markets, financialisation of saving and individualisation of risk, disguise a more basic debate about providing a living retirement income for all. This is a debate that New Labour is simply not prepared to constructively engage with in any concrete fashion.
1. INTRODUCTION

A recent UK study by the Institute for Fiscal Studies makes the startling claim that one in ten current 50-year olds will likely retire into poverty (Banks, Emerson, Oldfield, & Tetlow, 2005). Predictions for younger generations are even more dire. Talk of a pensions “crisis”, of a pensions “timebomb”, are becoming increasingly common in the British press as they are across much of the capitalist world. The tone is often dramatic, one of shock. The focus is often narrowly individual – too few saving for their retirement, and those that are saving, saving too little. Yet, the issue is not new, nor is it a matter for shock or surprise. Moreover, a narrow focus on the individual and saving will do little to account for where this “crisis” came from. In so far as it is a crisis, it is one that has been caused and for which blame can be attributed. Its causes have deep roots in the linkages between finance, politics, economy and ideology.

In the following paper, I make four arguments. First, there has been a general attack on pension provision, or the array of ways in which a retirement income is generated, among the major capitalist states and the basis of that attack is broadly neoliberal. Second, the call to shift state pension provision towards individual financialised systems of forced savings is based on dubious premises concerning demographics, costs, and the superiority of finance markets. Third, the UK experience indicates basic vulnerabilities and inequities in all forms of private pension provision which cast further doubt on a reliance on finance markets in both state sponsored and personal pension provision. Fourth, more fundamentally, the very focus of pension systems debate and analysis tends to obscure the broader issue of how to provide a pension system beyond a focus on work itself that covers the whole spectrum of society and does not simply perpetuate inequalities into old age. Again, recent UK policy discussions illustrate this. I set out the first two arguments in Section 2 by exploring the inter-relationship between the underlying ideological nature of pension debate and how it has affected pension reform, particularly in Chile, Canada and the USA. I explore the second two arguments in Sections 3–5. In Section 3 I set out the basic components of the UK pension system. In Section 4 I set out the basic problems of the UK system that have emerged as a sense of ‘crisis’ in the last 10 years, and in Section 5 I assess the inadequacies of New Labour’s current approach to a pension ‘crisis’ that their adherence to essentially neoliberal positions have helped to create.
2. PENSIONS AND PRIVATISATION IN A GLOBAL CONTEXT

Pension provision has until recently rarely been a high-profile public issue in the UK. The long-term nature of pension provision and the ease with which it can be presented as an essentially technical matter of interest mainly to statisticians and actuaries has tended to obscure its central significance for a stable and fair society. Yet, how pensions are provided and who is responsible are extremely important and deeply political. Moreover, the tendencies at work in these matters are no less a part of current global neoliberalism than are policy conflicts over the role of trade unions or the relationship between wages, welfare, unemployment and capital movements (Blackburn, 2002b; Minns, 2001). At the core of the argument are two claims from the Right common across the wealthiest capitalist nations. First, there is the claim that public pension provision is in “crisis” because of changes in demography. This is based on the assertion that the imminent retirement of the West’s “baby boomer” generation, and the fall in the birth rate and rise in average life expectancy have and will continue to increase the ratio of the retired to working population. According to Blackburn:

At the close of the twentieth century there were 419 million people aged sixty-five or over in the world, comprising 6.9 per cent of the total population, rising to 12.6 per cent in North America and 14.7 per cent in Europe [. . .] Around the year 2000 those aged fifty or over comprised 17 per cent of the world’s population. UN demographers project that, on present trends, the fifty-plus proportion of the total will rise to 27 per cent in 2025, 34 per cent in 2050 and 38 per cent in 2075. (Blackburn, 2002b, p. 3)

The implication drawn on the Right and uncritically accepted by many on the Left is that state transfers drawn from current tax revenue are becoming less viable as the fundamental means to provide the basic safety net as part of a guaranteed living income in retirement. Economies face a harsh fiscal constraint.

Second, pension provision has also become enmeshed in broader issues of the nature of the “post-industrial” capitalist society (defined variously by Bell, 1973; Beck, 2000; Hardt & Negri, 2000) particularly Atkinson (1988) and Atkinson and Meager (1986) concept of the flexible labour market and the subsequent focus on non-standard work (Kelleberg et al., 1997; Nolan & Wood, 2003). The increase in small business employment, in part-time, contract and temporary work, and in labour turnover in general has according to commentators such as Sennett (1998) and Thompson (2003)
produced a heightened form of uncertainty in contemporary capitalism. Part of that uncertainty is that fewer workers are now covered by long-term work-based collective private pension provision schemes. Moreover, firms are beginning to think about how pension fund commitments adversely affect their equity values and how they may also create problems in maintaining the mobility of the firm as a form of capital. This includes their attractiveness as an asset for merger or their capacity to relocate to least cost sites or to outsource. These kinds of arguments are put forward against the background of such concepts as the network society where flexibility of the firm and mobility of capital, it is asserted, are more crucial than ever because of heightened global competition.

The point is that state and collective workplace pension provision have come under attack as not only unaffordable but as also constraints or distortions on the “new” global economy. Not only is the assessment neoliberal, because it accepts and prefers a reality of marketisation within the economy at large to which one must simply conform and within which labour and its needs are simply a problem (rather than the point), but neoliberalism is also the principle proffered solution. The argument that general taxation simply cannot afford state pension provision and the argument that workers cannot and should not rely on collective workplace schemes are met by a call to fund retirement from personal savings invested in stock markets, usually as a form of tax-incentivised individual pension plan (self-reliance). Marketisation is thus translated into what has been termed the financialisation (Grahl, 2001; Grahl & Teague, 2000, pp. 164, 168, 170) of retirement funding. The justification provided is that pension savings provide a form of investment that drives capital markets and the subsequent growth in the value of equities provides a retirement income. This is a position endorsed by the World Bank and IMF (e.g. World Bank, 1994). Further aspects of the argument are that the tax burden on the state, the tax level on the individual, and the contribution and administrative burden on the employer are reduced or eliminated. Economic growth is encouraged by increased investment and by a smaller state and leaner firm. The neoliberal solution is, therefore, for the individual to rely on financial markets, which are in turn also globalised, and which are claimed to produce a virtuous circle that resolves a demographic and costing “timebomb”.

Two additional points are worth making here regarding the meaning of the tendency. First, though the neoliberal preference for marketisation in the form of financialisation encourages a policy where the individual relies for their retirement income on financial markets and this position ultimately relies upon the logic of the superiority of free markets (essentially, some
form of neo-classical formulation of Robbins’ problem of the allocation of scarce resources, Nielsen & Morgan, 2005), the financial industry itself prefers to rely on the state to incentivise, pressurise or force the public to save in equity-based schemes and for the state to be a source of compensation should problems arise. At the same time, the financial industry prefers the power of the state to scrutinise its actions to be one whose regulations lack the ability to impose actions on its members, preferring a voluntary and hands-off approach. The neoliberal tendency for marketisation under the guise of free market arguments is, therefore, not really about the smaller state and deregulation of markets but about the weaker state whose ideological apparatus reflects capital’s interests and the re-regulation of markets as a form of power shift that favours the financial operators.

The shift provides for power with limited responsibility. That power manifests itself as an influential political lobby able to generate large profits and manipulate both the state and the individual via the state (Minns, 1998, p. 1). The “free” market is, therefore, far more a matter of corporate push than pull, where the invisible hand of the market is supplemented by a surreptitious elbow. Moreover, precisely because financialisation of pension provision channels capital into the financial markets it reinforces the power of those markets within society. It is a source of hugely influential investment decisions using accumulated pension assets, which help to shape the landscape of contemporary capitalist society. As Blackburn notes (2002b, p. 6), by 1999 the global value of employee pension schemes was estimated to be $13 trillion compared to a world GNP of ~$28 trillion. An important point here is that, in keeping with neoliberalism more broadly, the privatisation of investment decisions contributes to the commodification of society since the basis of the investment decision is profit and the nature of investment will foster uses of space that generate profit. This simply reinforces the rationale that welfare and matters of public space and its uses are first and foremost issues of cost rather than quality of service and human well-being. Moreover, if the globalisation of financial markets contributes to the growth in short-run speculative investment as opposed to long-term productive investment, financialisation of pension provision may simply be contributing to (as well as being subject to) the volatility of markets and a heightened instability in the “real economy” against the long-term interests of labour. I return to this point in terms of the UK later.

This first aspect (power shifts and their justifications) of the meaning of the global tendency towards financialisation raises the question of whether the gains for the individual from this form of pension provision offset the loss from living in such a society, and, more fundamentally, whether the
financialisation of pension provision is in actuality a good solution based on a genuine problem of costs and demographics. One can start to answer this question by addressing the second aspect of the tendency. Not only is the policy articulation of the tendency in different countries varied by the historical context but also there has been considerable scepticism and resistance to any full-blown attempt to introduce complete reliance on this form of pension provision. Nevertheless, financialisation and neoliberal interpretations of arguments concerning demographics and fiscal constraints dominate the terms of debate. Global tendency then is precisely that which Marx identified as the principle form within societies (Marx, 1973, pp. 100–102; Morgan, 2004, p. 79) – an overall shift in socio-political and economic structuring but not a complete and universally homogeneous determination. This can be illustrated by briefly looking at what has occurred in a selection of states. Here, for the sake of brevity, I focus on the privatisation of public or state pension provision as part of the dismantling of capitalist welfare systems. I explore the private workplace based provision in the next section.

Like many other countries, Chile’s pension system in the twentieth century had been a combination of state and workplace based provision. It combined a typical tax-remitted inter-generational pay-as-you-go transfer system, collectively administered by the state as the basis of retirement income, with a funded system where employees and employers contribute to varieties of private pension funds. In 1981, the Chilean government replaced its state provision with a privately funded and administered system of individual named pension accounts (Townson, 2001; Jacobsen, 1997; Butler, Asher, & Borden, 1996). Participants save a mandatory 10% of earnings (with no corresponding employer contribution) in their account and choose one of a number (14 rising later to 21) of competing state approved private organisations (administradoras de fondos de pensiones, or AFPs) to invest their fund. New entrants to the workforce (the young) were simply channelled into the system while older workers who had paid into the old system were induced to switch by the offer of government interest bearing bonds (recognition bonds) representing that investment and credited to their account. Notably, the system remained more tightly regulated than other kinds of non-state sponsored private fund along lines ostensibly designed to reduce the vulnerability of funds to investment problems – portfolios administered by AFPs have had to invest no less than 50% in government guaranteed securities with the remaining 50% or less in private-sector securities all of which must be on a government approved list, and of which only 30% of the total portfolio may be in ordinary equities and 7% of that
in a single capital stock. By 1992, almost 95% of employees had shifted to the AFPs.

Chile has provided a widely discussed early model for increased reliance on private plans as an alternative to collective state pension provision. Many have identified it as an example of the advantages of market provision. For example, Butler (Butler et al., 1996) of the Adam Smith Institute claims that the system produces better returns than public funds because of the market discipline of competition between AFPs on the basis that participants can choose to switch their fund from one to another. Moreover, since the participants have information on the size of their individual fund the system militates against future uncertainty based on unpredictable policy switches by politicians. Each contributor knows what money is theirs rather than paying into an anonymous fund under some vague sense that the state will continue its current commitment. The model also “reduces the role of politicians in the administration of the system, and therefore the extent to which it might divert funds from savers and into their favoured programmes” (1996, p. 7). The implicit assumption is that markets and competition based on individual consumer sovereignty produces better pension outcomes than the state i.e. the state as a form of monopoly produces adverse outcomes owing to some combination of profligacy, corruption, political instability or simple political-ideological variation. Butler also claims that the system accounts for Chile’s high savings rate and growing capital markets in the 1980s and early 1990s and that the capital it provided enabled the privatisation of nationalised industries – the implication being that privatisation was a gain and thus that nationalisation was in some sense a failure by its very nature.

A number of analysts have taken issue with a positive reading of the Chilean model and have used this to place similar proposed changes in other countries in context. Townsend (2001, Chapter 3), for example, argues that a great deal of the apparently high returns of the AFPs in the early years (12% and higher) entailed a sleight of hand. By maintaining high interest rates (and thus high rates of return on government securities) and by undervaluing and privatising key industries and utilities (stock from which appears on the government approved list) the state effectively used the close regulation of private pension funds to inflate AFP growth rates at the cost of making its own debt more expensive and by a one time only transfer of public to private assets. Returns then fell to below 3% by the late 1990s – little different than simply placing the money in a bank.

Since the aim of the funds is to provide a minimum pension of ~25% of the contemporaneous average wage – the lower the level of return the greater the likelihood that a higher proportion of the individual funds will
fail to produce a sufficiently large total to cover this minimum pension. This allows us to make an important distinction lost in Butler’s argument for financialisation. More information about the value of individual assets (his argument for certainty) is not the same as actual financial security for the individual. One might assume that the individual responds by saving more but this is often not realistic (mandatory saving is already 10%). Further, for the conflation (certainty/security) to occur one must assume that shifting between AFPs acts as a market signal based on consumer sovereignty and that AFPs can respond by increasing the returns on funds. Otherwise, financialisation is not an effective solution and the formal neoliberal argument for markets must fall back on the state (the surreptitious elbow rather than the dynamically competitive invisible hand).

Ultimate reliance on the state is precisely what is revealed in the Chilean model. The state guarantees to provide the 25% level of the contemporaneous wage to participants. As such, the state is effectively in a position of subsidising “underperforming” financial markets and AFPs. Moreover, since the scheme only covers workers (and indirectly, their dependents) but not the self-employed, unemployed, long-term sick, etc. (Jacobsen, 1997) then it becomes clear that the system is not only based on a tacit direct public to private transfer of wealth but that the transfer is inherently regressive. This is because, if it comes from the state budget then its source includes the tax revenues of those not covered, including the poor. It also entails an opportunity cost in terms of the alternative ways in which it could have been expended on those not covered. In a sense, this also reverses Butler’s identified advantage that tax revenue earmarked for anonymous collective pension provision can no longer be diverted. The very prospect of inter-generational transfers and of inter- and intra-class redistributions of wealth through effective state policies aimed at social equity are eliminated, though transfers of a sort are maintained for subsistence purposes. The system is also regressive since fixed rates of commission for AFP providers means that lower wage earners effectively pay a greater proportion of fees to savings than higher wage earners and thus experience lower real rates of return on their individual accounts. Moreover, given that the introduction of the AFPs was combined with reductions in tax rates (to offset the pain of forced saving) and a reduced pressure on employers to participate in additional collective pension provision with an employer contribution, even greater pressure is placed on the performance of the individual accounts for participant workers. Simultaneously, this creates the potential for current and future budget deficits for the state due to changes in the tax system.
Ironically, the state finds itself guaranteeing a system that exacerbates inequality in the name of the unproven superiority of financial markets to provide pension provision at the time of retirement for the current workforce. More fundamentally, since the system is focused on work and saving, it is not a comprehensive form of pension provision covering the breadth of society. Since its introduction is tied into a whole host of other neoliberal economic policies such as privatization, reduction in direct taxation, a discourse of self-reliance and the primacy of the individual rather than concepts such as social justice, equality, and redistribution of income, that exacerbation of inequality at the time of retirement extends beyond the differentiation of the workforce to the rest of society at large who fall into other classes of welfare provision, such as low-level means tested subsistencies, by a form of state that is antithetical to transforming their conditions (merely perpetuating them into old age). Thus, even if the reliance on financial markets was to prove effective (something we return to below) the ideological framework would remain questionable.

It is with these problems in mind that Townson is highly critical of the attempt to extend the financialisation of pension provision in Canada in the mid to late 1990s. Both the federal Liberals and the Reform Party accepted that the basis of debate was that demographic changes placed the current retirement program in crisis. As Townson notes, however, the issue is not that demographic changes are occurring but rather what can be read into them:

That’s the first thing to remember: population aging hasn’t happened overnight, and it’s not a surprise. Between 1950 and 1990, for instance, the number of over-65s in Canada tripled. If the projections are right, it will take another 40 years for the elderly population to triple again. Admittedly, that’s a faster rate of aging than in some other countries. For instance, it took a century for the percentage of seniors in France to grow from 10% of the population to 25%. In Canada, that same process will have happened in half a century. But, after 2030, when the over 65s are expected to account for about 23% of Canada’s population, demographers expect the aging process will level off and a balance will be reached between mortality and fertility. In other words, Canada will have achieved zero population growth somewhere between 2020 and 2030. And that’s another key point in the debate that often gets overlooked: population aging will not go on forever. It will likely only continue for the next 30 years. (Townson, 2001, p. 3)

According to the research discussed by Townson, during those 30 years, if one does not allow for economic growth and increases in productivity, then maintaining current spending on social security as the demographic structure changes would increase social spending to 28% of GDP, but once economic growth and productivity are allowed for, the projections reduce it to a less alarming figure, around its 2000 level at 16%.
Public scepticism, work by analysts such as Townson, and opposition from many of Canada’s unions (National Union Research, 1999) forestalled a full policy shift to privately invested individual retirement savings accounts. Instead, compromise alterations were made to the Canada Pension Plan (CPP). The CPP (Townson, 2001, Chapters 6 and 7) was designed to provide working Canadians with a retirement income of at least 25% of contemporaneous average earned income, and is built on top of basic welfare provision that guarantees subsistence. As of 1997, benefits payable from the CPP were cut, contribution rates were increased from 5.2% to around 10%, low income exemptions frozen and thus reduced in real terms, and a CPP Investment Board set up to invest new CPP funds in a portfolio of securities to supplement taxation. In the meantime, the basis of the debate from the Right remained that this could only be an intermediary or temporary measure on the way towards an individualised program following Butler’s previous argument that a state investment organisation would lack the market discipline of competitive private provision and that, despite arguments from Townson and others to the contrary, the underlying problems of demographics and costing were real and would not simply disappear. The tendency towards financialisation has remained an underlying issue, therefore, based on the dominant terms of debate. As of 1994, Townson was already highlighting the significance of representing the essentially political question of what kind of society we want as an inevitably determined technical issue of what the economy can afford:

Probably the most important distinguishing feature of any modern society is the way it treats its citizens – the old and the young, the poor, the sick and unemployed. Industrialized societies have long recognized the need for community action on behalf of different groups of citizens. What has become known as the ‘Welfare State’ has been seen as moderating the intensity of social conflict and enhancing social cohesion. (Townson, 1994, p. 7)

The direction of public policy in Canada is rapidly moving away from a commitment of collective responsibility to the elderly [an inter-generational social contract] in favour of a reduced role for the state, an emphasis on individual initiative in providing for retirement and caring for those who are older, and increased targeting of benefits to those in need. As in other countries, this reflects a political philosophy that espouses market based solutions. As long as this is the dominant philosophy, it will not be easy to renew our commitment to collective responsibility. (Townson, 1994, p. 34)

The same terms of debate have been reprised in the USA. Baker and Weisbrot summarise what is at stake:

We are currently in the midst of a major national debate over the future of social security, a kind of debate we have not seen since the 1930s. No one should be deceived as
to its nature and significance. It is not about shoring up the program’s finances or how we can, as President Clinton put it, “save social security for the twenty-first century”. It is not about preparing for the retirement of the baby boom generation, which we have already done. And it is not about making the program more equitable or fair or improving it in any way. At its best, this debate is about how to cut social security. At its worst, it is about privatization, about undermining even destroying the program that has formed the bedrock of the social safety net for more than half a century. (Baker & Weisbrot, 1999, p. 149)

In the USA, social security provides the basic component in retirement income provision, again, as in Canada in combination with workplace-based forms of collective and personal private pension schemes (Blackburn, 2002a, Chapter 6). By the late 1990s, 16% of senior citizens relied entirely upon social security, for over 66% it constituted the major portion of their income, while over 95% of senior citizens either received or were eligible for benefits aimed at providing a guaranteed minimum standard of living. It has been the country’s largest and most successful antipoverty program, reducing the poverty rate among the elderly from 35% in 1959 to 10.8% in 1997 (Baker & Weisbrot, 1999, p. 12). As early as 1983, the argument had begun to be made that demographics were liable to increase the costs of the system, resulting in policy modifications such as treating some benefits as taxable income and increasing the age of eligibility for others from 65 to 67 over the following two decades. However, it was during the Clinton administration and more latterly under George W. Bush that the system has come under sustained attack. Lobbies such as Third Millennium: Advocates for the Future invoke the spectre of generation wars in which an imminently retiring baby boomer generation might become a potent voting bloc maintaining a privileged position within society on the basis of a generous welfare system paid for by the next generation at the expense of investment in their own children’s future. Such lobbyists have pressed for a fundamental reassessment of social security and a policy shift away from inter-generational transfers towards individual private pension savings accounts. In addition to benefit cuts, Bush has been keen to press ahead with this kind of policy. He has received apparent support from actuarial projections on the future solvency of social security finances. Annual reports from the Board of Trustees of the Social Security trust fund follow a 75-year projection pattern according to three scenarios (pessimistic, intermediate and optimistic) and indicate a projected deficit in the fund from 2035 based on 1999 figures (Baker & Weisbrot, 1999, Chapter 1).

Baker and Weisbrot (1999, Chapter 6) reveal a fundamental contradiction in the projection and the policy inference drawn from it. The projected
shortfall is based on the assumption of a historically low economic growth rate of 1.5% in the long term and a fixed or falling level of taxation. At the same time, the superiority of a policy of 5% forced mandated savings into individual savings funds is based on a high investment return of around 7%. A low assumed growth rate but high assumed investment returns are ultimately incompatible. On the basis that the fund is mainly invested in stocks, investment returns are made up of rises in share prices (an increase in the value of the assets held) and the dividends on shares that the investor receives. Low growth rates effectively mean low rates of growth in stock values over the long term. Therefore, unless the size of dividends as a proportion of stock values rises then investment returns must also be relatively low. As Baker and Weisbrot (1999, pp. 92–96) note, the long bull market on which investment returns have based their projections already entails historically high price/earnings ratios which it is unrealistic to assume could be maintained let alone increased. This is a point subsequently borne out by the bear market that has followed the dubious assumptions and practices that went into the era of venture capital, the dot.com boom and the illusory success of new business models of such firms as Enron (Morgan, 2003).

Lower more realistic investment returns and perhaps a higher more historically accurate level of economic growth reverse the nature of the argument put forward by those in favour of privatisation and financialisation of the US system. Baker and Weisbrot (1999, p. 149), therefore, come to the same conclusion as Townson, the debate is a deeply political one presented as a technical issue, and that consequently, “The parameters of the entire debate should be rejected”. This is more than simply the argument that the statistical techniques used in the projections are only as good as their assumptions and the way in which they are applied (Olsen & Morgan, 2005). It is about the politics of those assumptions and the way they have been disseminated around the capitalist world. A core issue is the assumption that income taxes cannot rise even though income itself is rising. Economic growth implies a growth in wealth. It should at least be a matter of public debate as to whether a wealthier society should be committed to breaking its social contract with the old who contributed to the creation of the circumstances in which that growth is possible.

That the terms of debate seek to exclude this aspect of the debate is simply another facet of the neoliberal focus on the individual – the silent residue of which is that growing inequalities of all kinds are acceptable. An ideological discourse of competitive dynamism as a necessary precursor to an unquestioned narrow focus on personal status and material success in a
consumption-led society clouds the invidious nature of the system itself. Significantly, the main bastions of European social democracy have succeeded to some degree in making the terms of debate themselves a major focus of public debate. The spectre of ‘Anglo-Saxon’ neoliberalism and its effects on the social contract have been major recent issues in French and German politics. Despite a general Left-leaning towards European federalism there has been considerable resistance to the ratification of the new European Union constitution on the basis that it is ‘corporate friendly’ since it fosters forms of labour mobility that in the context of expanded membership by poorer Eastern European nations will simply allow a ‘race to the bottom’ on labour and welfare standards. Similarly, meeting the Maastricht economic convergence criteria has caused considerable problems. France and Germany have repeatedly failed to meet the criteria for constrained balanced budgets and lower convergent taxes because of widespread resistance to the cuts in welfare these imply. At the same time, reformers continue to use demographic and fiscal arguments against the backdrop of heightened global competition for jobs and relatively high levels of unemployment, particularly in Germany. Ironically, the European states have negotiated the construction of conditions for integration that place their own systems under greater pressure.

What I have suggested in this brief survey of the context of the debate on pensions is that the attack on pension provision is occurring in virtually every major capitalist country. The basis of that attack is rooted in questionable assumptions about demographics, fiscal constraints and arguments about the superiority of financialisation of pension provision. Both the assumptions and the argument are rooted in neoliberalism and represent a tendential systemic and ideological transformation. The main focus so far has been on the privatisation of public pension provision as part of the dismantling of capitalist welfare systems. Pension systems, however, are usually comprised of state and work-based collective private provision. An important aspect, therefore, in analysing the effect on a complete system is to explore how work-based collective provision has also been affected because this allows us to add an additional critical dimension to the specific problems of relying on private provision set out in the introduction. Accordingly, I now move on to look at the UK pension system as a whole with a particular focus on its commercial aspects. As Paul Krugman (2005) notes in the New York Times the UK experience is a significant one because it has already travelled far down the path of financialisation and constitutes “a cautionary tale Americans should know about”.
3. THE COMPONENTS OF THE UK PENSION SYSTEM

I begin with a brief description of the major components of the UK pension system. Those familiar with this material may skip this section. The pensions system in the UK is made up of the state pension and a combination of occupational and private pensions. A personal pension is undertaken on an individual basis while an occupational scheme is sponsored by an employer. A personal pension is of a defined contribution form while an occupational scheme may be of a defined benefit or a defined contribution form. Defined benefits provide a pension that is a percentage of one’s salary while defined contributions provide an accumulated fund of savings with which to buy a pension income.

3.1. The State Pension

The state pension has two basic components (The Pension Service, 2002; The Department of Work and Pensions, SERPs Forecasting Team, 2003). The BSP is calculated on the basis of National Insurance contributions over a full working life (currently 44 years for a man and 39 years for a woman) and in 2004 provided £77.45 per week for a single eligible retired person (currently a standard of 65 years old for a man, 60 years old for a woman).
and £120.70 for a couple. From 1978 until April 2002, this was supplemented by the SERPs. The National Insurance contribution is currently 9.4% (2005) and is paid on wages in excess of £89 per week. SERPs is calculated on the surplus generated by this percentage of the wage over and above that required to generate the BSP (the formula changes year to year). At the moment, the maximum supplement to the BSP provided by SERPs is £134 per week (2004). To achieve this level a person would have to be paid in the top income quartile for the majority of their working life. According to the DWP SERPs forecasting service, they currently base top SERPs levels on around £30,000 per year (2004). In April 2002, SERPs was replaced by the S2P, which differentiates the surplus National Insurance contribution into earnings bands and provides a greater weighting in the calculation for lower earnings. The government claims this will particularly boost the additional pension of those earning less than £10,800 per year. As with SERPs, it is possible to opt out of the additional S2P contribution and receive a rebate from the Inland Revenue. This rebate, including tax relief, can be ‘contracted out’ i.e. redirected to a personal pension.

In addition to the BSP and SERPs/S2P, the state also provides a range of other payments to various eligible groups. The most important has been a means-tested safety net through income support in the form of the MIG. The MIG topped up the income of those over 60 to £98.15 per week for a single person and £149.80 for a couple. The MIG was replaced by the Pension Credit in October 2003, which retains a minimum income guarantee (€102.10 and €155.80, respectively, DWP, 2002, p. 20) but with additional payment eligibility to those with small personal pensions and low savings that might previously have been deducted from their eligibility (up to a maximum additional of €14.79 and €19.20, respectively). Eligibility for these additional sources also dictates eligibility for a variety of means-tested payment, such as the Winter Fuel Payment (maximum £200).

### 3.2. Defined Benefit Occupational Pension Schemes

Defined benefit schemes have traditionally based pension levels on years of service and salary level at the time of retirement (final salary). They usually accrue at either 1/60th or 1/80th of final salary per year of service. On a 1/60th accrual rate, for example, someone with a final salary of £30,000 would have to be a member of the scheme for 40 years to achieve a retirement income of £20,000 per year. Since 1989, defined benefit schemes have been capped. The final salary cap in 2004 was £97,200 – at a 1/60th
accrual rate over 40 years, this would be a retirement income of £64,800. Schemes, such as the civil service, have traditionally required no employee contribution and are index linked to inflation. Most, however, involve a combination of employee (usually around 5% of salary) and employer contributions to make up their value. Under current law, a retiring employee can take a maximum tax-free lump sum of up to one and a half of final salary in addition to their annual pension level. The schemes are administered by a board of trustees who, in accordance with advice from accountants and investment analysts are charged with ensuring that the scheme’s assets cover its liabilities i.e. that it meets the rolling cost of pension provision to those who have retired and those who are contributing to the scheme who will be retiring. It has been usual for 70% of the value of a scheme to be invested in the stock market and the rest to be mainly in gilts (government-backed bonds with a fixed life-span and which pay a fixed rate of interest in addition to the original value of the gilt when it reaches maturity), corporate bonds (company versions of gilts) and property. Returns on these investments dictate the liquidity and solvency of the scheme as a whole. In principle, the higher returns are, the lower the contribution an employer needs make to maintain a solvent scheme that covers its liabilities.

The DWP is responsible for the governing legislation relevant to defined benefit occupational schemes. Following the inquiry into the Maxwell pension scandal, the Pension Act of 1995 created the Opra, which became operational as an industry watchdog in 1997 (Opra, 2002). Opra places a statutory duty on scheme auditors and actuaries to inform them of breaches of scheme regulations – notably the misappropriation of scheme assets and the failure of employers to make the necessary contributions to maintain the solvency of a scheme (Davis, 2002, pp. 10–19).

3.3. Money Purchase Defined Contribution Schemes

Defined contribution schemes generate a pension fund in order to buy an annual income or “annuity” in retirement. The amount of the fund is based on contributions to the scheme and the level of returns on the investment of those contributions by the scheme (less commercial charges). Occupational schemes will include an employer contribution while a private or personal pension scheme fund will be supplemented by tax relief only – at a basic rate of income tax of 22% every 78p is made up to £1 and at 40% income tax every 60p is made up to £1. Contributions to money purchase schemes are restricted in terms of annual salary and capped at the same level as defined
benefit schemes (£97,200). Occupational scheme contributions are restricted to 15% of annual salary up to the final salary cap (a maximum contribution of £14,580 per year), while personal pension contribution restrictions vary from 17.5 to 40% of annual salary up to the final salary cap, depending on age. Up to a quarter of the accumulated pension fund can be taken as a tax-free sum and the rest is used to buy an annuity or guaranteed income. As with defined benefit schemes, it has been usual for 70% of the value of a scheme to be invested in the stock market and the rest to be mainly in gilts, corporate bonds and property. Since the contribution is not linked to an income specified by a final salary calculation, the focus shifts from a scheme’s assets meeting its liabilities to the accumulated value of the individual’s fund itself and the annuity it will buy. The value of the fund is highly dependent on the performance of equities, both over the lifetime of contributions and at the time, the annuity is purchased. Since the provision by the annuity provider (which does not have to be the provider of the original scheme – usually an insurance company) of the income purchased by the fund is partly dependent on equity performance in the future, expectations about that performance are also significant for the calculation of the annuity rate. Actuaries, however, tend to calculate the annuity rates that any particular fund size will buy more on the basis of gilt yields since these are more stable and predictable than equities. Life expectancy is the other major consideration. Average life expectancy is calculated for demographic cohorts (the decade in which one was born) and modified by particular characteristics (gender, habits such as smoking, health track record, current serious illness, etc.). Generally speaking, as life expectancy rises and as equity performance and gilt yields fall, annuity rates also fall.\(^9\) Though there is some variation between providers, average annuity rates are around 7% (Miles, 2002). This means that for every £100 of pension fund £7 of annuity can be purchased – a fund of £100,000 buys an annuity of around £7,000. Purchase of an annuity can be deferred up to the age of 75. During deferment, the fund can remain invested and be accessed through an income drawdown scheme. The government’s actuary department (GAD) lays down an income range that can be withdrawn from the fund each year it remains invested. The maximum is currently the equivalent annuity the fund would buy while the minimum is 35% of that figure. If investment returns minus the cost of administration of the fund are less than the income withdrawn then the size of the fund is effectively contracting.

As with the defined benefit pension schemes, the DWP is responsible for the governing legislation relevant to defined contribution schemes. Under
the DWP remit, Opra regulates employer schemes and the FSA regulates personal pension schemes. The FSA covers the whole financial services market but in terms of the pension system its principle functions are to regulate the conduct of the large insurers who provide schemes and liaise on auditing standards, raise consumer awareness of the range of financial products, and provide redress for the improper selling of pensions.

3.4. Stakeholder Pensions

Introduced in April 2001, stakeholders are a form of private pension promoted by the government and targeted at the low paid and small business employees. Firms with more than five employees must offer an ‘introduction’ to a stakeholder scheme if they do not have their own occupational scheme. The employer does not have to provide a contribution. The schemes are administered through the company but offered by insurance companies in the same way as other personal pensions. Their key selling point is that the provider cannot impose penalty charges for transferring the fund to another provider, stopping and starting contributions and that scheme charges are capped at a maximum of 1% of the value of the fund per year.10

4. ANALYSING THE PROBLEMS OF OCCUPATIONAL PENSION SCHEMES IN THE UK PENSION SYSTEM

The BSP in the UK has always been only one component in pension provision. According to OECD figures, the BSP (£77.45 per week) constituted 36% of the average salary in the UK in 2003 (Bremner, 2003). According to the Department of Social Security figures the BSP has varied from a high of 39% in 1978 to a low of 27% in 1998 (DSS, 1999). While both the cost of living and the income inequality masked by an average salary have varied radically over the period of the welfare state, the significant point is that the BSP has never been nor was it intended to be a stand alone means of ensuring an adequate retirement income. The rest of the pension system is there to take up the slack. Since the rest of the pensions system is more than a luxury or an indulgent supplement to the guaranteed portion of state pension and welfare provision it is of vital consequence that the system delivers. In various ways, however, it is failing to do so. Defined benefit pension schemes
have collapsed or been closed, while defined contribution schemes do not provide a predictable and equitable alternative. As I argue below, the closure of defined benefit schemes was not inevitable but has rather been a consequence of state taxation policy, accounting techniques and corporate will. This combination exacerbated the basic vulnerability of the system to volatility in finance markets. Moreover, the closure of defined contribution schemes has removed the best form of provision that the current system had to offer and left workers reliant on forms of individualised pension provision that are even more vulnerable to volatility. This manufactured crisis has, ironically, formed the backdrop to further arguments about pension deficits that have subsequently fuelled calls for forced savings.

4.1. The Collapse of the Defined Benefit Occupational Pension Schemes

In the 1986 Finance Act, the Conservative Chancellor of the Exchequer, Nigel Lawson, imposed a 5% cap on the value of assets over liabilities in defined benefit pension schemes. Any surplus in excess of 5% would be subject to heavy taxation. The aim was to both raise revenue and deter firms from tax avoidance by making large contributions to their tax-exempt schemes in unusually profitable years. Crucially, firms were additionally offered the choice between improving the terms of members’ pensions with any surplus or taking ‘holidays’ from employer contributions if the scheme was already solvent and beneath the cap. This was politically canny. It could prove attractive to large public limited companies (Plcs) with huge scheme commitments – because schemes typically hold 70% of their investments in equities, a strong bull market meant that firms might not have to make any contribution to their scheme in order to stay within the cap. Moreover, it placed the responsibility in the hands of the employer for the distribution of the benefits of the capital, which would exceed the cap. It remained possible that employees might benefit through improved pensions. It was more likely, however, that the firm would use the capital saved by contribution holidays for larger dividend payments to shareholders and to fuel executive pay inflation. Larger dividend payments improve the attractiveness of equities and tend to enhance share prices, hardly an irrelevant consideration for a CEO who is judged in terms of dividend payments and equity values and receives much of his own bonuses in terms of share options. The strong tendency, therefore, was always likely to be towards employer contribution holidays. As such, the TUC opposed the legislation, but the possibility of benefits to employers was enough to redirect the main focus onto the level of
the cap. The CBI also opposed the level of the cap. If 70% of the value of a scheme’s investment is in equities and schemes maintain just a 5% surplus of assets over liabilities it takes just a 7.2% drop in the stock market to plunge a scheme into deficit. Given the volatility of the stock market both the TUC and CBI were concerned that this would lead to an inherent instability in the solvency of schemes. The TUC suggested a cap of 10% and the CBI up to 20%. For the Chancellor, however, the trade-off was that though a strong bull market might allow contribution holidays it would also generate additional surplus on the assets already in the scheme that would be subject to the new tax. 5% therefore remained the cap.

The 1990s, with a blip around the UK’s withdrawal from the European Exchange Rate Mechanism (ERM), saw a sustained bull market. Share prices consistently rose across the globe. The London Stock Exchange FTSE 100 average, for example, rose from around 3,500 in 1995 to a peak of 6,930 at the end of 1999. According to Inland Revenue statistics, during this period employers took pension contribution scheme holidays up to £2.5 billion (Senior, 2003b, IR, 2003). When New Labour came to power in 1997, there seemed no obvious imperative to address this situation precisely because of the bull market. Indeed, Chancellor Gordon Brown’s response was to exploit the revenue possibilities of the bull market by abolishing the dividend tax credit for pension schemes. Previously, dividends on equities owned by pension schemes were exempt from tax in order to incentivise share ownership and pension savings. In theory, high price/earnings ratios and a long bull market offered the prospect that one could tax those dividends without significant reductions in incentives. Moreover, the basic New Labour reluctance to increase income tax meant they were keen to exploit a variety of forms of stealth tax that would not be immediately obvious to the general public.

The introduction of the tax meant that schemes were subject to tax twice. First, thanks to Brown, they were subject to a tax on the returns on equity investments that had previously been protected in pension schemes and second, they were subject to the Lawson tax on the total asset valuation of the scheme should it exceed the 5% cap. While the abolition of the dividend tax credit provided the Chancellor with a handy new source of revenue, it effectively increased the cost of maintaining a solvent scheme. This would be felt most by firms that had become used to taking contribution holidays during the bull market. The returns a scheme would receive from its investments would be reduced by the amount of the tax. There would either have to be faster growth in the stock market or a return to contributions by the employers, probably at a higher rate. This additional cost would simply
magnify the inherent instability that had been introduced into the schemes by Lawson. The system became more dependent on a bull market and more susceptible to market volatility. Since the stock market is by nature volatile and was in the grip of a particularly irrational series of ‘bubble’ expansions (dot.coms, hedge fund speculation in East Asian markets, exploitation of new financial tools and opportunities based on derivatives trading and the use of off-balance sheet revenue techniques, Morgan, 2003) this was an astoundingly short-term perspective.

Though it was an astoundingly short-term perspective, it was not an inexplicable one. Scheme solvency remained the employer’s responsibility. If years of holiday contributions should come to an end, and firms had to start contributing to their schemes again, this could hardly be described as an injustice. In the meantime, the Chancellor was seeking revenue to bankroll his reconstruction of the welfare state, especially increased investment in the National Health Service. But the new tax would be more than a return to how things had been. It would be an increase in the percentage cost of schemes and an increase that would hit home most at precisely the worst time – a bear market. This would produce a conflict of interest for firms that could mean that their commitment to their schemes would not survive. During a bear market dividend payments on shares reduce, which in turn tends to reduce the attractiveness of shares that in turn tends to reduce demand (a vicious circle). If at the same time firms have to redirect a greater proportion of capital to the maintenance of a solvent scheme, their capacity to maintain dividend payments will be reduced. This is exacerbated by the new costs of Brown’s dividend tax. In such circumstances, something always has to give. Schemes are voluntary – there is no legal requirement for employers to run defined benefit schemes. There is not even a legal requirement for them to honour the promise to contribute on an employee’s behalf to a scheme though there is a legal requirement to divide the value of the scheme between its members (prioritising those already retired) should it be closed. In the late 1990s, therefore, the Chancellor was effectively gambling that the system could absorb its own vulnerability to stock market volatility without giving firms sufficient motive to close schemes. However, the nature of accounting practices used in the calculation of schemes assets and liabilities meant that the system was more vulnerable than might at first have seemed the case.

The assets and liabilities of pension schemes are audited by specialist firms – Watson and Wyatt are the UK’s largest. Since a large proportion of a scheme’s assets are in equities and the value of these fluctuate, the standard way to value pension fund assets has traditionally involved measures that flatten out these fluctuations to a long-term average growth in earnings of
the scheme’s portfolio. Mathematically complex though these calculations may be there is a great deal more divination than science about them since their key component is the inherent uncertainty of future returns not past performance. Significantly, there has been no external regulation of how these calculations are used to formulate assumed levels of long-term growth in scheme assets. Most schemes tend to assume long-term earnings of 5–10%. This form of accounting is highly problematic. Firms will tend to plan their future contributions (and holidays) to schemes on the basis of these asset forecasts. But it is highly uncertain that these levels will be met – particularly if the growth assumptions are high (towards 10%). Long-term planned contribution levels may, therefore, be too low. Employers are, of course, aware of this but face the opposing tendency to continue to take contribution holidays to boost dividends. The low level of the cap at 5% has simply exacerbated this problem since its existence produces a motivation to plan to contribute towards the lower end of the 5% range to avoid tax if growth rates should exceed expectations. If actual returns are lower than expected this simply increases the chance that the scheme will become insolvent. If it requires a 7.2% fall in the stock market to push a scheme to where current assets do not cover liabilities (assuming a 70% investment in equities) where the scheme is in surplus up to the 5% cap, the further from the cap the scheme is the harder it is hit by a bear market.

Significantly, however, the level of insolvency is effectively masked in the scheme’s accounts on the basis of the (uncertain) long-term asset valuation. Though the scheme still has to meet rolling liabilities in the short term, the nature of the accounting practices still produces the possibility that firms can continue to under-contribute or take contribution holidays. This can continue even into a bear market because the asset valuation flattens out market fluctuations. According to a report by the market analyst’s Dresdner, Kleinwort and Wasserstein (DKW), the average valuation assumption for pension funds in 2002 was 7.5% (Senior, 2003b). That year one in four employers made, following over a decade long pattern, no pension contributions (Senior, Miles, & Seib, 2003). Given that equity values fell on the FTSE by over 50% over the period 1999 to March 2003 from a high of 6,930 to a low of 3,277 it would be hard to describe this behaviour as anything other than reckless of the continuing viability of the schemes.

But it is a recklessness that the government did much to create and has done little to check. As this situation unfolded in the early 2000s, the government’s response was to try to roll back the firms’ tendency to take contribution holidays but to do so without denying themselves the potential revenue from the abolition of the dividend tax credit (around £5 billion a
year from all forms of scheme) and the 5% cap. Accordingly, the Accounting Standards Board, which independently regulates the auditing of pension schemes, has been in the process of introducing FRS 17 (Accounting Standards Board (ASB), 2003). Originally coming into full force in June 2001, FRS 17 requires that in addition to any other method of calculating liabilities and assets, schemes also provide a measure in terms of current market valuations. FRS 17 strips away assumed growth levels to show the basic degree of solvency of a scheme here and now. Using this measure has revealed a steadily rising estimation of a ‘black-hole’ in UK schemes from £70 billion (Lister, 2003) to £85 billion (Miles & Rice, 2003), to a high of £171 billion (Senior, 2003b). These deficits are exacerbated because schemes have delayed moving out of equities. This is because alternatives such as gilts tend to have fixed low rates of return and also lock the buyer in for an extended term at those low levels. Once large deficits have been accumulated shifting out of equities into investments that may have stable low returns over a long period might mean that the scheme misses out on a stock market rally meaning the employer is forced to make proportionally larger contributions in the future. Once in a bear market, therefore, there is a gamblers tendency to become trapped within it until some other factor forces one out. To a certain degree FRS 17 has started to provide that impetus because it has forced the credit-rating agencies to reassess the way firms are covering their liabilities. In February 2003, a number of firms were placed on negative credit watch by Standards & Poor’s and in March they proposed bringing in a separate credit rating for firms’ pension schemes (Miles & Rice, 2003). During the same period, equities have fallen to 51.3% of the total holding of pension schemes (including private pensions, Moore, 2003).

In isolation, FRS 17 is not a solution. The deficits remain and forcing firms to reveal these deficits only makes sense if their commitment to the schemes can also be secured. Once the deficits are revealed, firms must face up to increased contributions. For the firms this is a cashflow problem of their own making. In the worst case scenario, scheme deficits effectively bankrupt the firm. When this occurs there is a strong likelihood that existing employees will lose their entire pension since the under-funded scheme must first meet its liabilities to current retirees. Ironically, this does not necessarily mean the end of the firm since current legislation allows a management buyout to be structured that purchases the business of the firm but not the firm itself or its shares, meaning the new firm avoids responsibility for the deficit (Jenkins, 2003). Even where bankruptcy does not occur, by delaying contributions into a bear market employers effectively increase the size of the single year make-up contributions that are required to balance the scheme on
the basis of FRS 17. British Telecom (BT), for example, reported a deficit of £2.1 billion in a single scheme in 2003 requiring contributions of £232 million per annum over 15 years to make up the shortfall and it has other deficits totalling around another £5 billion (Sabbagh, Jameson, & Senior, 2003). Since the 5% cap and the abolition of the dividend tax credit has made the system more unstable and more expensive and the equity market has crashed, the voluntary nature of the system means that many firms have been given a greater motivation to wind up defined benefit schemes for new members and reduce their commitment to current members. In 2002, 83 large schemes closed to new members, including Marks & Spencer and British Airways (Moore, 2003). Many firms are increasing the level of employee contributions from 5 to 10% of salary, some are shifting to a 1/80th or even 1/100th accrual rate, others are using an average salary rather than final salary calculation (since average salary will be less than final salary) and are increasing the retirement age for full benefit (effectively reducing the years of payments to those who retire at the later age and the level of payment to those who retire ‘early’ at the previous standard age, usually 60). Some firms are even using the threat of closing their scheme as a wage bargaining tool since ‘wage restraint’ reduces final salaries and thus increases the ‘viability’ of continued defined benefit pension provision (Senior, 2003c). Most of those schemes that survive, however, are shifting over to a money purchase defined contribution basis – by 2002 over 70% of occupational pension schemes were based on defined contributions (DWP, 2002, p. 51).

Beneath all of these events and issues resides the deeper point that the basis of defined benefit schemes is essentially tied to the volatility of markets and that the state has exacerbated the problems of that volatility at the same time as firms have exploited the policies the state has imposed. The losers in this situation are workers. They did not create the situation they are simply confronted by it. For many this makes a mockery of the way in which they had been planning for their retirement. Moreover, the industry regulator, Opra, has proved itself a limited source of redress. Opra is highly reliant on the statutory duty of auditors to inform them of the misappropriation of scheme assets or of failures to maintain contributions to meet liabilities. Misappropriation is rare, and since auditors have, until FRS 17, accepted long-term growth estimates as a valid measure of assets, the basis of the duty to inform the regulator of contribution problems has been at best ambiguous. In May 2003, the cross-party Commons Public Accounts Committee criticised Opra for concentrating too much on late contribution payments by employers rather than addressing the bigger picture – particularly the tendency towards the closure of schemes.
But as Davis points out in his Quinquennial report, Opra is not really set up to deal with the major consequences of the structural problems of the schemes (Davis, 2002, pp. 27–28). Opra can appoint a further independent trustee to a scheme’s board, but this does little to change the power balance within the board and does nothing to change the structural conditions confronted by either the scheme or the employer. Its powers to prevent the closure of schemes to new members (or “wind-up”) are extremely limited. Opra can delay the wind-up of a scheme by a firm that has not gone bankrupt if its scheme does not contain assets that will cover 40% of the benefits that members could anticipate. The vast majority of schemes easily meet this criterion. Opra has no power to prevent the closure of schemes to new members. It also has no direct control over the rules of accounting standards – this lies with the Accounting Standards Board. Full implementation of FRS 17 was shelved until late in 2005 in acknowledgement of the harm it was doing by motivating firms to close schemes.14 The damage of course, is already done, and, again this does not deal with the underlying issues. The collapse of defined benefit schemes has exposed the myth of work as a mutual commitment with mutual benefits that extend to the employee beyond working life. Firms, culpability aside, are now thinking of the schemes as ‘unsustainable drains’ on resources (Senior, 2003a). An important question then becomes are defined contribution schemes a good alternative form of pension provision? Below, I set out the basic uncertainties and inequities of these schemes, especially the time-dependent nature of annuity purchase linked to interest rates and equity values at the time of purchase. These uncertainties and inequities clearly indicate fundamental problems with the individualisation of risk and with the financialisation of pension provision.

4.2. The Risk Vulnerability of Defined Contribution Schemes

The potential collapse of defined benefit pension schemes is important for a number of reasons. One reason is that the alternatives do not provide the same level of benefits. Final salary schemes did not and do not cover the full workforce. They tended to be available to those who worked for the state and for workers in large long established Plcs. They were, however, the best the system had to offer. The alternatives are based on the build up of a fund used to buy an annuity and it is extremely unlikely that the level of that annuity can match a defined benefit scheme. The most consistent form of pension saving is provided by defined benefit occupational schemes (Cooper, 2002, p. 23). Putting aside the contributions controversy, the basic principle
is that they impose a savings discipline on employer and employee and those
savings cannot be withdrawn (as ISAs can). This is also the case for de-

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defined contribution occupational schemes. The big difference, however, is

that defined contribution schemes do not include any guarantee of pension

levels such as the two-thirds level of most final salary schemes. This means

there is no incentive for employers to make contributions to meet that salary

level. According to the government’s own figures the average employer

contribution to defined benefit schemes is 9.9% of employee wage but only

4.3% in a defined contribution scheme (DWP, 2002, p. 52). This means that

employees must make greater contributions to try to maintain their pension

levels (IFA, 2003, p. 7). Francis Fernandes of the actuaries Lane, Clark, &

Peacock notes that employees may have to increase their contributions to as

much as 27% of their annual salary in order to have a reasonable chance of

gaining the same level of benefits of an equivalent defined benefit scheme

(Rice, 2003b). There is a clear pension savings gap emerging here because

according to ONS figures average pension savings levels (where saving oc-

curs) are stable at around 5% across income groups (ONS, 1999, Table 1.3).

If one is relying solely on a personal pension, that gap is even greater. Not

only do personal pensions remove the savings discipline of occupational

schemes (according to the DWP a third of people buying personal pensions

stop paying into them within three years, Pensions Service, 2003, p. 18), but

also there is no employer contribution.

‘Chance’ is the appropriate term when thinking about the prospect that

defined contribution schemes will perform at the same level as defined ben-

efit schemes because what one’s pension fund will be worth and the income

it will buy are uncertain. If one is retiring during a slump in the stock

market, the chances are that the overall size of the fund used to buy an

annuity will be lower than during a bull market. Annuity rates also fall
during market downturns – according to the market analysts Key Note,

annuity values fell by 15% between 2000 and 2002 (Key Note, 2003, p. 2).

Or rather they fall faster – since annuity rates are calculated more from gilt

yields they are most sensitive to interest rates, interest rates have fallen

progressively through the last 12 years reducing annuity rates from around

14% (1991) to around 7% today (Rice, 2003b). The principal point is that

annuities introduce a new kind of risk into pension provision. Pension levels

become risk sensitive in terms of being time-dependent, based on when an

annuity is purchased. Annuity-based pension provision is described as a

collectivised risk by the DWP (2002, p. 88), but it is a quite different variety

of collectivised risk to a defined benefit scheme. Defined benefit schemes

when honoured have a commitment to meet a given pension level. This is a
strong collectivisation of risk between employer and worker. Defined contribution occupational schemes weaken that collectivisation between the two, placing the greater weight on the worker, while personal pensions shift the entire risk load onto the worker. When the DWP talks of collectivised risk, they are really referring to the pooling of chance amongst the working population rather than a broader sense of an implicit contract between labour and capital that extends into retirement. The basis of this pooling of chance is essentially a roulette wheel of death encapsulated in life expectancy measures by actuaries. One contributes into a pension scheme and builds up a fund and purchases an annuity. The annuity provider calculates a rate with reference to life expectancy and this produces a degree of cross-subsidy between those who outlive the value of their fund and those who do not.

It is also important to note that, on the basis of risk, the ‘chance’ factor in the annuity system differentiates retirees by class and income. If one considers two individuals with equivalent length full working lives and the same standard 5% salary contribution to their pension funds (ONS, 1999, Table 1.3), where one has a salary level taxed at the basic rate and the other at the upper limit, the latter individual clearly accumulates a larger fund. 5% of the larger salary is a larger absolute figure. The larger 40p in the £1 tax break they enjoy produces a greater proportion of state contribution. At the same time, the sacrifices made during their working life to maintain that level of saving will be less than that of someone on a lower income. This is not only important because it perpetuates income differentials into retirement on the basis of the ease with which a fund can be accumulated but also because a larger fund increases the degree to which one can confront the inherent time-dependency risk of annuity purchase. Whether one can take the risk of deferring the purchase of an annuity (up to the age of 75) in the hope of a market upturn will depend on the size of one’s fund. Leaving one’s fund invested after retiring and relying on income drawdown (withdrawing a sum to live on) will, during a bear market, contract the overall size of the fund by the amount of the drawdown plus scheme charges plus the loss of value of the portfolio of the fund. A small fund could be whittled to nothing before any market upturn.16 According to the DWP, in 2001 43% of funds used to buy annuities were <£10,000 (DWP, 2002, p. 87).

This affluence-variable risk problem also applies to the range of specialised annuity products that the pension market offers. An investment annuity, for example, links the annuity (or some lesser value taken from it) to a unit trust. The bargain is that your fund underwrites trust losses and shares in trust gains. One chooses a growth rate (5%) then if the unit trust grows by 25% your pension grows by 20%, if it falls by 20% your pension reduces by
25%. Again, only those with a sense of pension fund surplus might consider this option (Ellis, 2003). This new differential of risk is quite different from a defined benefit scheme. The defined benefit schemes may produce differential pension outcomes based on lifetime salary but they do not produce an additional differential opportunity for achieving a pension income where the house rules favour affluent gamblers over others. This pension system is by its very nature unjust.

Nor does a defined benefit scheme further differentiate the interests of retirees (and those approaching retirement) from young new savers in the way that defined contribution schemes do. Young new savers paying into defined contribution schemes stand to gain from a bear market because each £1 potentially buys more shares than it would in a bull market. So long as the firms survive and the saver is able to defer an annuity purchase into a bull market in later life the apparent loss of fund value in the present period should not deter them from continuing to invest in the scheme. This can hardly be said to be the case for someone approaching retirement. For them, if fund charges plus portfolio depreciation exceed the tax break (from 22p to 40p in the £) then they experience a net loss on additional fund contributions that they simply may not be able to wait out in the hope of a market upturn. At the same time, they cannot easily choose to cease to make contributions to their scheme. Most scheme providers continue to apply standard charges to the value of your fund even if you cease to contribute. Standard charge levels range from 1 to 4% of the value of the fund per year. Scheme providers tend to disguise the nature of these charges by referring to them as RIY. The choice then becomes to accept this RIY or transfer the fund to another scheme. Transfer costs, however, can be as high as 20% of the value of your fund. Not only that, but the transfer value of a fund is always less than the stated value of the fund because the stated value is weighted according to a long term growth assumption of a kind similar to those used in asset valuation in defined benefit schemes. This is deducted from the current value for transfer purposes. The nearer one is to retirement and the nearer one’s fund is to its final value, the larger the potential damage done by fund transfer (Seib, 2003c).

Stakeholder pensions, introduced in 2001, avoid some of this problem by imposing a maximum 1% annual charge and limiting fund transfer costs. However, they are still designed as a means to generate a pension fund for annuity purposes. Since they are aimed at the low paid with intermittent employment records and do not stipulate an employer contribution, overall contributions are liable to be sporadic and small resulting in commensurately small funds that still maintain the basic vulnerability to market
volatility of other defined contribution schemes. Furthermore, given the small size of the funds, the fact that they are aimed at small businesses with few employees and have very low profit margins based on the 1% cap means that there is little incentive for the insurers to prioritise them because Stakeholder pensions will always be a minor revenue stream. Businesses are already complaining that they are finding it difficult to fulfil their statutory duty to find scheme providers. Since Stakeholders are administered through them, small businesses also fear a degeneration of labour relations if funds perform badly – which, given their basis as a risk product, they may (Moore and Senior, 2001). The DWP, however, are extremely upbeat about Stakeholders noting that over 1 million have invested in them by 2003 (DWP, 2002, p. 82). They neglect to note that most of these are transfers from other forms of personal pensions rather than new savers, that they are concentrated in larger small firms, and that only 1 in 100 people earning <£10,000 per year had invested in a stakeholder at the time of the assessment (Senior, 2003d).

The final way in which risk is important to the problem of defined contribution schemes is that the providers’ strategies have compounded the same basic structural vulnerabilities of the system confronted by the defined benefit schemes. Defined contribution schemes, mainly under the auspices of the large insurance companies, face similar solvency tests to defined benefit schemes. Assets must cover annuity liabilities. Their investments tend to include the same proportion of exposure to equities (70%) and they employ similar long-run growth assumptions for accounting and auditing purposes. The major difference is that, unlike defined benefit schemes, employers do not carry the responsibility of varying contributions to maintain solvency – since there is no given salary liability to work from. Risk is, therefore, more concentrated and greater care is required by trustees to maintain solvency on the basis of invested funds and the ongoing process of contributions from current savers. As we have already argued, a volatile stock market, the abolition of the dividend tax credit and accounts that conceal current deficits make this a murky area of conflicting motivations. Moving out of equities is resisted because of the gambler’s tendency to refuse the low returns on gilts in the hope of a market upturn. Ironically, having no other more liquid asset to call on, the large insurers are eventually forced to sell large blocks of equities to meet industry solvency measures and this simply encourages a spiral of falling share prices that not only continues to place pressure on solvency but decreases the fund values that retirees must use to buy an annuity. Britannic, for example, sold equities totalling 35% of its assets between 1999 and 2002 and still saw £320 million wiped off its share
values in early 2003 owing to fears over its solvency (Miles, 2003). This contradictory situation where the large schemes have a major impact on overall equity values and are pushed to sell large blocks of shares when they are themselves vulnerable to collapses in equity prices simply highlights another basic defect in the financialisation of pension provision. Furthermore, as a corollary of the irrationality of the structural conditions of solvency, annuity rates tend also to be forced down further because the schemes simply cannot afford better rates.

Two additional factors have exacerbated this solvency problem to contribute to recent high profile media reports. First, according to the Continuous Mortality Investigation Bureau (CMIB) and the GAD male mortality in all cohorts (defined by decades) in the UK has increased more rapidly than anticipated in annuity calculations – due to medical breakthroughs such as statins, betablockers, etc. This means that more of those born in the 1920s and 1930s are continuing to draw annuities beyond the life of their fund and more of those born in the 1940s can be expected to do so. According to Peter Quinton of the IFA annuity bureau the average pensioner uses up their annuity fund in 11–12 years but a majority are now living 20 years into that purchase (Budsworth, 2002). This places further pressure on the solvency of the insurers who had not anticipated this. In January 2003, for example, Legal and General disclosed that it had a £140 million deficit caused by this longevity problem (Merrell, 2003). What this suggests is a basic vulnerability to uncertainty in the cross-subsidy basis of the pooling of chance in life expectancy measures. This risk itself has turned out to be time-dependent. The losses life expectancy can create are obviously more easily absorbed during a bull market while the reverse is also true and this is an additional vulnerability in the system, particularly when government tax policy and standard accountancy practices have reduced the sense of urgency surrounding holdings of capital reserves required to meet such contingencies.

Guaranteed annuity rates are the second factor that has exacerbated the solvency problem. In the 1970s and 1980s, interest rates were consistently high in the UK and this motivated many schemes, as a gimmick, to offer a guaranteed annuity rate that could be a minimum of 10%, on the dubious basis that interest rates would be unlikely to fall significantly lower than this for any extended period. This is another example of a short-term perspective that is endemic to the system. Subsequently, interest rates have fallen precipitously and many recent retirees are now exercising their guarantee. Recent estimates put the cost to the life insurance companies at £12 billion (Miles, 2002). Equitable Life is the highest profile ‘victim’ of the
guarantee – or rather policyholders with Equitable Life are the highest profile victims. Beginning in 1998, the insurer began to experience solvency pressures resulting in a three-way conflict of interest.\textsuperscript{18} Those with guaranteed annuities have sought to exercise their guarantees while Equitable has tried to deny them that right. Longstanding policyholders without guarantees have seen the value of their funds plummet as the insurer’s solvency came under scrutiny. Meanwhile, those without guarantees who later bought annuities with Equitable with funds from other schemes, on the basis that the FSA had not declared Equitable insolvent, face the uncertainty of Equitable’s long-term viability (and, as latecomers, their place at the bottom of a long line of claimants against the insurer). Equitable has subsequently closed to new customers.

The eventual loser in all this is the retired worker. On the one hand, the money purchase basis of annuities focuses risk on the individual and does so in an asymmetric way that is time-dependent and favours the better off. On the other, the system contains inherent vulnerabilities that can undermine its capacity to deliver a pension income to all annuitants. Neither Opra, which is responsible for occupational defined contribution schemes, nor the FSA, who is responsible for the personal pension schemes, are set up to deal with these basic issues. Both have found themselves in the invidious position of standing with their metaphorical finger masking cracks in a large dam. In March 2003, Opra responded to concerns over the solvency of defined contribution occupational schemes by empowering trustees to refuse valuations to those seeking to transfer their fund out of troubled schemes. This was to prevent something akin to a run on a bank that produces a self-fulfilling insolvency. But at the same time it does nothing to address the basic causes of insolvency and denies policyholders the basic right to know how their money has been managed and what their fund is worth.\textsuperscript{19} This is scarcely the way to create confidence in a system in which few have any and again shows that Butler’s thesis that somehow private pension schemes in financialised systems avoid the political issues of state provision is a dubious one. In June 2003, the DWP added the hammer blow that fund transfers could be discounted by the percentage to which the scheme is under-funded – effectively charging the policyholders for the incompetence of the management of the scheme. Again, this may deter fund transfer but it does nothing to alleviate the underlying structural causes of concern for policyholders.

The FSA, as part of its basic remit to raise market confidence and consumer awareness, is restricted by its core focus on the selling of pensions, rather than the structure of the system. With little sense of irony, given the Opra decision of March 2003, the FSA has since September 2002 been
engaged in publicising retired workers’ right to shop around for an annuity (Rice, 2003a). Not surprisingly, according to Julie Stark of the Association of British Insurers only 34% of retirees do so. The fact that the FSA has stringent powers to enforce compensation on scheme providers found guilty of inappropriate selling of pensions does not address the basic problem of solvency. That said, the FSA is in a position to declare an insurer insolvent and in early 2003 they did suggest that if the FTSE fell below 3,500 there was a clear danger that some schemes would become insolvent. The market did fall below this level, and as the Iraq war approached there were fears it would breach 3,000 (Peterson, Duncan, Hasell, & Seib, 2003). Realistically, however, any FSA threat is essentially hollow. To declare insolvency would simply exacerbate a confidence crisis and would be of little obvious help to fund holders. The FSA’s only real room for manoeuvre is to criticise the insurers behind the scenes and to work to encourage schemes to build larger capital reserves to reduce their exposure to risk in the future. As the system stands this effectively means higher savings rates for current workers into a system in which it is difficult to have any confidence. In the meantime, in March 2003 the FSA wrote to all the major insurers to advise them on how to apply for solvency waivers. For policyholders at Equitable Life and the other major players this must appear like a truly galling endorsement of their woes.

5. AWAITING THE TURNER REPORT: NEW LABOUR’S NEOLIBERALISM AND ITS FAILURE TO ADDRESS THE FUNDAMENTAL ISSUES

The preceding sections have highlighted four main points. First, that there has been a general attack on pension provision amongst the major capitalist states and the basis of that attack is broadly neoliberal. Second, that the call to shift state pension provision towards individual financialised systems of forced savings is based on dubious premises concerning demographics, costs, and the superiority of finance markets. Third, that the UK experience indicates basic vulnerabilities and inequities in all forms of private pension provision which cast further doubt on a reliance on finance markets. Fourth, more fundamentally, the very focus of pension systems debate and analysis tends to obscure the broader issue of how to provide a pension system beyond a focus on work itself that covers the whole spectrum of society and does not simply perpetuate inequalities into old age.
This fourth point is further emphasised by New Labour’s response to the growing media interest in a pension ‘crisis’. The December 2002 Green Paper *Simplicity, Security and Choice* (DWP, 2002, p. 3) focuses squarely on the working population and attempts to defuse any sense of crisis by arguing that despite the problems of the schemes saving for retirement had increased by 40% since 1997. Though the figure was quickly shown to be false (Willetts, 2003) that headlining figure was clearly intended to give the impression of a basically robust pension system despite market volatility. It thereby implicitly endorses a financialised pension system and arguments for increased private savings while militating against fundamental structural reform in favour of adjustments within the current system that foster the general tendencies set out in Section 2 and the dubious terms of debate these tendencies rely on. This places the Green Paper’s further claim that 3 million are seriously under-saving and up to 10 million need to save more, in a systemically positive light (DWP, 2002, pp. 3–4). The majority of the 10 million become individuals who need to be encouraged to save more by improving confidence, access and information to currently available pension savings provision. The 3 million meanwhile, become a special group to be targeted by additional social security measures (the means tested Pension Credit) as well as the policies targeted at the 10 million (focused around Stakeholders).

The first thing the Green Paper is notable for is what it does not contain and that is any acknowledgement of the role of the 5% asset surplus cap on final salary schemes, or the abolition of the dividend tax credit for pensions, in exacerbating the current woes of the pension system. New Labour clearly has no intention of denying themselves these revenue streams, despite their widely criticised effects. Accounting standard FRS 17 is referred to (DWP, 2002, p. 57), as are concerns over its effects in motivating the closure of schemes, but the need to promote and retain defined benefit schemes as the best the current pensions system has to offer is not central to the document. What the Green Paper does do is emphasise the *effects* of the structural issues we have addressed while de-emphasising the structural issues from which they derive.

This immediately serves the logic of minimal piecemeal reform. There is an acknowledgement that occupational schemes are moving over to a defined contribution basis and that personal pensions are also becoming increasingly important (DWP, 2002, p. 52). This is simply accepted as a constraint within which new regulation must work i.e. there is a need to promote increased individual saving to ensure that retirees have generated sufficient funds to buy an annuity. Significantly, the Green Paper notes that
current market volatility ‘raises concerns’ over whether pension provision should include such a large exposure to equities but counters that since long-term growth rates in share values are good, and that this reflects the strength of a successful UK economy, we need not consider short-term problems as good reasons for alternatives (DWP, 2002, p. 78). For all the reasons discussed in the last section this argument is flawed. Its importance, however, is that it conforms to an overall policy attitude that does nothing to criticise the increasingly individualistic nature of pension risk. If anything, the rhetoric of choice, simplification, and rebranding of pension “products” that are the watchwords of the Green Paper simply compound the basic individualisation of risk. There is something basically disingenuous in the key statement that (DWP, 2002, p. 19):

> Above the foundation of support by the state, individuals, where possible supported by their employers are responsible for deciding the level of income on which they wish to retire. They need to choose the appropriate combination of saving and working to achieve this, making use of the choices offered to them by the Government, employers and the financial services industry.

The use of terms like decision, choice and appropriate serve to make pension provisions appear like any other market for consumption, equivalent to consumer preferences for Mars Bars over Snickers. Some people are simply going to choose (to prefer) to be poorer in old age than others. When translated into these terms the basis of New Labour’s thinking in neoliberalism is clear. Moreover, the cited statement assumes a confluence of interests, an equivalence of commitment to equitable pension provision and an equality of power in the system. Again, as the analysis in the previous section indicates, this can scarcely be held to be so. As Cooper notes (2002, p. 34), information and choice do not easily translate into power in the pension system. Power is already asymmetric and since New Labour seems intent on pursuing an individualised system that asymmetry can only be exacerbated.

One basic issue the Green Paper tackles is demography and work. Since life expectancy is increasing the paper argues for, in confluence with voluntarily higher savings rates, measures to empower the population to stay in the workforce longer. Accordingly, proposed policies include: increasing the retirement age for public services (teachers, nurses, etc.) from 60 to 65, consolidating the minimum early retirement age of access to an occupational pension to 55, increasing state pension age for women to the male equivalent of 65, thereafter increasing both male and female statutory retirement age to 70 and, finally, removing compulsory retirement age stipulations from labour contracts (DWP, 2002, Chapter 6).
This is empowerment in the sense that it creates and sustains the opportunity to work longer to generate greater contributions to pension funds. But in terms of choice it entails more stick than carrot since by extending the term of a full working life, retiring before that term will now incur the penalty of lower pension levels because one did not work the full term. SERPs contributions to the BSP and the State Second Pension would thus be taken at a lower level while the benefits from employer contributions to an occupational scheme might also be reduced by ‘early retirement’ clauses. This raises the important issue of who would ‘choose’ to work longer? Clearly, those most dependent on state provision and those on lower pay unable to generate an annuity fund able to accommodate ‘early retirement’. But low paid manual labour jobs are scarcely conducive to continued employment into one’s 60s. Similarly, the onerous stress and poor working conditions of teachers and nurses are hardly likely to make them look fondly on the prospect of continuing employment as sexagenarians. Meanwhile, those working in Tony Blair’s ‘dynamic knowledge economy’ with commensurately high incomes, although perhaps better able to stay in work, will be more able to take early retirement. The government, of course, is concerned by ageism and notes that one third of over 50s are out of work, even where not counted amongst the officially unemployed (DWP, 2002, pp. 17, 96). But as the IFA notes 400,000 of that 2.8 million figure are long-term caregivers taking up the slack from a woefully inadequate welfare system and only 290,000 are actively seeking employment (IFA, 2003, p. 5). By definition, these are unlikely to be those with well-remunerated skills that are in demand. Ageism, therefore, while not unimportant, is a minor issue in terms of work and pensions and should not be a major plank in reforms aimed at increasing working lives. Poverty in old age is a far more important issue and ignoring other structural constraints simply ensures that the more vulnerable members of society are trapped between lower pensions and the hardship of longer years of work, where finding employment is itself difficult and alternative claims (such as long-term care) are made on their time.

This differentiation of retirement opportunities is also a basic problem with the Green Paper’s approach to annuities. Annuities are endorsed as a fundamentally sound approach to pension provision (DWP, 2002, p. 88). From this position, one of the key challenges the DWP identifies is to improve the range of annuities to meet particular problems from within the system. Two of the key fears people have when buying an annuity is that the rate may be low when they come to buy and that they will die without using up the capital in the fund (which cannot then be passed on to dependents). Accordingly, the Green Paper first proposes that some proportion of the
residual value of a fund can be passed on to dependents at the time of death (DWP, 2002, p. 90). This, however, upsets the only form of collective risk pooling that annuities encapsulate, that of the cross-subsidisation basis of annuities where the early death of some pays the additional costs of those who outlive the value of their fund but continue to receive their contracted annuity. The Green Paper makes no mention of how this will work but it will surely decrease annuity rates as actuaries try to balance the cost and will probably result in higher fund charges to generate compensating revenue.

The second proposal is to introduce limited period annuities based on an annuity contract of 3–5 years where the rate can be renegotiated at the end of that period using any remaining capital (DWP, 2002, p. 90). This appears to address the problem of buying at a low annuity rate during a market downturn. However, the long-term trend in annuity rates over 12 years has been downward precisely because of increased longevity, as well as falling and now relatively stable low interest rates. Since over the last decade, it is only the rate of fall that has been affected by market volatility the whole basis of the attraction of approximating a drawdown scheme is now open to question. In any case, the attractiveness of annuities is precisely that they guarantee an annual income even if you outlive the value of the original fund. Fixed-term contracts mean that one would be periodically buying a new annuity with a smaller fund. Longevity then becomes a danger rather than a bonus, particularly if one’s fund is small (and remembering that 42% of annuity funds are <£10,000). If the basis of this system is that the fund continues to be valued as an investment in your name while the annuity is drawn then a market downturn will also depreciate the total fund value in addition to any income drawn from it to pay your annuity. It will, therefore, produce exactly the same gamblers risk as a drawdown scheme with the additional disadvantage that one cannot guarantee a continuous income until death from a purchased annuity. This can hardly be said to resolve the basic risk differentials in the annuity system or the underlying issue that people are simply living longer and must be provided for.

One of the key reasons for formulating alternative annuities is to generate confidence and thus induce higher individual pension savings. Having endorsed the basic soundness of the system, it follows that one reason for lack of confidence is a poor understanding of the financial system. Accordingly, the Green Paper argues that there is a need to improve people’s understanding of what money purchase schemes can offer them, facilitating choice. Specifically, a greater knowledge of financial services should be promoted through an awareness campaign and introducing financial literacy into the National Curriculum (DWP, 2002, pp. 39–40). These, of course, are
long-term policies. In and of themselves, where effective, they will simply result in a sizeable proportion of the workforce becoming well aware of its potentially impoverished and at best uncertain retirement conditions – something that research suggests the young tend to resolutely suppress (Key Note, 2003, p. 1). Of course, one can endorse this as a positive move since it will eventually place greater pressure on the government of the day for more fundamental reform. Within the constraints of the current system, however, its effectiveness is highly doubtful – being able to read the projections on a pension fund breakdown is not the same as being able to grasp the range of arcane practices which constitute the current proliferation of financial services, vehicles, products, etc. At the same time it does nothing to enable workers to save more, particularly when one considers the contradiction that the so-called post-industrial societies such as the US and UK rely so heavily on consumption led growth facilitated by perpetual debt creation (which workers are coming to view as a lifetime income stream rather than a short-term borrowing) and also on flexible (dual track) labour markets prone to discontinuous employment. If anything, financial education will highlight how much one does not know and as such, it is better described as enlightened ignorance.

Interestingly, this enlightened ignorance also forms the preferred policy basis of the regulation of personal pension schemes. While noting that ‘pension fund trustees often lack the resources and expertise to make informed judgements about investment matters,’ (DWP, 2002, p. 91) the Paper endorses a voluntary code of best practice (to be reviewed in 2 years) to encourage institutional shareholder activism as a way of moderating poor fund management. But restricting regulation to a voluntary code having already endorsed the annuity system with its large exposure to equities is illogical. The key component in whatever stability such a system can offer is the accumulation of large capital reserves to prevent market volatility sending a scheme lurching into deficit. Overseeing those reserves should be genuinely independent trustees who magically combine both a sound knowledge of finance and a lack of network connections or personal relationships within the incestuous world of inter-locking corporate boards. Overseeing those trustees should be policyholders with genuine access to the system. None of this need be left to chance. Doing so simply mirrors the impotence of the FSA in the current personal pension crisis. It tacitly acknowledges that capital reserves will not rise in the near future because the firms are already experiencing solvency problems and must use current savings to meet their liabilities, and it tacitly acknowledges that the current distribution of trustees combines basic ignorance of financial complexity with a host of
compromised connections across the whole of the financial system. Ultimately, this is a tacit acknowledgement that wholesale legislative change within the system would be disruptive yet basically impotent to effect positive change in a politically acceptable time frame i.e. the life time of a parliament – setting legislative stipulations would therefore simply associate the government more closely with failure while voluntarism at least leaves them with scapegoats.

This same logic of distancing also applies to the regulation of occupational schemes. The Paper proposes to relax the regulation of short-term solvency breaches enshrined in Opra’s remit to pursue employer’s for contributions that are either late or too low (DWP, 2002, pp. 56–57) by reducing the number of audits (and thus administrative costs) and allowing a greater latitude in current funding levels referred to as ‘self-regulation’ on the basis of ‘flexible scheme-specific funding requirements’. This basically does little more than acknowledge that defined benefit schemes are in disarray. It is also proposed that firms be required to ‘consult’ scheme members before they rewrite the basis of any defined benefit scheme (the accrual rate etc. – see DWP, 2002, pp. 134–136) or before moving from a defined benefit to a defined contribution basis (DWP, 2002, p. 69). Again this provides for dialogue but accepts that within the constraint of the dividend tax credit and the 5% cap the chances are that the trend will continue for schemes to move to a defined contribution system and radically decrease their own contribution rates.22

What we have, then, is a Green Paper whose bottom line is a tacit acknowledgement of its own impotence based on an underlying neoliberal position. It is married to a notion of choice and empowerment that similarly encodes a highly differential and, with the demise of the defined benefit schemes, increasingly individualised risk. Beneath its forthright language of optimism lies a basic resistance to any attempt to either address the state’s own culpability in recent problems of the pension systems or to address longer-term issues of the basic coherency of the pension system as a whole. Ironically, the major compulsion considered in an approving light in the Paper is the proposal that employers be given the option of making membership of their occupational scheme a condition of employment (DWP, 2002, p. 75). The possibility of compulsory saving is merely mentioned in the Paper. Consideration of its pros and cons is deferred until after a series of reports from a crown Pension Commission (DWP, 2002, p. 31) appointed in December 2002.

The Pension Commission is chaired by Adair Turner, vice-chairman of Merrill Lynch Europe and former head of the CBI. Its initial report of
October 2004 follows similar arguments to the Green Paper. Significantly, Turner’s range of solutions includes the possibility of higher taxation. However, even as the report was being published the media was reporting that the DWP were ruling this option out (Jay, 2004). This was unsurprising since pensions might (and did) become an issue in the May 2005 election. Indeed one reason that the Commission was appointed with a deadline for its final report at the end of 2005 was to delay any political capital being made out of pension reform in the run up to the election. For the same reason the initial report’s discussion of compulsory saving (Turner, 2004, Chapter 7) was also downplayed by ministers at that time. After the election, however, David Blunkett the newly appointed Minister for Work and Pensions, indicated that compulsory saving into named accounts could not be discounted as a possible solution to the pension problem (Jones, 2005). At the same time the financial services sector has begun to lobby in this direction. A Mori survey commissioned by the financial services group Sesame revealed that 73% of financial advisors supported a policy of compulsory saving backed by state incentives (Osborne, 2005). Ironically, a crisis manufactured by a combination of state policy, the nature of the finance industry, accounting practices and conflicting corporate interests has fuelled calls to compel workers to push more money into the financial sector on an individual basis.

The general election also forms the backdrop to the intermediary measures that the state has put in place to address the collapse of occupational, particularly defined benefit, schemes in the last few years. At first sight, New Labour has appeared to address the problem but on closer inspection the measures are parlous at best. In May 2004, the government announced a stopgap Financial Assistance Scheme (FAS) to provide a compensation fund for those that had lost their pension savings from scheme insolvency while a further intermediary scheme was being developed. As I discussed earlier insolvent schemes rather than closed schemes form only a small proportion of the problem. Even here, however, the government estimated that the fund might need to cover 65,000 claims. It was not until February 2005 that the government published the basis on which those claims would be met. To qualify to claim one must be within three years of expected retirement age, e.g. 57 if the expected age was 60. Even so, one will still only receive an FAS pension at 65. If a company becomes bankrupt and its scheme is insolvent only the older, now unemployed, workers or those already retired are covered. If one were 57 at the time one would have to wait eight years to receive a pension. That pension would be 80% of the expected occupational pension the individual had saved for but is, crucially, capped at £12,000 with no index
link. If one were 65 in 2012 actuaries estimate, one might live another 12–15 years. By 2024, £12,000 is likely to be a poverty income by even the most conservative of estimates. In April 2005, the FAS was replaced by the Pension Protection Fund (PPF). The PPF only covers schemes for firms that collapse after that date, such as MG Rover is capped at £25,000 a year with a 2 1/2% constrained index link. Given that most schemes have either become insolvent, closed to new workers, or moved over to private personal pensions prior to April 2005, few will be eligible for this scheme.

6. CONCLUSION

The most urgent question that arises from consideration of the pension system is why New Labour should be so careful in deflecting the fundamental issue of how to address the need to provide a predictable, equitable and adequate pension for all. One does not need to look far for the answer to this question since it too is contained in the Green Paper. The Government clearly states its commitment to maintaining pension provision through social security at around 5% of GDP (DWP, 2002, pp. 19, 147). The 5% level is taken as given, for example, when arguing that the state cannot afford a non means-tested minimum income pension level. The key admission is that the current situation is affordable without any radical change to overall tax and spending (DWP, 2002, p. 24). Having already orchestrated a variety of highly regressive stealth taxes for other purposes, the state is clearly reluctant to associate itself with a high profile upheaval in taxation for pension purposes. Ironically, that they fear this may be politically unpopular simply affirms that people do not think about the long-term collective good of a larger guaranteed pension level because they are focussed on short-term interest and conflicting claims on their income. That people are prone to think in this way and in lower income groups are constrained to think in this way, is precisely why there is a role for greater government intervention in the pension system.

This abnegation is itself a form of political short-term thinking by New Labour. This is so in three ways. First, and most obviously, it is helping to fuel a new wave of union militancy. A recent poll of the largest private sector union Amicus indicates that its members’ greatest concerns are job insecurity and pension shortfalls. According to its general secretary, Derek Simpson, ‘These people are Labour’s core constituency and the way to encourage these vital voters to support labour in the future is to address the issues they are concerned about’. (Buckley, Peterson, & Seib, 2003). Second,
Government Actuary Department projections indicate a 40% increase in population over the state pension age by 2030 (added to a 20% increase in the last 30 years). Over the same period the working population is projected to stay relatively stable (IFA, 2003, p. 3). If the current level of social security spending remains at 5% of GDP then this increase in the retired to working population means that the proportion of state to private pension provision will likely fall. According to IFA the traditional 60% state to 40% private split will be reversed to a 40–60% split (IFA, 2003, pp. 12, 14, 16). In light of the analysis of private pension provision, we have made this would tend to indicate an increase in inequality among the retired in the next three decades. Given the demographic trend, this raises the spectre of a future militant grey vote of the kind Third Millennium fear but one whose very existence is attributable to the kind of neoliberal thinking that such lobbies advocate (Key Note, 2003, p. 3).

This brings us to a third point. Though reluctant to tackle a major change to taxation for higher pension levels, the Green Paper does include a new stealth tax that will ultimately prove extremely unpopular with the upper middle classes who may otherwise have been a less militant portion of the grey vote. At the moment, all forms of private pension have an earnings or a contribution cap. In the name of simplification, the Green Paper proposes to replace this variety with a single £1.4 million cap on pension contributions. Anything beyond this level will be subject to recovery of the State’s contribution and will also be subject to 40% income tax when money is withdrawn (producing a total charge of around 60% on the surplus over the cap). According to the DWP, this will affect just the top 5,000 earners in the near future. But pensions are long-term assets and according to Aeon Consulting, based on conservative estimates of poor equity performance, up to 250,000 people could be affected over the next 10 years and, based on a market recovery, the consultancy Mercer estimates up to 600,000 over 15 years (Seib, 2003a, b). Much like the dividend tax credit, this is a tax on successful investment strategies that simply invites responses ranging from new forms of avoidance to the disincentive to save. It may not be a key issue in terms of pensions and poverty but it is potentially a political problem for the longevity of New Labour with many of its recent supporters in the middle classes.

Ultimately, New Labour’s reluctance to engage with fundamental pension reform reflects the basic political dilemmas of such reform. As with most structural issues such reform could not be pursued in an isolated way. If the state were to propose an increase in progressive direct taxation in order to fund a single unified non means-tested and index-linked pension system
designed for complete coverage of the UK population it would face a number of obstacles. Since the system might also include a new form of compulsory saving in addition to National Insurance there might also be good reasons to increase the minimum wage. The new unified system would be difficult to afford without a new and enlarged compulsory employer contribution. Both would mean direct conflict with industry and the CBI at a time when business already complains of red tape and the increasing burden of various stealth taxes in the current economic climate. Rationalising these stealth taxes to produce a tax system with lower administrative costs (as direct non means-tested taxation always has, Johnson, 1991, p. 125) is a massive undertaking. Even assuming the argument was considered persuasive, government pragmatists are surely aware that wholesale change is something they do badly. The negative publicity engendered over something as potentially simple and yet operationally disastrous as replacing the computer system at the passport office would give pause for thought. Moreover, a new system would mean a fundamental restructuring of the link between pensions and the finance system. As things stand, and despite the current woes of schemes and insurers, pension funds are massive investors in the finance system. What effects a new pension structure for pension provision might have on that system would be highly dependent on how it was designed. But any effort to even contemplate such redesign will inevitably be resisted by the large insurers, the pension industry organisations, and wider interests in finance. This is precisely why all of these groups consistently, even when acknowledging the problem, argue for greater investment in personal pensions and for voluntary codes (NAPF, 2003).

Persuasiveness is, in any case, difficult. In an ideological sense, it requires one to combat the way in which investment culture has been internalised to become part of the accepted everyday experience of life in the UK (Harmes, 2001; Blackburn, 2002b). Just as the poor are always with us, now the financial markets, with their characteristic volatility, are always with us, as inevitable as death and resistance to higher taxes. It is against this background that New Labour’s position becomes intelligible. Partial and irrational pension provision is simply the system we are beginning to believe we can afford. This is a regressive trend in social welfare. Behind it is a return to the concept, articulated by Churchill in 1925, of the State’s role in pension provision as a minimal, last and charitable resort – the ‘ambulance of state aid’. Behind that is thinking much like Earl Rosebery’s response to the introduction of the very first state pension for the over 70s in 1908 which was deemed ‘so prodigal of expenditure as likely to undermine the whole fabric of the Empire’, (Jenkins, 1998, p. 163). Such a position undermines
Gordon Brown’s claim that the state is committed to ‘tackling inequality and renewing public services’ and that we have ‘a Britain of economic strength and social justice’. (Brown, 2003).

Indeed, nowhere is New Labour’s failure to provide a coherent alternative to neoliberalism while distancing itself from social democracy more apparent than in the current state of pension provision. Labour’s rhetorical brand of communitarian politics based in the reconstruction of socialism as primarily an ethical project rather than a project of social transformation through economic restructuring contains basic contradictions (Driver & Martell, 1999). The concentration on equal opportunity (‘a hand-up rather than a hand-out’) rather than equality of outcomes, of individual responsibility and obligation in a ‘one-nation stakeholding society’ has proved incompatible with the collectivisation of risk that is at the heart of rational pension provision. A rational pension system must be based on both a real ethical commitment to ensuring that not only the workforce and their dependents but society collectively reach retirement age with an adequate income and an understanding that the collective rationality of society based on that ethical commitment may not be met by individual behaviour or a volatile financial system. The current fragmented and irrational state of the pension system itself indicates this.

NOTES

1. See, for example, the World Bank Report (1994).
2. As a result the UN forecasts that the number of dependents per adult will rise from 61 per 100 to 92 in 2050 (Blackburn, 2002b, p. 20).
3. The state mandated wage increases of 18% for workers to soften the initial blow of forced saving. The administration and supervision of pension savings were also at least notionally separated from the state by the creation of the Superintendency of Pension Funds Administrators.
4. SERPs was initially calculated over the best 20 years earnings (to help those with breaks in employment) but was altered to full working life in 1986.
5. Or one can simply make a lower percentage of National Insurance contribution when in an occupational pension scheme.
6. The MIG calculation discounts disability living allowance, attendance allowance, housing benefit or council tax benefit.
7. 1/60th of £30,000 = £500 multiplied by 40 years = £20,000.
8. Opra has the power to:
   • Prohibit a person from being a trustee;
   • Suspend trustees;
   • Appoint independent trustees;
• Wind up schemes;
• Apply for an injunction from the courts to prevent misuse or misappropriation of scheme assets; and
• Apply for an injunction from the courts to delay the wind up of schemes that do not meet the minimum value of assets to liabilities.

9. Unlike the USA it is not ordinarily the case that an annuity is guaranteed for a specific duration allowing a beneficiary to continue to receive the income, should the policy-holder die. Such policies are however available.

10. Excluding charges for buying and selling fund investments and stamp duty.

11. The act itself was part of a broad set of reforms aimed at the stock exchange (Johnson, 1991, p. 197).

12. After a phone conversation with a pensions specialist at the IR headquarters in Nottingham, it arose that no direct figures are provided for holidays. They are derivable by approximating from schemes average value report to estimate amounts not contributed on the basis of current estimates of surplus. Interestingly, those estimates were large (averaging 14%) since they predate FRS17 and thus the requirement to provide a report not based on long-term growth assumptions.

13. The total government tax take in 1996/1997 was £270billion, the projected figure for 2002 was £405billion (an additional £44 per head of population).

14. The reason given was that the corresponding International Accounting Standard 19 (IAS, 19) is being reviewed and the UK standard will have to be in conformity.

15. ISAs introduced in April 1999 have a fixed maximum contribution of £7,000 per year and benefit form a 10% tax credit on dividends until 2004.

16. It is also worth noting that those who can defer annuity purchase also gain the additional advantage that their fund can be passed on to dependents (less 35% tax) if they die. Once an annuity is purchased this is not the case – if I bought an annuity today with my pension fund and died tomorrow the fund is lost (the current Green Paper is assessing this problem).

17. The problem of making the decision to transfer is compounded by the administrative procedures of the scheme providers. Getting providers to provide an accurate transfer valuation is extremely time consuming. Transfer delays can run up to 6 months form the point of the decision. If the transfer is being made in order to move to a scheme with lower charges or with the intention of immediately purchasing an annuity from a scheme that offers a better annuity rate the delay prolongs exposure to the higher charges or increases the risk that the rate at the new provider will fall (Rice, 2003a).

18. According to the accountants Burgess and Hodgson, in a report submitted to the Penrose Treasury Enquiry by the Equitable Members Action Group (EMAG) Equitable had been consistently running its scheme at a £1billion deficit, through precisely the accounting ambiguities previously described, before the with-guarantee situation created an additional £1.5billion hole in the scheme. The Penrose report is due June 2003 but, significantly its recommendations and full publication are subject to a Treasury veto – given that its findings may expose the government to compensation claims based on tax regulation of the industry, there is a clear conflict of interest here.
19. Notably, public sector workers, including civil servants and MPs, are exempt from this condition. 
20. See also the new FSA online annuity tables designed to facilitate shopping around (FSA, 2003). 
21. Even in terms of mis-selling, there are problems since there is no legal requirement on pension providers to follow up on a sale to ensure that the scheme remains appropriate to any changes in circumstances. 
22. Where an employer chooses to wind up a scheme policy proposals differ on the basis of the firm’s solvency. If an insolvent employer is forced to wind up their scheme, scheme members may no longer be the lowest category of unsecured creditor but rather have joint status with other unsecured creditors (and thus be the joint lowest, DWP, 2002, p. 64). If a solvent employer chooses (after ‘consultation’) to wind up a scheme the DWP is considering legislating to enforce a further payment by the employer to ensure that employee’s near retirement age receives the full fund level they might have expected with which to buy an annuity. The level of that payment, however, may be tempered by the need to balance the financial burden on the firm (DWP, 2002, p. 67).

REFERENCES


National Union Research (1999). Defending Canada’s Public Pension Plans