Public Service Pensioners' Council

Hamilton House, Mabledon Place, London WC1H 9BD. Telephone: 020 7380 4765 FAX: 020 7383 3454
www.publicservicepensioners.org.uk

State Pensions reform consultation team
Pensions Analysis and Incomes Division
Department for Work and Pensions
5th Floor
Caxton House
Tothill Street
London
SW1H 9NA

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Dear Sir

GREEN PAPER CONSULTATION RESPONSE – A STATE PENSION FOR THE 21st CENTURY

About the PSPC

The Public Service Pensioners' Council (PSPC) was established almost fifty years ago with the aim of protecting the interests of retired public servants. It brings together the various organisations of retired public servants and the retired members' sections of public sector unions in order to provide a united voice to Government and the main political parties on issues of concern to public service pensioners.

The PSPC is pleased to take the opportunity to submit evidence regarding the Green Paper – A state pension for the 21st century. As a pensioners' organisation, we believe that it is vital that existing pensioners' interests are taken into account in any reform plans. Unfortunately, this does not appear to be the case.

Pensioners excluded

The PSPC believes that the critical weakness behind this Green Paper is that it excludes existing pensioners. While future pensioners are promised a state pension at or above the means-tested benefit threshold, existing pensioners are expected to live under the current inadequate arrangements.

According to paragraph 52, just under half of current pensioners are eligible for Pension Credit. The effect of the planned reforms would have the effect of leaving these people on means-tested support. It would also have the effect of leaving large numbers of the post-war baby boom who would retire before any proposals came into effect on means-tested support. Given increases in life expectancy, this means-tested support will have to be paid for decades.

The Green Paper notes in paragraph 53 that one-third of eligible pensioners are not claiming Pension Credit, missing out on an average £34 a week. Despite the efforts of current and past Governments, the take-up rate for means-tested benefits for pensioners has always rested at around the 70 per

General Secretary: ANDREW MORRIS

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cent mark and the PSPC sees no reason why this figure will improve. It is deplorable that millions of existing pensioners will be stuck below the current means-tested income threshold into the future.

The PSPC recognises that there will need to be a residual means-tested support system for those who do not accrue 30 years of contributions or credits under either option 1 or 2, but this is on a different scale to the machinery that will have to be kept in place for existing pensioners. Effectively the Government will have to run two parallel social security systems. The level of support that a person receives, and whether they have a dignified retirement, or one that is overshadowed by means-testing, will depend on which side they fall of an arbitrary line.

The PSPC believes, however, that it is impractical and politically unacceptable to leave existing pensioners on the current system. We face the prospect that in the middle of this century there will be a large surviving cohort of pensioners who have to suffer the indignity of means-testing because of a system introduced a generation before. The PSPC believes that this is unfair. We also believe that it will prove to be politically unsustainable. The Government should remember that pensioners vote and will not stand idly by while they are treated as second-class citizens.

Rationale behind new plans

Aside from the Government's utterly mistaken decision to exclude existing pensioners from the new arrangements, the PSPC agrees with the ideas underlying the Government's direction of travel both under option 1 and option 2.

The PSPC's starting point is that the basic state pension should be increased to a level which allows pensioners with no other income to enjoy a retirement free from the scourge of poverty.

As a short-term measure we believe that the basic state pension should rise from the current £102.15 a week to above the means-tested guarantee credit level. This would enable people to get full value for savings made, rather than lose part of their savings through the loss of means-tested benefits.

In the longer term, we believe that the basic state pension should rise to at least the official poverty level, estimated at £176 a week, with SERPS and state second pension rights to be paid in addition. We recognise that to do this immediately could lead to unfortunate interactions with means-tested benefits. We believe that an incremental approach could smooth out means-testing issues en route and lead to the basic state pension being at least equal to the poverty level by 2020.

The PSPC notes the surplus in the National Insurance Fund of around £110bn. We believe that the Government should investigate as a matter of urgency whether this surplus could be used to boost the basic state pension for existing pensioners, who have after all paid the money which has created the surplus.

There seems to be a lack of joined-up thinking surrounding the design of UK tax policy. The PSPC notes that these proposals retain a contributory element, but elsewhere the Government is considering the merger of income tax and National Insurance Contributions. This could lead to the National Insurance Fund being subsumed into the Government rather than being treated as a separate accounting entity, and the consequent loss of any ability to measure the National Insurance Fund surplus. The PSPC would oppose the merger of income tax and National Insurance on these grounds alone.

Indexation

Long term growth in standards of living and the nation's economy owe as much to the efforts of those now retired or about to retire as to the efforts of those working. It is right that retired workers should enjoy a fair share of those improvements.

The PSPC notes that under option 1, the basic state pension would be indexed through the 'triple lock' mechanism, but the state second pension being indexed to CPI. This would, in our opinion be an inadequate mechanism. For the sake of simplicity, which is an aim for the Government according to the Green Paper, the state second pension should also be indexed in line with the triple lock.

Contracting out
Although the Council's main purpose is to represent the interests of those who have retired, we recognise the importance of good pension provision for current and future pensioners. Possession of private pension has typically marked out those people who will have a comfortable retirement from those who will not.

The PSPC is concerned that the consequence of ending contracting-out will be the ending of defined benefit pension provision in the private sector. It must be remembered that defined benefit provision, especially final salary provision, has been the most generous form of private pension provision in the UK. It would be foolhardy, in our opinion, for the Government to undertake any action that would threaten remaining defined benefit provision in the private sector.

Paragraph 89 of the Green Paper recognises the sharp increase in National Insurance Contributions that employers and employees in contracted-out schemes would face. This would be 3.4 per cent of band earnings for employers and 1.4 per cent of band earnings for employees. Under the most generous assumption, we believe that employers would simply scale down their schemes to compensate for this loss. In reality, we believe it would be yet another reason for employers to review the pension provision that they offer to their employees. The result could be the final nail in the coffin for defined benefit provision in the private sector, as employers move to defined contribution provision.

Increases in state pension age
The PSPC retains its belief, as expressed in its response to last year's Call for Evidence surrounding the Government's plans to accelerate the increase the state pension age to 66, that the state pension age should not be increased beyond 65.

We are puzzled at the Government's insistence that increases in longevity should be automatically matched by increases in the state pension age. The PSPC believes that people should not be forced to work until they drop, but should be allowed an honourable retirement. The Government argues in paragraph 114 of the Green Paper that it is unrealistic to expect the state pension to provide a solid foundation for retirement income if the age at which it can be claimed is unchanged, yet argues elsewhere that the reforms within the Green Paper must be fiscally neutral in each and every year. These two positions are not consistent - if the reforms are fiscally neutral there is no automatic need for the state pension age to rise.

The pension system operated by an advanced country is ultimately a choice as to how much it chooses to pay its own pensioners. The ultimate parameter is the percentage of GDP spent on pensioners. The 2005 White Paper Security in Retirement: towards a new pensions system set out estimates of the reforms that were introduced by the last Government, and on which the proposed reforms in this Green Paper would be built. It predicted an increase in state pension expenditure from 5.2 per cent of GDP in 2008 to 6.7 per cent in 2050. Even under these circumstances, which include a large increase in the predicted number of pensioners, the UK would still be spending less than the majority of EU members. Increasing the state pension age is a choice, not a necessity.

Increasing the state pension age is not a simple solution to the ‘problem’ of an ageing population. Already, around half of 64 year old men are out of the labour market. Increasing the state pension age will not automatically mean people will stay in work. It could just simply turn a generation of 65 year olds from pensioners into the unemployed. It is also necessary to ask who the 65-year olds in work will be. The PSPC believes they are likely to be the less affluent, with inadequate private pension provision if any. It is logical that people who stay in work tend to do so for financial reasons.

Manual workers will be disproportionately affected, both because they are more likely to be in work or looking for work in their mid-sixties, and because of widening health inequalities. An increase in the state pension age will eat into their remaining healthy life expectancy. Many people in deprived areas of Britain will not even make it to state pension age.

If older people are to spend longer in the labour market, the PSPC repeats its suggestion in last year’s Call for Evidence that research is carried out into the availability of work for older people and the type of jobs that they can do before the Government seeks to raise the state pension age further.

Notice period for future changes

Whether the Government likes it or not, people do plan their retirements years in advance. The PSPC believes that the Government should respect the autonomy of its citizens and allow them to plan their retirement without the Government stepping in to rip-up these plans.

The PSPC believes that people should have at least 15 years notice of any plan to increase their state pension age. This accords with the practice in the Pensions Acts of 1995 and 2007. The current plan to accelerate the state pension age to 66 only gives people 5-6 years notice and is indicative of a lack of respect for individual autonomy. If an automatic mechanism for increasing state pension age was introduced, the PSPC fears that individuals would have to chase a moving target and would not be certain when they could retire, if ever.

Yours sincerely

Andrew Morris

ANDREW MORRIS
General Secretary