Editorial

The politics of pensions

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Politics is rather like drugs; it makes you rather weird, and talk interminably, mostly rather pointlessly. In the last few weeks, I have spent some time with the political druggies, and found them fiercely tribal, astonishingly well-informed about every subject under the sun, very charming – and sadly determined to pay almost any price to get elected. The main trouble with politics is that in order to get elected you have to be obsessed with the minutiae and play the political game, which invariably makes you rather inhuman. Rather like addicts.

This editorial appears some time after the result of the UK general election; it looks probable that the Conservative Party will win, with a smaller or larger majority. The problem is that whichever of the three main parties becomes the next government, the pensions position is unlikely to improve much. The question is very much why at present pensions is off the political agenda – and why even if it gains weight, the answers that are promoted by politicians are so very unsatisfactory.

It is possibly the party system. It is possibly that the political system produces lightweight politicians. It is possibly that the constitutional structure encourages short-termism in political horizons. It is possible that the incessant swapping of ministers produces a policy vacuum at the head of ministries.

But whatever the reason, the position is deeply unsatisfactory. We all know that the pensions system is bust – and we also know there is little appetite within the mainstream parties to fix it. There will be pressure for reform in due course as the current system increasingly fails to deliver and the demographics change in favour of older people. But it takes decades to fix a pensions system, and only a few months to wreck it.

The odd thing about pensions policy is that while many individuals and institutions would argue at the edges, most would agree that there are three main things that government should do in broad terms, and do it over time. These are not short-term sound-bite policies, and they are based on simple policy objectives. The policy objectives are:

- that the state should provide a basic retirement income for those too old to work;
- that the private sector should make such arrangements as it thinks fit, with protection for consumers;
- that the tax framework should be fiscally neutral.

This translates very simply into that ...

- the state first level basic state pension (in five forms, ABCD, and 'E', which gives an extra 25p a week at the age of 80 years);
- the state second pension, (currently either contracted-in or out, some of it flat rate some of it earnings related);
- the third state pension (means tested stated pension credit and guarantee); and
- the fourth state pension (NEST, whose policy objectives to help those at the lower end of the income scale may struggle to be achieved);
- the handouts (free transport, heating allowances, TV licenses and so on)

... should be consolidated into one state pension, offering say £200 per week to every person resident in the United Kingdom over say aged 70 years, with a pension age linked to increases or decreases in national longevity. It would save huge administration overheads and remove complexity which leads to over £5 billion a year

going unclaimed because most people find it too hard to claim. It would be broadly cost neutral, and few apart from those who dreamed when they were 30 of retiring when they were 60 would object. There are downsides of course; some people would claim who are not entitled under the current system, and there would be abuses. But the costs of abuses would be balanced by the immense savings on administration. And most of us would understand what income the state would provide. The fact that we will be expected to work until 70 years of age would be ameliorated slightly by encouraging more part-time and freelance work, rather than conventional work. And the downside of longer working for those in manual jobs may be dealt with in other ways. But the bloke in the pub knows that the practical chances of being able to retire on an adequate pension for 30 years is not going to happen.

Curiously the unholy alliance of the NAPF, UKIP, the Greens and the unofficial wing of the LibDems (that is Steve Webb, their Shadow pensions secretary) also supports the idea of what has been variously described as a citizens' pension, a foundation pension or simply a sensible basic state pension. Most of the recent think tank papers say the same. It is only mainstream politicians who feel they need to sacrifice policy integrity for votes, on the principle that politics is the art of the possible, who hesitate.

But if the state system were reformed and improved, it might mean that more of us would be encouraged to make additional provision, mostly through our employers. Employers are dissuaded from pension provision by the quite astonishing complexity of the regulation and compliance and restrictions on freedom of design. It is far from clear that the regulatory framework has benefitted the public rather than oppressed it. We could scrap, over time, the regulatory framework and the 50 000 pages (and counting) of rules and replace them with a simple registry and around 60 pages of rules, like most EU countries enjoy. This would mean accepting a degree of risk in the system, which should be explained to consumers. It would also mean that

'DB-lite' systems could emerge, which could be flexible on retirement ages and benefits, avoid the accounting rules which the current chairman of the NAPF Lindsay Tomlinson has so very sensibly derided, avoid the destructive funding requirements, and bring employers and employees on the same side rather than continue the expensive and counter-productive war between them.

And we could burn the extraordinary 4000 pages of tax rules (including the preposterous anti-forestalling rules), accept that while wealthier people get better tax advantages they also pay balancing higher tax charges, and build a simple EET tax system, which is fiscally neutral, and costs the country little or nothing.

As we give a lead to the public, develop a long-term strategy for retirement income based on those hallowed but ignored principles of equity and simplicity, there is no guarantee that provision would improve or that people would seize the initiative and improve provision for themselves – but at least they could work it out for themselves.

The reforms require clarity on what to do about making a distinction between savings (for example, ISAs) and pensions, to avoid sound-bites such as repealing the annuity requirements (recently savaged by a recent report by one of the think tanks), to avoid introducing high-risk systems such as NEST, establish sound and simple (and enduring) policy objectives, destroy long-held myths that pensions are not cost-effective or benefit overmuch the wealthy, confirm that despite all their ills, employer-based systems are better than the alternatives and act as midwife to the rebirth of a sensible retirement income system, bereft of bells and whistles.

There need to be some changes in the party system first of course. We would have to develop pragmatic rather than ideological parties. They would need to think long term and strategically not only about pensions, but also a host of other reforms. So we could look to the decriminalisation of all drugs (not because taking drugs is good, but because criminalising them makes them worse, to the refining of the job-spec of ministers (that is, that they should

concentrate on devising long-term strategic objectives on transport, health education, defence or whatever, rather than be busy fools), to redefine the job spec of MPs (to hold the government to account, rather than act as social workers in their constituencies) and to adopt a Michael Winner approach to proposals for fresh legislation (calm down, dears). They might also improve the weather, and reduce binge drinking.

But there is scope for any party to eschew the current obscenity of sound-bite pension policies, and to offer a pensions plan for the future, which politicians of all parties and of none, and civil servants, think tanks and the newspapers and civil servants and the pensions industry (and the man in the pub) could live with, which will cost virtually nothing to implement, is simple to understand, is politically acceptable, and which they can buy off the shelf.

Sorry, got rather carried away. It happens when you get involved with politics. You become the man in the room that everyone else rather edges away from, unless you are a government minister, when hordes of groupies find you irresistible, witness John Prescott, David

Blunkett or David Mellor. Perhaps it's best for all of us that the single-issue pensions party, the U party, and its supporters and activists did not form the new government at the last election. But weird, obsessive and zealous as it was, it may have offered an agenda which in due course some sensible government, of whatever hue, would find attractive enough to adopt. In the meantime, the mainstream parties need to wean themselves off the addiction of conventional politics.

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