Book Review

Personal provision of retirement income. Meeting the needs of older people?

Jim Stewart and Gerard Hughes (eds.)

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The volume edited by Jim Stewart and Gerard Hughes provides a welcome addition to the growing body of literature on personal pension plans. The general shift from defined benefit pension provision to defined contribution arrangements has been going on now for some years, and conclusions can start to be drawn about the problems that this has entailed. This book examines some of those problems.

The book is divided into three parts, and consists of 13 chapters in all. Part I contains a number of studies focusing on individual countries, including such big EU-member states as France, Germany and the United Kingdom. Parts II and III deal with specific issues arising out of individual pension provision. There are chapters on the regulation of individual pension accounts, the role of annuity markets, as well as an investigation of the effect that personal pension provision has on income distribution among different socio-economic groups. Each chapter is helpfully succinct, and together the chapters highlight themes that will be familiar to those who take an interest in pension issues.

The individual contributions to this volume are all thorough in nature, which is probably not surprising, given the background of both editors and contributors. Jim Stewart is a senior lecturer in Finance at Trinity College, Dublin while Gerard Hughes is an economist and a visiting

professor at Trinity College, Dublin. The other contributors to the book have similar academic backgrounds, and most have a research interest in pension issues.

A variety of themes is dealt with, including gender issues, problems concerning the provision of inadequate information about pension entitlements, risks associated with investment choices, as well as problems of costs involved, relating mainly to fees and charges levied by personal pension providers. The overall thrust of the book is clear: there are still serious problems to be overcome before private pension provision will start to have the desired result of getting people to save more for their retirement. There are a number of reasons why private pension provision has as yet not started to fill the savings gap in any meaningful way, and the most obvious ones are dealt with in this book.

One area of concern, for example, relates to the effectiveness of the incentives provided to potential savers. If public pension policy is to succeed in its aim of ensuring that people build up sufficient pension savings, it has to be made worthwhile for people to put away more money for old age as opposed to spending it all on everyday needs now. The prospect of tax relief on pension contributions is clearly an incentive, but only to those who have substantial tax bills. People on low incomes might not benefit much,

if at all, from this and will therefore not be encouraged to save this way. Tax reliefs alone will not tackle the problem that a disproportionate number of lower-paid people do not have adequate pension provision in place.

This strikes at the heart of the problem, and another chapter in the volume deals with the question of whether personal pensions have managed to close the income gap. As Stewart and Hughes write in the introduction: 'Two decades after personal choice was introduced into the pension system there is little evidence that individual pension accounts have improved, or will improve the pension entitlements of most contributors'. A significant proportion of individuals make only the standard contributions, and, in a number of cases, people have had difficulties keeping up their contributions. Inertia is also a problem, in that not everyone will necessarily become a member of a pension scheme if they are not automatically enrolled in an arrangement as part of their contract of employment.

The chapter dealing with the conflicting objectives of pension provision in Ireland provides a useful case study. The authors of the chapter pinpoint a number of issues that undermine the effectiveness of private pension provision. Among these are the excessive charges levied by those selling pension products, the one-sided emphasis on tax-reliefs as an incentive and the risk involved in personal pension saving, in which the ultimate size of the pension is so directly related to choice

and performance of the investments made.

The authors of the chapter on Ireland argue that a more effective way of increasing the pension income of many individuals would be for the state to target resources away from tax-reliefs on saving towards increasing the basic state pension. Although this would certainly skew state expenditure towards the less well-off, it is doubtful whether, in today's political climate, governments would be willing to pursue this idea.

The chapter on the impact of regulation on personal pension provision strikes a similar note. Its authors conclude that experiences in the United States and the United Kingdom have shown that the regulatory approaches in both countries have not been entirely successful in encouraging take-up, contributions and the building of wealth in personal pension schemes.

Overall, this book provides a series of studies that are worth reading. Some form of conclusion, however, would have been useful. In addition, more explicit attention could have been given to what has so far gone right in this area. Although no one would seriously disagree that more needs to be done, the pension reforms introduced in most western countries in recent years have at least had the merit of raising public awareness about the need to find different ways to increase retirement savings. A future edition of the book might usefully focus on the positive side of pension reform to date as well.

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