Original Article

Checks and balances in member protection

Received (in revised form): 30th July 2010

Hilary Salt

is a founder of First Actuarial LLP and runs the Manchester office. Her work covers traditional actuarial consultancy including acting as a scheme actuary and advising employers. She also works extensively with trade unions where she assists in collective bargaining situations, provides input to policy work and advises on the pension schemes run by trade unions themselves. She has also written a number of published articles and is a regular speaker at conferences.

ABSTRACT The current view is that member protection has gone too far. But we need to understand the current position in a historical context that recognises how we got here. We need to consider separately benefit levels, security and member disclosure. Armed with an understanding of how we got here, we can consider what actions might be taken to protect pension scheme members in the long term.

Pensions (2010) 15, 249–258. doi:10.1057/pm.2010.25

Keywords: pensions; defined benefit; member protection; security; funding

INTRODUCTION

I should make an opening admission that I did not choose the title for this article. To be asked to write an article with the title ‘Checks and Balances in Member Protection’ is interesting. ‘Checks and balances’ are generally discussed in the context of the legislature or judiciary – with the aim of the discussion being to control those pesky people exercising their democratic rights or those out-of-control judges. Currently in pensions, there is a feeling that member protection has ‘gone too far’, and that those annoying beneficiaries really need to appreciate that less protection would be good for them. Is this a reasonable analysis of the situation, and if so what are the checks and balances we lack?

It is certainly important to recognise that the current system is too brittle. The widespread

abandonment of the defined benefit (DB) field by private sector employers indicates a problem. Employers have replaced schemes that were in some cases unsustainably expensive with schemes that are in some cases unsustainably cheap, and the price for this will have to be paid. Meanwhile, we have a wholly irrational debate about public sector pensions with many contributors, including pensions professionals demanding that ‘fairness’ requires that care workers and environmental health officers should have low quality pensions too. (It is hard to imagine anyone arguing that we should make all hospitals underperform in the interests of fairness!)

To gain a better understanding of where we are now, we need to unpick what we mean by member protection and remember how we got to the current situation.

There are three separate elements to member protection. While these are often confused, it is helpful to separate them out for this discussion. These are: the level of benefits, the security of the benefits and transparency and communications.

Correspondence: Hilary Salt
First Actuarial LLP, Furness House, Furness Quay, Salford Quays,
Manchester M50 3XZ, UK
E-mail: hilary.salt@firstactuarial.co.uk

SETTING MINIMUM BENEFIT LEVELS

Until the mid-1980s, there was no explicit control at all in the level of benefits. The main benefit characteristics in a DB world are: accrual rate, retirement age, pensionable salary definition, pension increases and revaluation. For the current discussion it is perhaps also useful to add on the cash commutation rate. Despite there being no controls, schemes tended to follow a common approach of adopting the 1/60th or 1/80th accrual designed to produce a two-thirds or one half of salary pension after 40 years' service. A formal control mechanism was exerted through the contracting-out legislation that did set minimum levels of benefit to enable schemes to contract out. It is important to remember that contracting-out rebates were originally (and consciously) set at levels that encouraged contracting out. It is easy to look back with 20/20 eyes and ask why employers accepted that risk transfer from the State but they did it because they received a hefty 'bribe', and it was the easy option for existing schemes in 1978 to contract out.

Perhaps the first target of general outcry on benefit design was the lack of any requirement to revalue pensions in deferment. The situation in the mid- to late 1980s was that many schemes had significant surpluses. To the extent that these surpluses really existed (and we should accept that in part they were illusory and due to over optimistic calculations), a large chunk of these had arisen because industry restructuring had led to significant job losses. The popular (and not incorrect) view was that employers were enjoying contribution holidays on the backs of workers who had not only lost their jobs, but who had been left with pensions that really were frozen – losing value significantly in times of high inflation. The introduction of the preservation requirements then was wholly understandable. That early leavers should receive a fair proportion of the benefit they would have received had they stayed in service until retirement is surely a correct principle, and it is to the industry's shame that legislation was required to make it universal.

Similar concerns arose around the issue of pension increases. Current commentators often opine that schemes should have retained the old system of only paying pension increases when funds were available to do so. Indeed, this system did work well in some schemes, but there were also others where surplus cash was only ever used to fund employer contribution holidays, with pensioners never receiving any increases. In one high-profile case, pensioners took court action after hearing that yet again the trustees – with the agreement of the employer and the trade unions representing active members – had decided to spend the surplus on an employer contribution holiday and benefit improvements for current members. The pensioners lost.

It is possible to get a weak flavour of the sense of injustice that led to benefits being improved by considering the commutation issue now. There is a significant level of disquiet about the fact that current commutation factors tend to undervalue the pension members would otherwise receive from a scheme. A number of commentators – including the Institute and Faculty of Actuaries – have expressed concerns on this issue, but there seems to be an acceptance that changing the situation could be the straw that breaks the camel's back. Low factors are therefore justified by pointing out that members can choose not to commute and that cash taken is tax free.

BENEFIT SECURITY

It is also instructive to replay the position on the security of member benefits. By security, I mean two separate elements – first the security afforded by the requirement on employers to fund the benefits – either in advance or on the application of some trigger, and second the extent to which accrued benefits can be reduced.

It is perhaps overstating the position to refer to the times before the minimum funding requirements (MFR) as the Wild West in the pensions arena, but the requirements on funding were fairly relaxed. There were no set standards at all for contracted-in schemes where employers could run a scheme on a pay-as-you-go basis (which is not to say that this was widely used).

For contracted-out schemes, actuarial certification that the contracted-out benefits were adequately funded was required, although there was room for judgement in assessing this. Arguably, it was not unreasonable to be cavalier about funding in the 1980s. With gilt yields at 10 per cent per annum and no revaluation or escalation, schemes were pretty well funded even on buyout. But the position changed rapidly with gilt yields falling to less than 5 per cent and benefit protection improving. All of a sudden, the situation was that members were in inadequately funded schemes, and having no safety net could be devastating. History has been keen to sit in judgement on Maxwell, but it is important to remember that that particular scandal involved breaking the law. Both before and after MFR, many members lost significant benefits because schemes were inadequately funded even though no laws were broken at all. A list of examples throws up many names familiar from British industrial history such as Swan Hunter and Belling. In many of these cases, employers had taken sustained contribution holidays in the run up to the company failure. It is not surprising that in these circumstances, the popular view was that something must be done.

The other side of member security is the extent to which accrued benefits can be changed. While there has always been some protection flowing from Trust Deeds and Rules, members were in the past sometimes inadequately protected from retrospective changes. An example might help to illustrate this.

In the early 1990s, schemes were grappling with both the issues of equalising pension ages and introducing pension increases. People may remember that the Barber judgement while making it clear that benefits had to be equal for men and women lacked clarity in exactly how this should be done. In one high-profile case, the trustees resolved the issues by changing the retirement age to 65 and introducing pension increases at the same time. As the actuary was able to certify that the benefits overall had the same value, this was not unlawful. And yet one particular woman expecting to retire in June found out in February that her starting pension would be 25 per cent less than she has been

expecting. In other cases there were no cushioning effects at all. Members could find generous early retirement terms revoked unilaterally and equalisation was often used as a rationale for this.

It was against this background of members losing benefits because of underfunding and lack of protection against retrospective changes that the Goode Committee on pensions entered into its deliberations.

Re-reading the Goode Report now from 2010, it is difficult not to think that at times it seems rather naive. This is not to show any disrespect to members of the committee – it is very easy with the benefit of hindsight to argue that things might have been done differently. My understanding from contemporary conversations was that there was a range of options within the committee. The compromise struck was that employers would not be required to fund schemes to full solvency but that the *quid pro quo* was that the ability to reduce past service benefits would be strictly limited and that trustees (not employers) should control the investment strategy. Therefore, we got the minimum funding requirement (MFR), Section 67 of the Pensions Act 1995 and a Statement of Investment Principles set by trustees. Section 67 does not allow the reduction of past service benefits without the member's consent.

It is worth spending a little time on Section 67. It is often said today that it is not possible to reduce past service benefits. In fact, it is quite possible to do this with member consent. My experience is that if an employer engages in a full and open discussion with members explaining exactly what the options are, it is possible to persuade members to agree to benefits being reduced. Certainly, the Goode Committee did not envisage the restriction of powers to reduce past service benefits being applied as robustly as it is now. Indeed, they recommended that the power to agree to a reduction in past service benefits be vested in the newly recommended pensions regulator rather than in members. The Committee felt that this approval 'should be given only in exceptional circumstances'. But an example used at the time suggested that the

Regulator might agree to past service benefit reductions in a situation where a large number of members are involved in the same accident – thereby causing significant financial problems for the scheme. The switch in the legislation moving the power to agree to changes from the regulator to the members was, in my view, not meant to further restrict situations in which changes might be made but was meant to further democratise powers in a scheme.

How did we get to a situation where legislative changes that were meant to limit an employer's ability to unilaterally reduce past service benefits ended up with people believing changes were impossible?

There are two discrete explanations. The first explanation lays the blame at the door of the lawyers. Many lawyers have argued against the use of member consents under Section 67 on the basis that Section 91 of the Pensions Act 1995 does not allow members to forego benefits (the non-assignability clause). Quite why lawyers believe we have the consent option under Section 67 if Section 91 says it can never be used is a mystery. Leaving aside the specific Section 91 issue, lawyers have been wary of advising trustees to cooperate with exercises asking members to give up past service benefits. Overall, lawyers have certainly exerted a significant brake on the possibilities for using Section 67 consents.

The second explanation is a much more socially based one. The last 20 years have seen a shift to a much more individualistic society. People are now less likely to pursue collective ways of resolving problems. There are many examples of this – such as the decline of trades unions, charities, societies and social organisations. Robert Putnam's 'Bowling Alone'¹ charts the phenomenon in America. This causes a general problem for DB schemes, which are collective vehicles for retirement saving. But it is a specific problem in a situation where an employer seeks Section 67 consents to a change in past service benefits. Such an exercise will only work if the vast majority of members give their consent. In reality, the best outcome for any one specific member is that everyone else consents, the

exercise succeeds but they withhold their individual consent. (A parallel can be drawn with child immunisation. The best outcome for your child is if every other child in the population is immunised but yours is not). The call for independent financial advice in these circumstances exacerbates the protection as an IFA should recommend an individual withholds consent. In practice, these barriers are not insurmountable, and it is possible in some circumstances to build a solution that works. But a significant first problem is to grapple with the question of why members might take a collective approach.

The next major change in funding requirements occurred in June 2003 when government finally bit the bullet and said that in certain trigger situations employers would have to fully fund schemes – that is, meet the cost of buying out benefits. This change was rather a bolt out of the blue. It was neither the result of popular pressure from members and member organisations nor the result of significant lobbying from industry. The impetus seemed to come from government concern that employers were able to walk away from schemes, leaving members with significantly reduced benefits. Of course the change to requiring full funding only applied on the wind up or partial wind up of a scheme but this can be a near term event, particularly to an employer in financial difficulties. It is important to note that this change altered the delicate compromise struck by the Goode committee – this had been to not require full funding in return for controlling employer power to reduce past service benefits, and putting investment discussions in the hands of trustees. In theory, changing this compromise should have triggered a re-examination of these issues – and could do so now.

The final act in a history of funding is the introduction of the Statutory Funding Objective (SFO). The legislative basis to SFO – that funding should be scheme specific and prudent – is, in my view, not contentious. In practice, the experience of the SFO has been largely dominated by the interpretation and practice of the Pensions Regulator (tPR) – which in turn is

dominated by their desire to protect the Pensions Protection Fund (PPF). It is surprising that advisers have not had the appetite to challenge the approach taken by the Regulator.

The introduction of the PPF seems like the ultimate step forward in member protection. In reality, before the 1995 Act, members of contracted-out pension schemes did have a similar scheme. When schemes failed, members were guaranteed to receive at least their 'Guaranteed Minimum Pension' (GMP) from the State. As the vast majority of schemes were contracted out, it is not unreasonable to argue that the protection members enjoyed pre-1997 was actually of a similar type to that provided by the PPF. The difference is that previously the protection was funded by the State through general taxation. Interestingly, the only worthwhile protection the Maxwell pensioners had was through the GMP guarantee. I commented at the time of the 1995 Act that it was ironic that the Act that flowed from the Maxwell affair ended up removing the only protection those members found useful. It is perhaps doubly ironic that we have ended up re-introducing the protection, although with a different funding mechanism. It is helpful to note though that what seems like a new protection is in fact the re-appearance of one previously held.

MEMBER UNDERSTANDING

Getting back to our history of how we got here, the third element of member protection is that of transparency. A real issue raised around the company, and therefore scheme failures of the 1990s, was that members were not told of the financial position of their schemes and therefore of the risks associated with their benefits. In fact, the lack of information went much higher. Many actuarial valuation reports of the time did not analyse the wind-up position – instead opting for a paragraph stating that benefits would not be covered on wind up, but as the scheme was not going to wind up this was not an issue. The low level of benefit coverage when the employers became insolvent could be as much of a shock to trustees as it was to members. More generally,

members would often struggle to get information about their schemes – benefit statements and booklets were often a problem, and asking for a copy of the actuarial valuation report was viewed with extreme suspicion. I vividly remember an occasion in the early 1990s when a member trustee was told he could not have a copy of the Trust Deed and Rules – although he could go and consult the copy held by the pensions manager.

This is an area where great progress has been made. Members generally get basic information as a matter of routine – the annual summary funding statement is particularly helpful. Access to more detailed information, while now a right, can still be patchy. I run a number of training courses for negotiators, prospective Member Nominated Trustees (MNTs) and for observers on local government scheme committees. We ask participants to request the actuarial valuation, the statement of investment principles and the scheme report and accounts from their schemes. I have still never had a case with a 100 per cent success rate on the documents. The actuarial valuation report continues to be the main sticking point with members told 'it's in the Report and Accounts' or given FRS17 disclosures or the summary funding statement or a PowerPoint summary of the valuation. We should therefore not, as an industry, be too blasé in believing that all schemes are now fully transparent. I am conscious that there is a widely held view that the detailed disclosure requirements are problematic, and that this is an area where some 'checks and balances' are required. While I could have no objection to removing the detailed requirements, we must recognise that we are not in a situation where trustees are being fined left right and centre for breaches that do take place. To a large extent, the detailed requirements and penalties are paper requirements only. They are, however, an important protection for those members who are faced with a blank wall when trying to obtain information to which they have a legal right.

An understanding of the history, leading to a current position, is interesting in its own right. But the rationale for including it here is to

counter the seemingly widely held view that we have got to where we are because well-meaning meddlers here brought us to a position where unnecessary member protection is the primary cause of the demise of final salary schemes: it has 'killed the golden goose'. Therefore, we need some 'checks and balances' to even out the position. Understanding the history should help us to appreciate why various reforms were introduced. But the next project is to understand where we are now.

WHERE ARE WE NOW?

A summary of current member protection reads like this:

1. *Benefits*

- (a) Pension increase requirements; RPI up to 5 per cent per annum on 1997–2005 accrual, RPI up to 2.5 per cent per annum on post 2005 accrual.
- (b) Revaluation; cumulative RPI up to 5 per cent per annum on pre-2005 accrual, RPI up to 2.5 per cent per annum on post-2009 accrual.
- (c) Reference scheme test minimums on accrual, pensionable salary, partner benefits.
- (d) Pension increase levels and revaluation requirements may switch from a RPI to a CPI basis in the near future.

2. *Funding*

- (a) SFO requirements as set by trustees after taking advice from the scheme actuary after (at least) consulting the employer – set on a prudent basis.
- (b) tPR's requirements (through legal basis unclear).
- (c) Access to the PPF.

3. *Transparency*

- (a) Detailed requirements on generic scheme information and individual benefit information.
- (b) Annual disclosure of funding position including position on wind-up.

Almost all of these have been suggested by some as areas where member protection has 'gone too far' and so it is helpful to consider each

separately. One particular issue to consider is that in many cases, a 'member protection' can in fact be a characteristic which has a number of effects.

Let us start with pension increases. A strong argument has been made that the requirement for pension increases should be removed altogether and schemes be given an option to pay pension increases on a 'with profits' basis, with increases paid only when resources allow. Although the theory of this approach sounds attractive, there are a number of problems associated with it:

- Our experience of this approach is that while it operated well in some schemes, it led to some schemes never paying any increases. This is a particular danger given that employers generally control funding. Constructing legislation that required schemes to fund for pension increases but only pay them if affordable would carry its own challenges. The operation of this kind of approach relies on members and employers trusting somebody (the trustees? the actuary?) to operate the system fairly. A necessary first step would be to forge this trust.
- Members greatly undervalue inflation risk – this is indicated by their reluctance to purchase increasing annuities from money purchase funds. This is driven by the common tendency to underestimate one's own longevity, the attraction of an immediate higher income, often because resources are limited, and perhaps a distrust of the pension scheme. But the fact that members do not recognise inflation risk does not mean they are best placed to carry it. At least to some extent, a switch of inflation risk to members still means some risk transfer to the State, as without pension increases some members become entitled to means-tested benefits at higher ages. More routinely, a lack of pension increases would mean that some members, who retire on reasonable levels of pension, end up with inadequate income. At that stage, the member is of course unable to do anything about it.
- Removing pension increases from schemes reallocates resources from those who live the longest to those who live the shortest period in retirement. Given that many studies indicate it is

the oldest old who are most lacking in resources and the discussion on raising state pension age to focus resources on higher ages in retirement, it would seem very odd for occupational pension schemes to be heading in the opposite direction.

It is interesting, and perhaps a little disappointing, that many pension professionals who recognise these implications are not making them clearer in the discussions on these issues.

The issues on revaluation in deferment are, if anything, a little starker. In addition to the issues discussed on pension increases, a major problem with removing any requirements to revalue pensions in deferment is the effect it could have on job mobility. It is interesting to note that job mobility is a specific concern raised in the Hutton review. An issue worth noting is that it is already possible to have an element of discretion in the revaluation rate if an employer operates a Career Average Revalued Earnings (CARE) scheme and the same revaluation rate applies to active members. This approach has perhaps unsurprisingly not been adopted by many employers although it is less easy to see why it has not been suggested by advisers.

While the contracting-out requirements have the effect of member protection, their aim is to ensure that schemes enjoying the contracting-out subsidy provide adequate benefits. However, there is no longer any explicit connection between the State second pension (S2P) given up and the scheme benefit. The quality check applied – the reference scheme test – is likely to come under pressure in the near future, as it places a brake on schemes having pension ages above 65 and as schemes that have restricted pensionable salary definitions start to fail it. The recent proposals for a new scheme for MPs that have a pension age of 68 would not, for example, meet the reference scheme test.² There is also the issue that many schemes are now closed to new members, and thus have high average ages. The cost of providing reference scheme test benefits is then higher than the rebates that are set using younger average ages. These issues together with the lack of any financial incentive to contract out are likely to

mean a widespread re-examination of contracting out. An issue that has received little attention so far is the effect of employers abandoning DB on participation in S2P. There was a time when government had a clearly stated principle of having more private and less State pension provision. This principle seems to have disappeared – perhaps helpfully given that the opposite has happened. It would seem likely that the indirect protection members receive from the contracting-out legislation may be removed.

Moving to funding, I have already commented that the SFO itself would not seem to me an inordinate burden on employers stemming from overzealous member protection. The requirement for the trustees to set a scheme-specific basis for scheme funding that is prudent seems reasonable. Often, the employer's agreement to the funding basis is also required. An interesting issue to watch is the extent to which new actuarial guidance requiring the disclosure of a best estimate valuation has on the levels of prudence used by trustees. In theory, Technical Provisions set on a best estimate plus a small loading would satisfy a prudence test. But the introduction of the SFO has been accompanied by the oversight of tPR, and it is this latter that is in my view more problematic.

The valuation approach being enforced by the Regulator based on a gilts return plus a margin has some significant failings that currently make it a very strong basis. (For a full explanation, see the article in *The Actuary* by my colleague Derek Benstead³.) In addition, the Recovery Plans expected by the Regulator insist on employers paying the maximum 'affordable' amounts into schemes. While these are nominally actions that support member protection, the actual effect is debatable. The effect of the Regulator's requirements has certainly been to persuade some employers to cease DB accrual. Indeed, there are a number of cases where the Regulator has put pressure on scheme trustees and employers to close schemes. It is highly debatable whether this is appropriate action for the Regulator, and certainly questionable whether it was intended that the Regulator should engage

in such behaviour. The actual powers of the Regulator in these areas are questionable. If the trustees and employer have engaged in a proper process to set Technical Provisions, the ability of the Regulator to insist that they re-examine them seems legally fairly constrained. In such situations, the desire to avoid conflict, additional fees or adverse publicity seems to have been sufficient so far to ensure that schemes do just enough to keep the Regulator happy, but further conflict seems inevitable.

One of the reasons for the Regulator's enthusiasm for stronger funding is the duty they have to protect the PPF. Perhaps then, it is here that we should direct our attention. Is the PPF a member protection too far? I have already commented that for contracted-out schemes, the protection from the PPF is of a broadly similar type to that which existed before the Pensions Act 1995. The introduction of the PPF is then less of a new member protection and more the reinstatement of a protection that had been suspended for a decade. There are two possible objections to this. The first is that when government was initially called upon to back the State guarantee afforded by the GMP for a scheme of any great size (that is, in the Maxwell case), the eventual result of the enquiry was the withdrawal of this protection. Was this government saying indirectly that it could not afford the protection? The second is that DB obligations have now grown much larger than they were in the early 1990s, and it is this that makes protection unaffordable. There is also the secondary but still very important question of who pays for the protection – the State more widely (as then) or employers with DB schemes (as now).

If protection was considered unaffordable, the options for us as a society would be to reduce or remove protection or to find alternative sources of finance. The PPF already has the ability to reduce the level of compensation payable, and it is possible to posit scenarios in which this might be done. What seems questionable is whether, if compensation was reduced to levels that seemed untenable, government would have to step in. It seems

unlikely that any government would, or could, allow the PPF to fail. The question then becomes whether society could afford a bail out. The issue of affordability is one I will return to later.

Finally, on where we are now, current levels of disclosure seem to be reasonable. As noted before, there is certainly room for the removal of some of the detailed legislation, but given the lack of real penalties on non-compliance this would not seem to be a top priority.

This leads neatly to the question originally posed as to whether there is a need for more checks and balances in member protection. A caricature of the previous government's response to the deregulatory review was perhaps 'We could legislate but why bother when changes won't save any existing DB schemes and won't lead to any new ones being set up'. I do not think that was an unreasonable response. There is clearly scope within the existing legislation for innovation, but we cannot point to significant numbers of employers exploiting these possibilities. If there were lots of employers setting up schemes with conditional revaluation or with low CARE accrual rates and defined contribution (DC) top ups, we could, as an industry, make a strong case to government that legislative change was necessary. But when the response of many employers is to go straight to a minimum cost DC, it is difficult to build a case for legislative change having any impact.

This is not an argument for a do-nothing response. Clearly, from where we are now, the outlook for any decent level of private sector pension provision looks grim. What three things might we do to make the future brighter?

POSSIBLE CHANGES TO CONSIDER

My suggestions for making the current system less brittle and therefore more able to cope with current challenges are:

1. *Abandon contracting out:* The reference scheme test has never really been about protecting members – it was a hurdle set to allow

employers to receive a State subsidy designed to promote private provision over public provision. If a future date for abolition is announced to allow time for planning (say 2015), we can have a sensible debate about pension ages and accrual rates instead of always focussing on pension increases and revaluation. The opportunity should also be taken to tackle GMP equalisation. As scheme rules do not define GMPs, schemes cannot equalise them, it has to be done (or not done) in legislation.

2. *Get to grips with Section 67*: Legislation is not strictly necessary, but we do need to make it clear that changes to past service benefits are possible and lawyers need to accept that. Ideally, one legislative change would be made so that if, say, over 90 per cent of members accepted the change, it could be imposed on the refuseniks.
3. *Design something New and Practical*: The previous government indicated strongly that they were unwilling to sweep away broad swathes of member protection when there was no guarantee, and indeed no indication that it would result in any employers retaining or introducing high-quality schemes. I do not believe we can find employers who would keep a DB scheme if only the disclosure requirements were revoked. Let us start with some blank sheets of paper and design schemes that employers and employees would really like. Then, we can present a sensible case about which protections can stay, and which need revision.

Finally, it is important to think a little more widely than the pension arena; the best way to protect both past and future members of pension schemes is to make sure we have a bigger cake to share between us. In my view this means that we need to believe in two things: education and development. The most disappointing thing about the UK national election was that discussion of the economy was limited to a discussion on cuts. But the other way to reduce debt is to grow our productive economy. Where was the discussion on how to develop our biotech industry, how to use technology more effectively (how is it I can

set my sky box to record from 200 miles away using an iPhone app but I can't turn the heating on?) and how to resolve the everyday annoyances (why am I carrying in my suitcase separate chargers for two phones, a laptop, two cameras, rechargeable hair straighteners and toothbrush?) These are the debates I want to be having. I touched earlier upon the question of the affordability of the PPF. Are we really prepared as a society to simply shrug our shoulders and say we cannot afford to compensate people approaching retirement who have lost their pension as a result of employer failure? I for one am happy to work hard to make sure we can afford this and a thousand other things, including a charger that works for everything.

I mentioned the need for a belief in education. In this recent book 'Wasted: Why Education Isn't Educating',⁴ Frank Furedi reminds us of Hannah's Arendt's view that 'education is the point at which we decide whether we love the world enough to assume responsibility for it'. He goes on to explain that 'it is through education that adults ensure that the younger generation are prepared culturally, morally and intellectually to renew our "common world"'. Education here means not the dry utilitarian, vocational training that employers are supposed to value, but the passing on of a collectively owned and distilled body of knowledge. It is by ensuring that the younger generation are educated that the older generation can best protect their future in retirement; the inter-generational debt has both economic and cultural facets.

We also need to believe that development is a good thing. In this book 'Ferraris For All',⁵ Daniel Ben-Ami correctly identifies the development of 'growth scepticism' – most strongly espoused by old money and their disapproval of cheap flights, genetic engineering, new power plants in China and affordable cars in India. The development cynics believe that we should make do with what we have, learn to expect less and limit our aspirations. This approach is unlikely to be helpful for the pensioners of today or tomorrow. Arguing for a massive expansion of productive resources

throughout the world is difficult under the current circumstances, but is the best way to protect pension scheme members in the long term.

REFERENCES

- 1 Putnam, R.D. (2000) *Bowling Alone: The Collapse and Revival of American Community*. Touchstone: Toronto.
- 2 See <http://www.official-documents.gov.uk/document/cm79/7926/7926.pdf>.
- 3 See <http://www.the-actuary.org.uk/873884>.
- 4 Furedi, F. (2009) *Wasted: Why Education Isn't Educating*. Continuum: London.
- 5 Ben-Ami, D. (2010) *Ferraris For All: In Defence of Economic Progress*. Policy Press: Bristol.