Editorial

The role of the state in pensions

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The UK pension system has been sick for a long time. But it may be that it is beginning to gently convalesce. The vital sign is that the UK finance minister in his annual statement (known as the Budget) mentioned almost in passing the end of ‘contracting-out’. For those who have lives to lead, and have not studied the intricacies of the unique (although copied for a short while by the Japanese) system whereby a labour government in the 1970s agreed to privatise part of the state pension system, contracting-out may have passed you by.

But contracting-out, the system under which the state second pension can be provided, in exchange for paying a lower social security contribution to the government, by a private employer has already been withdrawn for UK defined contribution schemes, and is to be phased out for defined benefit schemes. The closing of contracting-out will pose material, not to say difficult, challenges for both government which will have to find jobs for 10 000 civil servants in the already depressed north east who supervised the scheme, and for employers who will have to lobby to ensure that they do not have to pay twice, that is to the state social security system and to their employees by way of excessive pensions. The devil is in the detail, and he has not popped out of his incendiary environment to disclose just how this will be done. It is clear it will not be simple and not be cheap.

But the change marks a probably little appreciated revolution in UK government policy on pensions provision. UK pensions policy is still incoherent and *ad hoc*. But it is getting less so by the day. We have already had the declaration that over time the three UK state pensions, the basic state pension, the additional state pension and the pension credit/guarantee are in due course to die.

In their place will be a single state pension of around £140 a week, non-means-tested, and to all intents and purposes paid to all (although there will be vestigial contributory and residence requirements to pacify the rednecks but which will in practice be ignored).

And now as part of that reform we are seeing the end of contracting out. Over time that will remove several thousand pages of regulation, several thousand wasted jobs and a system whose administration in practice was sometimes impossible. Legions of abbreviations and jargon phrases will become obsolete – in due course who will mourn GMPs and requisite benefits? And over time the man or woman in the street or on his favourite omnibus in Clapham will actually understand what it is that the state will do (or try to do) for him when he stops work. It will be a wonderful achievement and all done without the need to commission and enquiry and grant a peerage to a management guru who is paid to say the obvious.

Contracting out was always rather weird, which is why it is so rare elsewhere in the world. It was implemented in a very complicated way, it required in its early days at least an ‘incentive’ (otherwise known as a bribe) to persuade companies to take on the pension liabilities of the state, very few understood the technical intricacies, least of all the members of the public, it emerged as a result of a flawed policy in the mid-1970s when a change of administration refused to adopt the pension system of a previous administration more out of pique than conviction, but found itself unable to enhance the basic state pension which was the obvious and sensible alternative, because of a financial crisis in the country at the time. The establishing of a state second pension (then

known as SERPS) allowed the treasury to collect (and spend) money now and worry about paying it later. That pension bill is now being presented, and it is making the treasury rather unsteady. Which is why it is dismantling the system.

The main gain however is that it shows that there is someone thinking in government about what the distinctive roles of the state and private enterprise should be in protection against living too long. What seems to be emerging is that government has now accepted that the role of the state should be restricted to two objectives. One is to ensure so far as the country can afford, a dignified period for its population who otherwise could not afford it, between retirement and death, free from the need to worry about food, clothing, heating and shelter, at a very basic level. And the other, yet to be realised in practice, is the need to restrict the interference of government in private provision to the basic rule of law to ensure funds are not stolen and promises broken.

Now that the state has adopted the policies of the U Party in relation to state provision (although it has not yet abolished cheap travel and TV licences), it is time for it to turn to what should be its role in the management of private pensions. Private pensions struggle under directives and regulations prescribing the nature of benefits, an idiosyncratic tax neutrality or absence thereof, and controls implemented with

the best of intentions but with unintended consequences, which are all too clear.

It is too easy and very lazy simply to declare that we need simplification to allow private pension provision to breathe again. We do need that, but we need more than that. We need to articulate the policy that underlies the provision of such benefits, and then design the legislation around that, rather than the reverse. Therefore, we should hope to see over the next few months and years some basic principles emerging. We could start with a general statement that the default position (a favourite term now in government) that there is no market failure, and that unless there are very good reasons, government should not be involved in the design of private arrangements. Second, that the general rule of law is normally sufficient protect the interests of members. And third, that transparency and competition are normally adequate to ensure the public are not exploited. It is the very thicket of regulation that has so often allowed the bad guys to hide and allowed individuals to be so sorely disappointed.

UK pensions policy may now be at the threshold of an otherwise unheralded period of balance, common sense and inactivity. It all goes to show that from time to time as doctors have been told for generations, to 'do no harm' is often the best medicine for a sickly child.

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