

Pension Commission Final Report November 2005

Implications for work and retirement: TAEN commentary

You will have seen summaries of the report published on November 30th. It should be considered in conjunction with the Interim Report in November 2004. These two reports and 2 Volumes of Appendixes amount to 1250 pages. They are the *War and Peace* of all pension reports. They have generated some war in the short term. It is sincerely to be hoped that they generate peace in the long term.

We recommend referring back to the TAEN 4 page summary of the Interim Report (which had more detail on work and retirement) in November 2004 on www.taen.org.uk under *publications/briefings*. Our Briefing *Facts and Figures on Retirement and Pensions* is also relevant.

The essence of the Commission recommendations is simple:

1. The basic state pension should rise gradually so that the growth in means testing which erodes incentives to save, is reversed. The pension would be based on residence rather than National Insurance record, thus making it fairer for women and men.
2. The second state pension S2P should gradually decline in significance (they did not recommend getting rid of it outright) to reduced complexity.
3. A new National Pension Savings Scheme (NPSS) should become the main vehicle for modest to middle income people to save in an earnings-related way for a retirement income above the basic state pension. It should be run by the State and have contributions from employee (4% of pay), employer (3%) and the state (1%) in the form of tax relief. It would have running costs at an acceptable level for modest pensions. There would be an incentive to save because of the matching employer and state contribution. It would not be compulsory but employees would have to opt out.
4. The State Pension Age should rise in line with increasing longevity and become more flexible as between those who take it earlier or later.
5. Measures to assist working longer should be put in place. "the continuation of the favourable trends (in the employment rate of over 50s) is *essential* to further progress" (page 334).

The Report does *not* cover:

- The switch from defined benefit to defined contribution occupational pensions and the declining value of those pensions.
- The impact of the widening gap between public sector and private sector pension provision.

It does not tackle reform of the system of tax relief on personal and occupational pensions.

There is a 36 page Executive Summary which is an excellent overview. It is on www.pensionscommission.org.uk. The Pension Commission has had to do more than recommend where we would like to get to in 10 or 20 years time. It has had to address how we get there starting from where we are now. This is much harder than stating the ultimate goals.

The Government has promised a response in the Spring.

There is much discussion about raising State Pension Age (SPA). It is important to distinguish between a rise in SPA and a rise in average retirement ages. It would be possible to have a rise in the SPA with limited change in retirement ages. Fewer than 1 in 5 men and a third of women leave work in the year they reach the State Pension (see DWP report no200, Nov 2003). What matters is when people retire.

The impact of that on retirement income is graphically illustrated in Fig 8.1 of the Report. Savings that yield a pension of £11,500 a year at 65 would yield only £7,500 if started at 60. Changing State Pension Age will have some impact on retirement ages, but it is not the main driver of when most people retire.

Work and Retirement.

The messages and recommendations (page 34 and Chapter 8) about work and retirement are:

1. Strong backing for Age Discrimination Legislation to tackle unfounded stereotypes about age and productivity.
2. Strong opposition to the National Default Retirement Age of 65 and support for the ending of fixed retirement ages as soon as possible. The Commission had already made very clear before the Government's decision on December 2004 their view that the default retirement age was incompatible with an effective strategy for pensions.
3. The need to tackle irrational fear about working longer and later State Pension Ages. The Commission have obviously been frustrated by much media coverage of the issues which has misinterpreted the data on life expectancy.
4. Government and the Learning and Skills Councils should review all public policies on training to remove all age bias in them. The Commission say that inadequate or inappropriate skills could be a significant barrier to later working life. "*Training during adult life is critical to maintaining the employability of older workers*", page 342. In addition to action by LSCs, employers and Government as an employer the Commission ask whether voluntary

standards on retraining, perhaps as part of Investors in People, could be developed.

5. The Government should set an example of best practice in employment of older workers including in training and occupational health. The Commissions comment that Government should remove all system features which incentivise early retirement goes to the heart of the current public sector pension issues.

6. Support for the new focus on health and work as it applies to occupational health and workers in mid and later career, to facilitate extension of working life. The health and work strategy should include a *“focus on defining the best practices in middle aged and older workers occupational health which will facilitate active labour market participation at older ages”* page 344.

7. Consider variable pension arrangements for those who are less advantaged and/or in heavy jobs (many of whom started work 5 years earlier than the typical graduate). This could mean an earlier age threshold for parts of the state pension for those entirely dependent on it and later for those with more means of their own. While this could be argued to penalise those who have planned ahead, the 5 year gap in life expectancy at 65 according to social class (not to be confused with the 10 year gap at birth) is a key issue in the politics of longer working lives. The Commission also throw in the contentious suggestion that annuity rates for occupational and personal pensions might be varied by social class, as they are between men and women.

8. Consider reducing or ending Employer NI contributions for workers over 65, given that they are no longer accumulating any more benefits. The employees NI contributions already stop at 65. This would be an incentive to retaining workers beyond 65.

9. Make the system for deferring State Pension to increase its value at a later date, including a potential lump sum, more flexible and better known. At present only 20,000 pensioners are deferring and at that, only for 2 years (page 336).

The overall message has important implications for all TAEN Members – we need to change attitudes and practice in

- the recruitment business and labour markets,
- lifelong training and career advice,
- workplace health and job design,
- individuals attitudes to their potential and opportunities and
- the relevant programmes of both Government and employers.

If we keep Adult Learning and Welfare to Work as two frail orphans of public expenditure the Pension Commission hopes for the future will not be realised, at least with any degree of satisfaction and well-being for employees or employers.

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