

Green Paper: A State Pension for the 21st Century

1. National Assembly of Women

The National Assembly of Women was founded in 1952 to work for full social, economic, legal, political and cultural independence and equality for women, irrespective of age, race, religion, philosophical belief, sexual orientation or nationality.

We have been campaigning for decent pensions for women for over a decade, publishing a series of briefings on how the existing system fails women, and responding to previous Green Paper consultations: Partnership in Pensions in 1999, Simplicity, Security and Choice: Working and Saving for Retirement, 2002, and to The Pensions Commission's reports.

2. Introduction

We have long argued that pensioners should not have to parade their poverty, to get means tested benefits, but get a decent level of state pension as of right.

So press reports earlier this year that the government were promising a flat rate pension of between £140 and £155 per week for all new pensioners by 2015, and emphasising that this would particularly benefit women, held up some hope and attraction.

However, this Green Paper offers no such hope, because restricting options for reform to "cost no more than if the current system continued" means there must be losers if there are to be any winners. The Pensions Commission Second Report in 2005, argued that there is no way forward to a simpler, single tier system which does not introduce more complexity en route or involve high initial costs. The government's aspiration of cost-neutrality is impossible to implement.

The two options put in the Green Paper do nothing to reduce complexity in the short term.

Option one accelerates reforms to the State Second Pension. The 2007 Pension Act phases out the accrual of the earnings related part of the State Second Pension (S2P) in the early 2030's, so that anyone starting work then would have just flat rate accrual of S2P. Option one brings this forward to 2020

Option two, radical reform, would eliminate the State Second Pension by combining the Basic State Pension and S2P to create a single tier pension which would have to be built up over 30 years.

The complexity will still be there for years to come, as, if people's accrued rights are to be maintained, it will be 2065 before the "radical reform" takes effect.

In our view the best way to simplify the system, and reduce dependence on means testing, would be to significantly increase the level of the basic state pension. The level of Basic State Pension was linked to earnings increases in the 1970's. The link was broken in 1980, and the Retail Price Index used instead. If the link had not been broken, the Basic State Pension would now be over £160 per week, more than 50 % higher than now. The government's move to the Consumer Price Index has further widened the gap.

The 2007 Pensions Act did bring some significant improvements for women, but only for those retiring after April 2010. The reduction in the number of qualifying years for the full pension to 30 will help many women, as will the new carers' credit.

However it is quite unacceptable that current pensioners are being ignored and such a difference of treatment would contradict the government's fairness agenda. Effectively, the government is saying that it does not care about the unpaid caring work that older women have contributed to society, those women who started work before the Sex Discrimination Act came into force and who had no maternity rights when their children were born. To resolve this, the government needs to include the needs of current pensioners by;

1. Looking at mis-selling the married woman's stamp
2. Making 30 years of contributions and caring sufficient to qualify for a full pension apply retrospectively so that women over 60 benefit.
3. Crediting women who have lost out because Home Responsibilities Protection was not in place before 1978
4. Increasing the level of the basic state pension immediately to the level of the pension credit £137.35.

3. Underpinning principles

What we seem to be losing sight of in this debate is the moral responsibility of governments to look after its citizens in retirement. The state must provide an adequate income for all pensioners, sufficient to lift everyone above £178 per week. This means an end to the disgraceful position whereby the UK's share of GDP (at 9.2%) on pensions will be third from bottom in the EU by 2060, undercut only by Estonia and Poland. Instead we should aim to join the top three countries, France, Germany and Italy, whose GDP shares will be 14.1%, 12.7% and 13.6%.

The question of affordability is not an economic question; it is a political question and here also we believe that the government is failing in its responsibility to create and lead an honest debate, instead allowing fear and pessimism to win the day. It could and should be our aim to be one of the best countries in looking after older people rather than aiming to be one of the worst. A decent state pension could be afforded if we increased employment rates to 80% and introduced fair taxation policies including raising the upper National Insurance threshold as our GDP rose. The government must stop peddling the lie that there is no alternative to capping spending on pensions.

4. Responses to the Green Paper questions

Question 1: Would the current state pension, if left unchanged, meet the Government's principles for reform and provide an effective foundation for saving?

No. The current state pension system is over complex, inadequate and leaves many people in poverty. Reform is needed, but neither of the two options in the Green Paper offers a fair solution.

Question 2: To what extent would faster flat rating meet the principles for reform and improve savings incentives?

We have no suggestions on this.

Question 3: What further reforms might be required to the State Second Pension, such as crediting arrangements and uprating of pensions in payment, to better meet the Government's principles, recognising that there is a trade-off between coverage and the potential level of any combined, two-tier flat-rate pension?

Any state pension increases should be based on average earnings, otherwise older pensioners lose out

Question 4: To what extent would a single-tier pension meet the Government's principles for reform and improve savings incentives?

NAW is not opposed in principle to a single tier state pension. Our concern is that the Green Paper does not offer sufficient information to enable us to judge which option on offer would deliver a simpler system. As already stated we also believe that fundamental reform cannot be delivered on a cost- neutral basis.

The question of incentivisation for savings is difficult. The assumption is that a single tier pension will provide greater certainty of outcome. But savings can be eroded drastically as a result of economic crises. Women, in particular, do not tend to have spare income that they can set aside for pension provision. The government would need to address the issues of endemic low pay and inequality and high costs of childcare before women could prioritise pensions over immediate living costs.

Question 5: Which of these two options would act as the best complement for automatic enrolment?

It is unclear which option might do this.

Question 6: Government would be interested in hearing views on other reform options that would meet the Government's principles for reform.

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Insurance threshold as our GDP rose. The government must stop peddling the lie that there is no alternative to capping spending on pensions.

Question 7: What would be the impact of ending contracting out, as implied by any single-tier model?

We know that the TUC have a detailed argument on this which we broadly support.

Question 8: If the decision is taken to end contracting out, how could the process be best managed so as to minimise any adverse impacts on employers and individuals?

We have no suggestions on this.

Question 9: In conjunction with the reforms outlined in Chapter 2 are there ways we can change the means-testing system for future pensioners to make it more simple, reduce disincentives and encourage personal responsibility while continuing to help pensioners avoid poverty?

We do not believe that any means testing system could achieve these aims and we continue to argue that an adequate income for all pensioners is a realistic and affordable objective. We have set out in our introduction and answer to Q6 how this could be afforded.

Question 10: What mechanism should be used to determine future increases in State Pension age?

Our view is that increases in state pension age already introduced have gone as far as the available evidence on longevity rates allow. We believe that the government is over-emphasising the projections on longevity and attempting to portray them as scientifically certain when they are inherently uncertain. There is no justification for further increases to the state pension age. A civilised society should guarantee its citizens a decent retirement, welcome the increases in longevity and act to promote equality across class, geographical areas and generations.

Question 11: How should the Government respond to the frequent revisions in life expectancy projections while giving individuals sufficient time to prepare?

The longest possible period of notice for when older people will become entitled to their state pension is essential. The Pensions Commission 2005 recommended a notice period of at least fifteen years. The government should not cherry pick which parts of the Pensions Commission recommendations it wishes to follow. Fifteen years was also accepted as the minimum period of notice of changes in pension age citizens were entitled to by the Conservative government in 1993. In our view fifteen years remains the minimum period of notice people are entitled to. NAW would challenge the assumption that life expectancy projections should automatically mean working longer in any event. People have a right to expect a decent period and quality of life in retirement and it is surely unseemly for the government to keep pointing this up as if it was a failure of social policy that people are living better lives than in centuries past.

5. Conclusions

The Green Paper fails its own fairness test by ignoring the needs of current pensioners. It has a disturbing tendency to use evidence before it in a less than rigorous way, by, for example, over-emphasising the projections on longevity and cherry picking recommendations from the 2005 Pensions Commission which it favours and ignoring those it does not. By adopting its “cost neutral” approach, it reduces its scope for wider reforms for both current and future pensioners. Most fundamentally, it ducks any discussion about the responsibility of governments to look after their citizens in retirement, leaving it in the shameful position of appearing to aim to be one of the worst countries in the EU instead of one of the best. All of these points must be addressed in the coming months if a White Paper is to have credibility.

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