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Government's 'smoke and mirrors' conceals pensions cut

The Government's claim that its pensions reforms will deliver "a higher, fairer state pension" has been exposed as 'smoke and mirrors' by a group of historians in a submission to the Work and Pensions Committee today.

The White Paper promises future state pensioners £135 per week in return for working until age 68. But closer analysis reveals this is effectively a pension cut: today's pensioners can already claim much more by deferring their state pension until age 68.

Under current regulations, anyone postponing their state pension claim can gain an additional 10.4% for each year deferred. A man on below average earnings due to retire this year who has contributed to the default additional state pension can gain a pension of around £200 per week, for life, if he defers drawing his pension until age 68.

Women born before 1950 do even better - until their retirement age is brought into line with men's from 2010. A woman over 55 with a similar earnings profile who defers her state pension until age 68, can achieve a state pension of up to £280 per week, more than double what future generations of pensioners will be offered under the Government's reforms.

The startling figures are revealed in a *History and Policy* submission to the House of Commons Work and Pensions Committee inquiry into pension reform. They are based on a new analysis of the Government's own figures in its *Guide to State Pensions* and *Guide to State Pensions Deferral*, both published in April.

Professor Noel Whiteside of Warwick University said:

“The government’s White Paper on Pensions made much of the new concessions it offered – notably to women. But close inspection reveals that the new system has less to offer future pensioners than we were led to believe.

“Deferment regulations enable today’s pensioners to achieve a state pension that far exceeds the much-heralded £135 per week promised by the Government for retirees of the future. British state pensions will remain among the lowest in the western world.”

She continued:

“The White Paper also raises fundamental principles of social justice, which are – as usual – sacrificed on the altar of financial expediency. Women born after 1960 could receive half the state pension of their older sisters. In its eagerness to cut pension budgets, the Treasury has created a Machiavellian system that offers little to future pensioners.

“Using smoke and mirrors and an excess of spin, New Labour is selling what looks very much like a pension cut, not pension improvement.”

The figures in the White Paper present other curious anomalies, stating that a low earner with forty years’ contributions will get an additional top-up to the basic state pension of around £60 per week. Currently, the British State Pension is £84.25. Adding the two together gives £144.25, not £135. The reward for three years extra work vanishes into thin air.

In addition, the White Paper promises to abolish contracting out for personal pension plans (including Stakeholder) and Defined Contribution (DC) company schemes, more and more workers will in the future fall within the combined state pension scheme. Only defined benefit occupational schemes will be exempt: as many have closed recently thanks to poor returns on global financial markets, these cover largely state employees and those working in ex-public sector employment.

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Notes to editors:

1. Under the White Paper's proposals, a pension of £135 per week (at today's prices) is supposed to compensate for the raising of the retirement age to 68 in 2044. However, much higher state pensions can be claimed at that age today, by those who defer their claim to a state pension and who have contributed to the State Earnings Related Pension Scheme (SERPS) and the State Second Pension (S2P).
2. Under current regulations, anyone reaching state pension age but who postpones claiming a state pension can gain an additional 10.4% for each year deferred. This can be converted into a lump sum, if the claimant wishes (The Pension Service, *How to get extra weekly State Pension or a lump sum payment: your introduction to State Pension deferral*, April 2006).
3. For example, a man due to retire in April 2006 who has contributed to SERPS and S2P since 1978 and whose earnings have risen from £3,500 to £18,500 by 2005 can claim £68.08 additional state pension on retirement at age 65. Together with his basic state pension of £84.25, this gives him an overall retirement income of £152.33 per week. If he defers his claim for three years, he will receive £199.85 at the age of 68. For the rest of his life. (Example used in Pension Service, *Guide to State Pensions*, April 2006, p.39. Available on website www.thepensionsservice.gov.uk)
4. For women, the situation is even better, until 2010 at least. Using the above example again, a female retiree who defers until age 68 will receive £279.37 per week, thanks to her present retirement age of 60. This bonus gradually disappears between 2010 and 2020 as women's retirement age is aligned with men's. From 2020 to 2044, the £199.85 at 68 will gradually disappear as the pension age rises.
5. Both figures compare very well with the White Paper's proposed £135 for forty years contributions / credits in 2044. This sum necessarily incorporates rights to S2P, which is to be made flat rate by 2030.
6. However, the White Paper, by abolishing contracting out for defined contribution schemes (personal pension plans: stakeholder: many reformed company schemes) has extended the remit of the combined state pension enormously. Currently only about 4.5 million workers (well under 50% of the working population) are covered by defined benefit schemes which can remain contracted out. This proportion will grow as DB schemes have closed and numbers so covered are in steep decline.
7. Noel Whiteside is Professor of Comparative Public Policy at Warwick University and a member of the *History and Policy* initiative. She is co-editing *Britain's pensions*

crisis: history and policy, to be published by the OUP & the British Academy in September 2006.

8. Professor Whiteside is currently co-editing *Britain's pensions crisis: history and policy* to be published later this year.
9. *History and Policy* aims to provide an independent, historical context for today's policy debates, connecting historians, policymakers and the media. See <http://www.historyandpolicy.org/> for more details.
10. The initiative is based in the Centre for Contemporary British History, which promotes the study of the recent past, including events and issues within living memory, and sits within the Institute of Historical Research at the University of London.

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