The Reform of Pensions in the UK

Alan Walker

英国における年金改革

■ 要 約

本論文は、1979年のサッチャー政権誕生後から1998年末に提示された労働党政権による改革案の流れをみながら、今日の英国における年金制度改革を紹介し、年金制度の在り方を探るものである。論文の構成は前半と後半に分かれ、前半部分はEU各国が共通して実施しようとしている年金改革について概説し、後半にはそのEU全体の傾向を踏まえた上で英国の年金改革が議論されている。

年金改革はEU各国に共通に見られる動きであり、その全体的特徴は年金コストの削減を目指した私的年金により重いウェイトが置かれた改革ということである。その改革の内容は、大きく分けて6つある。第1に、退職年齢の引き上げがあげられる。第2に、退職年齢を柔軟に設定し段階的な退職を促す改革がみられる。第3に、拠出期間の延長があり、スペインを除くEUにおいて年金と就労による所得を同時に受けられるようになった。第4は早期退職に歯止めをかけたり、第5に賃金指数や課税の代わりに物価指数をもって年金水準を決定することで結果的にその水準を切り下げるというやり方をとる国もある。最後に税制や資金供給型の要素をいれながら拠出部分の割合を引き下げることによって、融資型年金制度への移行を提示した国もある。以上、EU全般の傾向として、年金制度を抜本的に再構築するというよりも、コスト削減を第一義的目的とした公的年金制度を縮小するという既存の年金制度の修正案にとどまっている。

一方現代英国の場合、サッチャー政権以来の民営化の波を受けた個人年金重視型の持つ問題点を吟味し、EUの動きと逆行するような形で今一度国民年金の見直しを行おうとしている点で、極めてユニークである。年金給付水準の低さと人口高齢化が早い時期にすでに起こっていることから、英国は当面制度上の改革を必要としないといわれていた。にもかかわらず、再び大幅な年金改革が提唱されている理由は、極めてイデオロギー的な問題であるといえよう。つまり、1980年代から90年代にかけて、公的支出の削減を掲げ、個人の責任において老後の生活に備えるとする「個人的責任」への信奉に対する反省である。英国の年金制度は2階建て方式をとっており、1階部分は社会保険方式をとる基礎年金で、2階部分は報酬比例年金（State Earning-Related Pension Scheme—SERPS）となっている。高齢者の貧困を撲滅すべく制定された国民保険年金であるが、いまなお高齢者、特に女性高齢者の中で、貧困者や低所得者の割合は高い。失業率が高く労働市場が不安定な今こそが、国民的なリスクをプールするシステムが必要とされている。この不確実性が高い現状で、個人年金への資金を供給するために必要な資本を持つことは難しい。そこで、パート就労者や臨時労働者、自営業者や無償のケア提供者に対象枠を広げ、国民年金制度の活性化を目指す改革案がグリーンペーパーに提示された。私的年金を排除するというより、公私の相互乗り入れは財源確保のためにも有効な対策の一つであることは疑わない。しかし、私的年金を年金制度の中核に据えることは社会的排除をもたらすことになり、労働市場が不安定である状況ではその問題がより深刻化してくる。本改革案では報酬比例年金を取りやめ、その代わりに一律給付の「第2の国民年金（State Second Pension）」が設定されている。つまり、英国の年金改革は国民年金を中核として、様々な個人のリスクをプールして国民全体として支え合う制度の中で、個人の権利を最大化できるよう施策が講じられている。

■ キーワード

年金改革、国民保険年金、私的年金、EU

（アラン・ウォーカー　シェフィールド大学教授）

Abstract

This article examines the recent reforms to the UK's pension system, starting with the election of the first Thatcher administration in 1979 through to the proposals from the new Labour Government issued in late 1998. The article shows that pension reform is being carried out in all European Union (EU) countries and summarises the main changes. But this merely serves to emphasise the peculiarity of the UK's pension reforms within the Western European context. The article traces the increasing importance placed on individual responsibility for pensions savings by the Conservative Governments of the 1980s and early 1990s and the concomitant run-down of direct state provision (though not subsidies to the private sector). This meant the increasing neglect and impoverishment of existing generations of pensioners as the government focused policy attention and finance on private provision. The new government elected in 1997 was faced with a major challenge to restore confidence in the UK's pension system. Its first proposals suggest that it has chosen to follow the path of the previous government rather than those of the other EU countries.

Pension systems provide the cornerstone of the European welfare states—Beveridge or Bismarck—and, therefore, a transformation in a country's pension system implies an alteration in the form of its basic welfare regime. At the same time pension reform is likely to entail much wider and rarely considered ramifications, for example, on the macro level relationship between the generations. The purpose of this article is to examine the recent reforms to the UK's pension system and their implications.

The first section of the article looks at recent pension reforms in the European Union (EU) Member States. The second highlights the extreme case of pension reform in the EU: that undertaken in the UK during the late 1980s and early 1990s. The third section examines the main lessons from the UK social experiment and looks at the proposals made recently by the new Labour Government.

Pension Reform in the EU

Although Western Europe has a range of different welfare regimes and pension systems, overall it has a remarkable record in promoting economic security in old age when compared with other parts of the developed world, including the USA (European Commission, 1993). Nonetheless three features of the EU's pension provision suggest, at best, that there are remaining deficiencies in the schemes of some countries (some of which may be overcome by the process of maturation) and, at worst, that they have contributed structural problems of their own.

First there is a persistent problem of poverty in old age in all EU countries. The range is very wide and, with one exception, it is greatest in those countries with the least developed pension provision. (Though, it must be emphasised, that even the least well-developed social protection systems of Southern Europe are more successful in tackling poverty than that of the USA.) Second there are big variations in the levels of pensions in different EU member states, as measured by their replacement ratios (Walker, Guillemard and Alber, 1993). Third, in most member states there are substantial inequalities among pensioners resulting, to some extent, from the pension systems themselves. The two major divisions are based on age and gender. Older pensioners tend to have lower incomes than the more recently retired and, in general, older women are more likely to be poor than older men. With the exception of the Scandinavian citizenship model, the work-testing element of the majority of the EU's pension systems tends to exclude more women than men. The intersection of these age and gender effects means that very elderly women are among the most deprived and excluded groups in the EU (Walker, Guillemard and Alber, 1993).

Not surprisingly when older people are questioned about their living standards and the adequacy of their pensions, these demographic differences are confirmed as well as those between countries. For example in the 1992 Eurobarometer survey those in the general

Table 1. Adequacy of Pensions (Retired Only)

	EC12	Belgium	Denmark	France	West Germany	East Germany	All Germany	Greece	Ireland	Italy	Luxembourg	Netherlands	Portugal	Spain	UK
Completely adequate	12.7	10.9	23.4	5.2	24.1	8.9	20.6	4.5	13.6	8.4	29.5	28.6	1.2	22.2	9.3
Just about adequate	40.9	47.8	50.4	42.1	53.3	50.9	52.7	13.2	36.9	38.8	51.4	40.3	15.8	26.2	38.6
Somewhat inadequate	23.8	22.3	17.4	27.0	16.7	27.5	19.2	25.0	24.8	21.5	8.4	22.0	37.1	25.0	28.4
Very inadequate	21.3	16.7	8.7	22.4	5.9	10.6	7.0	55.7	20.3	30.8	10.8	6.0	44.9	26.7	22.6
DK	1.2	2.2	0.0	3.3	0.0	2.1	0.5	1.7	4.4	0.5	0.0	2.9	1.1	0.0	1.1

Source: A. Walker, 1993, p. 18.

population survey that had retired were asked whether the pensions (public and private) they receive are adequate. The responses, shown in table 1, divided the then Community of twelve into three groups: those countries where a large majority of older people regarded their pensions as adequate (Denmark, Germany, Luxembourg and the Netherlands); those where opinion was split on adequacy versus inadequacy (Belgium, France, Ireland, Italy, Spain and the UK); and those where large majorities said pensions are inadequate (Greece and Portugal). This evidence is not concerned with objective measures, but viewed from the perspective of those who receive them, the EU's pension systems cannot be described as being totally successful in promoting economic security. It was only in four of the then twelve Member States that most older people seemed to be satisfied with their pensions.

Over the last decade, however, the pressure for pension reform that has built up has come chiefly from the macro-policy level rather than the grassroots. The main issue of almost universal concern to policy makers and the media is the growth of pension costs and, in particular, its fiscal implications. In some extreme cases this concern is expressed in highly pessimistic rhetorical references to the so-called 'burden' of population ageing. There is no space to consider the very flimsy construction of the 'demographic timebomb' arguments (which anyway appears to be a largely Anglo-Saxon notion) and the flawed nature of the dependency ratio calculations which are usually invoked to lend them scientific legitimacy. Two comments must suffice. First there is the role of international economic agencies, such as the OECD and World Bank, which have occupied a prominent place in promoting pessimism about population ageing and in amplifying the prospects of intergenerational friction (Walker, 1990). This is despite the fact that the OECD's own analysis shows that demography has played a relatively small role in the growth of pension costs (OECD, 1988) and the complete absence of evidence of a weakening of the generational contract, even in the USA where the most concerted attempts have been made to undermine it. For its part the European Commission, while recognising the challenges posed by population ageing, has taken a more balanced view. The EU research indicates the continuance of strong intergenerational solidarity at both micro and macro levels (table 2).

Second the role of the labour market rarely features in discussions about dependency ratios yet the age barrier between economic activity and inactivity has been changing rapidly in all EU countries (Kohli, et al, 1991). Paradoxically, as longevity has increased the age of final exit from the labour force has fallen. In some EU countries public policies have openly encouraged older workers to leave the labour market (such as disability pensions in Sweden, pre-retirement in Denmark and Germany), particularly at times of high youth unemployment, in others the same policy has resulted from collective bargaining (the VUT in the Netherlands).

Table 2. Those in Employment Have a Duty to Ensure, Through Contributions or Taxes, That Older People Have a Decent Standard of Living

	EC12	Belgium	Denmark	France	West Germany	East Germany	All Germany	Greece	Ireland	Italy	Luxembourg	Netherlands	Portugal	Spain	UK
Agree strongly	37.0	32.5	60.1	25.9	28.5	37.6	30.4	39.4	40.7	38.4	34.2	42.4	41.2	45.7	45.9
Agree slightly	42.8	42.7	29.8	51.2	49.7	43.7	48.4	35.0	40.9	40.1	44.8	38.2	32.3	38.1	37.2
Disagree slightly	9.0	13.8	6.3	13.0	12.4	7.7	11.4	8.3	5.8	6.9	10.6	9.8	10.0	4.4	6.2
Disagree strongly	8.6	4.1	2.0	4.6	3.7	3.2	3.6	4.2	1.7	2.7	3.4	4.0	7.8	2.8	3.1
DK	7.6	6.9	1.8	5.3	5.8	7.8	6.2	13.1	10.9	11.1	7.0	5.6	8.7	9.1	7.5

Source: A. Walker, 1993, p. 15.

This early exit trend has two important implications. On the one hand it has removed pension systems from their position as the key regulators of labour force exit. For example in the UK and Germany only roughly one-third of men enter the public pensions arena from full-time employment. On the other hand it has reinforced the devaluation of older workers left in the labour market. Most EU countries have already removed public subsidies for early exit (see below) but very few have tackled the widespread age discrimination in their labour markets which results in premature exclusion from employment (and the payment of taxes and pension contributions) and recourse to social protection. The potential role of the fourth pillar of retirement income (employment) in reducing the pressure on the EU's pension systems has only recently come onto the policy agenda, chiefly via the 1994 Essen Council (Walker, 1997).

Despite some of the alarmist rhetoric surrounding population ageing and the universal nature of pension reform in the EU, the measures taken so far to reduce future pension costs are really rather modest. There are six main kinds of reform (Reday-Mulvey, 1997). First, seven Member States are raising the age of retirement—Austria, Germany, Greece, Italy, France (by raising the number of contribution years), Portugal and the UK. In three cases this reform consists of raising the retirement age of women to bring it in line with that of men. Second, eight countries are introducing greater flexibility in the age of retirement and the promotion of gradual retirement. Third, there is the extension of the contribution period for pensions by tying the amount of pension to the length of contribution (mainly Italy and Sweden, but to some extent Finland, Denmark, Germany and the UK). With the exception of Spain, all EU Member States now allow the combination of a pension and income from work. Fourth there is the curtailment of pre-retirement (early retirement) policies (Austria, France, Germany, the Netherlands). Fifth there are reductions in the levels of pensions, usually by means of changes in the methods of calculation by price-indexation instead of wage-indexation and taxation. Finally several countries have altered their methods of financing pensions—chiefly to reduce the role of contributions while increasing that of taxes (Portugal and Spain) or by adding a funded element (Finland, Italy and Sweden).

Although there is a clearly convergent trend among EU Member States towards retrenchment in their public pension systems, the reforms that have been carried out or planned are, for the most part, concerned with cost containment rather than radical restructuring (partial exceptions are Finland, Italy and Sweden). Moreover there is no sign that public opinion favours major changes to the EU's pension systems and the values which underpin them. For example when the general public in each Member State were questioned about the level of income that should be provided by the state for

Table 3. The Level of Minimum Resources That Should be Provided by the State

	EC12	Belgium	Denmark	France	West Germany	East Germany	All Germany	Greece	Ireland	Italy	Luxem-bourg	Nether-lands	Portugal	Spain	UK
Just enough to make ends meet	3.8	4.2	6.4	4.7	1.8	1.2	1.7	1.4	4.9	3.2	14.5	8.8	1.2	8.6	2.4
Enough to get along fairly but no more	35.2	47.2	54.3	40.9	26.5	14.1	23.9	30.4	26.9	42.1	51.0	62.6	17.8	29.4	36.2
Something closer to the average wage for people still in work	57.2	44.3	38.1	52.1	64.9	81.7	68.4	65.2	62.6	51.9	31.5	26.0	77.7	59.0	56.9
DK	3.8	4.4	1.3	2.3	6.8	3.0	6.0	3.0	5.6	2.7	3.0	2.5	3.3	3.0	4.5

Source: A. Walker, 1993, p. 19.

older people, majorities in most countries favoured a standard of living close to the average wage (table 3).

Pension Reform in the UK

What is not apparent from the preceding review of recent pension reforms is just how odd the UK looks in a Western European context. The UK's first pension reforms pre-dated those of most other EU countries by a decade. In global policy terms the UK was more in tune with the USA and Japan, countries that started pension reform in 1988 and 1986, respectively. But, in comparison with say Italy, the UK's first and second tier pensions were already low in comparative EU terms and there was no suggestion of an impending pension crisis. In fact in the 1980s the OECD specifically told the UK that there was no need to take any action on its pension system until 2010 at the earliest, partly because of the relatively low cost of pensions and partly because the UK's population aged earlier than those of most other EU countries. So why did the UK government embark on pension reforms so much earlier and far more radically than other EU Member States?

The answer is ideology: it was the election of the Thatcher government in 1979 that transformed both the politics of pensions in Britain and the prospects of the poorest pensioners. The Conservative strategy on pensions unfolded between 1980 and 1986 and had two interrelated strands, both of which were underpinned by the same neo-liberal ideology. On the one hand there was the imperative to reduce the scale of public spending and, on the other, there was the belief in individual responsibility (even if this came at great cost to the Exchequer). So, out went the post-war consensus on the central role of the state in the collective provision of pensions and in maintaining the generational contract; and in came the idea that the individual should be primarily responsible for saving for his or her own retirement.

> The purposes of these proposals are to achieve a steady transition from the present dependence on state provision to a position in which we as individuals are contributing directly to our own additional pensions and in which we can exercise greater choice in the sort of pension provision we make. (DHSS, 1985, p. 6)

The UK has a two-tier pension system as is the case in most other EU countries but, unlike most of the others (except Ireland), it has a uniform, low level first tier universal pension (funded by National Insurance [NI] contributions) with a second tier that covers barely half of the working population. The universal NI pension was introduced in 1948 following the recommendations of the Beveridge Report. Rather than adopting the non-contributory means-tested model of the 1908 Old Age Pension, Beveridge chose the insurance principle established by the 1911 National Insurance Act. This meant that the basic pension was not seen as a right of citizenship but was, and still is, dependent on the establishment of eligibility through

contributions, or 'work-testing'. It is worth remembering that the campaign for old age pensions, which began in the late 19th century, was a campaign for a free universal state pension payable to everyone over the age of 65. It was a reaction against the summary dismissal by employers of workers purely on grounds of age, the failure of employers and other private agencies to provide pensions and the resulting widespread poverty in old age. (The work of the great Victorian reformer and poverty investigator Charles Booth was particularly influential in the campaign and Booth himself was a leading member of it.)

Over the two and a half decades following the introduction of the NI pension the problem of poverty in old age persisted and various attempts were made to introduce top-up and graduated pensions. The issue became a political football with each side vowing to overturn the changes proposed by the other. The breakthrough came in the mid-1970s when political consensus was reached on the 'new pensions' proposal by the then Secretary of State for Social Services, Barbara Castle. The centre-piece of the proposal was a new second-tier pension, the State Earnings-Related Pension Scheme (SERPS), which was to be introduced over 20 years to provide, in combination with the first-tier NI pension, economic security in old age for the majority of Britain's pensioners. Regardless of one's opinion about SERPS today there is no doubt that the scheme would have put British pensioners in a similar position to their continental counterparts and, by the turn of the century, would have gone a long way towards eradicating poverty in old age. The original SERP scheme was particularly helpful for women, because of its best 20 years rule and the provision of home responsibility credits. All that is history, now the SERP scheme is sinking fast: only 17 per cent of the workforce are currently paying into it and, had the Conservatives been re-elected, it would have been abolished.

The previous government's pension strategy entailed neglecting the needs of the poorest of today's pensioners. Thus, between 1980 and 1997 policy focused almost exclusively on those in the labour market (tomorrow's pensioners), encouraging them to opt out of the state pension sector, while providing a massive disincentive for anyone with enough years of working life left to remain in the state sector, at least in those parts over which they have a choice. On current projections by 2030 the basic or first tier national insurance (NI) pension will be worth just 10 per cent of average male earnings and 14 per cent of average female earnings. What a leading Conservative minister famously called 'a nugatory amount'. The total (first and second tier) state package will be 26 per cent of male earnings and 30 per cent of female earnings. So, it is not surprising that millions of people have been searching for ways of enhancing their economic prospects in old age.

However, this policy is not simply about the projected incomes of future generations of pensioners —many of whom can take evasive action now. It concerns current generations who have no choice but to exist on what the state provides. Despite the government promise in 1980, when it changed the uprating formula from earnings to prices, that pensioners and other long-term beneficiaries could 'confidently' look forward to sharing rising living standards, the basic NI pension has fallen further and further behind the rise in earnings: the differences are currently £24 per week for a single pensioner and £37 for a couple. In both cases the NI pension would be more than a third (37 per cent) higher if the link with earnings had not been broken.

While the first tier NI pension was being steadily undermined during the 1980s the cut in the value of the State Earnings-Related Pension Scheme (SERPS), by the 1986 Social Security Act (implemented in 1988), was dramatic. On the pretext that the projected costs were too great and, specifically, that the scheme was too generous to women, the value of SERPS was halved. At the same time very attractive incentives were introduced to encourage workers to opt out of SERPS and enrol in private pension schemes—2 per cent of earnings plus a national insurance rebate of 5.8 per cent. As a result some 6 million employees left the SERP scheme—at a cost to the Exchequer of £16 billion up to 1996. This restructuring of pension provision also entailed a change in the opting out rules from SERPS—for the first time money purchase or defined contribution pension schemes were recognised as legitimate alternatives to SERPS. Thus the exodus from

SERPS represented a major change from a defined benefit scheme to a defined contribution one. This means that the value of a person's pension cannot be predicted precisely, it relies on the outcome of stock market investments rather than a proportion of earnings. As a leading economist put it, 'a certainty was replaced by a lottery'.

What ensued was a remarkable episode in pension policy, by any standards, and one resonating with warnings: the major scandal of the mis-selling of pensions by over-zealous agents and insurance companies. It is estimated that as many as 3 million people have been sold private pensions when they would have been better off staying in the state scheme. History will record its own verdict on this extraordinary episode in social security history but I'm sure future social policy analysts will write with incredulity that responsibility for pensions was passed from the public to the poorly regulated private sector without proper safeguards. There are hundreds of thousands of people still awaiting compensation. In July 1997 the new Labour government named 24 companies, 22 of which had not then dealt with 10 per cent of their compensation claims, including some of the leading insurance companies in the UK. Furthermore the state has sponsored a substantial down-grading of future pension entitlements—the Exchequer (tax payments) and the contributors themselves are subsidising pensions that are inferior to both the state and the occupational schemes. Thus for the same level of contributions SERPS and occupational schemes provide, on average, between 50 and 60 per cent of final salary (depending on the number of job changes) with the original SERPS being superior to the average occupational scheme. However, consulting actuaries Bacon and Woodrow calculate that personal pensions provide between 20 and 40 per cent of final pay.

Alongside these changes the 1980s saw a sustained rhetorical attack on pensioners—another dramatic break with the past in which this group had been regarded as the most deserving of all social security claimants. This was designed, no doubt, to create a climate conducive to the government's proposed reforms. However the impact of such statements on current pensioners living on low incomes has not been considered or investigated. Yet some 950,000 are living on incomes below the social assistance levels—because of the complex bureaucracy involved and the stigma of means-testing they fail to claim the benefits they are entitled to.

That is the background to the current debate about the future of pensions in the UK. The earnings-related second-tier addition to the flat-rate Beveridge inspired first-tier has been damaged—some would say beyond repair. The main reason behind this change was ideological. The outcome is that pension provision in Britain is in an unsustainable mess. Poverty and low incomes persist among a significant minority of current generations of pensioners—particularly very elderly women. While fewer than half of those workers approaching retirement have any occupational pension entitlement—68 per cent of men and only 29 per cent of women. Indeed, the average membership of occupational schemes for men has declined in recent years (to 57 per cent) and the average for the whole workforce is 48 per cent. The result of mushrooming of private (personal) provision in the 1980s is that 26 per cent of full-time male employees are paying into such schemes. The figures for full-time female employees are 19 per cent and 11 per cent for part-timers. Despite this massive upheaval in pension provision and the purposive erosion of its value over the past 18 years it is remarkable that the first-tier NI pension is still the main source of income for the majority of Britain's pensioners. The current system is incapable of meeting the future needs of many women currently of working age because they are not employed, are working part-time or their wages are too low to make pension contributions viable.

Thus, to sum up, rather than advancing towards a comprehensive pension system commensurate with other EU countries the UK pension consensus has been shattered, the state scheme broken up and the prospects for future pensioners made less secure than they would otherwise have been, which brings me to the third part of the article.

Reflections on the UK Reforms

In comparison with the, for the most part, measured and incremental pensions reforms conducted in most EU

Member States the example of the UK may appear too odd or extreme to offer any useful lessons for other countries. However the centre-piece of the Conservative pension policy—the individualisation of pensions and, with it an increase in the funding component—is precisely the course being encouraged by international economic agencies and being considered by European governments East and West. So what lessons might be learnt from recent pension reforms in the UK? There are two main ones.

First there is the danger of an ideologically-driven policy which stifles public debate. Thus, in the UK, there has been virtually no open discussion about the advantages of pay-as-you-go (PAYG) as a method of financing pensions, nor of the disadvantages of private funded schemes, even in the wake of the mis-selling scandal. What usually occurs are the assertions that PAYG is unsustainable and that private is best.

For the record I will outline some of the advantages of PAYG. Under PAYG pensioners' incomes can rise along with general living standards if political decision is taken to increase pensions. An unlikely scenario in the UK at present but public opinion surveys continue to report that 'the favourite priority for more spending has always been retirement pensions' (Jowell, et al, 1997). PAYG schemes are superior to funded ones with regard to alleviating poverty and the provision of insurance against inflation and investment risks. They tend to be socially inclusive: they can cover everyone, provide protection for gaps in earnings and also job changes. PAYG represents a contract between the generations and, therefore, an expression of social solidarity and a potential force for social cohesion. Those arguing for Chilean-style personal savings plans fail to acknowledge either the importance of intergenerational solidarity or that the state-encouraged self-interest represented by such schemes may have some impact on the willingness of younger generations to contribute to other collective provided services. Moreover why should younger generations fund the pensions of those in retirement when the return they can expect in the future will be worth so little? PAYG schemes are usually simple to understand and relatively easy to administer.

Funded schemes are said to produce lower distortionary effects in the labour market and contribute to the development of financial markets. On the other hand they have several disadvantages:

- Low potential coverage (e.g. in Chile only 52 per cent of those in the labour force are contributors).
- Lack of democratic accountability in private schemes.
- Double taxation during the transition phase.
- High level of risk in private schemes (fraud, uncertainty of money markets, corporate mergers etc.).
- Inefficiency of private schemes, that is, high start-up costs falling mainly on the low paid and women.
- Poor insurance coverage of individuals for major risks such as chronic sickness, disability, premature retirement and long term unemployment.
- They penalise carers (because of their limited employment opportunities) which is exacerbated by the high administrative costs of private schemes.
- High public cost of private schemes in terms of tax reliefs and other incentives.
- High cost of administration. NI is very cheap to administer: 1.1p for every £ paid out, compared with up to 25p of every £ invested in private schemes.

Some of these disadvantages could be minimised in theory by making private funded schemes compulsory and by regulating them strictly. But there are no precedents internationally of 'compulsory' private schemes covering in practice more than two-thirds of the population. Also there is no guarantee that compulsory savings would yield sufficient income in retirement for large groups of workers (as in Singapore).

The absence of public debate on the future of pensions in the UK meant that these advantages and disadvantages were never considered outside of expert committees. In contrast these issues were discussed in the run-up to the 1997 referendum in New Zealand. The outcome was that 92.4 per cent voted against the government's proposal to replace the state PAYG universal superannuation scheme with compulsory private funded schemes and only 7.6 per cent were in favour.

Second there is the failure to adapt the British pension system to changing times. What is remarkable about the 1980s is that the UK government was able to undermine the national insurance system without any discernible public outcry or political backlash. A

leading British economic and social commentator has called the destruction of SERPS one of the greatest frauds perpetrated by a democratic government against its people in modern times (Hutton, 1996). It is inconceivable that such action would have been possible in say, Germany. Of course this tells us a great deal about the nature of the Beveridge welfare state but also, I think, it reflects a failure to modernise social security. The irony is that the UK pension system may have been more secure from political interference, or more keenly defended, if its rights had been more individualised. Thus the new Swedish second tier pension has linked pensions and contributions more closely and has included an element of funding. New Zealand has an annual statute of entitlements which reaffirms the social contract on an annual basis. It would be possible to individualise rights within the collective NI scheme and to involve contributors more actively in the management of the scheme. Also an independent NI Board, along German lines, would help to ensure public confidence and protection for the scheme.

Undoubtedly the credibility of the UK's NI scheme has been hit severely but so has that of the private pension industry, though the latter does not appear to carry as much political weight as the former. Furthermore there is no guarantee that the introduction of funding would make it harder for a future government to once again change the rules. In theory a funded scheme would be easier to swap than one based on pure social insurance. All the government would have to do is pay back the money invested, with interest. Under PAYG one generation cannot pay off an unfunded liability as well as providing for its own retirement, because it would be too costly.

A related argument is that since NI was created at the beginning of the century it cannot be relevant to today's labour market conditions. This case is equally false. Indeed, arguably, today a system of national risk pooling is even more necessary than before. Insecurity in the labour market is greater than at any time in the post war period. The post-Fordist or post-modern working life is characterised by insecurity for a majority and gross insecurity for up to 40 per cent of the working population. This makes it less likely that they will be able to build up the necessary capital to fund a personal pension. There are more women in the labour market than when the NI scheme was established, many in part-time jobs. More and more employers are reducing their commitments to occupational pensions—delaying entry and changing from defined benefit to defined contribution. Some employers are taking money out of their occupational pension schemes.

To summarise: there is no demographic or economic imperative behind the argument for change in Britain's pension system—the only imperatives are political: on the right hand, the previous government's conviction was that private is best (whatever the evidence from the mis-selling of pensions) and that the state should be a last resort residual direct provider.

The Third Way for UK Pensions

What about the left hand side? Here the future direction is becoming clear. A pension review group involving pensioner representatives was established before the 1997 election. Following the new Labour election victory in May 1997, the Pensions Review was formally announced on July 17, 1997. Its terms of reference were:

> To review the central areas of insecurity for elderly people including all aspects of the basic pension and its value and second pensions including SERPS; to build a sustainable consensus for the long term future of pensions; and to publish the Government's proposals, for further consultation, in the first part of 1998.

After several delays the resulting Green Paper was published in December 1998 (Department of Social Security, 1998).

The first important point to note about the proposals in the Green Paper is the low priority given to current pensioners—despite the problem of poverty and the terms of reference for the review. For this group there are two main proposals: a minimum income guarantee (MIG) to be paid from April 1999 and measures to increase the take-up of this minimum. The MIG, in fact, is not a new benefit at all, it is the social assistance benefit for pensioners re-named (and it was announced five months earlier). The measures to increase the take-up of this means-tested benefit are

long overdue. However past experience does not suggest that older people can be encouraged to claim means-tested benefits. Previous governments have tried the same thing with little success. Indeed the government itself assumes that there will still be a substantial number (as many as 500,000) who fail to claim the MIG in 2002.

With regard to future pensioners there are three major reforms proposed. First SERPS will be abolished, despite a manifesto promise to keep it. It will be replaced by a State Second Pension—a flat-rate pension for low paid workers not covered by occupational schemes for whom 'private second pensions are not an option'. This new pension is expected to apply only to those with earnings below £9,000 pa. Undoubtedly it would raise the pensions of the poorest future pensioners but, at the same time, the value of the basic NI pension will continue to fall relative to earnings, therefore the combined effect will be a replacement rate of around 25 per cent in 2050. Secondly it is proposed to credit into the State Second Pension some carers and disabled people who have been unable to take paid employment, as if they had earnings of £9,000 a year. This is an important recognition of the impact of caring and disability on an individual's ability to make pension contributions. However it is not new in the UK context, for example the original SERPS had a 'best 20 years' formula and credits for 'home responsibilities'. Thirdly it is proposed, for those earning between £9,000 and £18,500 to encourage the private sector to offer relatively low cost 'stakeholder' personal pensions. This group and those on higher incomes will have to rely increasingly on occupational pensions and personal savings, only the poorest, who claim their entitlements, will be able to rely on state support under these proposals.

At the moment these proposals are the subject of debate and will not be finalised until later in 1999 and a fuller evaluation must await the White Paper to follow. But the government does appear to have made a historic decision to follow the path of the previous one more closely than those of the other EU countries. If these proposals are enacted the UK's pension system will be alone in the EU in giving a large role to the private sector. An alternative strategy, the revitalisation of national insurance, would have aligned the UK pension system with those of its EU neighbours (Townsend and Walker, 1995).

Revitalising National Insurance

Revitalisation means radical change, not maintaining the status quo. It is clear that National Insurance cannot be maintained in its present form. Changes have to be made in the structure of the Beveridge scheme in order to modernise it. These changes include a widening of coverage (there are four million people currently outside NI), particularly to include the part-time and temporary employed, and self-employed, equity for women, and special arrangements for unpaid carers.

It is possible to design a public pension system that is flexible in response to changing labour market needs and yet which does not penalise part-time workers, the unemployed, disabled and those providing unpaid care. The Danish Social Pension is paid to all those with 40 years residence in Denmark at age 67, irrespective of their employment record or marital status. Four-fifths of Danish pensioners rely on the Social Pension for almost all of their income yet their standard of living is higher than that of most British pensioners. The pension provides a disposable income after housing costs which is 77 per cent of the average income for the whole population.

Conclusion

There is no doubt that pension reform is high on the policy agenda of both the EU Member States and the countries and Central and Eastern Europe. So far in the EU the reform programme has been relatively modest, with one exception. But most EU governments are promoting the growth of funded or capitalisation-based private pensions. But the UK experience provides warning signs against the dangers of an unbalanced approach to pension provision. Of course private funded schemes have a role to play, but the dangers arise when they are given a central role where they can act as an engine of social exclusion. These problems are likely to become even more important as economic insecurity in the labour market increases. Many women in particular will be unable to accrue adequate pension rights through private funded schemes. In contrast the

principle of risk-pooling under social insurance—modernised to minimise exclusions and to maximise individual ownership—seems even better suited to today's labour market than it was when such schemes were first introduced in Europe.

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(ALAN WALKER

Professor of Social Policy, University of Sheffield)