



Amicus response to the White Paper Security in Retirement: towards a new pensions system

Amicus is the UK's second largest trade union with 1.2 million members across the private and public sectors. Our members work in a range of industries including manufacturing, financial services, print, media, construction and not for profit sectors, local government, education and the health service.

Amicus welcomes the opportunity to comment upon the government's proposals addressing the findings of the Pensions Commissions Report published earlier this year. There is much in the White Paper which Amicus welcomes but there are aspects with which we have some serious concerns. Set out below is a summary of the main issues on which we have commented in the body of this submission.

1. Executive Summary

- Amicus welcomes the support for compulsory pension contributions embodied in the proposals for the National Pensions Savings Scheme, (NPSS).
- Amicus is opposed to any proposal which provides for an employee to opt out of the NPSS scheme where they are not in a superior employer scheme.
- Amicus supports the objectives outlined in the White Paper for the design of personal accounts in the new Scheme. In particular, Amicus welcomes the proposal for central collection of contributions and the emphasis on low charges in order to maximise the pension return on contributions.
- Amicus is disappointed at the timescale for the introduction of NPSS which is compounded by the phasing in of the employer contribution.
- Amicus proposes that the Government look again at the case for abolishing or reducing the minimum age of entry to the NPSS scheme.
- Amicus suggests that at the outset the employer contribution to NPSS should not be less than that required from employees, and that over time it should rise to be a multiple above it.
- Amicus welcomes the proposal to end contracting-out for Defined Contribution pension schemes.
- Amicus believes that those who have lost pensions following the winding-up of final salary schemes, either on account of employer insolvency or because the law has allowed solvent employers to escape from their obligation, should be fully compensated.

- Amicus supports strongly the restoration of the earnings link for the Basic State Pension.
- Amicus opposes the proposals to raise the State Pension Age. This will impact most heavily on those whose other pension resources are limited and who are also likely to have relatively lower life expectancy, yet for whom the state pension age is more crucial in determining their ability to retire.
- Amicus calls for an open and informed debate on the future options for the level of the State Pension, the future State Pension Age and on future National Insurance rates.
- Amicus supports the White Paper's approach in reforming the contributory principle to enable more women and carers to establish greater rights to state pensions rather than abandoning the contributory principle in favour of a citizen's pension.
- Amicus takes the view that extending the working life cannot be seen in isolation of other social and economic policies.

2. The National Pensions Savings Scheme

2.1 Support for compulsion

Amicus welcomes the support for compulsion embodied in the proposals for the National Pensions Savings Scheme, (NPSS)

Amicus supports the view that compulsion is required in order to:-

- combat under-saving for retirement
- reduce inequality in current pension provision
- generalise a decent standard living in retirement
- ensure all employers contribute towards their employees pensions
- overcome the inevitable and proven failure of the voluntary approach

2.2 Opposition to the employee opt-out

However, Amicus is concerned about the proposal to allow employees to opt-out of the NPSS framework, where they are not in superior employer schemes. While auto-enrolment will help to reduce the extent of employees opting-out Amicus is concerned that large numbers of employees will still choose to exercise the right to opt-out.

The evidence is very clear about the disappointing take-up of occupational Defined Contribution schemes where employers are offering a contribution. . The NPSS will be introduced in circumstances where employers are making contributions involuntarily and may therefore choose to actively discourage membership.

The White Paper cites the Employers Pension Provision Survey 2005 to indicate that where there is auto-enrolment, with employee opt-out,

membership levels averaged 60% compared to 40% where employees had to apply to join. Amicus is concerned that a 60% take-up would greatly reduce the achievement of the objectives of compulsion.

One particular group who will be more likely to opt-out will be the young. Since the NPSS is a money purchase scheme this means that pension outcomes will be depleted by the failure to make the contributions whilst young, which are ultimately the most productive as they are invested the longest. It is essential to the success of the scheme, in terms of delivering adequate levels of pension, that contributions are made throughout members' working lives. As is pointed out later in this document, the age limit on auto-enrolment will compound this problem.

2.3 Design of personal accounts

Amicus supports the objectives outlined in the White Paper for the design of personal accounts in the new Scheme. In particular, Amicus welcomes the proposal for central collection of contributions and the emphasis on low charges in order to maximise the pension return on contributions.

It is important that members are offered choice in terms of the type of investment to which their contributions are allocated and the type of annuity that their fund is used to purchase, with an appropriate default/lifestyle option devised in respect of investment.

It is not clear that for many members the ability to select initially and to subsequently monitor and change providers would lead to added value being realised. A model where the NPSS acts as quasi-trustees in employing investment managers and where members get a standard return on the asset type they have selected, or default to, offers the attraction of reducing the need for members to take investment decisions whilst allowing them to spread risks. However, there would not seem to be any major problem in allowing members with a more pro-active perspective the option of selecting instead a branded product.

A combination of both these models of delivering personal accounts, as outlined in the White Paper, would seem to offer the advantage of maximising choice, competition and innovation whilst providing a secure basis for those disinclined and less well-equipped to take investment decisions.

2.4 Introduction of NPSS

Amicus is disappointed at the timescale for the introduction of NPSS which is compounded by the phasing in of the employer contribution.

Rather than picking 2012 the objective should be to introduce the Scheme as soon as practically feasible. There is no real link between this proposal and the reform of the State system, in particular the restoration of the earnings link. The sooner the problem of under-saving is addressed the better.

Given that there will inevitably be a substantial period of notice for employers in respect of the advent of NPSS, it is hard to see the justification for the

employer contribution being phased in over three years after employees can start to contribute in 2012. Employees may be tempted to put off joining the scheme until the employer contribution has reached its peak, regarding the initial 1% level as being of no significant value.

2.5 Auto-enrolment at a lower age than 22

While the White Paper suggests that it will be possible for younger employees to opt-in to NPSS, it will not be surprising if most do not choose to do so. Attention will focus on the proposed auto-enrolment age of 22 as somehow being the approved age.

The problem will then be that at age 22 many employees will have to accept a significant reduction in their established take-home pay in order to join the scheme. This will be likely to encourage a much higher level of opting-out of employees who are in a continuing job at that age.

Amicus suggests that the Government look again at the case for abolishing or reducing this minimum age of entry. An alternative approach might be to lower the age of auto-enrolment but then allow a phased introduction of the employee contribution, e.g. in 1% steps starting at age 18.

2.6 The balance between employer and employee contributions

For the broad mass of working people it is an evident truth that only those who are in receipt of a substantial employer contribution in practice obtain a decent pension on retirement. Generally speaking, historically, employer contributions have been substantially higher than those of employees, with multiple of x2 and x3 being very common. Even with the advent of lesser quality Defined Contribution schemes on a widespread basis employers have generally at least matched employee contributions and typically been in the range extending from matching up to x2.

Amicus is disappointed that the NPSS proposal involves an employer contribution lower than that required of employees. Apart from reducing the incentive effect of the employer contribution, this also brands the NPSS as an inferior model of scheme.

Amicus suggests that at the outset the employer contribution should not be less than that required from employees, but over time it should rise to be a multiple above it.

2.7 Discouraging of levelling-down

An objective of establishing over the medium term a higher level of employer contribution would serve to reduce the risk and extent of employers levelling down. Outlining a timetable for the employer contribution to rise to at least double the level initially proposed, (i.e. to 6%), would have this effect.

Amicus endorsed the Pension Commission objective of establishing a framework which would allow an average earner over a full working life to generate a pension income of about two-thirds of their pre-retirement earnings. The Commission suggested that it would be open to an individual to

target such an amount if they were prepared personally to double up on the whole combined NPSS entirely at their own expense. This is clearly not going to happen in practice in the case of the great majority of employees but raising the employer contribution will make it more possible and likely that a much improved outcome will be achieved than simply relying on extra voluntary employee contributions.

3. Strengthening existing provision

The White Paper makes a number of proposals aimed at strengthening the present pension system upon which Amicus would make the following comments.

3.1 Contracting-out

While there has been much debate about the balance between state and private provision in pensions, one of the less-recognised but very important aspects of this is its influence on the balance between Defined Benefit and Defined Contribution provision. This has become much more evident given the switch of occupational provision from Defined Benefit to Defined Contribution.

Amicus welcomes the proposal to end contracting-out for Defined Contribution pension schemes not only because of the complexity, and other problems associated with the current arrangements, but also because we believe that the overall balance of pension provision has swung too far towards Defined Contribution provision.

Likewise we welcome the maintenance of contracting-out arrangements for Defined Benefit provision. Amicus believes that bringing it into question now could accelerate the demise of occupational Defined Benefit schemes.

Amicus welcomes the Government's rejection of the Pension Commission's notion that contracting-out for Defined Benefit schemes should be phased out when, on their plan, the State Second Pension, (S2P) has evolved to a flat-rate benefit. This is partly because, later in this submission, Amicus will question this evolution of S2P which the White Paper endorses, but also because Amicus does not accept that the current model of Defined Benefit provision has no future.

Amicus calls on the Government to review the level of contracted-out rebates for Defined Benefit schemes as it believes that the rebates currently offered are unreasonably low and that a premium could be offered to reward employers who are prepared to shelter their employees from the inevitable risks involved in providing pensions.

3.2 Guaranteed Minimum Pensions

While Amicus is sympathetic to the idea of allowing schemes to convert GMP rights into scheme benefits to facilitate simplification of pension provision, Amicus would suggest that a pre-cursor of this must be a final resolution of

the legal question as to whether GMP rights are subject to equal treatment requirements. This issue continues to complicate and frustrate transfers of pensions and the winding-up of schemes.

3.3 De-regulatory review

The objective of this review in terms of simplifying and facilitating private provision is one that we can support.

However Amicus does not accept that de-regulation which is based, for example, on reducing members' rights to pensions or to participate in the running of their schemes is generally acceptable. It would be counter-productive by further undermining members' confidence in pension provision.

There has been some suggestion that legal changes might allow for the reduction of members' accrued rights in order to facilitate pension reform and help employers – an example being to remove the statutory obligation to increase pensions in retirement. This is unacceptable. Amicus would argue that we should be looking to encourage an 'earnings link' for company pension to match that planned for the state scheme rather than allowing an improvement in the state scheme to pave the way for a reduction of the present limited obligation.

Likewise, the suggestion of reviewing provisions for member-nominated trustees should not extend to any dilution of the commitment by the Government to increase the minimum proportion of member trustees to 50%.

One key area that the review might consider is the impact of the new funding requirements and associated regulatory regime on final salary pension schemes. Whilst Amicus welcomes the general impact of these measures in encouraging a more secure basis of funding for these schemes, there is a need to take greater account of the desirability of encouraging the future provision of final salary benefits. This objective is conspicuously missing from the approach being taken by the Pension Regulator. The objective of 'protecting the Pension Protection Fund' must be balanced by the objective of promoting continuing high quality and secure private pension schemes.

3.4 The Financial Assistance Scheme

Amicus believes that those who have lost pensions following the winding-up of final salary schemes, either on account of employer insolvency or because the law has allowed solvent employers to escape from their obligation, should be fully compensated.

This is why Amicus continues to support the test case in the European Court in respect of forcing the Government to protect the pensions of insolvent employees. Amicus has been obliged to encourage members to register further claims in order to safeguard their interests in the event of a temporal limitation on the judgement in that case, of which the Government might seek to take advantage.

Amicus supports, in particular, the recommendations in the Parliamentary Ombudsman's report and believes that the Government should make plans to comply with it rather than to discredit it by seeking to discredit the report.

Amicus supports the extension of the FAS set out in the White Paper but cannot accept what the Pensions Minister has said, which is that this constitutes a 'fair and final' settlement of the issue. Amicus will continue to press the case for an increased level of compensation for all of the victims (to extend it beyond those who were more than 15 years from their scheme retirement age in 2004) and for the extension of the scheme to cover victims of schemes where the employer is not insolvent, especially those where insolvency was avoided by compromise agreements.

3.5 State Pension – Restoring the earnings-link

Amicus supports strongly the restoration of the earnings link for the Basic State Pension. Amicus interprets this proposal as meaning the pension will be increased in line with the higher of earnings or prices in each year, but otherwise would commend this as being the proper basis.

This will stop the erosion of this key contributions-based benefit. It will mean that all pensioners will get a share in rising standards of living, rather than falling steadily behind the working population during their retirement. It will put benefits on the same footing as contributions and stop pensioners themselves being the sole victims of their growing numbers. An earnings-linked pension will also help in limiting the spread of means-testing with its corrosive impact on incentives to save for retirement.

Amicus would prefer that the earnings link should be restored prior to 2012 and does not believe that its affordability should be made subject to savings resulting from the raising of the state pension age of women to 65 or a limited pension budget.

3.6 Raising the State Pension age

Amicus opposes the proposals to raise the State Pension Age. This will impact most heavily on those whose other pension resources are limited and who are also likely to have relatively lower life expectancy, yet for whom the state pension age is more crucial in determining their ability to retire.

Amicus prefers that the emphasis for government policy in this area would be for the focus to be on measures to facilitate longer working lives. Amicus disagrees with more people being forced to work longer by economic necessity, brought about by a change in state pension age, especially where this takes them beyond their natural capability.

In considering the state pension age, account also needs to be taken of the relatively low level of the state pension. If there was a much higher level of benefit then there might well be some reasonable scope to raise the pension age but still then allow 'early' retirement on a reduced but still reasonable level of benefit. In some countries achievement of the full pension is linked to the

number of years of contributions, rather than simply an age, which can help those who started work earliest.

The strong popular opposition to a higher state pension age is often ascribed to a failure of people to recognise the extent of improved life expectancy. To an extent this may be true but what is overlooked is that a longer period of retirement has been seen to be as much a part of rising living standards as a rise in real wages. In fact, real wages have grown faster than the proportion of time people spend in retirement.

3.7 National Insurance should be a part of the State Pensions debate

The White Paper considers the costs of state pensions and expenditure on it as a proportion of GDP but it does not explicitly consider the future levels of National Insurance. This leads to choices being rejected without any clear understanding on the part of the majority of people as to why they are not affordable.

There is clearly a wide measure of willingness to consider paying more for improved pension benefits. This is revealed in general surveys but also in real life situations where employees in company schemes often prefer to raise their contributions to avoid their benefits being reduced.

Amicus calls for an open and informed debate on the future options for the level of the State Pension, the future State Pension Age and on future National Insurance rates. A phased increase in National Insurance contributions allied to a more transparent National Insurance Fund could be a powerful tool not only in maintaining the present State Pension but also improving it.

3.8 State Second Pension

The White Paper plans mean that S2P will evolve to a limited flat rate benefit by around 2030 which means in payment will only increase in line with prices. The earnings related dimension of S2P will largely disappear and the maximum total state pension will have a ceiling of £135 a week. For most people all additional pension will then have to be generated through private Defined Contribution provision.

While Amicus can applaud the further extension of S2P to help the low paid and carers it is opposed to this reduction in the scope of state earnings-related provision. The scope of S2P should be maintained. This proposed reduction in state scheme Defined Benefit compulsion is a regrettable offset to the introduction of NPSS Defined Contribution compulsion. It will also lead to a decline in employer contributions towards employees' state pensions.

Amicus would encourage the Government to further explore the possibility of a state pension savings option, offering an element of Defined Benefit return, for NPSS contributions.

3.9 Pensions Credit

The Guarantee Credit income level, (formerly called the Minimum Income Guarantee), is an approximation for what the Basic State Pension might have been had the earnings-link been applied continuously in the period since 1980. This explains to a large extent Amicus' wish to see the State Pension increased at least to this level. Amicus would like to see this as an option to explore in the wider debate it has called for on the future of state pensions and National Insurance.

Amicus does support the pledge in the White Paper to increase the Guarantee Credit level in all future years in line with the growth of average earnings but only as a worthwhile palliative in the absence of the establishment of a higher universal entitlement based on contributions rather than means-testing.

3.10 Reform of the Contributory principle

Amicus supports the White Paper's approach in reforming the contributory principle to enable more women and carers to establish greater rights to state pensions rather than abandoning the contributory principle in favour of a citizen's pension. This reflects both a preference for maintaining the contributory basis of benefits and the acceptance of the Government's practical argument that this will more quickly reduce the numbers of women reaching state pension age without qualifying for a full pension.

The specific proposals to reduce the number of qualifying years for full pensions and to extend the basis of credits for carers, whilst allowing contributions and credits to be combined in particular qualifying years are all measures which we would support.

We would hope that consensus on this approach might facilitate their partial or full implementation prior to the specified target date of 2010.

4. Extending working life in an ageing society

Amicus recognises the impact of increasing longevity on the working lives of people and the government's objective to increase the economic activity of people aged between 50 and 65. However, it has a number of reservations regarding the extension of the working life beyond the age of 65 and, in particular rejects the government position of forcing people to work longer through increasing the state pension age.

Amicus has welcomed the new regulations outlawing discrimination on grounds of age and recognises the part that these will play in increasing participation of older people in the employment market. Amicus is keen to ensure that the choices open to older people regarding employment will be influenced by the desire to work rather than being forced to work because of economic needs.

Amicus is also concerned that the government's policies outlined in its Green Paper "Empowering People to Work" must be adequately funded if they are to

deliver the opportunities set out in that paper. Amicus made this point in its response to the Green Paper¹ but recent government announcements of future expenditure restraints being placed on departments undermines confidence in the ability to achieve the target of 80% employment rate identified in the paper.

Amicus supports the concerns expressed by the TUC in its own submission to the Pensions White Paper that when addressing the issue of extending working life policies must be aimed at supporting those who wish to do so without forcing those who don't. There is increasing desire to achieve a better work life balance and Amicus believes that greater attention needs to be given to those who have endured a physical working life and who wish to be in an economic position to retire at a time when they are still able to enjoy a reasonable period of retirement.

Amicus has also commented in other submissions² to government on the need to extend the right to flexible working arrangements to all employees. If these provisions were in place, it would enable older employees to graduate downwards towards retirement and possibly provide an incentive to remain in work longer.

Finally, Amicus takes the view that extending the working life cannot be seen in isolation of other social and economic policies. This means ensuring that continued support for health and social services and an economic environment which allows individual workers to make decisions on working time for the right social reasons.

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¹ Amicus response to the DWP's Green Paper A new deal for welfare: Empowering people to work - April 2006

² Amicus response to DTI Consultation on Work and Families Choice and Flexibility - Draft Regulations on Maternity and Adoption Leave and Flexible Working - April 2006