



Submission to consultation:
A state pension for the 21st century

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Question 1

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

The current suite of state pensions has an increasingly marginal role in pensions provision overall. There is not one state pension, but several: the main components are an insurance-based flat rate pension, S2P which is a limited earnings-related scheme, a means-tested pension, and for older people an age-related universal pension. Changes in the landscape over many years mean that many people have a patchwork quilt of provision from several sources, and the traditional National Insurance Retirement Pension plays only a limited part in the range of benefits available. Although the current state pension will not satisfy all the Government's objectives, no single scheme could be expected to do that. The work of international analysts since the 1980s has come to emphasise instead the idea of the "income package", the income available to beneficiaries from a full range of sources. It makes little sense to consider social or economic objectives like incentives or fairness without considering either the composition of the package as a whole or the role that State Pension plays in the package.

Question 2

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

The state pension is not itself a form of saving; current contributions and taxes pay for current pensions. Although it follows that the state pension does not in itself offer any "incentive to save", it should avoid the situation where those who do save by other means are penalised. The state pension is capable of acting as a supplement to other pensions, but only if its level is not affected by other income. Means-testing state pensions is liable to eliminate the value of savings and of private provision, and that implies that the state pension should not rely on means-testing. A universal Citizen's Pension would avoid the pitfalls.

Question 4

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

The role of the state pension should be understood as part of the income package available to people in retirement. It needs to be large enough to provide a basic income and social protection, but all provision does not need to be made by the state; more extensive support can be provided by other sources of income. There is no inconsistency in a system where a single tier state pension is delivered alongside with other pensions.

The consultation paper seems however to suggest that entitlement would be conditional on meeting a requirement for contributions to be made over time. There is no evident reason for doing so. Accumulated contributions are not required for funding, because current funding depends on current contributions. An insistence on an extended period of contribution necessarily and unavoidably will create the circumstances in which some people will not be entitled, and that will mean that there has to be a residual additional system to provide for such people. Maintaining records over 30 years or more, often referring to employment abroad (and currently five million British citizens live abroad), creates a substantial administrative burden to little practical purpose.

Question 6

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

The consultation suggests that pension entitlements would be built up over a transitional period, potentially spread over many years (the year 2070 is mentioned). It seems that a flat rate pension would be introduced gradually, coming into force for younger pensioners at the point of retirement, while older pensioners continue with the previous system. That does not have to be true, and there are strong arguments against it. Some of those arguments relate to the appropriateness of a contributory system, considered earlier. Others are based in equity. Pensions now are paid for by contributions now. Delaying the introduction of the flat rate pension denies support to current pensioners. A delayed introduction would mean that workers now are promising themselves better pensions at the expense of future generations, but that they are not ready to pay for current pensions. That would be unreasonable, and profoundly unfair.

The Government has the option of doing things differently. Rather than offering pensioners only to new pensioners, they could be offered to those who are oldest. Flat rate pensions could be offered at first to the oldest pensioners – in the first instance, those over the age of 85 or 90. The age limit could then be lowered in incremental stages, down (say) to 80, 75, 72 or 70.

The advantages of approaching the policy this way would be:

- It would direct resources in the first instance to a cohort of pensioners who are least protected by earnings related alternatives.
- It would be fairer; it would mean that workers were not promising themselves pensions and refusing to deliver them to current pensioners.
- It would not immediately extinguish the earned entitlements of people within the second state pension.

- It would create an opening for alternative types of private scheme or options for saving – for example, schemes that might cover people for a fixed period, from ages 65-80 and later from 65-75.
- It would ease the thorny problem of how to increase the retirement age. Introducing the pension only for younger, new pensioners would create a situation where governments are committed to a progressively expanding scheme as younger pensioners retire, and where it might be necessary to withdraw entitlements that have previously been offered. Starting at the other end of the age distribution would mean that governments would have the choice of whether or not to lower the pension age for Citizens Pension further, taking into account the economic conditions of the time.

Question 10

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

The state pension age has been declining in importance, and although retirement has recently been taken later, withdrawal from the labour market retirement before the official pension age has become commonplace. In these circumstances the principle of an official “retirement age”, as opposed to a pension age, has become less and less defensible. Retirement Pensions do not have to be paid at the same time, or on the same terms, as age-related pensions.

In my response to question 6, I suggested a different mechanism altogether. A scheme could be introduced for those of advanced age, and the age of entitlement could be gradually lowered to a point of the government’s choosing.

Question 11

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

It should not. Recent measures, belatedly revising pension entitlements for older women, have been deeply disruptive. People need stable projections of income to make plans.