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Solidarity Federation
The New Ageism
Summer 1999

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the hands of a small number of financial consultants. A recent study found that 65% of pension fund transfers in Britain were made on the advice of just four such consultants. Not only do they all operate on the same investment criteria (leading to the so-called herd instinct), they are also notoriously short-termist, forever moving money around in search of higher returns.

Short-term transfer of huge funds was one of the major factors in the currency turmoil that engulfed East Asia last year. In return for massive return, pension fund managers lent money on weak security, much of which went into property development, which promptly collapsed, creating panic and hasty withdrawal of funds. The massive investment followed by even more massive withdrawal created financial turmoil that threatened "meltdown" of financial markets world-wide.

So, we are left with the paradox of individuals contributing to pension funds which are managed in such a way as to bring markets to their knees, wrecking the long-term security of the individual pensioner. The decision by Labour to plunge further down the road of privatising pensions has already led to a backlash. The state pensions lobby has mobilised support for the link between pensions and wages to be restored, bringing the prospect of forcing at least a partial climb-down by Labour prior to the next election.

Through direct action, there remains the possibility of forcing a more permanent change of direction. In this, all possible support is needed for the state pensions lobby, for not only does the issue of pensions effect us all, in many ways, the issue gets to the heart of what kind of society we want. The state pension scheme is based on the idea of social solidarity. Until a society based on true equality and solidarity is secured, this is a principle that must be defiantly defended.

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Typically, these 'administration' charges can eat up a third of the total money saved by the individual policy holder over a lifetime. This outrageous situation is being worsened by wider changes in the economy — most notably the onset of lower interest rates.

Money purchase schemes are based on the idea that people put money into a scheme, which is invested on their behalf. On retirement, the policy is "cashed in" to provide a lump sum which is exchanged for guaranteed annuity or dividend payable on a monthly basis. This annuity is calculated on current interest rates, which are now so low that pensioners are finding their annuity consisting of next-to-nothing. For example, at current levels, a money purchase pension saved over the years which totals £100,000, would currently generate an annuity of just £5,500.

Nor can pensioners simply take their lump sum and run. Under the money purchase scheme, the lump sum remains under the control of the company. Many people are astonished to find that they are forced to accept an even lower annuity to ensure the lump sum is not confiscated by the company, should the policy holder die prematurely.

big picture

The problems with individual private pension schemes pale into insignificance compared to the fact that it is the stock market that underpins all pension schemes, whether personal or company. Pension funds are based on the idea that, over the long term, the stock market will only go in one direction — up. This is one massive assumption. Should the stock market collapse, a whole generation of pensioners may find themselves queuing for income support.

The effect of pension funds on international finance is rarely mentioned. At present, there is some $10,000 billion of pension fund sloshing around the world's financial markets in search of higher returns. The management of this colossal piggy bank is in even brought under state regulation to ensure ethical and sustainable investment.

To make matters worse, there is little sign of Labour reforming the trust laws governing the management of the so-called 'final salary' schemes which still make up the majority of company pension schemes. These date back to the 17th Century, when they were developed to govern the management of funds of those deemed incapable of managing their own affairs, such as 'minors', 'lunatics' and (wait for it)…'women'!

The trust laws have been used to muddy the waters, ensuring that individuals have little say in how pension surpluses built up due to rising stock markets should be utilised. It is these which have allowed large-scale fraud such as the Maxwell scandal, plus other legal fraud such as pension holidays, the utilisation of pension funds to pay for redundancies (such as recently in British Telecom), the seizing of surplus funds after privatisation (such as the government is now doing with the National Bus Company funds), and so on. It is estimated that, at present, some £60 billion of surplus funds are sitting there waiting to be snatched.

In refusing to change the law, Labour has argued that these schemes are in decline and are gradually being replaced with the so-called "money purchase" schemes. Though it is true that most new schemes are of this type, there remains the no small matter of £60 billion held in surplus pension funds. The way the law stands (and will now remain), this can be effectively stolen or misused by the holding companies at any time.

new scheme new fraud

Nor has Labour so far said much about the obvious failings that are already coming to light concerning the still-new money purchase schemes. The most obvious problem is the enormous amount of money charged by private pension companies to manage them.

Taking the piss out of fat, black or gay people is certainly not allowed by Tony Blair, and quite right too. But discrimination against the old, especially if they are female or not well-off, is the new fad in town. It is at the centre of Labour's pension plans.

Last year an article appeared in DA, which predicted that, despite pre-election promises to the contrary, Labour would not restore the link between pensions and average earnings (DA6).

This link was severed by Thatcher in 1979, and now the basic state pension is worth only 14% of average earnings — a figure which will likely further fall to 9% by 2030. The article also predicted that, instead of restoring the link, Labour would incorporate the basic pension into the means-tested benefit system.

It was suggested that Blair would find this a useful back door method of ending the 'pay as you earn' pension system, under which for 50 years, each new generation of workers has paid for the pensions of the generation who have gone before them. This 'solution' would ensure that the rising cost of pensions caused by the ageing of the population would be met by people not government, by forcing them to turn to private pensions, as the state pension withers away to worthlessness.

Just before last Christmas, with the cunning idea that it would receive limited coverage due to the festivities, Labour slipped out its proposals on pensions in a document entitled "Partnership in Pensions." In this, Labour committed itself to "a minimum income guarantee" for pensioners, of £75 a week (single) or £116 a week (married couples). This "minimum income" is to be delivered through the means-tested income support benefit.

Under these proposals, the basic state pension is to remain lower than the minimum entitlement pensioners can claim through income support (the basic state pension for single people is set at £66.75). In other words, if you only have your state pension, you will have to claim income support to ensure you get the extra £8.25 "minimum income" entitlement.

So Labour has incorporated into the benefit system the position that developed under Thatcher, whereby some 3 million pensioners were (and still are) forced to claim income support because of the pitifully low level of state pension. This figure is now set to increase as the real value of pensions continues to decline, forcing ever-increasing numbers of pensioners with a lifetime of work and 'pay as you earn' National Insurance taxes behind them to claim income support.

changing rules

Under the post war settlement that led to the creation of the welfare state, workers were informed that, by paying into the new National Insurance scheme, they would receive in return a state pension which would provide them with security in old age. The scheme was introduced to replace the hated means-tested poor relief, under which retirement meant surviving through old age in abject poverty. The state pension was seen as providing a decent standard of living in old age, after a lifetime of work. Labour's proposals ensure that the pension will effectively disappear, to be replaced with means-tested income support — an updated name for poor relief. In fact, the only difference is that, under poor relief, at least you didn't have to pay National Insurance to cover a promised future pension.

Even if you have managed to save twice for old age by paying for both National Insurance and a second pension, you may well find yourself losing out under Labour's "Partnership in Pensions." Again, it is the worst off who will suffer. If you have a small amount of savings or a small second pension, you will find it disqualifies you from claiming the means-tested income support. Your private/second pension will have to top up what is left of your basic pen-

Field is a Catholic and a staunch supporter of the family. He hoped this would encourage women to stay at home to look after the family, the threat of being penalised in later life through having no pension having been removed. His approach was radical in that, although the fund was dependant on being invested on the stock market to ensure it maintained value, he proposed that it be placed under the trusteeship of building societies and trade unions. He also hinted that ways could be found of ensuring that the national pension funds could be invested for the national good.

The City was immediately hostile to Field's proposal on two counts. Firstly, it threatened the growing private financial sector, not least, the money gained by the private sector from the massive £12.2 billion handed out by the state in the form of tax breaks, without which the lucrative private pensions sector would not have such well-lined pockets. Secondly, it threatened to take control of the massive pension fund out of the City, from which they gain both vast profits and not inconsiderable financial power.

There was no need to worry. The City has such a grip on Blair, that there was no question of Field's proposals getting anywhere with Labour. He is now an ex-minister.

scandals ahead

In what amounts to a massive climb-down, Labour's "Partnership in Pensions" announces that Labour has decided to entrust the management of its new flagship 'stakeholder' pension to the very people who brought us the pension miss-selling scandal. They will also be allowed to 'charge' handsomely for the work of managing the fund (perhaps 'defraud' would be a better word). The fact that investments will remain in the hands of the City is also a blow to those who had argued that the fund generated by the new stakeholder scheme could be used to promote national investment, or save for old age with a private pension. The vast majority of people facing an old age of poverty will be women.

If, as a way of squeezing welfare, the retirement age were to be lifted at some future point (not out of the question — you saw it here first!), the situation for women would get even worse. For those with private pensions, the option would be there to take early retirement. The better off you are, the greater your options to retire earlier with better pension income. However, those without a private pension would simply be eligible for work for much longer. If Labour are still using the same rhetoric as they are today, no doubt these unfortunate people will be constantly being empowered back into work by enabling them to keep a percentage of their benefit whilst working.

the unthinkable

Under Labour's pre-election talk, the massive shift to greater inequality was not supposed to happen. Though unequivocal commitment to restoring the full link between pensions and earnings was avoided, a full pension review was promised, headed by Frank Field. Blair duly gave Field the job, telling him to "think the unthinkable" when approaching welfare reform. Well, Field did just that, and came up with a scheme which proved completely "unthinkable" to the Labour leadership.

Field's pension proposals did away with the state pension, but the replacement was based on universal pension provision and did seek to ensure equality for the long term unemployed, carers, part-time workers, etc. He also proposed setting up a new national pension scheme, into which both employers and workers would be legally obliged to contribute. His scheme would require those on higher earnings to contribute more, and the state to make up the contributions of those not in full-time work, thus ensuring adequate pension provision for them.

sion just to get to the levels you would get anyway under Labour's "minimum income guarantee".

For example, upon retiring with £10,000 saved in a personal scheme a man will receive just £800 a year pension — even less for a woman because it will be assumed she will live longer. After tax, this is just about the £8.25 they would have received from income support under Labour's minimum income guarantee. In effect, they have been robbed of their extra savings. Experts are now stating that, unless people can manage to save a lump some above £40,000 in their personal pension scheme, under Labour's proposals, they may as well not have bothered.

The obvious way around wrecking small savings would have been to lift the state pension scheme to the same levels as the "minimum income" received under income support. This would have avoided penalising those on low income who have managed to scrape together a small income from a second pension. It would also have spared those dependent on the state pension having to claim income support which, being means-tested, involves itemising their income and spending. This is so traumatic and degrading that people often prefer to avoid it, proven by the fact that a large number of pensioners are unwilling to claim the income support they are entitled to. Aside from this is the considerable saving on administration cost s, by avoiding means-testing.

However, even the modest guarantee that the basic pension would be kept at the same levels as income support would have breathed new life into the state pension system — something Labour is keen to avoid. For this would ensure that the state pension would keep some value as it rose in line with income support. By contrast, under their proposals, Labour can allow the state pension to whither away, while arguing that minimum income support is there to act as a safety net for pensioners. Labour couches their proposals in terms of 'choice'; you can be in dire poverty in old age, receiving minimal income support, or invest in a personal pension scheme to have a reasonable retirement.

In reality, few will get the second choice. Undoubtedly, we are witnessing the slow death of the state pension.

game plan

As indicated between the lines of the rest of Labour's "Partnership in Pensions", there is a whole game plan to be introduced to ensure the decline of the state pension. One of the centrepieces of the proposals is the so-called "stakeholder" pension, targeted at low to middle income groups. The level at which Labour expect people to begin switching to private provision can be gauged by the fact that the stakeholder pension will even be targeted at those earning less than £9,000 p.a. By way of encouragement, various tax breaks and cuts in National Insurance payments will be offered to those switching to private pensions. It is estimated that this direct move away from state funding will cost the treasury some £5 billion. This compares to the £2.5 billion Labour intends to spend on minimum income support — a figure which will fall considerably if large numbers of those in receipt of state benefit fail to claim their £8.25 entitlement. Clearly, Labour is keener on priming the private sector than supporting pensioners.

The real gains for the state under Labour's plan are in the long term. They expect the number of people with a private pension to increase from the current 40% to 60%. This will ensure that Britain alone in the industrialised world will avoid the financial time bomb built into the 'pay as you earn' system.

freedom to be poor

With Labour's plan, future generations will finance their retirement through personal pensions. This will mean gross inequality in old age, with the very low paid, long term unemployed, long term sick and carers who have been unable to build up a private

pension all dependent upon income support. This income support will itself be squeezed relentlessly. To ensure people are forced to go for and maintain private pensions, levels of income support will have to be kept ridiculously low, to maximise the incentive (similar ideas have already been found to work by Labour, forcing younger people to take desperately low paid jobs).

Clearly, Blair feels gross inequality is a price worth paying to avoid the problem faced by countries like France, where private pension is rare and over 80% of the population are dependent upon state pensions funded by the 'pay as you earn' model financed through taxation. As the French live longer and the number in work falls compared to the number of pensioners, the burden of tax on those in work can but increase in order to maintain adequate state pensions.

The reality is that greater equality through taxation flies in the face of Labour's free market orthodoxy. This is why they have gone for private provision. While unsurprising, this contradicts their claim to be the party of equality — and specifically, their claim to be the party which favours greater women's equality.

worse for women

Women, who still carry the burden of raising children, while increasingly caring for the elderly and infirm, have long been discriminated against through the pension system, because they face long periods out of the labour market or in part-time employment.

In the past, many women have been unable to pay enough National Insurance contributions to qualify for the basic state pension, let alone save in the form of a second pension. Rightly, this was one of the criticisms of the state pension. The new proposals make matters even worse, since built-in inequality will particularly victimise the many women who are carers and mothers, and so cannot