A STATE PENSION FOR THE 21ST CENTURY

- GMB Response -

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GMB RESPONSE TO DWP CONSULTATION – A STATE PENSION FOR THE 21st CENTURY

The submission is on behalf of the GMB trade union, Britain's third largest union with more than 610,000 members across all sectors of the economy. The vast majority of our members participate in workplace based pension schemes but increasingly this is becoming unaffordable for many meaning reliance on the state is the only likely future. GMB has consistently called for reform of the state pension system but believes that the options outlined in the Green Paper are inappropriate and badly predicated.

Approach to Reform

Despite spending less on state pension provision than most other comparable nations, the Green Paper makes clear that the government is implacably opposed to increasing the amount of spending on the nation's pensioners. Given the levels of poverty that currently exist among the UK's older population and the desperate choices many retired people have to make between heating their homes and eating properly, GMB believes the government is fundamentally wrong in assuming the state system can be reformed on an expenditure neutral basis and be fit for purpose. Doubtless efficiencies can be made, we have repeatedly highlighted the wasteful nature of means testing for pensioner benefits but these savings will not be enough in isolation to ensure a workable and sustainable pension policy.

Recommendation 1: Government must recognise that in order to secure all pensioners live with dignity and decency in retirement the UK must spend more on state pension provision.

Both recent government sponsored reports into pension saving: the Turner Commission and Hutton Report reflect the view shared by GMB that the state pension system requires urgent reform. This is a key reason that we oppose the drastic cuts to occupational pensions (whether in the public or private sectors) that Government are introducing ahead of the implementation of a reformed state pension framework. The Turner analysis, for example, was conducted in a context of significant (if declining) good quality occupational pension provision. That report's recommendations were focused on filling gaps in workplace based saving and reforming state provision, not creating a new state system in the absence of reasonable occupational provision. The development of NEST is welcome, although it is vital that the coverage is not watered down as proposed in the current Pensions Bill. Without substantial improvements to the contributions being made however, the private savings of those with NEST or comparable pensions will not be close to sufficient to meet the needs of those individuals or the wider public finances. This shortfall manifests itself in greater demand on welfare provision, NHS services and local authority care provision (a point reflected in the recent Public Accounts Committee report) as well as having a devastating impact on the quality of life of individuals. The design of a state pension arrangement that meets the need of those who fall through the net of workplace provision is necessarily different from one that is needed for the majority of UK citizens because they are not able to put enough aside through the available occupational provision to be assured a reasonable retirement. As the UK is fast moving in this direction it would be inappropriate to design a system that met the first objective and resolved a problem that has now been superseded.

Recommendation 2: Reform of the state pension system should underpin Government's pension policy not be tagged on after occupational provision has dissipated.

Cost Neutrality

As stated above, GMB does not accept that reform should be on an expenditure neutral basis. We are also concerned that DWP presents their proposals not as 'expenditure neutral' but as cost neutral. To most this means overall the policy will not result in a surplus or deficit to the public finances. That is not true of at least one of the proposals outlined in this Green Paper. The abolition of contracting out rebates will generate a surplus for Treasury that is not accounted for in the Green Paper's assessment of cost neutrality. In the context of the paucity of expenditure on state pensions when compared with a) other comparable countries, and b) what is needed to prevent pensioner poverty; this appears as a deeply cynical move.

Recommendation 3: Government should be transparent about the costs and savings of its reform proposals and clearly show where income is generated and where expenditure will flow.

Existing Pensioners

GMB notes that, very regrettably, there is nothing in the reforms proposed by DWP to address the real need of current pensioners. Government points to the introduction of the triple lock indexation of the basic state pension as illustrative of a commitment to today's pensioners. As such there is a clear evidence of a disingenuous approach to addressing the increasing levels of poverty in retirement. The triple lock was to all intents and purposes already in place incorporating a RPI indexation strand. The new, formalised triple lock only allows for CPI indexation and as the government's own forecasts clearly show this will mean real cuts for the state pension in the next couple of years as RPI is projected to outrun the triple lock.

Reductions to adult care funding and rises in energy prices mean today's pensioners face a very real financial crisis. The assertion in paragraph 104 that 'Pension Credit fulfils [this] support for pensioners' basic needs' is simply out of step with pensioners' actual experience. This Green Paper fails to recognise or examine the issue and GMB calls on the Government to rectify this situation with the greatest of urgency.

Recommendation 4: Government needs to address the current perfect storm of rising costs and falling support facing today's pensioners.

Removal of Contracting Out Rebates

The Government proposal to remove contracting out rebates for defined benefit schemes is a major concern to the millions of current members of these schemes. There are already indications that some employers are looking to this move as a reason to close defined benefit schemes. Schemes that, it should be noted, have weathered many 'final straws' for good quality defined benefit provision. Given DWP's stated objective to 'reinvigorating private pension provision' (paragraph 101) it beggars belief that Government are seeking to make these schemes more costly for employers and employees.

If introduced this will exacerbate the problem created by the Chancellor in the 2010 Comprehensive Spending Review which will virtually double the contributions basic rate taxpayers will make to the largest public sector pension schemes. This combines with the flimsy approach to reductions in benefits that Government proposes as a means for employers to recoup their increased costs. There are hardly any examples of genuinely cost neutral reforms of this kind taking place and there seems little chance of this scenario being the first example.

Recommendation 5: DWP should assess the impact on participation rates in defined benefit pension schemes as a result of these proposed reforms of the state pension system.

Recommendation 6: DWP should take steps to quantify the reduction in pension saving resulting from these proposed reforms to the state pension system.

Consequential Cuts

There is insufficient analysis of the consequential changes to means tested benefits such as Housing and Council Tax Benefit that are currently automatically provided to those eligible for means tested pension benefits. To balance the assertion of expenditure neutrality it seems inevitable that these elements will be reduced and complexity of application increased yet this issue is not covered in these proposals.

There are clearly savings to be made from the exclusion of those with less than seven years of contributions yet these are not quantified. It is therefore not possible to ascertain the justification for a seven year cut-off point as opposed to a six or eight year line.

Recommendation 7: DWP should outline the impact of its proposals on related benefits such as Housing and Council Tax Benefits.

Recommendation 8: Each element of the proposed package should be publicly costed so the public can see from where money is being taken and to whom it is being redirected.

State Pension Age

Inexorable increases to state pension age will soon make any state pension reform of little concern to the poorest workers as they fail to share in the increased life expectancy being assumed by Government. While it is accepted that longevity is improving, this does not mean that life expectancy is even across regions, income levels or ethnic background. Government's blunt approach to changing state pension age has already caused consternation among women who are suddenly expected to delay their imminent retirement by up to two years. If state pension age is to continue to be the main tool for managing the cost of provision then a targeted, independent review body should be established to review how this is conducted. The impact of changing the state pension age on those most in need of the state pension i.e. those with low income and little or no occupational provision should be at the forefront of the reviewers' considerations.

Recommendation 9: State Pension Age should not be a blunt tool for cost management, the consequence of change should be rigorously examined before any further changes are made.

Recommendation 10: An independent review body should manage the issue of addressing changing longevity with an emphasis on ensuring health inequalities are narrowed before further changes to state pension age are imposed.

Conclusion

Reform to the state pension system is necessary and urgent but should not be rushed at the expense of occupational provision and public confidence. GMB is keen to see a progressive and sustainable approach to reforming retirement provision for all generations but is deeply concerned that these proposals will not benefit the worst off, will signal the closure of remaining defined benefit schemes and will reduce the amount of private pension saving in the UK. GMB therefore urges DWP to look again at its reform options and accept that much more needs to be done and this cannot be achieved by making expenditure neutral changes that result in an income for Treasury at the expense of Britain's pensioners.