

### **Pensions post-Turner**

Two forces will determine how the Turner Report impacts on pensions policy. The first is whether the three Commissioners can themselves agree a unanimous report. Each of the members – Adair Turner, Jeannie Drake and John Hill – are individuals in their own right and will, I guess, bring different political perspectives to the reforms. If the Commission simply lists a series of options its political impact will be massively curtailed.

Yet even the impact of a unanimous Pension Commission Report will depend on the political mud wrestling between the Prime Minister and Chancellor which is such a distinguished characteristic of this government. The Prime Minister will have two options if he wishes to see pension reform as a mega part of his legacy. He can either persuade the Chancellor that only by sweeping reform can the Labour Government ensure the success long-term of the Chancellor's pension credit strategy. Failing that he will need to summon up the courage to over-rule him.

I am opposed to the spreading of mass means-testing. In the longer run such a policy is self-defeating. Free societies will not thrive if ordinary people feel it doesn't pay them to save.

Even so it is quite clear that in the short run the Chancellor's pension credit has been a huge success. No other government has channelled more resources year after year to the poorest pensioners than this

administration. I believe the official figures underestimate the take-up of the credit.

It is at this point the Prime Minister must engage with his Chancellor. While pension credit is a runaway success it is destroying people's longer term saving habits. My guess is that 40 per cent of the population cannot save enough to make themselves as well off as if they saved nothing and simply looked forward to pension credit. Goodness knows what the proportion is of people who, in addition, cannot make themselves much better off by saving and therefore don't.

Not surprisingly, therefore, the official figures show the cost of pension credit will run out of control. If no changes are made to the scheme the credits will be costing by 2050 an additional 13p on the standard rate of tax. I doubt whether I will live to see any government ever elected again that promises to raise income tax by a single penny in the pound let alone thirteen times that amount.

The only way to secure the wellbeing of the poorest pensioners is to bring into force a long-term pension reform which reduces over time the numbers claiming and therefore the cost of pension credit. The only scheme on the table which has an objective of raising everybody's retirement income above means-tested assistance is the one put forward by the Pension Reform Group which I chair. The scheme for a universal protected pension aims to build up a funded scheme to run alongside the current pay-as-you-go state pension. As the governance of the scheme needs to be at arm's length from politicians, PRG has suggested modelling it on Gordon Brown's success in giving independence to the Bank of England. The new body of governors and trustees, and more

importantly the funds, would therefore be at arm's length from the sticky fingers of politicians.

The crunch question is whether the Prime Minister will persuade the Chancellor on the urgency of long-term reform. Or, failing that, whether he will have the guts to over-rule him. We will soon know.

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