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HEADLINE: Government would be wise to adopt Sir Malcolm's pension ideas

BYLINE: By FRANK FIELD

BODY:

From Frank Field, MP.

Sir, Stephen Haddrill discusses where the dividing line might best be drawn between freedom and compulsion in pensions reform post Turner ("Keep choice at the heart of pension reform", September 20). The director-general of the Association of British Insurers unsurprisingly came down in favour of choice.

Malcolm Rifkind in his FT comment ("Our price for a national pensions consensus", September 9) made what the Pensions Reform Group identified as a key problem with the laissez-faire approach - people who can save but do not, and end up on welfare. Sir Malcolm, in our view, rightly drew the compulsion line at a level that would ensure those who can save, do so, so that taxpayers are not called upon to make good the results of the "could save, won't save" brigade.

This is where the PRG draws the line between freedom and compulsion. But what of those who cannot save now but might be able to save in the future? PRG's proposal for a "universal protected pension" paying between 25 per cent and 30 per cent of national average earnings is based on the assumption that those citizens in low-paid work, or in valuable unpaid work, such as carers, should have their contributions paid in advance by the rest of us.

Such a reform puts a shelf-life to Gordon Brown's pension credit. No chancellor has channelled more resources to the poorest pensioners than the present incumbent. But because it does not pay large numbers of people to save, the means-tested bill for Pension Credit grows - up to the equivalent of an extra 13p on the standard rate of tax by 2050.

The proposal is for the UPP to be part-funded from the current pay-as-you-go scheme and part-funded from the build-up of the new funded component. Here Mr Haddrill sounds a warning note against a single "state" scheme. Those of us who have private pensions don't quite recognise the dynamism Mr Haddrill claims for some fund managers. Even so, there is no case for nationalising savings, and the PRG proposes that the private sector would tender for managing parts of the new funded scheme.

And here is the crunch. If the community is giving a guarantee on paying out a minimum pension, the community should have some method of checking the performance of the fund managers and of acting against those who fail to fulfil expectations. We propose that the governance of the scheme should be modelled on the Bank of England's Monetary Policy Committee. Here we have a public body established by the government but with very clear independence.

Going beyond this limited increase in compulsion - the minimum contribution necessary to prevent people being on welfare in retirement - would lead us into a minefield. The government would be wise to adopt the distinction Sir Malcolm makes in limiting compulsion to those contributions needed to lift people free of means-tested welfare in retirement.

Frank Field,
House of Commons,
London SW1A 0AA

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