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HEADLINE: Are competing funds the best way forward?

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BODY:

From **Frank Field** MP.

Sir, Martin Wolf points pension policy in the right direction ("A five-point solution for pensions", November 12). But are his immediate policy prescriptions wise?

There certainly is a need to link the state retirement pensions to earnings and he is right in saying that this is not a short-term fix. But if higher savings are required towards better future pension provision, is he right in thinking that a number of competing funds would be the best way forward?

I believe pension policy should have the objective of achieving a decent minimum pension for everyone. The Pensions Reform Group proposes that this objective should be achieved by merging the pay as you go insurance scheme with new funded provision. The new scheme therefore has the advantages of drawing on the strengths of both types of provision without putting all of one's eggs in one basket.

Any scheme that makes people contribute towards this minimum provision opens governments to the charge of misselling if that objective is not served. Hence the Pensions Reform Group's proposals for a single scheme with trustees working from the Bank of England and their governance modelled on the monetary policy committee.

Mr Wolf is right in suggesting that not to plan for a minimum cover will result in escalating means-tested welfare bills in the future while undermining incentives to save. Likewise, he is right in suggesting that, once the entire population is in a minimum pension scheme aimed at lifting everyone out of means tests, what is the sense of spending nearly Pounds 12bn a year in tax incentives encouraging people to save?

There may be a case that a higher savings ratio is necessary for a healthy economy but that is a question that ought to be separated from whether such a higher savings ratio should be achieved by increasing long-term savings linked exclusively to pension provision.

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