

Fear of real change

The Turner Commission has opened up the debate, but which way will the Government jump? It doesn't have a clear line and the danger is that it will try and run with the National Pension Saving Scheme and forget about Lord Turner's changes to the basic state pension. One can see the attraction to the Government of this approach. It could try and present such an outcome as a spanking new initiative. It might even hail it as a new public (pension credit) private (NPSS) partnership.

It will, of course, be nothing of the kind. But the Government might just bank on the main participants recoiling from continuing to argue their corner for major reform. After all most of them have spent the last eight years being wound up by a succession of green and white papers, the publication on more than one occasion of the principles of welfare reform, let alone being invited along to national pension conventions.

The NPSS is the least attractive side of the Pension Commissions proposals. It fails to meet the two principal public policy requirements in respect to pension reform. It does not lift future pensioners off welfare. At the same time the auto-enrolment opens up the Government to direct savers into schemes which will have different returns. Even if the whole of the Pension Commission's package is implemented in full the numbers on means-tested benefits will stabilise at around 30 per cent of all pensioners.

But failure on this front will still leave the Government open to giving dud or nil advice on schemes which will have varying returns over the bond/equity cycle as well as differences between schemes at any one time. The Ombudsman has, at the time of writing, a case before her on whether the Government misled workers by telling them that their savings were safe in occupational schemes.

If the Government might stand charged and be found guilty of mis-advice in these circumstances imagine what the huw and cry will be like as individual investors start to compare the payoff of the different schemes which will be housed in the NPSS. This will be a scheme which will have been established by the Government.

The Pension Commission's proposals on the reform of state pensions are complicated. Few people really understand how they might qualify for the new basic state pension which will be awarded in part on the basis of citizenship and in part on the basis of contributions. The difference in this basic pension in today's money will be £82 for being a citizen with, on average, a quarter more coming from a contributions source.

One basic requirement for any reform to get off the ground, let alone secure a long-term future, is for contributors to be clear to what they will be entitled. But if the Pension Commission's state arm of the new pension is complicated it can at least be explained, given enough time and effort. That cannot be said of the outcome of belonging to the NPSS. Here the position is simply opaque. No-one can say what the pension will be until the day it is drawn.

A steady influence in the Government against simply snatching at the NPSS will be the Chancellor of the Exchequer. While any charges on misdirecting savings will be lodged well after his watch is over, the impact of a NPSS type scheme on current company pension schemes is likely to be pretty immediate. No matter what Government spokesman might say, a three per cent levy on employers as their contribution to the NPSS will quickly be seen as the norm for employer contributions and not, as the Pension Commission argues, a minimum floor. The closure of company DC schemes will follow. This outcome is unlikely to appeal to Gordon Brown given that he is as interested in his legacy as Mr Blair ever was.

The next best move the Government could make would be to publish a short paper on the results of its consultation. Ideally this should list the three approaches which are now on the table: the citizenship pension approach by the NAPF, the Pension Commission proposal with the different models of how the NPSS could be delivered, and the Pensions Reform Group's line on reform. It would be helpful for the Government to set out what it sees as the advantages and disadvantages of each of these approaches before narrowing down the political debate to its favoured option which will be detailed in a major pension's reform bill.

Words - 750