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HEADLINE: Pensions Commission's proposals for reform require extensive discussion

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BODY:

From **Frank Field** MP.

Sir, Your report "Turner attacks critics for 'thoroughly bad arguments and red herrings' " (February 10), is to be welcomed as the first serious attempt to open up the debate on pensions reform following the Pensions Commission's second report.

I have not attended any non-political group discussing future pensions strategy that has not been dominated by concern over the commission's proposals but none of this concern has surfaced publicly.

Ministers have therefore sailed on with their thinking that there is a consensus "out there" around the Pensions Commission's proposals. There is not. Your reported comments by Lord Turner are based on a misunderstanding of the Pensions Reform Group's proposals.

Our preferred route to a sustainable pension reform entails building up a funded scheme alongside the pay-as-you-go (PAYG) basic state pension to ensure a universal minimum pension of between 20-25 per cent of average earnings with both parts linked to earnings when the pension is paid.

There are some clear risks involved with the Pensions Commission's proposals. By opting for a totally PAYG new basic state pension today's workers are being asked to trust that future taxpayers will continue to meet an enlarged tax bill that relies on extracting a promise from a future workforce, most of whom are yet to be born. This looks risky, to put it mildly.

The second double risk comes from the national pensions saving scheme (NPSS). By creating individual accounts for building up an adequate basic pension a risk is placed on cohorts of individuals who will gain different returns over time depending on when they retire in the equity/bond cycle. There is also an individual risk of backing the scheme with the best returns at any point in time. These different returns will open up the government to mis-selling charges for establishing an NPSS.

In order to pool these basic risks the Pensions Reform Group proposes a universal pension, part funded and part PAYG, with a guarantee of a minimum pay-out lifting future pensioners above poverty. Lord Turner is right in that, if the fund underperforms, any difference will have to be made up, not as he suggests by taxpayers but by the scheme members.

But having a national scheme building up over decades allows fluctuations to be smoothed over the longer term. Even so the PRG believes that voters would back such a minimum scheme which would allow contributors to pay increased contributions to ensure that their pension is paid or, if the fund out performs, of reduced contributions.

At the moment the decision not to meet the guarantee is made not by those who will draw the pension but by their employers. Not to secure an adequate basic pension in the reform makes even more important the concern being expressed that establishing the NPSS could result in another wave of employers closing company schemes with their employees becoming even more dependent on what the state provides.

Frank Field,

Chair, Pensions Reform Group

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