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***100 days of coalition government: Quo vadis British pensions?***

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- **In its first 100 days in office, the new coalition government has announced a raft of measures covering state and private and public sector occupational pensions.**
- **What the measures do not add up to is a coherent strategy to create a credible and sustainable pension system for future generations of pensioners.**

The newspapers are full of stories commenting on the first 100 days of Conservative-Liberal Democrat coalition government. So far so good, it seems, with the coalition partners working well together, launching initiative after initiative and starting to address some of the major challenges facing this country. Even the electorate seems happy, with George Osborne apparently the most popular Conservative Chancellor ever.[1] This is not a bad achievement for someone who is preparing the country for the sharpest public spending cuts seen in a century.

The new coalition government has certainly announced a lot of measures in the realm of pensions. The first announcement was that the Basic State Pension (BSP) would be indexed to earnings rather than inflation from 2011 onwards. This is earlier than previously planned, which in itself was conditional on the public finances being in a solid state. To ensure that the BSP would rise even if earnings fall, the government also promised a "triple guarantee" to pensions uprating. Next was that the planned increase in the BSP age from 65 years to 66 years for males would be brought forward to 2016, with females following later. While extending working lives quickly might indeed help dealing with the fiscal legacy from the economic crisis, the announced policy would also mean that males and females will face different State Pension ages for longer, something the previous policy introduced in the early 1980s of aligning both genders by 2020 (at 65 years) explicitly aimed to eliminate. Why the State Pension age for males, who have a lower life expectancy than females, should be higher than that for females is a question that still needs to be answered too. Other announced measures include the change in inflation indexation from RPI to CPI for public sector schemes and as a benchmark for private sector occupational pension schemes. The rationale is to save money for the government and give corporate sponsors of defined benefit pension schemes a bit more breathing space as the change should lead to lower pension fund liabilities. What might seem easy to implement in the public sector appears to be much more difficult for the private sector though, with pension funds still coming to terms with this change.

Moreover, the Government established a commission on public sector pensions, headed by Lord Hutton (who also happens to be its only member), which will report before the Spending Review on short-term cost cutting options and then early next year on wider reform options. We will have to wait and see what the commission will propose. Last but not least, the Government announced that it would review the scope of NEST, acknowledging that small businesses might find it impossible to contribute anything to this new employment-based pension scheme. NEST is the previous government's flagship policy aimed at helping those on modest incomes save more for retirement, many of who work in small businesses.

This is a mishmash of ideas with some leading to lower government spending (e.g. bringing forward the Basic State Pension age), while others have the opposite effect (e.g. moving forward the BSP indexation to earnings). Having second thoughts on the scope of NEST bodes ill for the future success of the scheme. Then again, NEST, which is based on the principle of auto enrolment, always seemed expensive and cumbersome in relation to what it is meant to deliver, so perhaps this is not a bad thing. But what would come in its place? Even New Zealand, which provided much of the inspiration and blueprint for NEST in the form of the *KiwiSaver*, is now looking into compulsory pension savings to create a savings culture.

What seems to be missing is a coherent strategy to create a credible and sustainable pension system for future generations of pensioners across the income groups and sectors. Such a strategy

would, among other things, deal with the vacuum left by the decline of defined benefit pension schemes in the private sector, which if left unattended would probably have to be filled by the government eventually. What is needed is a fresh look at the allocation of risks, responsibilities and rights across the three players: government, businesses and individuals. As it stands pensions remain *a crisis in slow motion*.

[1] *The Coalition's First 100 Days The public's verdict*, Ipsos Mori, August 2010.