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The role of the state and employers in pensions provision

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Summary

Pensions are at the heart of the debate on globalisation and welfare. At a general level there is the threat posed by footloose capitalism to the effect that companies will be unwilling to locate in, or remain in, countries where adequate statutory provision impacts on costs. More fundamentally, there is the division between those who view pension policies as being first and foremost about the role of the State in securing a reasonable standard of living for the retired and those for whom the primary issue is the potential of the transfers involved for capital accumulation and economic growth. The decisive move towards privatisation in the UK – and success of the latter perspective – is noted in the paper. Data from a large scale survey indicates, however, that these profound changes have occurred in a context where understanding of pensions is very limited, where there are high and now, perhaps, misplaced expectations of what the State will deliver and where there is very little support for the model of provision that is being put in place.

Introduction

Pensions policy in the UK has moved sharply away from provision and perspectives in other EU countries over the past twenty years. In the face of testing demographic trends most EU countries have made some amendments to statutory provision by, for example, equalising retirement ages and adjusting replacement rates. UK policy stands out, however, by virtue of the range and depth of measures taken to curtail state provision and the intention that the state should cease to be a provider of second tier pensions for the general population.

The changes have been extensive (Evason, 1999) but in, summary, the main developments have been as follows. In 1980 the uprating formula for the basic pension, payable on the basis of contributions to the national insurance scheme, was altered so that annual increases are in line with inflation only. This produced a derisory increase this year of 75p and the basic pension represents a dwindling percentage of average wages. In 1986 substantial modifications were made to the second tier State Earnings Related Pension Scheme. The cuts begin to take effect this year and the result will be that, roughly speaking, entitlement will be half what would otherwise have been the case. Throughout, the intention has been to “encourage” reliance on occupational and personal pensions despite the various scandals that have surrounded these forms of provision.

The policy of the present government is to maintain and, indeed, accentuate these trends. The basic pension will continue to decline – though national insurance contributions remain substantial. SERPS will be phased out with the state providing a second pension only for those on low earnings and others in very limited circumstances. Beyond this people will be expected to make their own arrangements. Government is promoting stakeholder pensions as an alternative but these are simply low cost personal pensions. There will, moreover, be no compulsion to make such

provision as such would imply underwriting by the state – a liability there is clearly concern to avoid. In essence, the state is seeking to severely curtail its role in pensions, this is occurring at a time when employers are, as a result of the changes occurring in employment, more reluctant to provide the traditional final salary occupational pension and are moving towards other arrangements or none at all.

Recent Research

Data from a large scale survey in Northern Ireland conducted in 1999/2000 – response rate 70% - raise a number of questions about current policy. It would appear that, in line with other data (see, for example, Hedges, 1998), the population has only a limited understanding of the arrangements for retirement that they themselves are making and there is much confusion about broader policy. It also appears that many have a confidence in the state which is, perhaps, misplaced and that the general thrust of pensions policy is out of step with what people actually want.

Thoughts about retirement and provision being made.

1,695 people were interviewed and table 1 details their employment status by gender. Predictably the pattern is one of the majority of women being outside full-time employment.

Table 1 – Employment Status by Gender

	Male	Female	Total
Working full time	64.3	32.1	46.9
Working part time	3.4	20.5	12.7
Full time home care	1.0	24.4	13.7
In full time education	7.2	6.4	6.8
Permanently sick/disabled	8.3	3.4	5.7
Unemployed seeking work	6.6	3.1	4.7
Retired	6.2	1.1	3.4
Not working – not seeking work	1.4	3.9	2.8
Other/Refused	1.6	5.1	3.3
	769	926	1695
	100.0	100.0	100.0

Table 2 is of interest inasmuch as, whilst the policy outlined above requires people to be proactive and engaged with the issue of how they will manage on retirement, only a small minority had given a lot of thought to this.

Table 2 – Amount of thought given to how will manage when retired

	Male	Female	Total
A lot of thought	16.4	9.6	12.7
Some thought	32.9	32.7	32.8
Not much thought	20.2	21.0	20.6
Or, no thought at all	29.3	35.7	32.7
(Don't know)	0.2	0.5	0.4
Not answered/refused)	1.0	0.6	0.8
Total	100.0	100.0	100.0

Nevertheless, despite this lack of thought, few of our interviewees expected to be “quite badly off” or “very badly off” as table 3 indicates.

Table 3 – Expected Standard of Living on Retirement by Employment Status

	Working Full time	Working Part time	Looking after the home	Sick/ Disabled	Unemployed	Full time Education	Other	Total
Comfortably Off	16.3	16.2	12.6	1.9	8.2	20.7	13.0	14.6
Quite well off	24.3	14.4	12.2	4.9	10.6	12.4	18.6	18.3
Able to manage	47.7	51.1	57.3	59.2	52.9	20.7	45.8	48.3
Quite badly off	3.1	11.4	7.3	19.4	10.6	-	6.8	6.1
Very badly off	0.2	1.3	1.2	1.0	2.4	-	1.7	0.8
Don't know/no answer	8.4	5.6	9.3	13.6	15.3	46.3	14.1	11.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Close examination of the provision being made for retirement by this sample raised some concern about the grounds for the optimism noted above. Summarising the data very briefly, 295 persons were in occupational pensions and as, in the main, these were the more advantageous final salary schemes, these may be considered fairly sound though much will depend on total years of membership. This option will, of course, be open to fewer in the future in consequence of the trends noted above. More importantly, perhaps, pensionable employment is more likely to be public sector employment (66% of our sample) and is thus declining as the state shrinks.

Alongside those with occupational pensions, were those with personal pensions where final outcome depends on the volume of contributions, performance of investments and annuity rates, which have fallen sharply in recent years, on retirement. 262 persons were currently contributing to personal pensions but, as table 4 indicates, many were making contributions which fell below the benchmark of £50 a month conventionally used as an adequate payment for this kind of provision. Noting that at current rates – roughly speaking – a fund of £10,000 is required to produce an annual income of between £500 - £800, some of these arrangements will deliver very modest pensions indeed.

Table 4 – Monthly Contribution to Personal Pension by gender

	Male	Female	Total
£20 and under	9.0	25.2	15.4
£21-£30	11.2	17.9	13.8
£31-£40	13.3	9.8	11.9
£41-£50	16.0	5.7	11.9
£51-£100	19.1	6.5	14.1
£101 and over	15.4		9.3
Don't know	16.0	35.0	23.5
Total	100.0	100.0	100.0

The third, and largest, group in our sample consisted of those with neither occupational nor personal pensions and currently relying in full on statutory provision. A minority of these (18.6%) reported that they had no record of contributions to the national insurance scheme with the largest grouping here being women engaged in full time home care. With regard to those with some contribution record, 70% reported that they had paid full contributions for most of their working lives to date. In our sample people placed considerable reliance on these contribution records and broader payment of taxation. Thus, for example, 66% of this group agreed with the statement “I have paid my tax and national insurance so I assume I will be all right” and the proportion was rather higher (80%) amongst those in full time employment. Whilst, under current policy this group may be considered problematic and is depicted as not making provision for the future, their perspective is not an unreasonable one. They have paid contributions – which remain substantial despite the decline of national insurance benefits in the UK – for many years and clearly consider that they actually have been making provision. The critical element is the sharp change in what these contributions will deliver for those outside the scope

of the new second pension. To sum up this section of the data, of our three groups, two give some cause for concern. Nevertheless there is only limited awareness of possible problems ahead.

Understanding of what people want.

The explanation for this optimism appears to be that people have a good deal of faith but little understanding of their own pensions and policy generally. Only 32% of those in occupational pensions said they had a good idea of what their pension would be. 35% of those with personal pensions did not know whether theirs was an approved personal pension or not. The majority of interviewees (77%) thought that the basic state pension was a universal pension paid to all on reaching retirement age. As table 5 indicates, many were surprised at the lowness of the basic pension and thought it a poor return for contributions. More broadly, there was a general view that more could be afforded and little support for selectivity.

Table 5 – Responses to Attitudes to Questions

	Strongly Agree	Agree	Neither Agree nor disagree	Disagree	Strongly disagree	Don't Know
1 The basic state pension £66.75 is lower than I thought it was	14.0	33.6	16.5	27.4	3.1	5.5
2 The basic state pension isn't much for those who have paid tax and contributions all their lives	43.0	46.2	4.3	2.1	0.4	4.0
3 Government should and could find the extra money to pay a proper basic pension to contributors if it wanted to	43.6	46.8	4.6	1.1	0.3	3.6
4 There are a lot of people who have good incomes and they shouldn't get the basic pension	5.0	18.9	12.1	46.3	11.6	6.2
5 When people have paid their contributions they are entitled to the pension regardless of their income	32.6	47.8	6.6	7.9	0.8	4.2

With regard to preferences for the future, table 6 shows strong support for the models of provision currently being abandoned.

Table 6 – Options for Future Preferences

1) The state continues to provide a very modest basic pension and helps the poorest with a means-tested top up	18.5
2) The state provides a modest pension which is sufficient to live on without hardship or having to claim Income Support. If people want more they have to provide it themselves	37.6
3) The state provides a pension based on earnings which is sufficient to live on with a few luxuries and means that people's living standards do not fall substantially when they retire	36.1
4) Other option – (Write in)	0.6
Don't know	7.3

Conclusion

UK pensions policy has moved decisively towards privatisation. This has occurred with little public debate. The conundrum for government is that a real debate and a genuine effort to promote greater understanding of pensions may bring into sharp relief the gap between the current agenda and the preferences of the population.

References

Evason, E (1999), British Pensions Policies, Evolution, Outcomes and Options, in Ditch, J (Ed). Introduction to Social Security, Routledge, London.
Hedges, A (1998) Pensions and Retirement Planning, Social Security Research Report No. 83, DSS, London