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100 YEARS OF STATE PENSION: LEARNING FROM THE PAST

Reference

Salter, T.A., Bryans, A.A.S., Redman, C. & Hewitt, M. (2009). *100 years of state pension: learning from the past*. Faculty of Actuaries and Institute of Actuaries, Oxford.

Abstract of the Discussion Held at the Faculty of Actuaries

[16th March 2009]

The President (Mr R. S. Bowie, F.F.A.): Tonight's topic is '100 years of state pension: — learning from the past'. I am reminded of the expression: why are the bankers so keen to find new ways of losing money when the old ways seem to have worked perfectly well!

The state pension has been going in a recognisable form for only 100 years and only for the last 60 as a universal pension; and only for the last 30 years in the form that we all might recognise today.

If the Actuarial Profession can bring value to something from the past, it is to bring a perspective and a context to it so that we can learn from it. In this way, the Profession can create an informed climate within which public debate on matters of public interest can take place. As you will all know, the Financial Reporting Council are pressing the Profession hard to give tangible evidence of its commitment to the public interest, and this book falls into that category, creating an informed background for debate on a matter of huge public interest.

The book was sent to the Work and Pensions Select Committee, which currently has an inquiry into pensioners' poverty. The Profession used the book as the grounding for a submission, and also the authors themselves submitted a more provocative and punchy version. The Profession needs to be a bit circumspect in what it says, but the authors need not be so inhibited. I think the combination of the two submissions, each using the book as a foundation, was a good way to go about it.

You will doubtless all be aware that the book has enjoyed a huge amount of publicity. It has been quoted in the Telegraph, on Channel 4, and in other distinguished journals. It was quoted in the House of Lords debate by Baroness Greengross, who used it as an important foundation for the debate. My day job is in designing and managing pensions. Many of you will be in the same boat, and others among you will be in the savings or insurance industry. It is impossible for any of us to do our job without an understanding of the state scheme and how we interact with it. If you have not read the whole book, I commend it to you; but, at the very least, the final chapter, which is the one that helps us to learn from the past.

We have three of the four authors with us tonight: Mr Tony Salter, who spent a long and distinguished career, partly in the public sector and so he brings that perspective; Mr Andrew Bryans, an actuary who spent most of his career in advising occupational schemes; and Mr Colin Redman who has spent time both in the insurance industry, in savings products and pensions products, and in the consulting field. The fourth author, Mr Martin Hewitt, previously had a career in social policy and, since 2001, has been a member of the Profession's staff specialising in social policy. So, there is a good spread of backgrounds from the four authors.

Mr A. A. S. Bryans, F.I.A. (panel member)**:** I have an apology to make. You should have had pre-meeting reading material for the book; but unfortunately, for one reason and another, it was not put on to the website. Fortunately, I have seen so many of you with a copy of the book that I am hoping you have already been able to read it, so the lack of the pre-meeting reading material will not have caused a problem.

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I am going to talk about the book itself. Mr Salter will then take over and talk about some of the themes of the book. Mr Redman will then set the scene for the discussion. We are looking forward to a lively discussion from you all. At the end, Brian Ridsdale will close the discussion. So let us go back to the book and its origins.

The origins of the book go back to the Pensions Commission 2002/06. You may recall this Commission. It was set up by the Government in 2002 to look at the private pension system, with Lord Turner being the Chairman, and with the other Commissioners being the trade unionist, Jeannie Drake, and the social policy academic, Professor John Hills. They quickly decided that it was impossible to remedy what was wrong in the private pension system without also looking at the state system. As a result, their review became much wider than first envisaged by the Government.

During the work of the Pensions Commission, we, the authors, were all members of the Ageing Population Group, which was a sub-group of the Social Policy Board but since 2008, with the reorganisation of the Actuarial Profession, is now a members' interest group. Its aim is to contribute to the debate on issues in the public interest. Consequently the Ageing Population Group had a series of discussions on the Commission's work.

Our discussions kept throwing up a question that the Group could not resolve, namely: 'What is the state pension for?'

As you will recall, after the Commission's report, the White Paper 'Security in retirement: towards a new pensions system' was issued in May 2006. It set out the Government's proposals in the light of the Commission's recommendations with the final part of the relevant primary legislation — the Pensions Act 2008 — reaching the statute book last November.

One of our members, Deborah Cooper, published an article in the October 2006 issue of The Actuary in which she pondered the purpose of the state pension in light of the White Paper but, unfortunately, it did not reach a conclusion.

At that time, the Group realised that we were approaching the 100th anniversary of the state pension scheme. The first state pension act was the Old Age Pensions Act, enacted on 1 August 1908 with the first state pension payment being made on 1 January 1909. When we were writing the book we came across a number of interesting facts. The date, 1 January 1909 was a bank holiday in Scotland but not in the rest of the UK. New Year's Day only became a bank holiday throughout the UK in 1974, with Scotland being granted Boxing Day as a bank holiday.

The Group decided it was an opportune time to produce a history of the first 100 years of the state pension scheme with the hope that by doing so this would reveal the answer to the above question 'What is the state pension for?' At that time we were thinking of producing a leaflet of about five pages. As you will notice, five pages became slightly longer.

Four members volunteered: Mr Hewitt, Mr Redman, Mr Salter and myself.

Mr Hewitt, unfortunately, cannot be here with us today. Mr Redman is a Fellow of the Faculty of Actuaries and I am a Fellow of the Institute of Actuaries. Mr Salter is an Affiliate, and Mr Hewitt is a social academic. Mr Salter was a youngster in the early 1940s but he recalls the euphoria that encompassed the population with the publication of the Beveridge Report. The night before publication a queue of people waiting to buy the report developed around Her Majesty's Stationery Office. This is remarkable as at that time the country was in the depth of the Second World War.

We had a number of guiding principles in regard to the document. The first one was that it had to be readable by both the specialist and the general reader. We did not want a book that was highly academic, nor did we want one which was available just for the general reader and would not be appropriate to the specialist. At all times we wanted to set the pension scene within the economic and social context of the day.

We wanted to address not only what was happening at that time but what was the thinking behind it.

We hope that when reading the book you will find it informative and thought-provoking and that we have kept to our guiding principles.

Even though we had a flying start with Mr Salter's and Mr Hewitt's past research and our collective experience, it nevertheless took us over two years to produce the book. During this

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time, we researched, drafted, edited, rewrote, added additional material, took material out and had a large number of discussions. Some discussions were quite heated but I am glad to say that in all cases we came to a satisfactory conclusion.

I would like to thank the many people who helped us with the book. Our fellow Ageing Population Interest Group members and two very distinguished academics read the manuscript. Their comments enabled us to improve the book tremendously. We also asked a couple of lay people to read the manuscript. They indicated that they found it fascinating, saying that they could not put it down.

Finally, I would like to touch on some of the issues that kept recurring throughout the 100 years. First, the effects of the ageing population and longevity have been a cause of concern throughout the 100 years. Even before the state scheme started this was of concern. After that we had the First World War with the loss of many young people. That caused great concern on the viability of the scheme. These concerns were repeated in the 1950s, the 1980s and continue to be of a concern now.

Another cause of concern has been the appropriateness of the pension age. The pension age of the 1908 state pension scheme was 70. For most of the past 100 years, the pension age has been 65 for men and 60 for women.

Even allowing for recent legislation, the pension age is only planned to increase to age 68 for people born after 5 April 1978.

Looking back in time, the Phillips Committee in the 1950s recommended that the pension age for men and women should be increased by 3 years — men from 65 to 68 and females from 60 to 63. This recommendation was not accepted by the Conservative Government of the day because it was not politically acceptable. The Phillips Committee also considered equalising the pension ages for males and females at that time. They concluded that there were good and strong reasons for doing so, including the equality argument, but were persuaded not to recommend this change because it would not achieve any considerable savings. In hindsight, they jumped the wrong way.

Throughout the 100 years and before 1908 when Poor Law relief applied, society has been wrestling with the thorny problem of how to provide in old age without falling back onto means testing and the attaching stigma. However, every time, what actually happens is that more means testing has been adopted on the grounds that this uses the available resources more effectively. Consequently there has always been compromise between the pension level, pension age and the cost.

I therefore leave you with a thought. Have we now got the right balance on how much of society's cake should be spent on providing pensions for all?

With that, I will now pass over to Mr Salter who will talk about the themes.

Mr T. A. Salter (panel member)**:** Throughout the history of the British state pension, two major policy narratives can be discerned. One is essentially a 'demand-side' account of social policy-making (in which priority is given to meeting human needs), the other a 'supply-side' account (in which priority is given to reconciling the meeting of human needs with the efficiency of the economic market). Both narratives proceed from the common assumption that the central aim of any state pension policy is the alleviation of old age poverty.

The failure of the 'new Poor Law' to relieve poverty outside the workhouses meant that the problem of old age poverty at the end of the 19th century had become critical. Old people constituted the largest single group of paupers and a public, or state, old age pension eventually came to be seen as the only solution to the problem.

Demand-side accounts have generally focused on the economic welfare of old people who no longer have any future labour market value. They have stressed the inherent citizenship value, or worth, of old people, emphasising their moral claim on society's resources for a full subsistence pension (i.e. one sufficient to live on without recourse to other income or financial assistance). Such a moral claim arises, as a matter of natural justice, from the service or contribution rendered to society by old people in their past working lives.

The leading protagonists in the demand-side narrative were the trade unions and the

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reformers such as Booth, Barnett, Rowntree, and the friendly society actuary Ralph Price Hardy. They tended to the view that a universal tax funded state pension scheme represented the most effective means to eliminate, or alleviate, poverty in old age. The state pension scheme which emerged in 1908 (with first payments in January 1909) was tax funded but, because of its exclusion clauses applying respectively to age, means, status and character, it was far from universal.

Supply-side accounts have invariably reflected concerns that pensions policy should always be consonant with, if not actually subordinate to, meeting labour market needs. An overriding value was placed on economic efficiency, the productivity of workers and labour market flexibility. Although pension policy should assist the 'shake-out' of elderly workers ostensibly to promote industrial efficiency, it should nevertheless be subject to socio-economic restraints, such as the minimisation of redistribution between different economic groups in society.

Social expenditure on pensions on this view should accordingly have had a low priority, not only because such expenditure would entail redistribution, but also because it was wasteful to divert resources towards those citizens who had no future labour market value.

The main protagonists in the supply-side narrative were, in addition to Joseph Chamberlain, another friendly society actuary Sir Alfred Watson, Winston Churchill, the young William Beveridge and Neville Chamberlain (son of Joseph), the last two of whom criticised the tax funded scheme which emerged in 1908. Neville Chamberlain dismissed the 1908 scheme as 'radically rotten in principle' and a 'discouragement to thrift'. All of them supported, or came to support, the 'fiscally conservative' instrument of contributory social insurance pensions as the most economically efficient means to alleviate old age poverty. The aim, however, was 'not to provide full subsistence, but to reduce to a minimum the need for discretionary poor relief'.

The persistence of pensioner poverty in the inter-war years led to a renewal of the debate on public pensions policy. The National Conference on Old Age Pensions, a pensioners' organisation grounded in organised labour, renewed its campaign for universal tax funded state pensions, and Hugh Dalton (later to become Chancellor of the Exchequer in Attlee's post-war government) argued that a higher rate state pension could be provided through a combination of tax and social insurance funding. This led, in due course, to the 1925 Act which introduced a new contributory social insurance pension scheme to operate alongside the means-tested non-contributory pension scheme established in 1908.

The next major development came with Beveridge in the 1940s. Beveridge had become convinced that a universal insurance scheme could serve as a vehicle for achieving a national minimum pension which, if set at the threshold of need, as Beatrice Webb had argued, could eliminate poverty entirely. The scheme's flat rate benefit would be at subsistence level to meet basic needs, as of right and without means test. It would be financed by flat rate contributions paid by employees, their employers and the state.

The contributory principle was an indispensable element in Beveridge's pensions framework, as was subsistence. This stemmed from his social philosophy. He viewed social assistance, or Poor Law relief, as servile and not compatible with full and equal citizenship.

The fact that the proposal 'was not about giving something for nothing' or for freeing recipients from personal responsibility to give service (through labour) and to pay contributions, went a long way to meeting the concerns, or most of them, of the 'supply-side' policy planners. Beveridge was thus able to straddle both the 'demand-side' and the 'supply-side' policy narratives in the history of the British state pension. Yet in a way he went beyond both. He aimed for both 'adequacy' and 'equity' in state pension provision. His benefit was to be 'a minimum income for subsistence with equality of contributions' to ensure that 'as recipients of benefit the poorer man and the richer man are treated alike'.

Beveridge's objectives of rationalising the administration of the 1908 and 1925 schemes and creating the framework for a new universal contributory social insurance scheme were achieved. Economic constraints, however, after the war, dictated lower full rates of benefit. These were nearly a third less than Beveridge had proposed for subsistence. As a result the national assistance scheme (which replaced the Poor Law in 1948) did not, as Beveridge predicted, wither

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away but continued to have a vital role in supplementing social insurance pensions as the Pension Credit still does at the present day.

In the 1970s, Barbara Castle argued that the first aim of pension policy must be to lift everyone in retirement off supplementary benefit. Nevertheless, her Social Security Pensions Act which embodied the provisions for SERPS (the State Earnings Related Pension Scheme) and was enacted in 1975 with the support of an all-party, all-interest parliamentary coalition, was nevertheless repeatedly criticised in both the Commons and Lords, as well as in Committee, for offering 'no significant improvement in basic pension that would raise the current generation of poorest pensioners out of their means-tested dependency'.

After the 1970s the view that pensions policy should always be subordinate to the supply-side priorities of economic policy became almost all-pervasive. Its influence on social policy making was entrenched with the return of the Conservatives to office in 1979 and continued relatively undiminished under subsequent Conservative administrations and the New Labour Governments which followed. New Labour has given priority to public expenditure on education and training. The needs of those in society who were seen to have a future labour market value were given precedence over the needs of pensioners. The old Labour ideal of the social democratic state had transmuted into the social investment state.

The five shillings a week pension when the state scheme started in 1909 was about 18% of national average earnings. In 1979 the value of the basic state pension had reached 26% of national average earnings. Since then the basic state pension has, as a matter of policy, been allowed to decline in value to just below 16% of average earnings in 2008. In 1891 the actuary Ralph Price Hardy estimated that more than 40% of old people at the time were chargeable to the poor rates. In his view this was a grim commentary upon our social system. Standards of poverty have changed since 1891, but the Department of Work and Pensions estimated in 2008 that 40% of pensioners qualified for the means-tested Pension Credit. They also estimated that in 2007 there were as many as up to 1.8 million pensioners who, although eligible, did not claim the means-tested benefit.

Over recent years we have also seen a decline in private sector final salary pension schemes with three quarters of them closing to new entrants. The National Pensioners Convention estimates that currently as many as nine million workers may have no pension arrangements outside the state scheme. Dependence on means-tested Pension Credit is likely to increase.

Governments argue that they cannot afford to provide a universal state pension at a level sufficient to lift all pensioners off means-tested benefits, but affordability arguably is a relative concept. According to one estimate 'paying a universal pension at the 2005 threshold for means testing (i.e. 22% of average earnings, which was the level of the state pension in 1985) would cost an extra £7.3 billion net in the first year'. This represents about a third of the cost of tax relief in the same year on private pension contributions, i.e. about £21 billion.

'Bread for everyone before cake for anyone' said Beveridge in a speech in 1943. These words helped to shape the moral imagination of the time. Along with the notion of a universal minimum income for subsistence, they are part of the history of the British state pension. After reading the history, what will you think of them now?

With that, I will now pass over to Mr Redman to set the scene for the discussion.

Mr C. Redman, F.F.A. (panel member)**:** My role tonight is to open the debate and, I hope, provoke some discussion. What can we learn from the past? What do we want from state pensions in the future?

I would like to start by summarising some of our main conclusions. First of all, despite the introduction and development of the state pension scheme over 100 years ago, the question still remains, 'What is the state pension for and what part should the state play in ensuring adequate incomes for everyone in retirement?' I am hoping that is something a number of you will comment on this evening.

Secondly, we have a habit in the UK of tearing up our pensions legislation every few years. As a result, the stability and continuity needed for people to plan for retirement over their working lifetimes does not exist. Our political parties need to develop long-term on-going

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cross-party agreement to create a sustainable structure for state, occupational and private provision.

The steady development of state pension provision over the first 70 years has been somewhat reversed over the last 30 years. The reduction in the value of the basic state pension and the recent decline in final salary schemes have left a huge gap in provision. This will lead to increasing numbers of people reaching retirement without adequate pensions on which to live and having to claim means-tested Pension Credit.

We now live in a society where more emphasis is being placed on personal provision for retirement. People are encouraged to save through individual- and employer-sponsored money purchase schemes with fund values linked directly to stock market performance. The recent turmoil that we have had in the world's financial markets demonstrates the unsuitability of these plans as savings vehicles for those on low and medium incomes. If these people are to be encouraged to save for retirement they need savings vehicles with low charges and much less volatility.

Another issue is that inequalities that exist during people's working lives are carried over into retirement. Many workers are not eligible to join adequate pension schemes and the low-paid, part-time workers and non-employed carers of children and the elderly often do not qualify for a state pension.

State pension provision has been out of favour and political parties have seen little value in promoting the benefits of social insurance and the contribution it can make in creating a stable and socially cohesive society. However, it would be ideal if we had a modernised and revitalised national insurance scheme that could provide better pooling of risk, lower costs and greater stability and certainty for ordinary people to save for adequate pensions on which to live in old age. So, those are our main conclusions.

I would like to move on to the points we would like to consider this evening. We cannot talk about how to fund pensions in the future without first considering what it is we are trying to do. What are our objectives? As Richard Titmuss, a great contributor to thinking on social welfare, pointed out as long ago as the 1950s, pensions policy is first and foremost a philosophical and a moral question. What type of society do we want? What standard of living do we want for those in old age who can no longer work and many consider have little or no on-going economic value?

Other questions include: who should pay for these pensions? Should responsibility fall primarily on the individuals themselves? What contributions should employers make? What should come from general taxation?

Over the last 100 years we have had plenty of answers to these questions. The 1908 scheme, as Mr Salter has pointed out, was paid for completely out of general taxation. The principle of the Beveridge plan in the 1940s was quite different. Everyone paid the same fixed rate contribution and everyone received the same benefits. The rich man and the poor man were treated the same. Today the basic state pension (supported by Pension Credit) is funded by earnings-related National Insurance contributions and through general taxation, therefore representing some redistribution from the well off to the less well off. It is, however, arguable that private pensions tax incentives with higher rate relief and around a quarter of the benefits payable in tax-free form favour high earners and represent a redistribution back to the well off.

We cannot answer the question of "who will pay for pensions" without tackling the R word — not recession, but redistribution. Free markets, low tax and trickle down have been the buzz words of the recent decades. Alleviation of poverty through means-tested benefits has been high on the political agenda, but redistribution has become a subject that, perhaps like sex, polite people do not talk about. Should pensions be primarily about personal provision through individual- and employer-sponsored schemes or should an adequate level of pension be funded via the tax system? Should the well-off pay more to ensure better guaranteed pensions for those who have earned much less during their working lives and who have had less scope to save?

Another question is: what burden can we put on today's generation to pay pensions to today's elderly? This is a question about redistribution between generations.

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A related question is: what do we mean by retirement and from what age should benefits be paid? How do we achieve a balance between those in work and those in retirement claiming pension benefit? How should we deal with improving longevity?

But the crucial question is: 'What is the role of the state?'

Should the state merely provide the framework and legislative backdrop for pensions or should it play a more active participative role? In just a few months, within the banking industry, we have seen a massive shift from *laissez-faire* free market economics with light touch regulation to significant nationalisation of the banks, considerable state control and much more intervention.

The Beveridge objective in the 1940s was to produce an adequate state pension for all through a national insurance system. A similar unfulfilled objective came with SERPS in the 1970s. At the other end of the political spectrum we have had the arguments of people like Macleod and Powell who, in the 1950s, attacked universal state benefits and argued that no social service should be provided without a means test so the state should not waste resources by providing benefits to those that do not need them. Up to around 1980 the idea of state universal benefits prevailed. Since then we have seen a trend to less intervention and an emphasis on individualism and self-provision. The continuation of this trend is part of current government policy.

So, how do we get the balance right between social insurance, means testing and private sector provision? Whatever structure we want, how can we get our political parties to agree to that structure surviving for decades rather than just a few years? We need more continuity and stability to encourage people to save over the long term. We need continuity and stability to ensure equity between generations. Why should today's working population agree to pay pensions to the elderly now if the next generation of workers does not accept a similar obligation?

Surely, some people will say, with all our problems, now is the wrong time to look at pensions yet again. The world is suffering a severe economic downturn. There is a collapse in the banking system. Have we not just looked at pensions? Do we not have other priorities? We would suggest that now is the right time to consider these issues anew. It is only when we face serious problems that we start to question what we are doing and why. It is worth mentioning that the Beveridge report was written during the dark days of the Second World War and implemented in the 1940s at a time when the country was almost broke. SERPS was introduced at a time of great economic difficulty in the 1970s. It was achieved with cross-party consensus illustrating that such things are possible.

History shows that the current turbulent times may be just the opportunity we need to think again. In our view, the question 'What is the state pension for?' needs to be re-addressed. Despite the achievements in pension reform over the past century, there is much that still needs to be done to build a sustainable system that ensures everyone receives an adequate income in old age.

The President: So the questions for tonight are: what are we trying to achieve? Who should pay for it and could we please resolve the great social issues of personal accountability, inter-generational equity and the role of the state?

If you can answer that, we will top up your Sloan Prize with a Nobel Prize!

Mr R. K. Sloan, F.F.A. (opening the discussion)**:** It gives me particular pleasure to add my congratulations to the authors on their most informative book, not only because I have known Mr Salter for over 30 years, but also because I have personally experienced much of the state pension history of the last 50 years.

Indeed, passing Part 1 of the Faculty exams just as the State Graduated Scheme started in April 1961, took my salary up to the princely sum of £360 a year, just above the qualifying earnings level, so that State Graduated contributions were duly deducted from my pay. However, the payroll system had not allowed for the fact that I was still only 17, below the minimum qualifying age of 18, so I later got three months' contributions refunded.

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So, that serves as a reminder that I have been around since the start of the State Graduated Scheme, and throughout all the period of change you have outlined, up to the present day when I find myself in receipt of a full Basic State Pension, State Graduated Pension, SERPS and S2P.

I was therefore particularly struck by the sub-title 'learning from the past', as focusing on the past is a characteristic for which actuaries are often derided. Yet it is something from which we can learn important lessons, as the authors so rightly point out.

Turning to Chapter 12, the final chapter with the name 'Learning from the past', the authors summarise three main shifts that they have noted over the last 30 years, namely the shift from state to private provision; the shift from collective to personal provision; and the shift from pay-as-you-go to advance funding. All of these are indeed the case, but it is highly debatable whether all or any of them are necessarily advantageous. This is not the place for me to analyse all of these in detail, but I would like to expand upon the second item, namely the shift from collective to personal, which in essence means a shift from defined benefit to defined contribution — or, as I prefer to call the latter, money purchase, which helps to avoid confusion.

What I found particularly interesting in the authors' historical analysis was the contrast in ideology between successive Labour and Conservative Governments, and the way this correlated to changes in that part of state pension provision designed to provide extra benefits on top of the Basic State Pension.

Looking back briefly at this, first we had the State Graduated Scheme that I referred to before, which was essentially a contribution-driven extra benefit that was brought in by the Tories in 1961. Next, after Labour came into power in 1964, Richard Crossman developed proposals for an earnings-related top-up, which was halted at the eleventh hour by the shock return to power of the Tories when Edward Heath came to power in 1970. Under his premiership, Sir Keith Joseph developed a national money purchase scheme called the State Reserve Scheme, which again failed to be implemented due to the return of a Labour Government in 1974 — another shock result, with Labour coming in on a lower overall percentage vote than the Tories.

So, under Labour, with Barbara Castle as Pensions Minister, the Joseph Scheme was of course promptly kicked into touch. Then, remarkably quickly thereafter, as I think the authors mentioned, Barbara Castle published the 'Better Pensions' White Paper in the autumn of 1974. This further developed the original aborted Crossman Scheme and came into force in April 1978 as the State Earnings Related Pension Scheme, SERPS as we know it, which changed again in 2002 to the State Second Pension, or S2P.

We then come to the Thatcher/Major era which has been referred to previously as covering the 18 year period from 1979 to 1997, which was notable for the introduction of personal pensions in the 1980s, and contracting out of SERPS on a money purchase basis from April 1988 (but backdated to 1987). When we come to the current Labour regime from 1997 to date, we note the chequered introduction of Stakeholder Pensions in 2001, which were of course money purchase, and more recently the setting up of the Pensions Commission, which has led to legislation introducing auto-enrolled 'personal accounts' from 2012, again on a money purchase basis.

So, if you have all been paying attention, you will note that the Tories have repeatedly developed money purchase schemes, while Labour has introduced earnings-related top-up benefits on a revalued career average basis — until now, that is — with the Blair/Brown Government having changed to the money purchase approach, with Stakeholder Pensions in 2001 and now 'personal accounts'.

This therefore represents a sudden and fundamental change of philosophy from defined benefit to money purchase — if you like, a shift from a left-wing to a right-wing approach, regarded by many commentators as a betrayal of Labour's original philosophy.

Leaving such ideological arguments aside, I believe that this shift is a seriously retrograde step, as the history of money purchase is peppered with failure. We need but recall the FSSU (Federated Superannuation Scheme for Universities) which ceased to provide good benefits after inflation mushroomed, and was later changed to the USS (Universities Superannuation Scheme) operating on a final salary basis. Then there was the personal pension mis-selling scandal of the

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1980s, and thereafter the empty boxes of Stakeholder in 2001. We do not of course know what 'personal accounts' may hold in store, but I am not over-optimistic.

On the other hand, final salary provision has become increasingly costly in recent years, leading to a major shift back to money purchase in the private sector, with the clamour from some quarters for similar change to take place in the public sector as well.

But in between these extremes it was refreshing to find that the Association of Consulting Actuaries brought forward in March 2007 its proposals for a 'third way' which they called 'risk sharing', which in essence is a revalued career average pension model with age-related member contributions (increasing with attained age), which contains some important safety valves such as conditional indexation, adjustment to the retirement age to take account of increased longevity, and so on.

This flexible 'risk sharing' approach aims to enable defined benefit provision to continue instead of the seemingly inexorable switch towards money purchase, which history tells us has not always worked, other than for the skilful, or the lucky, few.

So for the sake of the financial health in retirement of the rank and file members of this nation's workforce, I would urge our Profession, and its leaders, to give their support to the ACA's risk-sharing approach to defined benefit provision, which might also — dare I say it? — serve to keep more actuaries gainfully employed within the pensions area.

The President: We might just have to work a wee bit on the public interest aspect of that last suggestion!

I understand from the paper that the state currently defines poverty as income below 22% of national average earnings. Has that been a benchmark that has remained fairly constant over time, or is the definition of poverty changing as time goes by? Do we know what we are aiming for here?

Mr Salter: There are various definitions of poverty. Different measures have been used from time to time. It is a confused area. In fact, since we have been in the EU, the important one we should be looking at is the EU measure of poverty, which is 60% of median earnings, not average earnings but median, because it is less sensitive to very high incomes and so is a more meaningful concept.

When New Labour came into power, they started off with a commitment to abolish child poverty. In 1999 Tony Blair went to the East End of London to Toynbee Hall, where he received much publicity in making the claim he was going to eliminate child poverty 'within a generation'.

But the definition of poverty used by the EU is slightly different from the one which was favoured by some people in the Treasury at the time of the 2001 general election when Mr Brown took up this particular challenge. He said that they could not entirely eliminate child poverty, but they would be able to reduce it to the lowest rate of child poverty in the EU.

But, under the standard EU definition, poverty is measured after housing costs because housing costs are subject to considerable variation. Mr Brown changed the basis of calculation from after housing costs to before housing costs, and was then able to claim in 2004 that 900,000 children had been taken out of poverty.

So this is a bit of a political football. The most common measure of poverty before going into the EU was having an income of less than two-fifths of average earnings.

For a long time the level of the basic state pension hovered around half this level. But it was decided by the Wilson Government that this was not good enough because 67% of people receiving means-tested benefits were pensioners and something had to be done to remedy this. This eventually led to SERPS.

Barbara Castle, in 1973, said that Labour would bring back the Crossman scheme when they returned to power. There was a big debate in the social policy sub-committee of the Labour Party about this. Some members objected to an earnings-related state pension scheme, saying, 'No, what we need is a higher rate basic state pension, about 30% to 40% of national average earnings.' So that was yet another yardstick for measuring pensioner poverty.

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Looking back, we find Beveridge was more focused on the issue. Using an income measure may be useful for international comparisons but is not particularly useful if you want to alleviate poverty. What you have to do is to underpin the definition with some objective measure of human needs. Beveridge had been impressed by Rowntree's second study of poverty in York, published in 1941. Rowntree computed for Beveridge an amount of income required to lift pensioners out of poverty based upon an average basket of goods and services. Household budget standards related to the needs of different groups such as pensioners were first used in Rowntree's 1901 study of poverty in York. They are used throughout Europe, and the United States as the basis for the poverty level in establishing whether benefit payments should be made. But they have been largely ignored by Government in the UK. If you consider the report which has just been produced by the Institute of Fiscal Studies* on the rate of inflation for old people, it will be noted that, in January 2009, the annual rate of inflation for household groups aged under 50 (generally with mortgages), was less than 1%. However, households aged 70-79 had an average inflation rate of 5.6% and those over 80 a rate of 7.1%.

Household budget standard, because it is an objective measure of human need and not just an income standard, obviously would be able to deal with that situation.

Unfortunately, nobody has been willing to look at this idea for pension policy since Beveridge, influenced by Rowntree. So the only poverty standard we have in relation to pensioners is the amount of the Pension Credit. As you know, that is the means-tested top-up which is supposed to take people out of poverty. In 2005 it was 22% of average incomes. That seems to be, for pensioners, the actual measure of poverty.

Mr Redman: I should just like to make a couple of additional points. There is an interesting comparison about poverty. Ralph Price Hardy in 1891 noted that 40% of aged persons were chargeable to the Poor Law. Today we have a different measure of poverty but we have 40% of pensioners who qualify for means-tested pension credit. It is an interesting parallel that exists after over 100 years.

As Mr Salter has mentioned, there are different poverty measures. The EU standard is 60% of median earnings. In 1980, the basic state pension was 26% of national average earnings and it is now 16% of national average earnings. The Pensions Credit limit is, as has been mentioned, about 22% of national average earnings. These can all be used as measures of poverty, so it just depends on where you set your standards. It is arguable that, although standards have changed over 100 years, we have not made as much progress as we might in taking pensioners out of poverty.

Mr C. W. F. Low, F.F.A.: One of the fundamental questions the book asks is: what is the role of the state pension? At what level should it be? In my view, it should be high enough to eliminate means testing. Not only is means testing personally offensive to the unfortunate people who are subject to it, it is horrendously inefficient. The administration cost is huge. If we approach the subject first of all — and I stress 'first of all' from the demand side, I think the level of the basic universal state pension should be raised to at least the level that we have now of state pension plus Pension Credit. It should be maintained in real terms, possibly with an inflation index appropriate to the ages of the people who are drawing the pension, as Mr Salter just said.

But we must not forget the supply side. Can we afford to provide that from age 65? No. I think the flexibility should be in the universal state pension age for that benefit. That age, I suspect, is liable to be considerably in excess of 70. Let me guess at 75, just for the sake of argument. I haven't done any sums. This pension deals with some or most of the tail risk, i.e. the longevity risk and the long-term inflation risk, which are two things with which personal accounts and private savings are ill-equipped to deal. Indeed, small occupational pension schemes are ill-equipped to deal with them. In the current economic climate, even quite large occupational pension schemes are struggling, or I suspect will shortly be struggling, to deal with them.

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If we have that level of benefit from a specified age, the supply side having forced that universal age unacceptably high, we have a gap to fill — a gap from the age that people would like to retire and from the age at which employers would like employees to retire. You have a gap from age 65 or age 68 to say 75 — ten years, seven years, or whatever. That is a finite period of time on which private savings could be focused, whether by means of personal accounts via the state or the life assurance industry or by means of other financial products. We end up with a state pension where the long-term risk is met out of general taxation and, I suspect, earnings-related contributions. That is really a taxation issue. The gap between what the nation can afford and what the nation would like is dealt with by the private sector.

Mr J. S. R. Ritchie, F.F.A.: I should like to begin by congratulating the authors on this marvellous book. I was one of the people who had the privilege to read it before it was published and I was delighted to have that opportunity. I thoroughly enjoyed it and I think I learned a lot from it, so thank you to the authors for doing this great service to us all.

I want to concentrate my brief remarks in two areas. One is the notion that defined contribution automatically means that the members are exposed to every risk under the sun. When I was a young actuarial student it was quite common for premiums under defined contribution to be applied to single premium non-profit deferred annuities. They died out, in my opinion, really for two reasons. One was because of inflation. The other was because of the idea which has developed over the past 30 years or so that equities were a free lunch. I think the experience since the turn of the millennium has, I hope, convinced everyone that equities are not a free lunch. Today we have index-linked gilts, and have had for many years, which could be used to back single premium non-profit index-linked deferred annuities. If there is a demand for the product it will come to the market and people will be able to buy insurance in future against different risks, longevity and inflation in particular, if they want to, with defined contributions. That is just one observation.

The other one is this. I take as my text for this the bottom of page 38 of the book and the top of page 39 under the heading of National Insurance Versus National Assistance. 'The Labour Government's decision to pay national insurance pensions at a rate significantly lower than subsistence resulted in greater numbers of pensioners becoming dependent on means-tested social insurance than was originally intended. The situation was compounded by two factors, the second of which was that recipients of means-tested benefits usually received a rent allowance which covered the claimant's actual housing costs while those receiving national insurance benefits did not.'

Once you look at this, in my view it is stunning that someone who lives in rented accommodation claiming means-tested benefits is able to claim their entire rent and council tax in benefits. So it is not just Pension Credit that is the issue here, it is also the other means-tested benefits.

I recently was reading something which listed the number of means-tested benefits that may be available, and it runs into double figures. It is a huge panoply of means-tested benefits.

I see a major issue, which the book brings out, of the conflict between means-tested benefits and benefits as of right. Up until now this has been benefits as of right through the contributory principle.

To me the prime argument in favour of means-tested benefits is that it concentrates the Government's scarce resources on those in greatest need, and I understand that. But — and it is a huge 'but' — you do have this disincentive for people to save and to be self-sufficient. The housing benefit issue is a major example of that, in my view.

Lord Turner's Pension Commission received strong representations that the way forward was a citizen's pension. Instead of having a state benefit as of right, which was dependent on the national insurance contribution record, you should have a state benefit as of right based on the fact that you were a citizen of the UK and not based on a national insurance contribution record. The representations suggested, as Mr Low said, that the benefits should be set at a level which would take the large majority of recipients out of the means-tested benefits arena.

As I understand it, Lord Turner's Pension Commission rejected this on the grounds that the

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transition to a citizen's pension set at that level would either be too complex, or, if it was an easy transition, it would be too expensive. Giving everybody the best of all worlds would be too expensive. So instead the Pensions Commission recommended the National Pensions Savings Scheme, which we now call 'personal accounts'.

In my view, the way that the personal accounts are intended to work is to finesse the disincentive of means-tested benefits by means of the compulsory employer contribution. But it remains to be seen whether this works in practice and what collateral damage may be caused by it. For example, the concept of levelling down, where the finance director of the company says, 'Okay, if I have to pay compulsory employer contributions for all of these people who did not bother to join my pension scheme in the past, then I can't afford to increase the percentage of my payroll spent on pensions. Therefore I will level down and reduce my contribution even for those people who did choose to join my pension scheme.' So it does remain to be seen whether that will in fact create a great deal of collateral damage when it is implemented, starting in 2012.

My personal view is perhaps the way forward here is what I christened a 'sunrise sunset' concept, whereby we gradually switch the emphasis from means-tested benefits to benefits as of right, so we have a sunset on means-tested benefits and a sunrise on benefits as of right, but we are practical about it. We realise that it will take a long time to achieve this, especially with the current economic outlook, so we have something like a Pensions Commission on an on-going basis to take us there over a long period of time with, for example, selective indexation of benefits and allowances. I am not suggesting that such a pensions commission would usurp the role of Parliament. What I am suggesting is that they would make strong recommendations to Parliament with which politicians would have to have a good reason to disagree.

Mr H. R. D. Taylor, F.F.A.: It is clear that the pendulum is swinging towards defined contribution pensions, rightly or wrongly, so what might be the barriers to the future success of defined contribution pensions?

First, how well-placed to manage defined contribution pensions is our Profession, the pensions infrastructure and companies providing actuarial services? At present, defined benefit pensions and the infrastructure behind them are all about professional services to businesses and Trustees, whereas defined contribution is all about retailing a financial service to customers. This needs a focus on individual customers' lives, the communication of what they could and should be doing with their money and the need to defer consumption to make provision for the future. This is quite a different task from defined benefit pension provision.

Second, what are the barriers to gaining mass market acceptance and obtaining what, in the FSA's terms, would be 'satisfactory outcomes' in future from defined contribution pensions? Barriers include the recent past performance of defined contribution pensions given the collapse of stock markets and the increasing cost of annuities. It is clear that a number of people who currently have maturing defined contribution pension arrangements face serious issues. Many have to defer retirement or continue to work — at least those who can actually get work in the current recession.

Another barrier may be attitude to risk. I think UK consumers and their advisers will become increasingly risk averse.

A further barrier may be the mechanisms of risk control focused on by actuaries in the pensions area. Risk control for individuals is fundamentally different from risk control around investments for defined benefit pension trustees and sponsoring employers.

On a positive note, I believe there are solutions and innovative ways of dealing with investment risk. It is up to us as a profession to develop even better ways of controlling risk for consumers.

Finally, if we think of defined contribution pensions as a machine, you would have an 'input', which is the amount of contributions paid in, a 'process', which is the investment, and an 'output' which is ultimately some stream of income to the individual. Much of the focus to date has been on the 'process': what you do with the investments, how you control risk and achieve the maximum amount of risk-rewarded return. In future there will have to be a far greater focus on

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the level of contribution. It is not enough simply to say that if 8% of your earnings goes into your defined contribution pension you will have enough to meet your retirement needs. It depends on age at entry. For a 25-year-old, 8% for 40 years might produce enough. But if you are a 45-year-old and the future accrual in your defined benefit scheme has just been stopped, then 8% may not be enough to meet your retirement expectations. That is a significant issue for benefit redesign on moving from defined benefit to defined contribution.

In calculating the level of contribution necessary to produce a desired pension outcome, clearly the lower the risk you are prepared to take and the more certainty you want, the higher the contribution will have to be. All this is at a time when, culturally, UK consumers are still hooked on instant gratification. There seems little desire to set aside money and reduce consumption now for benefits in the long-term future. But these are the consumers for whom defined contribution pensions must provide adequate pensions. We will all have to find ways to make defined contribution pensions work better in practice for everyone.

Mr P. H. Grace, F.F.A.: I heard part of the discussion at the corresponding meeting in Staple Inn on 26th January. I arrived late on that occasion and missed Mr Redman's exam questions. My remarks therefore focus on some points in the book rather than attempting to answer the questions.

Many of us became conversant with relevant parts of the legislation when working on its implementation but had not necessarily followed all the background discussions. It is that part of the book that I found particularly interesting.

I lost count of the number of reversals in legislation and in particular of the unfulfilled promises made in election manifestos. I found one particular comment extremely appropriate, namely on page 143 by Howard Glennester, a social policy academic, who at one time worked in the Labour Party Research Department. The fact that he worked there is a telling comment. The comment was 'that the British willingness to tear up pension schemes at will every few years leave foreign observers gasping'. I think that kind of action led, in the 1970s, to many employers distrusting SERPS and seeking to contract out.

The book refers to the introduction in July 1988 of the personal pensions regime, the successor to the 1956 retirement annuities, and it points out the protection provided by the Financial Services Act 1986. I believe it is worth pointing out that personal pensions were to start in April 1988 but their launch was delayed by three months as certain aspects of the Financial Services Act would not be in place until July 1988. But for the postponement, the subsequent mis-selling would probably have been much worse. Incidentally, I note on page 119 a reference to Financial Services Act 1956. I have not heard of this piece of legislation. I believe it should be the Finance Act 1956.

There is extensive coverage in the book on the basis of revaluing Basic State Pension but no comments on the appropriateness of the indices referred to, namely the Retail Prices Index and the National Average Earnings Index, although both Mr Salter and Mr Low have referred to alternative approaches. I should like to add one or two comments.

Retired people spend a large proportion of their income on food and heating and much less on clothes, furniture, electrical goods, including computers and other electronic items, than the rest of the public. If the cost of food and heating rises faster than other items, it has a bigger effect on pensioners than on other members of the public, and conversely. There are periods when the cost of food and/or heating has risen more slowly and the revaluation of Basic State Pension has been on the generous side; but there are also periods when this has not been the case. There have been various studies published in recent years on this particular issue, some on behalf of charities like Age Concern, but one, I believe, by the Office of National Statistics. I realise that that aspect is not part of the history of the state pension as it is at the present time but I believe comments thereon would be a useful contribution to the discussion.

Mr Salter: I think Mr Grace has made an important point about the effect of food and fuel inflation on pensioners' incomes. It was brought out in the IFS survey. If, however, the state pension were based on household budget standards, which take account of the needs of

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pensioners and how they spend their income, it would be recognised that, in January 2009, which is the period we were talking about, annual inflation was over 7% for the over eighties, food inflation was running at 9.9% and fuel inflation at 35.1%. The pension uprating would allow for pensioners having been forced to spend a higher proportion of their incomes on food and fuel than younger people. It is important to remember the usefulness of household budget standards.

The President: I want to do a straw poll. One of the things I wished we had done at Staple Inn was to find out what the audience thought about the choices we face.

I have four questions. To simplify it, I have two options for each to get a short answer.

The first relates to the point that Mr Salter first made, which is the definition of poverty. I am going to ask for a show of hands of those who prefer the present approach of saying, to all intents and purposes, that poverty is defined as 22% of national average or median earnings, and those who would prefer the basket of human needs approach. May I have a show of hands from those who favour the former approach, just to set it at some proportion of national average earnings, and then try to keep it at that proportion for a period.

There are two or three for that.

The basket of human needs approach? The vast majority.

Now a test on state pension age, which will eventually become somewhere higher than it is now. I am going to suggest either 70 or a number usefully higher than 70. I am not going to try to define what it is. Those who think it should settle at 70 for the moment? Those who think it should be a number higher than 70? That is a majority — it looks like five or six to one for 70.

The next one is to compare the present combination of a basic pension of about 16% but topping up with means testing through pension credits and so on (which must cover 40%, or maybe even 50%, of the population if you include those who are not claiming) with just a basic state pension at somewhere between 22% and 25%, which will pretty much get everybody out of means testing if we adopt that definition.

So, the former, 16% plus means testing? And the latter, a much higher figure? A huge majority in favour of the latter.

Then the last one is about personal accounts. Personal accounts with small contributions doubtless are not perfect. As Mr Sloan said, instead of switching backwards and forwards between defined benefit and defined contribution, we now have two consecutive governments supporting defined contributions, so we have a trend. At least sticking with defined contribution and then trying gradually to try to make it better might stop this backwards and forwards business. With that huge leap of faith in human and political nature, I am interested to know those who think personal accounts are a decent start and might eventually be made to work.

The second question is those who think it is just going to disappear down the drain.

So, those who think it is a decent start and might, in time, be made to work? And those who think it is just a road to ruin? A road to ruin by a significant majority.

That tells me that, other than a state pension age of 70, our audience believes pretty much everything is going the wrong way.

Dr I. D. Currie: You have made a number of remarks about the impact of longevity on the ability to pay the state pension. But, at the other end of the life scale, we have falling levels of fertility as well. This is usually described in terms of the support ratio. I do not know the figures off the top of my head, but I think that at about the end of the Second World War there were about five workers for every person in receipt of the state pension. It is due to fall, I think, to around two.

This is a massive change in the age structure of society, which will have enormous implications for the provision of the state pension. I would be interested to hear your views. My question is not so much about the history of the state pension but about its future.

Mr Salter: This seems to be a very grave problem. I can remember, however, a point made at

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the 1979 general election. There was a farmer from Suffolk, Jim Prior, who was a bit of a thorn in Mrs Thatcher's side when he was in her cabinet. He said that we have to bear in mind that we are inevitably going to have fewer workers because of new technology. At the same time we can take comfort from the fact that the accumulation of wealth in society from the new technology will be that much greater. There will presumably be much more money in society available for social purposes.

If you look at the way this country has increased in prosperity, at the huge increase in GDP over recent years, I do not think that our pensioners have been treated well relative to the particular share of GDP that they have had. I do not think providing a basic subsistence 'old age' pension is going to impose too much of a strain on the total resources of society, or in terms of the claim it will represent on the goods and services produced by people in paid employment, even if they are much fewer in number.

Mr Redman: I should like to add a couple of comments. I must admit it is slightly out of the scope of our book. We have raised many problems; I am not sure we have all the solutions.

Just to mention a couple of things in this area. The first is to look at Japan, which probably has a far worse problem than we have currently in terms of falling fertility and the ratio of younger working people to older people. The other point is that, as Mr Salter has mentioned, we need to consider the proportion of the population who work and their ability to produce wealth.

No doubt we will see an increase in the age at which people retire. It means people will ultimately have to work longer if there are fewer younger people coming into the workforce.

The other way we have attempted, by accident or design, to deal with the problem is by importing young foreign workers who come here for a while to boost the economy and maybe stay, or maybe not stay and go back.

The key issue does come round to what age you can afford to retire and what proportion of the national wealth goes into providing pensions. In considering this matter, we should take into account that the UK only spends 4.2% of GDP on state pensions which is under half of most of our EU neighbours.

Mr Bryans: So far we have been considering when the pension should start. However, another interesting influence on this matter is the fact that the average person is now entering the workforce much later than their parents and grandparents because of the extension to the period of full-time education and the increasing number having gap years. Thus the balance between the actual working period and the retirement period is the link in determining the pension age.

The President: There is the complexity that in longevity studies we often divide the extra years into good years and not-so-good years, years where people are alive but not in great health. Although, as a proportion of the total, the not-so-good years are reducing, they are increasing in absolute numbers as people live longer. So I guess pensions and health spending allows me to plug some work that has just been done jointly by the Profession and the City University on the effect of obesity, the publicity for which is going to be either tomorrow or the next day. It shows — and they have moved on — that body mass index is not such a good predictor of longevity but it is your waist to height ratio, which is much easier to work out.

For men, if your waist to height ratio is under three-quarters, then that puts you on the good side or a better side. If it is more than three-quarters, then it is predicted to take ten years off your life expectancy. Goodness knows what it does to the proportion of your longevity that is good rather than bad.

If we believe all we read about obesity, then that sounds like it is going to have quite an impact both on the health service and on the number of people in retirement.

Mr R. J. Gray, Hon. F.F.A.: It seems to me that this idea of defining poverty as having income of 60% of the median is rather absurd. It is certainly Biblical. I think it was Jesus who said the

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poor are always with you. If you adopt the EU definition, then of course the poor are always with you. It is just the level and the percentage that will vary slightly from time to time.

I want to mention the problem of indexation of pension payments. I do not think that has been mentioned tonight. I may be wrong but I seem to recall politicians occasionally promising that pensions in the future would be paid on a different basis and indexed according to earnings.

If I am right, I wonder if any members of the panel feel that this is pure politics, or if they see that there might be major changes in the way that pensions are increased from year to year in the future.

My second point is about what I would call the baubles on the Christmas tree. Someone getting older, like myself, is patted on the head, hair or not, and given a pass which enables them to travel free on the bus. I get some money at Christmas to pay my gas bill. When I get to 75 I will get a free TV licence, and so on.

Are these, again, just a piece of politics or have they a place? And do they make a serious contribution to the purpose of the pension, which is to keep people out of poverty? I sometimes feel that I do not want £2 off the price of a ticket to go to the King's Theatre. Can it not be done in some other slightly more dignified way?

The President: Would the panel like to respond to those questions?

Mr Salter: On definitions of poverty, all I would say is that these definitions vary considerably. From one end they run from 60% of median earnings, which is an EU standard after the calculation of housing costs, down to $1 a day, which is a World Bank standard.

But the one that applies to pensions in this country is neither of those definitions. It is what the Government rather arbitrarily decides will be the poverty standard for pensioners, currently about 22% of national average earnings. So we are not talking about 60% of median earnings.

Mr Redman: Mr Grace said earlier about looking through and finding unfulfilled promises and reverses in policy. You can become cynical when you look at all the history. The only things that are certain are death and taxes. The national insurance contributions are certain. Benefit levels change over time as decided by the Government and are not secure. For example, the proposed change in indexation will only come about 'when it can be afforded'. There is no firm commitment to provide any certain level of benefit related to the contributions that are collected. I think that is the way it has been throughout much of the last 100 years.

The President: Mrs Paterson is going to make the final contribution before we sum up. One of our goals is to build the public confidence in the Profession, and to do that we need to get on the front foot in our dealings with the various regulatory bodies that the profession has to face. As part of that, the Profession has recruited Mrs Paterson to the staff as part of our substantially 'beefed up' professional regulation team. Welcome to the staff of the Profession, Mrs Paterson.

Mrs I. M. Paterson, F.F.A.: Thank you for that introduction, President. I wanted to say tonight that I think that this book has done the Profession a great service. Not only is it informative and contains much reference material, to my mind it sets the scene for a sequel!

I think that the question asked by the authors 'What is the state pension for?' is the central question. We should decide as a society what the basic state pension should be. It seems to me that there has been a lot of support for a universal pension and the book gives much information to enable further debate on what the state pension could be and why. It also seems to me that the Profession should have a loud voice in this area.

In such a debate there will be important discussions about affordability and the age at which the state pension should be paid.

Our ancestors had to work until they dropped, whereas perhaps we have become a little too comfortable in accepting 60 and 65 as benchmark retirement ages. Of course, current Government policy is set to increase the retirement age, but this needs to be explained.

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Mr B. P. Ridsdale, F.F.A. (closing the discussion)**:** In company with many of the contributors this evening, I would like to congratulate the authors on the timely production of this book, which adds particular value not only to understanding 100 years of state pension but to understanding the background to the principles, the decisions and the compromises that have been made at each stage. The comprehensive list of references will make it a very valuable book for researchers who want to learn more about the past so that they can 'make financial sense of the future'.

I am delighted to see the Profession's Ageing Population Interest Group taking this initiative; and note with admiration that one of the authors has drawn on more than 60 years of experience, having started work before Beveridge's proposals were implemented in 1948.

The authors asked what type of society we want, and we focused to a large extent on the potential benefits and the potential costs of a state pension. Mr Salter talked of the advantages of setting pension levels based on household budgets, and said that the only poverty standard we have is pensions credit, at 22% in 2005. Mr Sloan talked of the move from collective to personal or, as he characterised it, defined benefit to money purchase, and urged the Profession to support the ACA's risk-sharing approach for defined benefit provision over the short-term future.

Mr Gray wisely questioned the EU standard of 60% of median income with the observation that 'that way you could at least ensure that "the poor are always with you"'. That was a quotation from shortly before the Crucifixion, and I am not going to draw anything from that!

He also questioned the add-on freebies: the small-value components such as free TV licences given to old people. He asked would it not be better if we thought about adding to the pension instead?

But I would ask the question: would it do public confidence any good if old and poor pensioners were being prosecuted for not having a TV licence; would we not see many articles in the papers about that? Would it do public confidence any good if old, poor pensioners were suffering from hypothermia? We have, of course, a cold weather supplement of £100 once a year, which is targeted at that issue. I suggest that we have to think social policy as well as money and recognise that some people over 75 are not necessarily as actuarial with their finances as we are.

On the subject of costs, Mr Ritchie made the point that defined contribution does not necessarily have to imply risk. He mentioned the single premium non-profit deferred annuities that we used to sell, and observed that index-linked gilts could be used to back single premium index-linked deferred annuities. Certainly, I can recollect in the early 1970s discussion between advocates of funding for pension, and funding for cash. Everybody wanted to have the exciting projected pensions that involved funding for cash and then applying a wholly unrealistic annuity rate to the cash at the projected retirement date. If you did not do that you did not get much business. We did have a responsibility there; perhaps we fluffed it.

Mr Ritchie also commented on the problems with a focus on means-tested benefit, meaning that in some cases you get a high potential benefit by adding in rent, council tax, and so on. Clearly this is a disincentive to saving. He recommended that we should have an on-going Pensions Commission, or something like that, which might manage the gradual move from means-tested benefits to benefits as of right.

Mr Taylor took the positive action angle: asking what should we be doing as a Profession to build the infrastructure to cope with the switch to defined contribution. He suggested that we needed a different focus on our customers to deal with issues about market performance, attitudes to risk, risk control and finding new ways to innovate annuities. We also need to focus on inputs; in other words, how much do I need to pay for that pension at the end?

When my children were young I would say, 'You are pretty poor now. But when you start earning just put 10% aside for a war chest, 10% for your pension, 10% to charity and spend the 70%. You will still be a lot better off than when you were living off my pocket.' I am afraid to think the whole 30% might be used up in pension now.

Mr Currie remarked on the falling birth rate and the resulting small number of workers to support pensioners and the rising dependency ratio.

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At this stage I should like to move on to the President's instant survey, which was fascinating. The majority of people here felt that the definition of poverty should be based on a basket of needs. The key question we should then ask ourselves is: should the basket of needs remain the same or should it inflate, because the issue we have faced over the past 30 years is the difference between national average earnings and the RPI. Basically, the difference between national average earnings and RPI has been the increase in wealth of the population. Do we wish our pensioners to continue to benefit from the increasing wealth of the working population?

We have the state pension age. Should we go to 70 or above 70? The majority opinion here was to stick at 70. Should we have the '16% plus means testing' or '22% or 25% fixed'? The majority went for the 22% or 25% fixed. Then personal accounts: will it be a great idea or will it disappear? There was a fairly clear indication that it will disappear.

My concern about this discussion of raising the pension age to 70 is: how many employers will actually want to employ people over 65, like me, when they can get young, bright people of 20, 25 or 30, who will probably demand less and give more? Therefore I was delighted to hear Mr Low's angle on the minimum state pension. He suggested that we should take a minimum state pension based at a level to eliminate the need for means testing. 'Can we afford it from 65?' he asked. 'No. Maybe over 70.' What about the gap? That, he suggested, we could ask the private sector to attempt to deal with.

So we gear our future employees over the medium- to long-term future to be thinking about a state pension at 70, and answering the question, 'How are you going to cope with the gap between when your employer gets rid of you and you reach the age of 70?'

Mrs Paterson came back to the fundamental question that we have been trying to address, which is: ' What should the state pension be for?', and encouraged the Profession to think more on that.

In his inaugural address to the Actuarial Society of Edinburgh, in 1896, entitled 'Old Age Pensions and Pauperism, a Present Day Problem', the President, David Paulin concluded: 'I hope the final report of the Committee will express a decided opinion that the industrial population can best make provision for old age by self-reliant efforts such as they are now largely adopting and not by state aid.'

Having assumed very grandly that his views would be adopted by the state, he went on to make a few suggestions as to what the people who were proposing a state pension scheme might do with their time. 'The national interest', he said, 'which has been created in this question will be of immense advantage if it leads the able and large-hearted men, who have given so much time and trouble to planning state-aided pension schemes, seeing that help does not lie in that way, to devote their talents and influence to the encouragement and betterment of the existing voluntary thrift agencies of the people.'

He was clearly a proponent of the residual welfare system, and the ground had changed slightly but not very much in the first discussion of the Faculty after the introduction of the state pension. The discussion in the Faculty was in 1910, and it was Mr Marr's paper 'Is an Extension of the Present Old Age Pension Scheme on Contributory Lines Practical or Desirable?' Mr Hewat said 'We must remember that we are the Faculty of Actuaries *in Scotland*, the country that gave birth to Robert Burns, who sang of the "glorious privilege of being independent". I think the old age pension scheme rather cuts at the old Scottish thrift and independence that we have become accustomed to in bygone days. I am in favour of a contributory system.'

Burns, whose 250th birthday was in January, never reached anywhere near retirement age but was still able to regret the absence of a regular income, and to regret, perhaps with an element of irony, that he had grown up to be a poet and not a market leader or a banker:

"Had I to guid advice but harkit,
I might, by this, hae led a market,
Or strutted in a bank and clarkit
My cash-account;
While here, half-mad, half-fed, half-sarkit.
Is a' th' amount."

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In view of recent events, perhaps nowadays he might have preferred to be an actuary. Or maybe when the subject of state pensions is discussed in 100 years' time, we may have completed the merger — with the bankers!

I would like to thank the actuaries who have contributed to the discussion this evening, which has been both illuminating and entertaining. I commend the book as a resource for those aiming to influence future strategy, and I hope that the authors will take up the challenge — I hear they already have to some extent — to promote discussions with other interest groups.

On a different subject, I note that the Profession has a book by Mr Chris Lewin on pensions and insurance before 1800, and we now have a history from 1909. I wonder whether some keen actuary might be willing to fill in that gap of 110 years?

In closing the discussion on Mr Marr's paper in April 1910 the President, Mr McLauchlan, concluded 'I venture to say in conclusion that more will be heard in this country of a contributory basis for old age pensions'.

In thanking the authors for producing their book and presenting it here, I would observe that it is a worthy instalment in the discussions on a subject that for our ageing population and our present economy, is as strategically important now as it was 100 years ago.

Mr Redman (responding)**:** I do not have much to say in response. Mr Ridsdale has done an excellent job in summarising the discussion. I do not want to add anything to that.

I should like to say two things. We actually had a lot of fun, investigating the history and writing the book. It has been a project which has taken a couple of years. We have learnt a lot in the process as well. Having said that, I am not sure our relationships would survive writing another book! I would like to encourage anybody who has not done so to join a member interest group and to participate in similar projects. They are fulfilling and interesting things to do.

The other thing I wanted to say in conclusion is I have been fascinated by the contributions here today and in London in January. There has been a richness to the discussions and a diversity of contributions.

What comes across to me is that as a Profession we have a huge accumulated knowledge and expertise. It gives us a great capability to make a much wider contribution to the development of social policy in this country. I should like to see us use this expertise as much as we can in the future.

The President: I echo what every single speaker has said in congratulating the authors on this book. It has had a good outing here and in Staple Inn. It has had much publicity and it brings to the public debate, I repeat again, the objectivity and the rigour with which the Profession is rightly associated. The authors have done us proud and I would like you all to show our appreciation to the authors, the contributors and to the closer.

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