

## CAN THE UNITED KINGDOM AFFORD ITS AGEING POPULATION?

### A DISCUSSION MEETING

[Held by the Faculty of Actuaries, 21 January 2002]

#### ABSTRACT OF THE DISCUSSION

**The President (Mr T. D. Kingston, F.F.A.):** This is an unusually large sessional meeting for us, coupling two things together. The first is that this is part of the Ageing Population Conference, which began last night and runs until tomorrow afternoon. The second is that this is a regular Faculty sessional meeting. We thought that this was a particularly appropriate opportunity to have an open meeting of this type on a topic which is of very broad interest.

**Mr T. M. Ross, O.B.E., F.F.A.** (introducing the motion): The question is: "Can the United Kingdom afford its ageing population?" The answer is: "Of course it can." The issue is not just one of: "Can it afford?" It is concerned with issues such as quality of life and the adequacy of the incomes of those who have retired.

It is important to widen the question from one of straight affordability to include adequacy. I will not address some extremely important issues, particularly long-term care, although I do know that others will, and I hope that you will forgive me for that. Whilst long-term care and health issues are, of course, important, the difference with retirement incomes is that they apply to the vast majority of people, and so I will concentrate on retirement pensions.

Underlying the issue is the question of what should be the role of the state. There are a number of politicians here who may well have views on that. There are a number of non-politicians here who might abolish the role of the state, except, perhaps, as a regulator. I am not in that camp.

In the U.K. a mixed provision of state pensions and private funded retirement incomes is fundamental to the provision of decent incomes in retirement for most people. In the U.K., the state pensions system is eminently affordable through the various reforms over the past 20 years or more. It has been reformed most recently in the past three or four years to increase, quite significantly, future pensioners' state pension rights. Nevertheless, if you look over the next 40 years, all that that has done is to arrest the decline that would otherwise have occurred in the general level of state pensions. In the U.K., state pension rights are very modest. We do not have a financial demographic timebomb. Our problem is one of adequacy, and we might ask ourselves how important that is.

It is very important, because there is much evidence that those without private pension rights in addition to the state pension are finding that their incomes are inadequate. That will be the view of Parliament from time to time. We have seen already, and we will continue to see, a series of top ups, on a means-tested basis, to help the poorest of the retired population. Otherwise, the gap between the best-off and the worst-off retired people is likely to continue to widen, which, in any decent society, would be unacceptable.

Means testing has already grown dramatically over the past few years. Despite the significant increase in state pension rights that will come through in 40 or 50 years, there will still be a need for extensive means testing unless private provision can fill the gap.

Means-tested benefits should be kept to a minimum, for a number of reasons. Old people do not like them. Many do not claim them; there is a stigma attached to them. There are significant disincentives to save associated with means-tested benefits: "Why should I save if the results of my saving are simply going to be taxed against the benefits that I would otherwise get? I will be

no better off than my neighbour who saved nothing.” The recent introduction of the pension credit will help to alleviate that for some people. However, the credit will extend means testing far up the income scale, and it is thought that it could deter some of those on below median earnings from saving rather than encouraging them. So, the U.K. has a serious issue, although it is a very different one from that facing a number of other countries, of overgenerous state pension provision which needs to be cut back.

Our challenge is to achieve better levels of state pension rights than current policies will deliver, but obviously with realistic cost constraints, because there are many other very important demands on public money.

This brings us to a critical issue in state pension provision, which is the state pension age. One has to ask how realistic it is to sustain the current state pension ages of 65 for men and 60, rising to 65, for women. This is about state pension age, which is very different from the whole concept of retirement and retirement ages. If we are going to achieve decent minimum levels of state pension rights, levels which will reduce greatly, if not eliminate, the need for means-tested benefits, within realistic cost constraints, we will need to have a programme to increase the state pension age. That is not a particularly attractive political message. I can well imagine Mr Willetts, who will be speaking later, cringing at the prospect of a manifesto commitment that says: “Vote for us, and we will make you work for five years longer.” That might not be a recipe for success.

The state pension age is such a difficult issue to get right politically, and it might be sensible to take decisions on it out of the political arena into an independent committee, something akin to the Monetary Policy Committee, determining interest rates within set parameters.

One could envisage Parliament setting, say, three parameters for such a committee:

- a target universal state pension of, for the sake of a number, 30% of average earnings;
- expenditure for state pensions of, say, 6% of GDP — it is a bit less than that now, and it will be less still in 2050 with no changes in policy; and
- any necessary changes to the state pension age will require at least 20 years’ lead time, because people have to plan.

This arrangement would result in a much more robust state pension system — one which would be more likely to stand the test of time. The state pension age would be the release valve to contain costs rather than the level of pension rights. Such a system would allow second tier funded pensions to flourish, because people at all levels of income could see, with confidence, that what they save will directly benefit them, and they will not lose it through means-tested benefits.

It might be asked: “Will the raising of the state pension age simply create an unemployment ghetto of older people?” This highlights that we cannot solve the ageing issues simply by changing pension amounts or pension ages. Labour market flexibility and labour market policies that encourage older people to remain contributing positively to the economy for longer are essential ingredients in achieving adequate incomes for people in their late fifties to their middle seventies.

This will require changed attitudes to older people by employers, including investment in retraining, job sharing and an end to age discrimination. It is not just a question of retirement age. There is already a great challenge to improve labour market participation rates among older people, and it is not going to go away.

It could be perceived that raising state pension age discriminates against poorer people, because they die younger, and therefore, proportionately, they will lose more. They are also more dependent on state pensions. It is, indeed, the case that poorer people do not live as long as better off people. However, the answer to that very real criticism is that it would be wrong to institutionalise these differences. The challenge is to educate and to improve the lifestyles of poorer people in a way which ensures that they live as long as better off people. It may be rather aspirational, but, fundamentally, this is what we should be trying to achieve. Of course, if we are successful, that would emphasise even further the need to reconsider the state pension age.

If income from paid work is to form an important part of the income of older people, pensions will need to be paid more flexibly than is currently possible. It is difficult to see how state pensions can achieve a great deal of flexibility. There is evidence that state pensions are claimed at the earliest possible age, notwithstanding that there are opportunities to defer and to receive a higher pension. When it comes to the private sector, there are great opportunities to alter the very bureaucratic rules that currently make it very difficult, for example, to receive part of a pension and have an element of paid work. The private sector is capable of developing much more flexible products, which will make it possible for people to take a flexible approach to the first half of older age.

**Mr D. Willetts, M.P.** (a visitor; Shadow Secretary of State for Work and Pensions): I share much of Mr Ross's analysis on the fundamental question: "Can the U.K. afford its ageing population?" The answer to that is, unambiguously: "Yes". It is not just: "Yes, we can afford it", it is: "Yes, the longevity revolution is 24-carat good news." People are living longer, and I am one of the optimists who believes that we are not just living longer, but we are living fitter and more fulfilled lives. As political slogans go, given the way in which longevity has improved, 12 years for the price of 10 seems to me quite a good one. So this is good news; we are living longer.

If you look at the figures for Britain compared with those for just about any other advanced western country — certainly compared with continental Europe — you see that, in Britain, the demographic changes are less dramatic, and so the process of managing them is going to be less demanding. The figures, particularly for Italy, are quite extraordinary. I love Italy, and it is so worrying when you show that Italy is going to start to disappear by 2050. If you look at the international work that is done by OECD and other bodies, we do not have an affordability problem on anything like the scale that they have on the continent, especially not from public finances, because, above all, of the delinking of the basic pension from earnings, and linking it with prices instead — a decision taken nearly 20 years ago.

However, that is not the end of the story. It means that the problem we face in Britain is a rather different one. It is a problem of pensioner poverty. When I see those OECD figures about how modest is the future public expenditure cost of pensioners, as a politician I know that those low levels of public spending on pensioners are only sustainable if there is a sizeable private funded pension income to top it up. It is simply impossible, in a modern democracy, to expect millions of British people to retire on the sort of very low incomes that they will have if they are dependent on the state. That is the challenge.

How do we tackle the challenge? For me, as a Conservative, the obvious way forward is by encouraging more funding. The Government, to its credit, has said that this is what it wants to see happen as well. It is committed to shifting from 40% of income coming from funded pensions to 60%, an admirable objective, which I am happy to support; but the problem is that we do not seem to be heading in that direction at the moment. We are going through what can only be regarded as a turning point when it comes to final salary pension schemes, as so many of them have been closed to new members. Moreover, stakeholder pensions do not appear to be meeting the target group that the Government identified. Over 500,000 stakeholder pensions have been sold. We have to track through the figures to work out how many have gone to the people in the target income group, people earning £10,000-£20,000 a year who do not currently have a pension. There is a big block transfer from the construction industry scheme; many have been sold to non-working wives; many have been taken out for children by the well advised. It is very difficult to discern any significant number that have been sold to people within that crucial target group. I argued, in the House of Commons, that it was possible that the Government had sold fewer stakeholder pensions to its target group than it had created life peers, which is about 250. So, stakeholders, sadly, are not achieving their target. One of the reasons is that we have never had a clear answer to the 'sixty-four thousand dollar' question: "How much do you have to build up in your stakeholder fund to have a reasonable chance of floating yourself off means-tested benefits?" In fact, the answer might be \$64,000 for all that I know; there will be some here

who will be able to give a very accurate figure. We have never had one from Government ministers.

People are at risk of being mis-sold stakeholder pensions and discovering that they are, after the event, no better off as result of having one.

The best way of tackling the problem of pensioner poverty in the future is more funded pensions. The Holy Grail is to make it possible for people, if they wish, to build up a funded alternative to the basic state pension. We have tried various models of this, and we will be looking at it further, to see whether we can develop a practical and attractive way of doing it. Everybody in the industry has been telling us that they do not want too much change and instability, and it is a message that I have taken to heart, so I do not want to create options that make life more complicated. We are not going to abolish stakeholder pensions, but I am interested in the idea of what we could call 'stakeholder plus', enabling people, if they wish, to build up a funded alternative to the basic state pension in addition to the stakeholder. This is a policy debate that we will have to have in the years ahead, as we prepare for the next election; but we do want to see more funded pensions.

The second way of tackling the so-called affordability question is raising the retirement age. Mr Ross was teasing us into this dangerous territory. He may not know this, but years ago, when we were having the debate about how we should equalise pension ages, I wrote a pamphlet which argued that, not only should we equalise the female pension age at 65, but that we should then carry on going and raise the pension age by a month a year to get to 67. Looking back, had ministers realised that there was going to be much less controversy with the equalisation policy than they had feared, we might, perhaps, have been able to do that.

However, you cannot just have such a policy without addressing a whole host of practical issues, such as, for example, how do you ensure that you do not have large numbers of people in their fifties and early sixties on disability benefits or on other means-tested benefits? It is no good governments and politicians doing the dirty work of raising the pension age if, meanwhile, the retirement age does not move at all. I remain genuinely baffled by the inflexibility of retirement ages in this country, and find it a great source of frustration. For years I have been going to seminars where people have talked about this marvellous B&Q store, where they employ many people who are aged over 60, and they have lower rates of absenteeism and higher rates of customer satisfaction; but, so far as I know, there still is only one such store, and I would rather like some other examples of the success of a much more flexible approach of employing older people. That may be a contribution to tackling the issue, but we will have to see how the debate goes.

The third way of tackling the problem of the relief of pensioner poverty is what is happening at the moment; namely, more and more means-tested benefits. That has a perverse effect. It tackles a clear and admitted short-term problem at the cost of building up much greater long-term problems in the future. We are heading for a society where, once more, well over half of all pensioners will be getting a means-tested benefit. They will find themselves having rates of benefit withdrawal that are equal to higher rate tax. There is a whole host of design issues about the pension credit which we will be addressing when we debate it and scrutinise it in the House of Commons.

So, I do not want to see means-tested benefits as the solution; I want to see more funded pensions and more flexibility in retirement ages as the solution.

**Ms J. Barrow** (a visitor; Age Concern, Scotland): I am absolutely thrilled that so far we have consensus that we can actually afford an ageing population. I do have a question: "If we can afford it, why are we not increasing the basic state pension? Why are we saying that we cannot actually afford to pay for long-term care?"

It is the first time that I have heard that message from anybody in authority. It seems to me, representing an organisation that has been campaigning for a long time for better services and for better pensions for older people, that the message we have been actually getting is: "We cannot afford it. We cannot afford a decent pension; 75p is all we can manage this year, thank

you very much. We cannot afford to pay for free personal care for older people, despite the fact that it was one of the key recommendations of Lord Sutherland's Royal Commission." So, I am a little surprised; and I would like all of you to go out and tell everybody else that we can afford it. I am really delighted that we can; it is good news.

We have consensus about the need to move away from means-tested benefits, and it is tremendously important that we do so, but the best and most effective way of moving away from means-tested benefits is to have a decent state pension. Reliance on funded pensions will always result in a dependence on means-tested benefits for those people — far too many people — who cannot afford decent funded pensions or for whom funded pensions will fail. There will be pension failures; look back at Robert Maxwell or all the other endless financial crises. We have seen them again and again. Like many people, I am not in a final salary pension scheme. I have no guarantee of a decent pension when I retire, despite the fact that I am paying in a fair part of my salary to a pension scheme all the time. Inevitably, there will be people whose pension schemes fail, and these people will be dependent on means-tested benefits, and that is a disincentive to save.

We, at Age Concern, would like to see a decent state pension which can provide a decent cornerstone for income in retirement and upon which people can build by saving and investing in their own pensions beyond that.

The raising of the retirement age is a key issue. About three or four years ago Age Concern started the 'Debate of the Age', to look at the whole issue of the ageing population and to try and address some of the issues, whether they are financial or social; whether they are medical or environmental. The conclusion that we came to on retirement ages, as a result of much debate and discussion up and down the U.K., was that we should be moving towards flexible retirement. We should not have a fixed retirement age, but people should have the option to continue to work for as long as they wanted and for as long as they were able to work.

Coupled with that we must have an end to age discrimination. We will be seeing legislation against age discrimination in employment and training by 2006, as required by the European Community; but we would like to see it go further than that. It is not just about employment and training. We want to see an end to age discrimination in all areas of life, so that people are not turned away for a loan for their cars simply because they happen to have hit the magic age of 65, or where you cannot turn somebody away from hospital and say: "No, you cannot have that operation or treatment because you happen to be of a certain age." We want to see an end to age discrimination across society, and an end to ageist attitudes. It is partly about legislation, but it is also about a sea change in attitudes in society.

When I agreed to take part in this debate, I considered what society would be like if we decided that we could not afford an ageing population. What would we do? What kind of society would we have if we said: "No, sorry, we just cannot afford it. Therefore, we are going to have to do something about it." What is the solution? Will we work until we drop — literally? Will we keep on going until we actually cannot physically work any more? We could just get rid of all those inconvenient older people who have care needs. Of course, the problem with care is the very high labour costs. We could farm them out to countries that have lower labour costs. We could set up old age pensioners' farms somewhere in the Far East or South America. We have seen that partly happening at the moment with people going to France for operations, which I am sure they are very happy about. We could, perhaps, take the logical extension, and move further afield. I am sure that we would get a good deal. I think that Mexico might be a good place; and, of course, it would be nice and warm.

Perhaps we could do something similar in this country, and set up massive nursing homes where everybody goes in, and have economies of scale and have one member of staff for 20-30 residents. Perhaps we should just go the whole hog and say: "Compulsory euthanasia at age 75." Maybe we could raise the retirement age to 70, and then everybody gets a chance of five years of retirement, and then that is it — the end of everything. That is one option if we decide that we cannot afford the ageing population.

We could decide not to bother paying pensions or making payments for long-term care, as a

society. We could say that, as a society, we cannot afford to pay for those people who had not made some provision for themselves, but you might find that that is rather like what is happening already, and we will have a gap between the 'haves' and the 'have-nots'. It does sound eerily familiar. We could offer only palliative care and not bother actually trying to cure anybody once they reach a certain age. So, if you get cancer at the age of 70, you are not going to live much longer anyway, and so it is not really worthwhile giving you any treatment. We could just dose you full of painkillers, and hope that you die quickly. Maybe that is the way to do it — oh, I think that we already do that quite a lot! In those massive nursing homes we could keep labour costs down by using chemical restraints, dosing people up to the eyeballs when they dare to complain. We might do that already! It is a frightening vision, but comes back to the point: "If we can afford it, why are we not doing it?"

What would we lose if we lose the older people in society? We would lose grandparents, and what grandparents give to their grandchildren: whether it is caring for children when parents are out at work; or giving wise advice; or taking over the bringing up of the grandchildren because the parents of the children cannot manage. Grandparents play an enormously important role in today's society. That is a very important role for our children, for the next generation, for the people who are going to be working to keep all of us with a decent pension. We would lose an enormous amount of experience and skills: the vast knowledge of decades of experience that lies within our older people; the importance of things that we can learn from people's history. We could end up with a shameful state, where older people are neglected and marginalised, and not a part of society. That sounds familiar too.

We would lose the contribution to society of volunteers. The amount of voluntary work that is undertaken by older people across the country is absolutely invaluable. Part of that is looking after other older people. There are networks of Age Concerns across the country where older people are doing valiant voluntary work to help other people in their community; but it is not only that: there are environmental volunteers; there are people working with children; there are volunteers across the country contributing hugely to the well-being of society.

We could end up living in a society where there is a climate of fear, where older people are neglected and cast out, uncared for and unwanted, and where people are genuinely afraid of growing old. Oh yes, that sounds familiar, too.

**Mr C. D. Daykin, C.B., F.I.A., Hon. F.F.A.:** Can the U.K. afford its ageing population? We have already had some hint that, in terms of pure affordability of public spending on pensions, the U.K. is, effectively, in a unique position, certainly within Europe, in terms of past reforms to the system, having stabilised spending as a percentage of GDP.

When we talk about unaffordability of pension systems in Europe, this is largely a problem for other European countries rather than for the U.K. We are more or less in the same position as the United States of America in terms of the percentage of our resources devoted to the public pensions system; but we are an extremely mature demographic population already, much more so than the U.S.A. So, one has to turn the argument on its head, and say that, if we are spending so little on public pensions, it must say something about the adequacy of those pensions. It is also because we are looking in terms of that spending only in respect of the contributory pension system. We do spend quite a lot more on pensions through means-tested benefits. That is increasing, and is likely to increase quite a lot more in the future, with the minimum income guarantee and the pensions credit. Thus far, there have not been any published long-term projections of the impact of these means-tested benefits. Historically, the Department for Work and Pensions only made fairly short-term projections of these, and did not ask the Government Actuary's Department to do any long-term work in the way that we do for the National Insurance Fund. Maybe we need to look at that again, in the light of the shift of expenditure more into the means-tested area.

The rationale for us having this very low percentage of GDP applied to public pensions is that we have a very well developed private pension system, much more so than other European countries, except perhaps Ireland, which is in a rather similar position to us. So, the whole

rationale for our structure is that we have an occupational pensions scheme system, predominantly defined benefit in nature historically, at least in terms of numbers of members. This is under threat for a number of reasons. It is under threat predominantly because of accounting standards. Probably none of us here have had any direct involvement in producing FRS 17, but it might be the single most influential factor in destroying our defined benefit occupational pension system. We also see a big shift in people's thinking towards the advantages of defined contribution pensions, and that certainly does have advantages in terms of expanding the coverage. One of the problems of our existing system is that it does not cover everybody, and a lot of people are not protected through a private pension scheme. Maybe it can only be extended to the whole population through defined contributions, but we have to recognise that that is dramatically shifting the burden of risk to the individual, and the risk, not only of investments, but also the risk of longevity. Defined contribution schemes push the longevity risk onto the individual, either through the annuitisation process, if that is compulsory, or, if it is not, the individual still has to make the money eke out for the rest of his or her life. If everybody is living longer, then that is a risk falling on individuals.

So, the U.K. can certainly afford its public pensions system, but what is it going to do about ensuring that we have an adequate pension system for everybody through the combination of our public and private arrangements? I think that we also need to look at the affordability of the healthcare system, because the ageing population in the U.K. will predominantly have an impact on the numbers of the very elderly. We already have a much higher proportion of people over retirement age than many other countries, and the proportion aged over 80 or over 90 is going to increase dramatically in the coming years, and those are the ages at which high levels of health expenditure are incurred. Even if you look at it on the basis that healthcare expenditure is largely incurred in the year or two before death, then you still have a huge increase, because there will be more people at those ages dying, and that will also force up healthcare costs. We do not do any long-term projections of healthcare costs either, except the long-term care study done by the Royal Commission. In terms of the cost for the National Health Service, very little has been done.

We have an affordable system, but we have a whole lot of things on our agenda: coverage of private pensions; the risk being shifted to the individual; inflexibility of retirement structures; self-destruction of the defined benefit pension system through excessive complexity and through accounting standards; the polarisation of the defined benefit/defined contribution debate, where there are a whole number of stages between defined benefit and defined contribution which might address the needs of both employers and employees better than either end of the spectrum.

**Lord Sutherland** (a visitor; Vice Chancellor of Edinburgh University, Chair of the Royal Commission on Long Term Care): I have been listening with great interest to the discussion about pensions. I wonder whether one of the things that might be looked at is the spread of the working life over a longer period, not simply raising the retirement age. At the moment, by and large, what you do, especially if you are in the sort of jobs that we are in, is that you work like a fiend, absolutely madly, until you are 65, and then you suddenly stop. I cannot think of a worse arrangement. In the question: "Can we afford it?" the 'it' for me is long-term care. I think that I agree with Age Concern that what happens if we do not afford it is a fundamental question. What shape and type of society would we end up with? If you want a pastiche on this, dealing with the other end of life, and if you are of a literary turn of mind, read Jonathan Swift's modest proposal of what to do about the perception that there were too many small ragged children in Dublin, then you can just change the variables, and you will have the wrong sorts of answers for old age.

"Can we afford it?" The key word is 'afford'. We have all said 'yes' so far, and I agree. The real question is: "Who are the 'we'?" In other words: "Who pays?" That is the fundamental issue. Then, second to that is: "How do they pay?" On the question of affordability, the figures we produced in the Royal Commission — and so far nobody has produced a better set of figures —



was that then (we were working on 1995 numbers) you needed an extra £1.1 billion for our proposals across the U.K. £1.1 billion sounds a lot of money, and if you put in the actual numbers and you project forward, you come up with very large sums of money. However, of course, what that omits is the standard Treasury assumption about the rate of growth of the economy, which is 2.25% annually, on average. If you take that number and you see the increase in demand so far as that could be projected, what you come up with is 0.1% of GDP. In our calculations, it did not, in the foreseeable future — and we went reasonably firmly forward for a good 25 years — get above, and sometimes it was below, 0.1% of GDP. That is a more realistic way of looking at the question of affordability. It assumes Treasury growth assumptions. If we do not assume them, virtually the whole of the public sector is in such trouble that we might as well shut the shop and go home.

The other figure that we, in the Royal Commission, came up with in terms of affordability is that the £1.1 billion was (again on current terms, and you could project this forward) 0.3% of the current tax burden. Again, 0.3% is a figure that is, at least, discussible, and can be set against the very large numbers if you look at cash terms. The percentages do not change over the period that we were allowed and encouraged to look at.

We accept that there is the funnel of doubt. In all economic projections the funnel of doubt is what applies, and you might be on one side with a beneficial out-turn, and you might be on the other side where your assumptions were tested virtually to destruction. These figures were the middle between the various options that we could look at. It could vary either way. For example, think of the impact on long-term care of the invention of what I call very crudely, and my medical colleagues laugh at me, the Alzheimer's pill. It will come. Think of the reduction that that would make to the cost of long-term care, even if it were to remove some of the symptoms or delay the onset for a period of months or years. There would be dramatic reductions.

You get a sense of such an effect if you look at the National Health Service expenditure on peptic ulcers in the 1950s as compared with now. Peptic ulcers then were a matter of major surgery. Now, you take a tablet daily, and so this has affected the actual costs of a particular form of care and treatment. There will be similar issues in relation to other aspects of long-term care, but clearly dementia and Alzheimer's are among the major factors. Some of the people in my own institution are working very closely with colleagues in the U.S.A., and there are significant potential advantages. That is part of the good news. There will be bad news; there will be other variables that will alter. I just want to put both sides of the case.

Currently, we are seeing the phenomenon of blocked beds. (This expression should not be used, but we all understand it.) The number of blocked beds in Scotland last year was 2,000; this year it is 3,000. Why? Because there is not either the cash or the resource or the facility to provide alternative sources of care. There is a big row about care homes at the moment. The Chisholm working group, which looked at this in relation to what should apply in Scotland, costed the differences. In Scotland, the average cost of a hospital bed used for these purposes — that is to keep somebody under care who does not need all the facilities of hospital — is, nonetheless, over £800 a week. If you transfer the person to a residential setting, it is something just over £200 a week. The equivalent hospital figure in the south east of England, in London, is £1,100 a week. If you did afford the kind of provision that is necessary — and the system is not working at the moment — you would not have these beds costing us variously £800 - £1,100 a week, as you could set up a system that costs a quarter of that.

These are the numbers, and I am sure that the Treasury crawled over our numbers when the Royal Commission reported, and nobody called "foul" and said "you have got it wrong". We had good economic advice. On Treasury assumptions, this is what it looks like.

The real issue is, if we can afford it, who are the 'we' and who pays? I have had a very strange experience since reporting. When we first reported, since I was not 'third way' (I am not sure what the third way is), it was immediately assumed that I was one of those left-wing people who assume that the public purse is a bottomless pit and we could just dig in and pull money out appropriately. I was interviewed by a journalist last week, and he said: "Ah! You are not one of



these 'lefty' professors we have all read about!" I may be; and I may be not. I will leave that for you to judge.

However, more recently in Scotland it has got more refined, and there has been an attack from the far left, that somehow what I have advocated is a subsidy for the rich. I am in the middle of a pincer movement, but when you are in the middle of a pincer movement like that, you think: "Maybe I am nearer the truth than I would be at either of those extremes."

Who are the 'we'? One clear version is that the public purse — all taxpayers, that is — covers all costs. By taxpayers, I include payers of capital gains tax, and so on. The public purse is what should pay. We differentiated between the care costs and the living costs, and I will come back to that, because that is the beginning of the public/private sharing of the responsibility, which is certainly, in terms of who pays, very much part of our response. It is a shared responsibility. That is one option — all taxpayers. Our version of this is sharing across the public purse, sharing the risk, which is a key concept, sharing across the range of people who contribute to the wealth of society.

The second option, for those who attack me from the far left, is that they say: "Ah! What he is forgetting is that it is the rich who should pay." The 'rich' here is defined in a very open way, because the minute you have £10,000 in assets, you are counted as rich under this heading. That is because it is when you have £10,000 that you begin to pay for residential and nursing home costs, and, until these assets reduce to £10,000 you will keep contributing. The amount at which you pay the full cost for your personal care is £18,000. That is about the size of a reasonably large family car. It does not strike me as a definition of being rich in the society in which we live.

As an example, do you know that men in this country apparently spend £800 million a year on fragrances, aftershave lotions and deodorants? That is a sign of how money does pass through the economy. However, it is a strange definition of being rich if assets of £10,000, garnered over a lifetime, are regarded as the beginnings of being rich in our society. What happens, in fact, is that, in the current system, those who pay are the rich who happen to have the catastrophe of needing long-term care, which is one in seven among men in the community and one in three among women. The unfairness for women is that, by and large, they live longer. The assumptions on which we operate at the moment are:

- (a) you pay if you have assets over £10,000; and
- (b) you pay only if you happen to fall ill.

That concentrates the cost on a very narrow proportion of the population, those who happen to fall ill, in a way that we do not use in other areas. If an irresponsible person goes out climbing in the Cairngorms in midwinter and suffers a bad accident because the weather is adverse, or someone who smokes too much gets lung cancer, it is not a problem; they get free treatment at point of delivery. There is a very odd principle currently operating within our society. One of the things that we wanted to do was to draw attention to that.

The Royal Commission's proposal is that the risk and the cost be spread over the whole population rather than falling just on the individual who happens to fall ill or be in need of care and support. This is what happens in all forms of health care in this country. So, we rejected as the answer to: "Who pays?" — "the so-called rich"; that is those with upwards of £10,000 who happened to fall ill. It is a very strange principle on which to organise a society, and not one that we would tolerate anywhere else in our society. That being said, of course we were not foolish; of course we were not unaware that these are large sums of money that we were talking about. We were not irresponsible.

The question then comes: "How do you share the costs equally over society?" If you look at the U.S.A., for example, the percentage of GDP spent in the U.S.A. on long-term care is higher than in this country. This is not known to many people, but Americans get a lousy system, because it is so differentiated between a small cohort who can afford high-grade care and the rest who are in the safety net. We have a system where, by and large, we want to spread the cost across the whole of society and share the responsibilities.

This has been well written up by people like Nick Barr, at the London School of Economics, in relation to public/private sector divisions. In the end we wanted to spread the risk, but, equally, we accepted the responsibility of each of us to make provision as we could, and so we drew the dividing line — there are good fiscal reasons as well as actual care reasons for doing this — between the supply of care and the living costs associated with care. So, if you go into residential care, we said: “It is not unreasonable that that is a means-tested matter. If you cannot afford to pay for your food, light and heat, perhaps the state should help out. By and large, if you can, you ought to do so. One of the advantages of that for those involved in the insurance business is that the insurance risk is reduced dramatically, because what you would then be insuring for is against the possibility that someone needs long-term care, and what you would be insuring for is for heat and light. That is an identifiable sum of money. The real problem with private sector insurance covering this market is that the risks are huge. All the evidence that we had was, by and large, that the insurance industry is not too interested in it. They are for the plum cases, and they are where it would pay a benefit; but, as a solution to a national issue, there did not seem to be as much evidence that the products were going to be devised. People had stood and thought the unthinkable and had their reward for it. The insurance sector had looked at this, but the products were not there. If the product was identified in relation to living costs the risk is removed, and it is something that then, perhaps, becomes a comparatively low cost insurance, and is something that a very large percentage of the population could reasonably be expected to afford.

The fundamental question is: “If you go for the private insurance option, should it be compulsory?” If it is compulsory, it is a form of taxation. If it is not, look how we are getting on with private pensions and stakeholder pensions. We are not getting a lot of voluntary take up. Yet, by and large, people want to live to old age, have their pensions and spend them. They are not so very keen on the idea — so psychologically it is a bit of a ‘downer’ — that, in their old age, they might need the kind of long-term care that they know is sometimes necessary.

In insurance market terms this is not a big market — and the same is true in the U.S.A. The U.S.A. is where the private market flourishes, but the insurers there do not go for it in a big way, they do not get very many customers and they do not make a lot of money out of it. So, the private insurance issue is: “Is it compulsory?” If it is not compulsory, can you assure me that there will be the necessary take up?

The other problem with private insurance is that you will have one generation paying for two generations. What you will say now is: “Fine, this is very sensible. All you folks who are 20 years old and 25 years old, take out an insurance now, and, in your old age, you will be all right. By the way, at the same time you will be paying for all those people between your age and retirement age who have not got private insurance and who will have needs.” It was this double jeopardy and cost that became a significant issue in our thinking.

So, in our thinking: “Is it the case that we can afford it?” Yes. “If we can afford it, who pays?” We believe in shared costs. The position when we reported was: “Yes, we divide the costs between living costs and care costs.” The individual is faced with living costs. There could be other ways of raising the public money for the care costs that affected those who are better off in society — taxation being the most obvious one. If you increase taxes, the rich pay more. An alternative possibility is inheritance tax. We are seeing versions of that now, where people take out some sort of option on their house value with a view to using that money for care, which means that, when they die, the house that once had value to them no longer has value. Inheritance tax would be the most straightforward way of doing this. Some are opposed to that on various grounds.

Another possibility — this really would be radical — is saying: “If folks in old age can afford to pay for their living costs in care, as the Royal Commission suggested, does that apply to people who are younger who get the benefits of the NHS system?” That is an alternative source of income, so that, in the end, the NHS would move to a principle of supplying the care, but not necessarily the living costs, and people would reasonably be expected to find some means of cover through private insurance for the identifiable sum of money, that is living costs, which, as actuaries, you could work out pretty quickly. So, that is a suggestion.

REFERENCE

ROYAL COMMISSION ON LONG TERM CARE (1999). *With respect to old age: long term care — rights and responsibilities. A report by the Royal Commission on Long Term Care.* Cm 4192-1, HMSO.

**Mr T. A. Salter** (Institute Affiliate): I am aware that any issue which bears upon intergenerational equity is considered to be a thorny problem, but there is an issue of fairness in affording the older generation.

When I started work in 1947 the school leaving age was 14. I was lucky to go to school until I was 17. As for university, well, very few people could do that. At that time the welfare state was being created. The National Insurance Scheme commenced in 1948, one year after I started work, and I received one year's credited contributions which I did not have to pay. However, the interesting thing is that during the war John Maynard Keynes, when he was at the Treasury, intimated to Beveridge that one of the things that he had to do when the state old age pension was introduced was to encourage those of pensionable age to continue in work for the economic benefit of the community, and there would be a modest increment given to encourage that. (See *The Coming of the Welfare State*, by Maurice Bruce, Batsford, 1961 and 1968.)

I do remember very vividly, when I started work, that there were many people in their late sixties still working. I knew many people who worked for more than 50 years.

The great excitement in the late 1940s was not about welfare, it was about education. The goal of the Attlee Government was to create true equality of opportunity in terms of life chances, and to do this by starting with complete equal opportunities in education, so we had the vast expansion of the education system. The elderly today have lived through that time of education expansion. They paid for it through taxes. (See 'In an ageing world', by Peter Laslett, *New Society*, 27 October 1977, where Laslett argues: "Equity suggests that persons of all ages should have equal shares in the social fund, but the young ... have had a monopoly in that very considerable part of it which goes to education ...".)

It seems to me that you have a situation where pensions are inadequate. What actually happened to undermine the pension reform, so far as I can see, is that *The Guardian* had this wonderful idea that, financially, you should segregate the pensioner population: let the rich pensioners pay for the poor pensioners. The 'new Labour' concept is a little different from that. It seems to be centred upon robbing the poor pensioners to give to the very poor pensioners. We all know that means tests are totally inadequate. People do not claim. The take up rates are very low. The state basic pension ought to be high enough to eliminate the need for means-tested help. It would be quite right to readjust the situation in terms of equity and give the older generation decent pensions and healthcare. That is very important.

I am fortunate enough not to have been forced to retire, but many people have been. They have not chosen to retire early.

**Mr B. Wallace, M.S.P.** (a visitor; Scottish Conservative Deputy Spokesperson on Health and Community Care): I shall cover community care and Lord Sutherland's Royal Commission Report, and why the Conservatives decided to adopt this as a policy in Scotland.

I am aware that many of you are not from Scotland, and so here is a very brief background of the political situation, and, indeed, the community care situation, at the moment, in Scotland. We have heard that we have 3,000 blocked beds. We have people waiting to go into community care who are not there at present. We have a situation where the local authorities are fighting with the Scottish Executive for the right amount of money and who is going to provide the money to look after the elderly in the community.

We have a situation where the Treasury has decided that, if we adopt personal care in Scotland, we will miss out on attendance allowance, about £23 million, something that we will have to find from the Scottish budget. Depending on your political point of view, that may colour whether you think that the Treasury is right or wrong to do that. That is the situation. At the bottom of all this are, of course, the elderly, waiting for correct community care — the

community care that they deserve. It started for me when knocking on doors in my constituency. I knocked on the door of somebody who is classified as wealthy — and Lord Sutherland alluded to this. The person concerned was living in a council house in Stonehaven that he had bought himself. He did not have much of a pension, but his assets are above £16,000, and he is considered wealthy.

I think that is wrong. Maybe he is frugal. Perhaps he is just poor because he has £16,000. I agree with Mr Salter that, in the present system, we are penalising the poor to give to the very poor. I think that is wrong. That is where it started for the Scottish Conservatives.

I was a member of the Health and Community Care Committee, and I remember grilling Lord Sutherland when he came with his ideas. I did not suspect that he was a 'lefty' at all. I do not now. Actually, many of the allegations regarding him as being a 'lefty' have come from new Labour. I am surprised; and I think that he is probably more surprised that the Conservatives adopted personal care as an idea. However, we took it from the view of affordability and social justice.

I have to put a warning on this. This is the Scottish Conservatives policy. It is not the policy of the main parties in England and Wales at the moment, so I will speak from this position. This is devolution, and this is it working. Again, who would have thought that a Conservative who opposed devolution would be extolling the virtues of devolution?

New Labour in London have said to us on a number of occasions — and, indeed, originally the Scottish Executive — that to adopt personal care would not be affordable, and most of the reasoning is the demographic explosion that is predicted. Yet, the evidence for that is not as severe as for the other European countries. I have had the pleasure of reading the three volumes that back up the Royal Commission Report. There is extensive research carried out by the Royal Commission to find out that this is not the great nightmare that does await us all, and I have yet to see any figures to prove otherwise.

The fears are unfounded, because the Royal Commission Report is not just about personal care and the funding of it; it is about the reform of the structures to deliver community care. Community care is in a mess. The structures are inefficient. The wastage is appalling, for example where local authorities siphon off money given to them by central government to put into other services under pressure, and the estimates go from £90 million to £300 million in Scotland alone. Bed blocking costs £1.5 million per week. That, in itself, is unsatisfactory to people who are waiting for operations and the elderly, who deserve to be given the care that they need. Those are just two of the examples of waste.

Further, there is the inefficiency. We have, at present, 17,000 full-time equivalent social workers, working in care to look after under 30,000 people in residential care. I commend the work that they do. I am sure that there is a more efficient way. The Accounts Commission Report of Scotland, in February 1999, said that some of the best care was delivered by the independent sector, and not by the local authority run homes, for all sorts of reasons: for example, absentee rates were higher in local authority homes. In the end what matters — and this is what I am always trying to say in debate — is the person who needs the care, not the ideology, not the local authority, and certainly not the Scottish Executive. Adoption of personal care funding is the funding stream that drives the reform for the structure of delivery that we believe. We believe that it will remove the inefficiencies, and some of the savings from that waste we will put towards paying for it.

I am an ex-soldier. Before you even hit the target that you are aiming for you have to make sure that the shell gets there. It is the same with the money for community care. It does not matter if you target the present system; the money, quite simply, is not getting to where it should.

I believe that the increase in means testing, as such, carried out by this Government, and the targeting, which was the reason why the Scottish Executive first opposed it, is doing nothing. It is putting a sticking plaster on what is a broken system. We think that the reforms that this will lead to will allow us to minimise the risk, as Lord Sutherland said.

The best way to encourage people to take responsibility at an early age is to make it

affordable. (At age 31, I am the second youngest in the Scottish Parliament, so it is interesting that I am here about pensions and community care.) That is how you allow people to contribute.

I have been round nearly every private insurer in the country. There are very few products for long-term care in the market place. Why? Elderly people get ill. The risk is high, so people do not want to know. They can make money elsewhere. If we contribute to reducing that risk, then affordability is the best guarantee for our generation to make provision for ourselves.

In the end, adopting the Royal Commission recommendations will finally remove the punishment of the frugal, which the current system does.

**Mr P. D. G. Tompkins, F.I.A.:** One of the conclusions that we are all drawing, of course, is that we can afford an ageing population, whatever that may mean. Inevitably, we are not going to make problems disappear. We are going to deal with them in some way. There is a variety of ways in which you can deal with the challenges, financial or otherwise, of an ageing population. You can deal with the way in which you save while you are at work, or the pensions or insurance that you take out, or, indeed, the long-term care insurance and the way in which you might provide for that to be available, compulsorily or otherwise. You can deal with the amount of income that you actually want to have after you have worked. Some people would prefer to spend more earlier, and some would prefer to spend more later. It is surprising how difficult it is to get across the message of how much you need to put aside for those many years that you are going to be living in retirement.

You can deal with the length of the working life and the phasing, perhaps, of retirement. I was pleased to hear Mr Salter's contribution about the state retirement age, which is often described by those commenting on it as if it was a fixed age, because we just focus on that minimum age of 65 when you can take the pension, but actually it is a flexible period from ages 65 to 70, and we should say that it is, because it is. You do not need to go to Parliament to legislate to change that, because we have a flexible state pension age already. It is just that we do not think about it and tell people about it.

You can change the demographic structure. In the conference today there have been contributions about ways in which you can replenish problems with the demographic shape by, for example, immigration, and the extent to which the U.K., perhaps, is better placed than other countries in Europe, by having a degree of useful immigration to make up some of the gap.

One subject which we have not heard discussed is an approach that I found had been adopted by the French a few years ago: pronatalism, dealing with the demographic problems by encouraging more children. It is one that we have not seen much about. There are notable examples of countries trying to improve their birth rate by campaigning for people to have more children. I was struck by what was written to me by a temporary secretary who assisted me during my secretary's holiday a few years ago. She was a single mother, who had just had her third child. She wrote me a lovely letter when she left, saying that she was doing far more for my pension than I was myself, because she was bringing up the children who were going to be necessary to pay for the income that I was going to need — and how right she was!

A number of speakers have touched on the element of compulsion, whether or not we should actually oblige people to save. We may have stakeholder pensions improved by, for example, compelling employers to contribute to them. We might have an obligation to insure ourselves for certain purposes — like, for example, the costs that you might have to pay for your own personal care in hospital or in homes.

I would throw back to Mr Willetts the challenge about the Conservative Government having taken away the right of an employer to bind, within the employment contract, the employee with the obligation to be a participant in the pension scheme. That was a retrograde decision, to prevent private contracts providing that, as part of your employment relationship, you entered into a contract which included the provision of part of your income through retirement provision being made by the employer. I should like to see an opportunity for a Government to change that mistake and to allow the necessary saving to be provided as a free act between the employer and the employee once again, as it was before 1988.

There are plenty of challenges to the way in which we provide for the future, but there needs to be plenty of choice, and communication is vital for that. Some of the improvements that we are seeing in communication of state benefits and private benefits in standardised forms must be followed through and developed.

The way in which we, as actuaries and consultants, explain to people how much they should be deferring is very much aided if we can reduce it to simple terms and explain to people that they are going to live for very long periods in retirement. It is pretty obvious, as soon as you explain to somebody that, if they are going to work for 40 years and then be retired for 30 years, then they have to put about one-third of their income aside if they are going to have the same level of spending after they retire as before. People realise it quite quickly when it is explained in as simple terms as that. It is a lesson to us to make sure that we are part of the campaign to enable people to understand what they have to do in order that we, as a society, can afford the challenges that we face in the middle of this century.

**Mr J. McTernan** (a visitor; former Ministerial Special Adviser): There has been quite a degree of consensus; and I want to echo some of that, and then draw together some of the strands of the challenge for politics and politicians to handle this. It is not just about an abstract question: "Can we afford it?" There is a set of political challenges.

It is clear — and it has probably been clear for quite a long time now — that the fundamental British challenge is not affordability of pensions, it is adequacy. The level of the basic state pension, the level on which we expect pensioners in 2020-2030 to live on current projections, is actually unsustainable in a modern society.

It is also clear that part of the solution has to be some form of raising the state retirement age. I agree with Mr Willetts that equalisation for men and women could probably have been done faster, and should probably be done faster, and that may well be an area where there is scope, as Mr Ross was suggesting, for some form of political consensus. This has to be managed with something that is far more difficult, something far easier to talk about than to do; to have genuine flexibility in the labour market. When the state pension was brought in by the Attlee Government, the figures, if I recall them correctly, were that something like 70% of the male population were working at age 65. Now, on receipt of the state pension at age 65, only 30% of the male population are working. That has been in consistent decline for the past 20 or 30 years. I can add to the example of Mr Willetts of the one B&Q store. Nationwide has a very good age-blind recruitment system. That is the only other example that I have ever been able to find, and I have heard his challenge thrown across the table before now.

The fundamental question is: "Should we take elements of pensions out of politics?" The answer is: "Maybe we could aspire to that", but the realistic answer is 'no', because politics is, at heart, about resource allocation, and this is an argument about resource allocation between generations and across generations.

We need to understand the change in the political context in which we are operating. People have been saying for a number of years, probably decades, that pensioner power should be increasing in electoral terms. We have reached the point in the U.K. where there have been genuine, serious expressions of the force of weight of all the people. The way in which the public responded, primarily led by older people, to 75p being put on the basic state pension led to a change in national Government policy. It led to substantial increases in the basic state pension plus substantial increases in the minimum income guarantee.

In Scotland, the response of parties in the Parliament to the issue of free personal care is an example of parliamentarians reading and responding to the mood of the public. The risk of needing long-term care is one which, collectively, we should insure across society in Scotland, to provide for those of us who will need it. None of us at age 25-35 can predict who is going to require free personal care. It is right for us, collectively in Scotland, to ensure that the whole country provides for that.

The fundamental problem that Mr Ross is facing, if he takes seriously the notion of some kind of Monetary Policy Committee equivalent for pensions, is that he is saying that the offer



that we are making to older people is: "Retire at age 75, and we will guarantee you an income of £7,000 a year." That is not a great bargain. It is particularly not a great bargain if you consider where we are, currently, in society. We have declining electoral participation. We have younger people not voting; older people continuing to vote. As the number of older people rises, and as the younger people continue to stop voting, the young shrink in number and they shrink in influence, and so it is highly unlikely that any political party can prosper by offering older people a bargain like that which is, in effect, reversing the last century. The fundamental struggle of the 20th century, if examined properly, is the struggle for more and more leisure time. In this country we celebrate May Day. The May Day demand in the 19th century was 8 hours to work, 8 hours to learn and 8 hours to rest. That historic demand was achieved in the 20th century. We are actually suggesting that there will be a political ability to deliver an offer to older people that says: "I know that you have seen every generation right through the last century; you have shared in an increase in prosperity, but you are going to work for longer. The offer that we are going to make to you is a smallish state pension." It seems to me that there is a genuine possibility that, as we enter the 21st century, as Lord Sutherland indicated, it is very hard to manoeuvre left or right, the third way or not a third way. Our political map was drawn in the 18th century during the French Revolution. Left and right comes from then. It is entirely possible that there will be new cleavages in politics; new forces emerging; and it seems to me that, in an ageing population, one of the most powerful forces will be older people, and as I am going to be one of those older people in 2025, I do not see it being an acceptable sell to me that I will be offered ten extra years working for not a massive increase in the basic state pension.

The political context is far more challenging than achieving the consensus round some of the strands of what the long-term solution might be.

**Mr P. A. C. Seymour, F.I.A.:** Mr Ross was speaking about a sort of non-government organisation that might run a pension system. Mr Willetts was speaking about wanting to involve the private sector more.

I was reminded that I was involved with Mr Le Grys with the Rowntree inquiry into how we would fund long-term care. The recommendation that we made involved compulsion, which was rightly described by the politicians as another form of tax. If everybody is required to do it, if the management of what they do is run by some off-line government body, and if the money that they fund through the system is actually at their disposal to put with whatever private institution they would like to put it with, I just wonder whether we do not have a new way (dare I say it) of running the system of who pays. That, after all, is the question that we are trying to address. There might be ways for the future of trying to bring some of the threads of what we have been discussing together.

**Mr N. Comfort** (a visitor): I am a serving special adviser to the Secretary of State for Scotland or, indeed, for any other minister.

My interest is personal as much as professional. My father, Dr Alex Comfort, was one of the earlier generation of gerontologists. I grew up among copies of the National Studbook, from which he tried to ascertain whether the longevity of race horses depended on their age — indeed, whether their form depended on their age. However, behind all this was his interest in the human life span; how people could be helped to live longer and to live a better life. Some of the research done then, and by the people who came after him, has informed, not just debate on longevity, but also, probably, some of the statistical tables on which pension provision is based. I know, from talking to him, that one of the events that gave him the greatest pleasure in a long life of delivering scientific lectures was to come and speak to the Faculty about his research and about the kinds of society that might stem from changes in life span.

My father did not just want to see people living longer. He recognised that, if they did not remain active until long into old age, they would not only live on in misery, but would become a burden to society in terms of finance, emotion and structure. It was a tragic irony that he had the first of three strokes at age 71, and spent the last nine years of his life in a wheelchair.



Based on his work and conclusions, I should just like to offer a few thoughts. These are, as almost every contribution has been, non-partisan and constructive, but they will be a little bit more generalist than some of what we have heard.

We all want to see people, not just living longer, but staying fitter for humane and for social reasons as well as for economic ones. If people simply get older and steadily less able, we are doing nothing for anyone's quality of life. We want people to be active in society, and, if they wish, to contribute to the economy as long as they can. We want to make sure that every agency and financial structure concerned assists rather than obstructs the process. The concept of a job for life becomes a thing of the past. I think that one has heard it said in so many places and in so many different ways.

However, what we have to make sure is that a change of career at age 52 is just as viable and just as practicable as a change of career at age 32. There will, of course, be people whose state of health or lack of flexibility or motivation makes that impossible, and their inability to start a new career later on in life should never be held against them. Their remaining life span, in employment or out of it, should be a great concern of ours; but, equally, there are those who wish to start new careers, and, if they manage to start them and to succeed in them, they probably will not wish to stop when they reach a set retirement age.

It must be a goal for nearly everybody that, where people do want to work on beyond such an age and can do so safely and productively, they should be encouraged to do so. When they do eventually retire, the fact that they have worked on for the benefit of the economy and the likelihood that they will not have as long to enjoy the fruits of their retirement as someone who had retired at a set age, should be reflected in their pension arrangements, and not be held against them.

**Mrs A. C. Dash O'Connell, F.I.A.:** I shall concentrate on pensions, and come back to what Mr Daykin was saying earlier. There are now some projections for the cost of pensions credit on the website of the Department for Work and Pensions (DWP), published last week. No doubt other people will be spending a lot more time poring over them, but, on a brief look at them, what they seem to suggest is that the cost of pensions credit will be an additional 1.3% of GDP.

That means that the 60:40 split between state and private pension provision will stay 60:40, and not be reversed, because the only ways in which it can be reversed are either by increasing the 40 by increasing the funded pensions, and Mr Willetts and others have pointed out that there are difficulties in doing that — that it has not altogether been successful — or, of course, by reducing the 60 by reducing the take-up of pensions credit, and who wants that? That means that the very pensioners for whom it was designed, the poorest pensioners, will not get the benefits to which they are entitled.

So, what is to be done? I have been listening to the discussion, and particularly to the two main subjects about the adequacy of pensions and whether or not the retirement age should be increased. I co-authored a paper about two years ago, and I realise that now is the time for a second airing. That paper is 'A New Future for the Basic State Pension', by Alison Dash & Steve Webb, M.P., published by the Centre for Reform in September 1999. It looked at who are the poorest pensioners. The poorest pensioners are, of course, the oldest pensioners. That is something which is structural and which is probably going to persist for reasons related to the longevity risk. If you have lived longer than you expected, then you are poorer because you have run through whatever provision you may have made; and your state benefits, and probably your occupational benefits as well, were indexed only in line with prices, so, relative to newly retired people, you are worse off in real earnings terms. The paper modelled, using the numbers relevant at the time, that if government spending on the state second pension and the lower Minimum Income Guarantee that was being talked about at the time was targeted at the oldest pensioners, so raising the basic state pension once at age 75 and once at age 80, we could actually afford quite significant rises in the state pension at those ages. That would be a much more targeted system, reaching the poorest pensioners, and with no means testing necessary — at least,

not means testing for the oldest pensioners. I think that all of us would agree that means testing is not a nice thing to go through.

If we have extra money now, with the pensions credit that we can also work those numbers on, we could afford even more significant additions at the older ages. I have started to think about how that goes with the grain of what we have been talking about, not just with increasing longevity, but also with this idea of flexible working in later life. If we were told that, in our sixties, we could perhaps work part-time while still receiving the nugatory basic state pension, but with the promise of a higher basic state pension at age 75 or age 80, that starts to feel like something which is not only economically feasible, but, perhaps, more socially and economically acceptable.

**Ms C. E. Hobro, F.I.A.:** We heard from Mr Tompkins that his temporary secretary thought that she was making more contribution to his pension provision than he was. That is probably quite true.

We have been talking about who should pay for old age, but we have not been talking about who should pay for children. So, perhaps, increasing state help towards raising children might be another way of helping to reduce the burden of old age. Obviously, this could be maternity and paternity leave and benefits. Also, encouraging women to work while raising children will probably encourage them to have more children, as well as encouraging more women to participate in the economy. So, perhaps we could look at crèches and other help towards childcare provision for the well-off as well as for the poor.

I do not know whether anyone has done any projections to show how money put into help with child raising would pay off in terms of reducing the burden of old age provision. I would be interested to hear if anyone has tied those two things together as an area for research.

**Mr R. R. Ainslie, F.F.A.:** One of the matters that has not really been discussed is the question of how we ensure adequacy, in the sense of how we ensure a good quality of life during retirement; or, to turn the question round: "How do we get people to save more money for retirement?" I think that we know and have heard that the current state pension is inadequate. What we have not heard is the inadequacy of the current defined contribution types of arrangements that will not bring in enough pension money, and we have also heard that they carry a lot of risk. One of the answers that has been talked about is compulsion; but what we really need to think about before we get talking about compulsion is allowing people to use the value of their own houses, to use equity release, as part of the solution of their saving for retirement. We heard about the so-called poor who have assets of more than a certain figure, which is most often their home. It seems to me to be ridiculous that this asset that you accumulate, your home, can be used to pay for your long-term care, your means testing, but it cannot be used to enhance your pension funding so that you can have a better quality of life during retirement. This is an area that policymakers and the profession should think about quite seriously: "How do we bring equity release in as a source of pension and retirement funding?"

Turning to the question of the 0.1% for long-term care, and can we afford it? I think that we will probably agree that we can afford it. The question is: "Do we want to afford it?" Then it becomes a political decision and a question of allocating resources.

If we all sat down and listed our top ten things that we would like to see 0.1% of GDP spent on, I do not think that long-term care would figure highly for many of us. It probably would not be top of my list, to be honest. I do not know how that is going to be overcome, but, until that is overcome, I cannot see people being prepared to put their tax money into this area.

Finally, on a kind of sad note, I was very interested in the comments about what the world would look like if we could not afford it. It is very sad if we could not afford care for the elderly or pensioners, that the response would not be: "Well, the family would look after elderly parents or the community would rally round." Perhaps that is a bit too Utopian.

**Mr D. J. Le Grys, F.I.A.:** I have retired from my day job and now do some work for Age Concern. So, with my Age Concern hat on, what would I like to see for pensions? I should like to

see a basic state pension of £120 a week — possibly a bit higher — and I would like pensions linked to earnings. Is there a hope that that is what will happen? The first point, of putting the basic state pension up to £120 a week, is quite possible. It will cost us money and will cost us more in tax.

Is there a chance that pensions could be linked to earnings? On the basis of the figures for Ireland that we saw at today's conference, I do not think that there is. We clearly saw that if pensions are linked to earnings, as in Ireland, then the cost of pensions as a percentage of GDP would go up steadily. If they are linked to RPI, the cost will go down steadily. Similar considerations would apply in the U.K., and so I cannot see any government accepting the link to earnings. So, what is the alternative? It is very simple: we just have to pay more in advance for our pensions later. We have to increase our contributions.

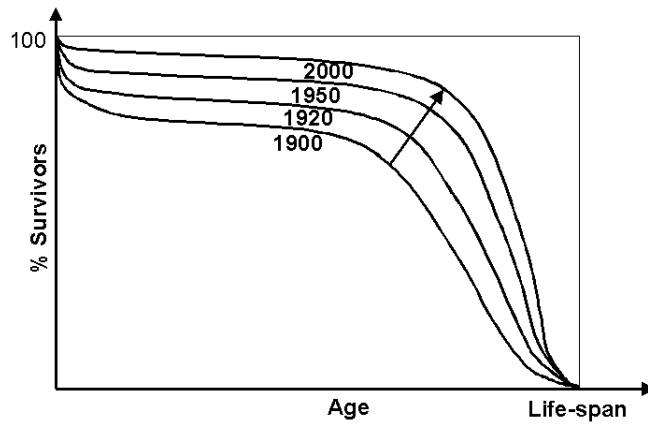
I was disappointed that the state second pension was such a feeble affair. Someone on national average earnings, joining the scheme and starting work at 16 and working until 65 with no career breaks, gets a pension just above the minimum income guarantee. So, the chances of anyone in the real world getting a pension that takes them above the minimum income guarantee in the future is not very high at all. It was an opportunity missed to get state pensions onto a sound basis. The Government could have kept the same structure, but could have increased the benefits and increased the contributions as well. It was a shame that the Government was not prepared to take the step to encourage us and to make us pay more through National Insurance, so that people could have decent pensions.

If the state pension had been more realistic, then stakeholder pensions could have been more realistic too, because bigger rebates could have been given. The build up of pension under your stakeholder pension would have been greater. The state second pension, as it stands, is a great mistake, and an opportunity has been lost.

Concerning long-term care, and wearing my Age Concern hat, I want free personal care, as proposed in the Sutherland report. Why did we not get it? It was because the Treasury took fright. They took fright because not enough attention was paid in the Sutherland report to the impact on informal carers. If care had been made free, would informal carers continue or would they require formal care to be provided by the state? If a reasonable rate of pay is assigned to the time spent by informal carers, then the split between informal care costs and formal care costs is roughly 70 to 30. The figures depend on the assumptions, but that is the broad dimension of costs. The Treasury was frightened that people would reduce or not extend the informal care that they were giving, and would then ask the state to pay for it through formal care. My wife will not give up looking after her mother nor would many existing carers, but the next generation of disabled people may not find informal carers. Some authorities say that the informal carers will carry on at the present levels, but I am not sure of that. It certainly did not happen in Holland when they made personal care free in the 1960s, and the costs to the state escalated.

So, what can be done in England to get the same free personal care that people are going to enjoy in Scotland? Another organisation that I work for says: "Look, if the Government is scared about escalating costs, then it should think of ways to limit the growth." The organisation is researching ways of limiting the cost, but ensuring that people have equal access to what care services are available. However, the best thing for people in England would be if we saw that the introduction of free personal care in Scotland did not lead to an explosion of costs. If it leads to an explosion of costs, we would say how wise we were in England not to introduce it. If it does not lead to an explosion of costs in Scotland, we should be banging on the doors at Westminster, saying: "Please, let us have free personal care now."

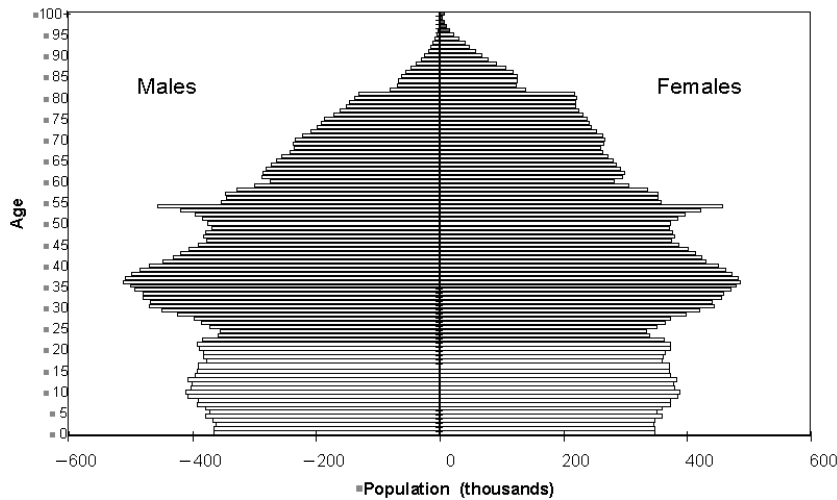
**Mr B. P. Ridsdale, F.F.A.** (closing the discussion): What causes an ageing population? I suggest that there are three issues: longer life; baby-boom; and falling fertility. In the past century we saw an increasing proportion of people reaching old age. The maximum lifespan, the final far end, as shown in Figure 1, does not seem to have moved very much at all. However, the principal cause of our ageing population is not improving mortality, but the baby-boom and, subsequently, falling fertility.



Source: *British Actuarial Journal*, 1999, Vol 5  
 Courtesy: Swiss Re

Figure 1. This century has seen an increasing proportion of people reaching old age

Looking at the U.K. 'population pyramid' in Figure 2, it is hardly a pyramid, but you can see that in the year 2001 we had a small peak of people round about the age of 55, both males and females; the ones who were born just after the Second World War. This is what people often refer to as the post-war baby-boom, but, actually, they have missed the key point that the post-war baby-boom was very short lived, and, as in many other countries, the big baby-boom peaked in the early 1960s.



Courtesy: Government Actuary's Department

Figure 2. 1998-based national population projections; United Kingdom, 2001

Then there is falling fertility. A recent report showed that our fertility rate has fallen to around 1.66 — well below the replacement rate. That clearly has an impact on the base of the pyramid.

Figures 3 to 8 show how the ‘population pyramid’ is projected to progress through the decades to 2061.

Is this phenomenon of ageing population, baby-boom, and so on, the same across the whole world? Recently I was in Ghana. Now, the population pyramid for Ghana, as given in Figure 9, looks more like a pyramid than most of the others, rather like the one for the U.K. in 1821.

Figure 10 shows the population pyramid for the U.K. in the same format. That for the U.S.A., in Figure 11, is very similar to that for the U.K. The scales are larger, but the shape is similar, as are those for Canada (Figure 12) and China (Figure 13). At the conference, earlier today, Mr S. H. Leckie, F.F.A., F.I.A., informed us that restrictions on family size in China are obviously key there. So, we face very similar problems as those in most parts of the developing world and in some countries elsewhere.

I guess that asking: “How do you feel about the prospect of an ageing population?” is a bit like asking the man of 90: “How do you feel about the prospect of living for another 20 years?” The answer normally is: “I much prefer it to the alternative!”

I now ask the question: “Can the U.K. afford its ageing population’s health and long-term care needs?” Ms Barrow observed that, if we can afford our ageing population, then why are we saying that we cannot have free long-term care now? This is a very important point for us to remember as we go away from this conference and sessional meeting. Lord Sutherland considered that we can, and observed that failure to provide accessible long-term care at present results in the far more expensive consequence of ‘bed blocking’, also considered by Mr Wallace.

Mr Le Grys argued that more clarity on the split between formal care and informal care would help enormously, and added that we should ‘watch this space’.

Moving on to the issue of work and the age of retirement; for each person over state pension age in the U.K., in 1998 there were 3.5 people in the working population to support them. The Government Actuary’s Department projects that, in 2036, there will be only 2.4 people in the working population to support each person over pension age. If we had not changed the state female pension age from 60 to 65 by that date, then there would be only 2.0 people in support. Does the increasing dependency ratio merely make it more important for us to retire later?

On the question of: “Can the U.K. afford its ageing population with its current approach to work and age of retirement?”, Mr Salter and Mr Tompkins pointed out that we do not actually have a fixed state pension age, only a minimum state pension age. What we know is that very few people actually defer taking a pension beyond age 65. On the issue of deferring pension ages, Lord Sutherland made the good point that we should think about spreading the working life over a longer period. I think that we would all support Ms Barrow in the call for an end to age discrimination in all areas.

As Mr Willetts remarked, any extension to the state pension age needs to be much more than matched by actions in the public and private sector to enable people to work both up to the state pension age and also for many people to work considerably beyond it. I would commend Mr Ross’s proposal that it would be very helpful if we could move decisions on the state pension age away from the political arena; an approach similar to the setting of interest rates by the Monetary Policy Committee. He proposed that we have a committee that could be called an ‘Independent State Pension Age Committee’, which could be charged with looking, not only at the pension age, but also at the way in which it might be calculated, and how the issue might be managed. I would add that it should look at the way in which state pensions could be improved if pension ages were to be deferred.

Now considering pensions, Mr Daykin referred to the worrying potential that FRS 17 has to threaten the survival of defined benefit pension schemes. The wording that he used was: “destroying our defined benefit occupational pension system.” As an alternative to that, there was a suggestion that we should be looking more at hybrids between defined contribution and defined benefit schemes. I would add my wish to see that happen.

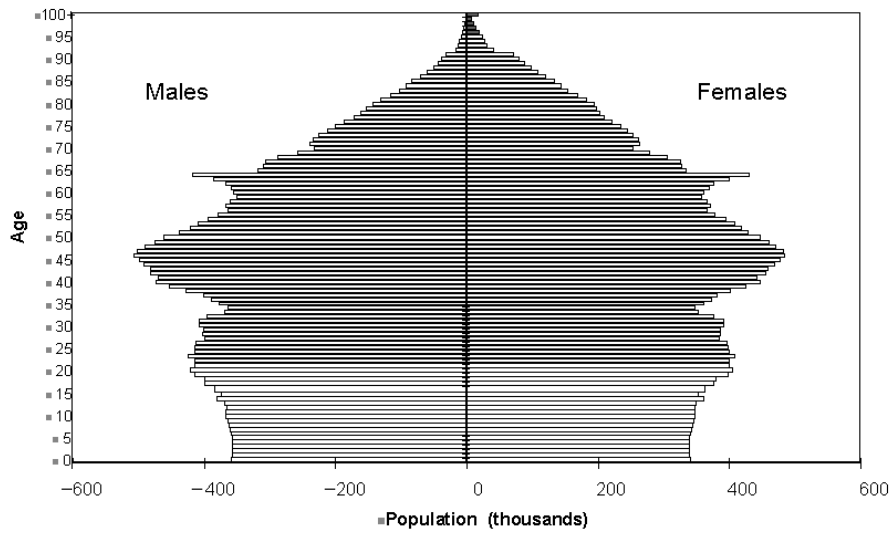


Figure 3. 1998-based national population projections; United Kingdom, 2011

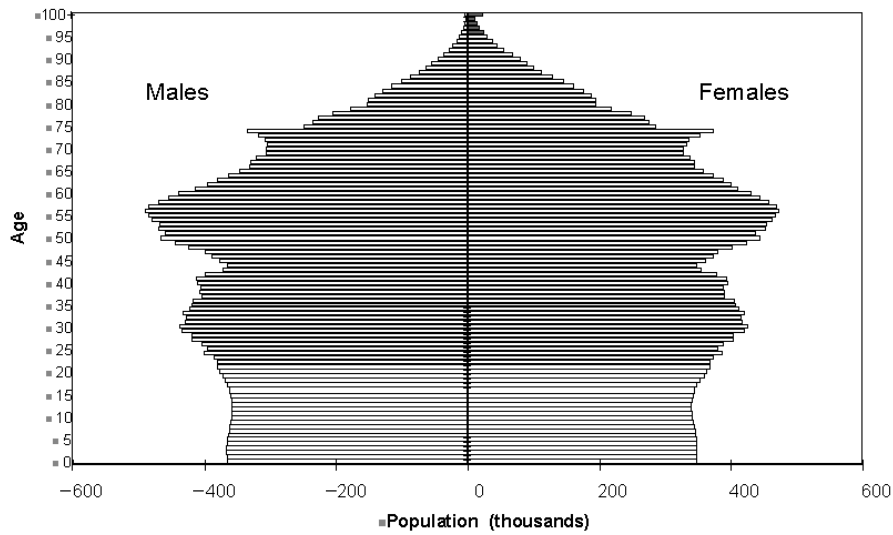


Figure 4. 1998-based national population projections; United Kingdom, 2021



Figure 5. 1998-based national population projections; United Kingdom, 2031

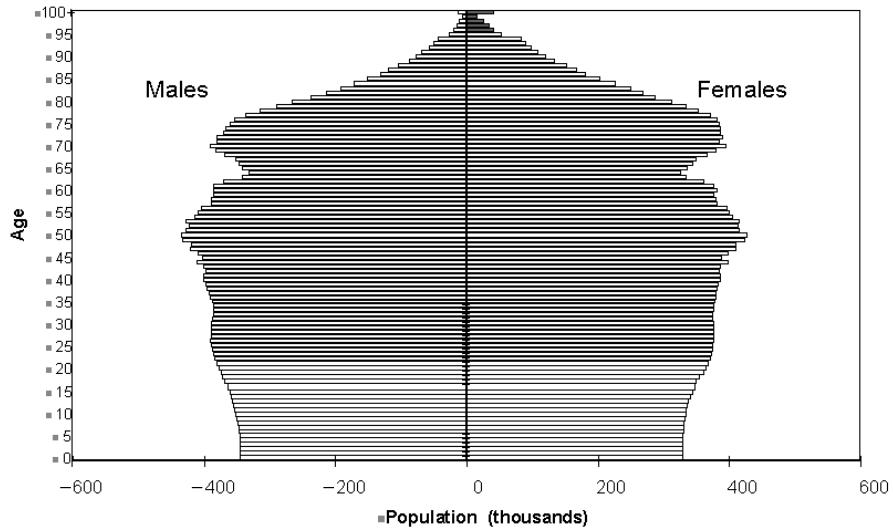


Figure 6. 1998-based national population projections; United Kingdom, 2041



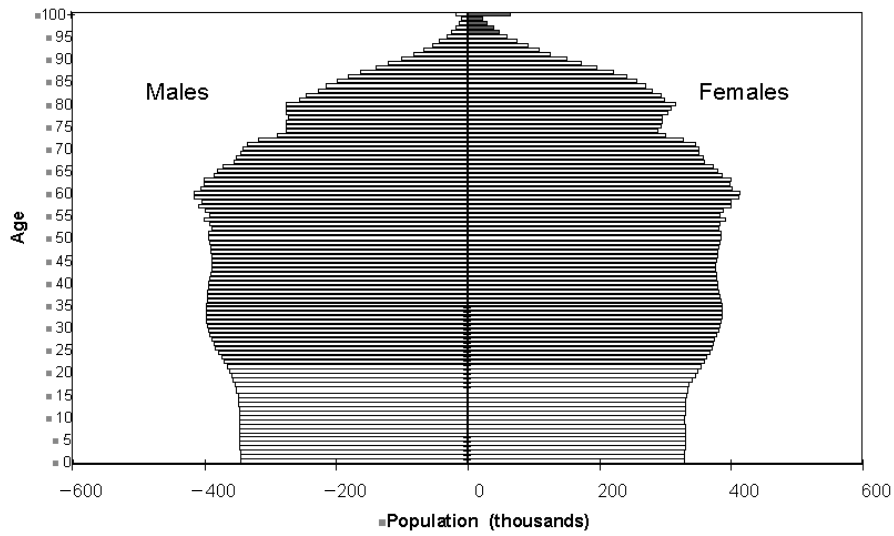


Figure 7. 1998-based national population projections; United Kingdom, 2051

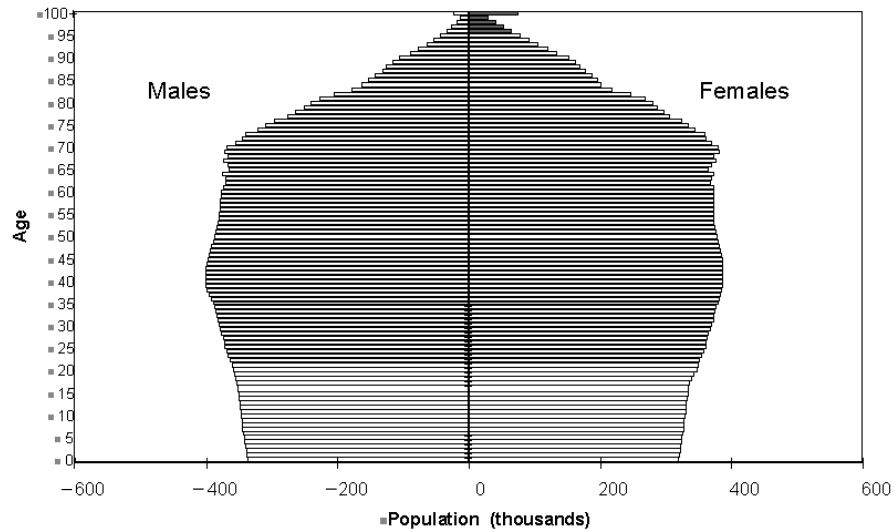


Figure 8. 1998-based national population projections; United Kingdom, 2061

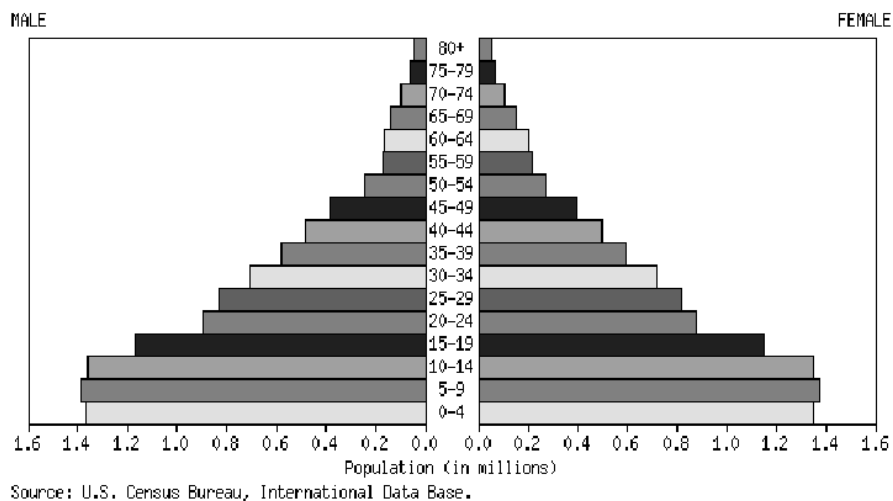


Figure 9. Population pyramid for Ghana, 2002

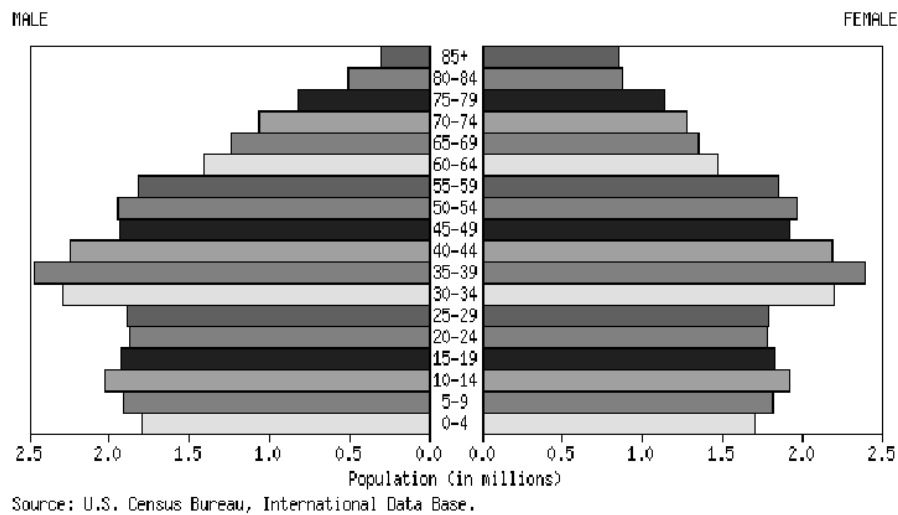


Figure 10. Population pyramid for the United Kingdom, 2002

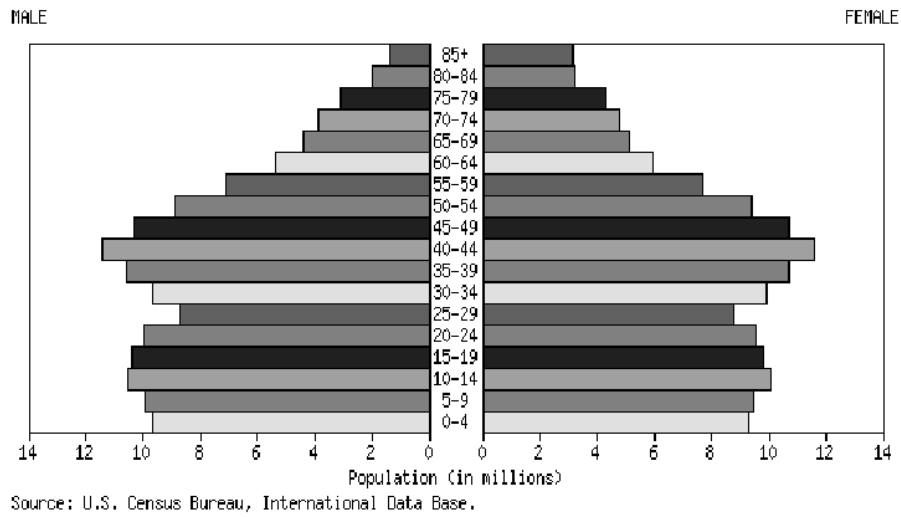


Figure 11. Population pyramid for the United States of America, 2002

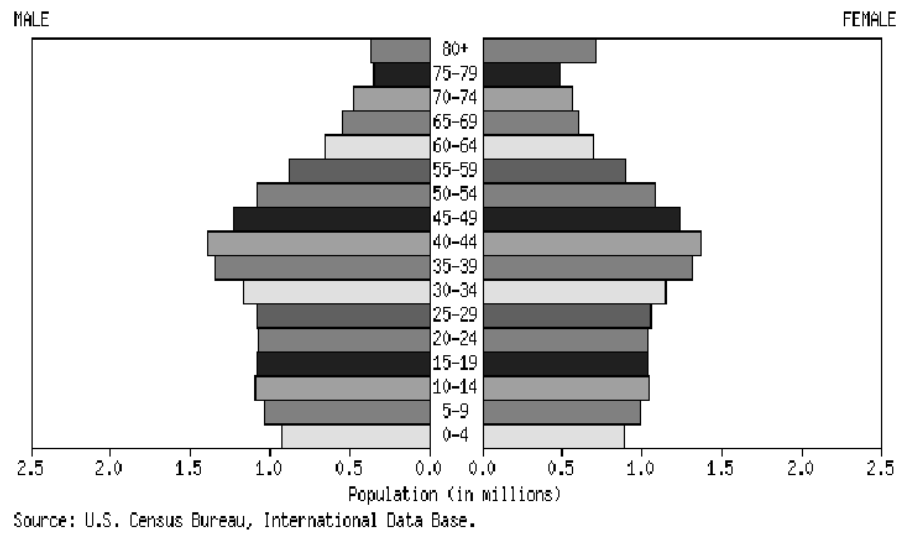
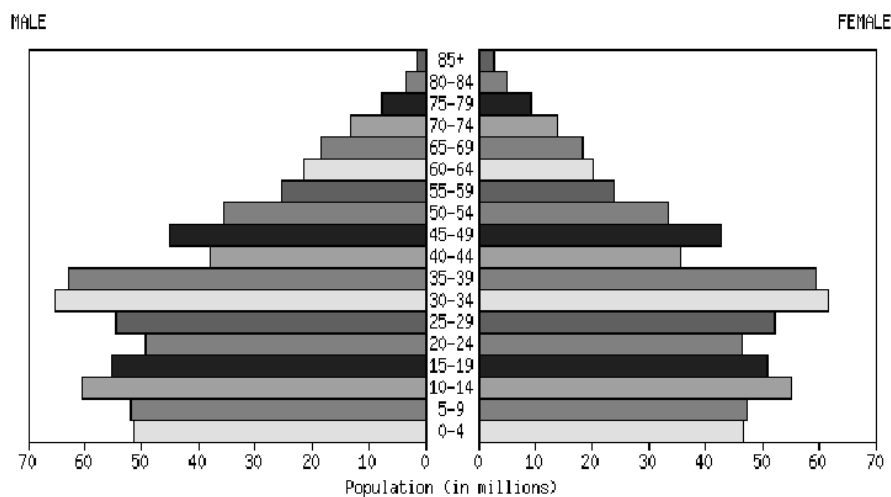


Figure 12. Population pyramid for Canada, 2002



Source: U.S. Census Bureau, International Data Base.

Figure 13. Population pyramid for China, 2002

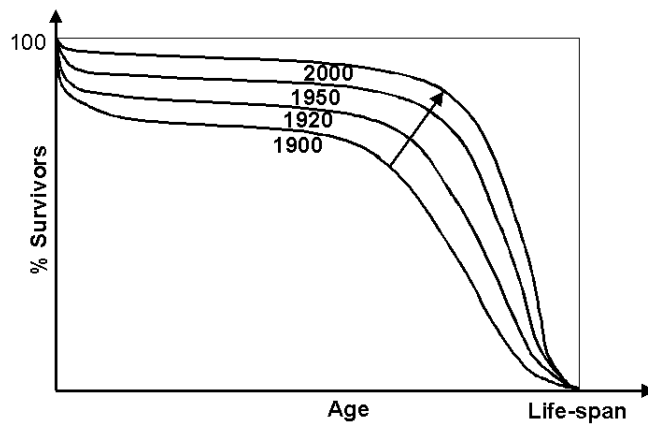
Ms O'Connell made the case for tackling poverty among the worst-off pensioners, by implementing an approach to increasing the pensions of the oldest. She explained that this would not be an expensive issue. Mr Ainslie commented on the inadequacy of many defined contribution pensions. Mr Le Grys stated that we have to be willing to pay more in advance for our pensions, and he made some observations about the current state pension position.

"Can the U.K. afford its ageing population through personal financial planning?" One issue that Lord Sutherland pointed out was that, if we had a better way of dealing with the difference between formal and informal long-term care costs, then it would be much easier to provide insured products for part of the benefit. Mr Ainslie supported that, and he also pointed out that, if we are looking — and we are looking hard, but without much success so far — at using equity release to fund long-term care, why do we not look at using equity release to fund pensions? Mr Le Grys ran a project last year, and came up with a number of recommendations to improve the scope of equity release. Some have been taken up, but there are still gaps in the arrangements. For example, we need a special purpose investment vehicle so that long-term investors can invest in residential property. We need a satisfactory means to allow somebody to hand over his or her house in exchange for a pension or long-term care cover, without risking their entitlement to accommodation for life.

"Can we afford our ageing population by changing the demographics?" Mr Tompkins commented on pronatalism and Ms Hobro suggested that increasing state help towards childbearing and children would contribute at the 'input' end of the population pyramid.

Mr Comfort referred to the undoubted facts that exercise and motivation contribute to longevity, and moreover contribute to a better old age. Mr Willetts felt that we could market increasing life expectancy as '12 years for the price of 10!'

"How can we manage the development of our ageing population?" We should consider the limits that there are to lifespan, as shown in Figure 14. I commented earlier that the ageing population has increased the proportion of people reaching old age. In future, improving mortality at younger ages may continue to accelerate that trend. We might hypothetically get a 'box' where almost everybody survives to the common limit of lifespan, and then all die, as

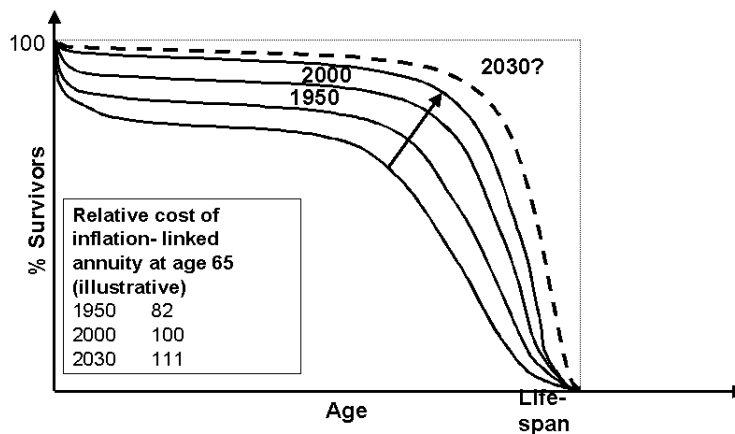


Source: *British Actuarial Journal*, 1999, Vol 5

Figure 14. The ageing population has increased the proportion of people reaching old age

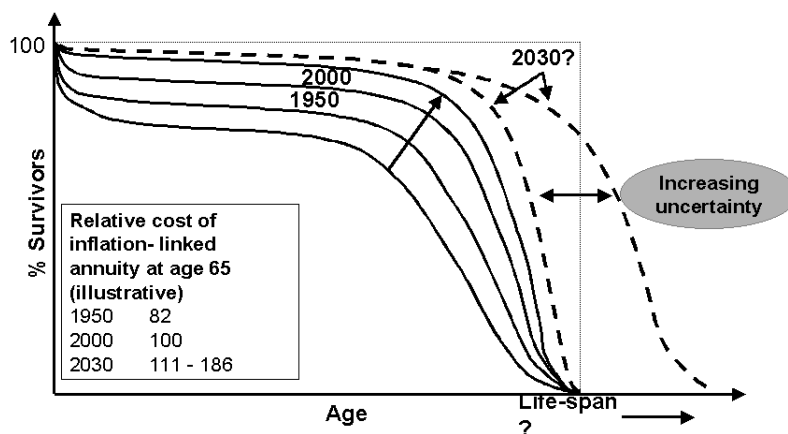
Figure 15 shows. We then, of course, could have another change, to extend the limit of lifespan; a change that would have people living very much longer, as illustrated in Figure 16. I am quite sure that that frightens pension providers. It frightens annuity providers. It probably frightens politicians, although, unlike actuaries, they are not usually in a position to be held responsible for their decisions 20 years later. So, perhaps, it does not frighten them quite as much.

Last night, at the Ageing Population Conference, Professor Kirkwood warned us against unscientific speculation, and what I have just indulged in is unscientific speculation. My only excuse is that he also mentioned, at the end of his address, the nematode worm, which, it is suggested, might hold the secret of eternal youth. So, that is my excuse.



Source: © Swiss Re Life & Health Product Management

Figure 15. Future ageing may continue or accelerate the established trend ...



Source: © Swiss Re Life & Health Product Management

Figure 16. ... and/or push the lifespan limits

What next? First, public awareness. Mr McTernan referred to the falling public interest in all aspects of public policy, shown in many ways, for example, by falling attendance at any election poll.

I think that we would agree that the real issues of the future: in long-term developments in mortality, morbidity and productivity; the future of work; intergenerational transfers of wealth; and the possibilities of assuming that future generations will bear the cost of current generations in retirement; are generally not seen as something that the general public should care about. Why? Perhaps it is because people who could communicate the issues in understandable ways have not yet found a means of doing it. Decisions need to be made about the future of our social organisations, and the public needs to be involved in that, in an informed way.

In October 2000, in concluding a discussion at the Institute of Actuaries, I said:

“The Government has a fundamental part to play, but needs the will of the people to make the major changes that will be needed over the coming years. Changes in retirement age, in levels of pension, and in the extent to which long-term care is funded, pensions are paid for, and work is provided, need a degree of public information and public support before they can be tackled. We need to find, now, socially acceptable ways of funding the retirement of our own generation and future generations. And we need to re-examine the whole concept of retirement.”

That leads to my final point: to speak authoritatively, to advise, and make decisions, requires a good body of well understood and agreed facts. We have established that the information we have at present is often inadequate. I hope that, as a result of this sessional meeting and of the Ageing Population Conference, one or two new alliances may be made, that new interest may be generated, and new areas for research and development may be started. As result, I hope that we can help make some progress towards the public understanding what is needed if these issues are to move forward in the public policy area.

There are a number of special interest groups that are relevant to ageing population issues, and we should be glad to know if anyone would be willing to serve on one of those. Secondly, and perhaps more importantly, we would like to know whether there are any areas of research and development that you would like to take up, get involved with or perhaps just talk to other

people about. We have the capacity to set up, for example, Faculty research committees. There have been excellent ones in the past, and there still are excellent ones, and it would be good to see some Faculty research committees active in ageing population areas.

I should like to thank the distinguished speakers who have contributed to a fascinating evening of discussion, and I should like to repeat my thanks to the President and the Faculty of Actuaries for arranging this meeting.

**The President (Mr T. D. Kingston, F.F.A.):** I reiterate those thanks to all the speakers, not least to Mr Ridsdale himself.