

Introduction

Rethinking Retirement Incomes: Inequality and Policy Change in the UK and Anglo Saxon Countries

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Across OECD countries pensions systems are undergoing change and reform. During a recent five-year period, 2004–09, eighteen out of thirty OECD countries underwent a reform that increased a state pension age or decreased future pensions for at least some citizens (OECD, 2009: 90–4). The justification for such reforms is typically that population ageing will otherwise impose unsustainable costs on the working age population, as workers struggle to pay for the pensions of an increasing number of retirees. The OECD (2011: 167) examined thirty-four countries; it reported that for each person aged sixty-five-plus there were seven of working age in 1950, four of working age in 2010, and only two of working age projected in 2050. Changes in ‘old age support ratios’ tell an incomplete story: age profiles vary between countries, and these ratios mask actual employment levels. Nevertheless, it is undeniable that populations are ageing, and this has been an important spur for pension reform.

While reforms to pensions have been common across countries since the 2000s, the nature, extent, and direction of these reforms has not been universal. In this themed section, we look at retirement incomes, and their reform, in the UK and other Anglo Saxon countries. Across all the countries covered here – the UK, USA, Canada, Australia and New Zealand – policy has sought to encourage increased individual saving for retirement. However, the way in which this has been played out has differed. In the review article that begins this section, Lain, Vickerstaff and Loretto note that the UK pension reform context differed from that of the other countries in the early 2000s: spending on state pensions was set to *fall* as a proportion of GDP, despite population ageing, because of reforms introduced in the 1980s. As a result, the proportion of pensioners entitled to means tested benefits, already high, was set to grow considerably to compensate for shrinking pensions. This hindered saving, as people perceived, sometimes correctly, that savings would merely replace lost benefits. Rather than making *cuts*, UK reforms in the Pensions Acts of 2007 and 2008 therefore *increased* state pension provision for future retirees, to create a base upon which people could save. These reforms were informed by an analysis of pensions in other Anglo Saxon countries by the UK Pensions Commission.

However, as Lain, Vickerstaff and Loretto argue, although they are often grouped together as ungenerous 'liberal' welfare states, pensions differ fairly substantially across Anglo Saxon countries. As a result, the reforms in these countries also differed, with differing implications for poverty and inequality. As such, inequality constitutes a key focus in the remaining articles on changing retirement incomes.

In the first of these articles, Ginn and MacIntyre examine whether UK pension reforms have improved the situation of women. The UK Pensions Commission identified female retirees as being particularly disadvantaged. Many were entitled to only low-level state pensions, and furthermore did not meet the contribution requirements for a full pension in their own right because of career gaps and years of part-time employment. Ginn and MacIntyre argue that the Pensions Act 2007 addresses this problem *to a degree*. The move towards a single tier State Pension should result in reduced contribution requirements and enhanced pensions (set above the level of income-tested Pension Credit). However, taken as a whole, the reforms are insufficient for dealing with women's pension disadvantage according to the authors. Pensions will still be low by international standards, and reforms that encourage saving will subject women (and men) to unpredictable retirement incomes due to stock market volatility. For these reasons, Ginn and MacIntyre argue that a state earnings-related pension should remain a part of the pensions mix.

Given the historically low level of UK state pensions, occupational pensions have been an important part of the pensions landscape, with public sector pensions playing a significant role. This is because the public sector accounts for a relatively large share of the UK workforce, and pensions coverage is high amongst these workers. Pensions for these workers have been based on the final salary of the individual. In a context where private sector final salary pensions are in severe decline, public sector occupational pensions have undergone reforms. These increase the age at which public sector workers receive pensions, move pensions from a final salary to an average earnings formula and increase contribution levels for workers. A key justification was that the changes would make it fairer for women and low earners. Bridgen and Meyer investigate this claim in the next article, and argue that 'the reforms are indeed fair, if measured by the government's standards: retirement is delayed for all, but the lowest skilled and women lose least and some even gain higher pensions without paying proportionately more'.

The next paper, by Collard, situates UK pension reforms in a broader Anglo Saxon Context. One of the key outcomes of the Pensions Act 2008 is the introduction of the National Employment Savings Trust (NEST). Under NEST, from autumn 2012, people will be automatically enrolled onto a workplace pension scheme if they do not already have an approved occupational pension (although they may opt out if they choose). Collard focuses on what we can learn from similar attempts to encourage saving in New Zealand and Australia; her conclusion is that in New Zealand and Australia saving for retirement has increased because of automatic enrolment. Nevertheless, people tend to save the minimum amount and rely on the default arrangements rather making investment choices. It is therefore questionable whether people will amass what is considered a desirable amount to maintain a comfortable standard of living in retirement.

Harrington Meyer extends the coverage of Anglo Saxon countries by exploring the case of the United States. In her article she argues that each of the main sources of income for older people are being shrunk or reduced in ways that are likely to increase insecurity and inequality in the years ahead. Groups that are being worst affected are women, unmarried people and blacks and Hispanics. Gough and Adami, in the next

article, also find significant differences in financial position by ethnicity and gender for the UK. Covering the period from 1994 to 2008, Gough and Adami's analysis of the Family Resources Survey shows that overall lower savings amongst ethnic groups have persisted.

We close the themed section with an article by Bisdee, Daly and Price on the household management of finances in retired couples. This has important implications because, as Bisdee, Daly and Price show, money management is highly gendered with men potentially exerting a great deal of control. Interviews with forty-five couples, revealed that female partners tended to cluster into three groups: those accepting male control over finances; those resenting but not challenging male control; and those resisting male control altogether. 'Resisters', who exert control over their finances because of their experiences in the past, were the only group of female pensioners well placed to look after their finances in widowhood. It is therefore not only important that policy ensures adequate retirement incomes, but that service provision takes account of the gendered nature of money management and its implications for the financial capability and saving needs of elderly women.

References

- OECD (2009), *Pensions at a Glance*, Paris: OECD.
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