

## A PENSION FOR ALL SEASONS



In theory, delivering a secure pension for the 60% of people in Britain who have no pension's scheme has to be a good idea. In theory, this is what the Government's Pensions Bill sets out to deliver. It's only when you get to the practical framework that doubts become worries, and worries become potential disaster areas.

There are simple ways of delivering a decent pension. One choice would be to restore the value of the state pension and its automatic link with earnings. The Government says this would be too expensive, but makes no mention of the fact that it could be funded from the current pensions subsidy of over £20bn a year paid to the wealthiest in the land. Redistribution from the rich to the poor is, however, not on the Gordon Brown agenda any more than it was on Tony Blair's.

Another approach would be to halt the closure of 'final salary' pension schemes. The replacement of these by 'defined contribution' schemes simply means that people now know what they're putting in but have no idea what they will get back when retirement comes. There is an important principle that has been lost in this shift that the Government has allowed industry to get away with.

Previously, the three partners in a pension scheme – the Government, the employer, and the worker – had a shared responsibility to deliver a defined pension income at the end of the scheme. It meant that all three parties had to retain some responsibility for ensuring that the pension savings were not siphoned off into the sort of speculative areas of the global economy that were doomed to collapse; the schemes which are behind the current global 'credit crunch' as one after another dubious escapade hits the wall.

The Government's Pensions Bill, as it stands, threatens to make the crisis even worse. Workers are to be offered 'personal pensions' and free to take whatever advice (or none) that they choose. It takes all responsibility away from the employer and the Government if the chosen schemes go belly up. The Government hopes that £10bn of extra pensions savings will be brought in to the pensions' industry by those who, in future, will be obliged to have personal pension schemes. This will come as great news to the City, but will not necessarily mean that the poor will be secure. In many ways, the poor could become poorer.

During the Second Reading stage of the Pensions Bill, both Labour and Opposition MPs raised important questions about how the new schemes would relate to the maze of means-testing that the Government has constructed around benefit entitlements. As it stands, people who have a small works pension often find that they lose the entirety of its value because the pension is means-tested against other entitlements (housing benefit, council tax rebates, pension credits, etc) If the new pension schemes are not excluded from this process then the outcome could be both tragic and predictable.

Low paid workers could find themselves having pension deductions taken out today in order to receive

a pension tomorrow that will then lose them benefit entitlements they would have had if there had been no pension scheme at all. So, you become poorer today in order to become just as poor tomorrow. Nice one.

Only the day before the Pensions Bill was debated, Gordon Brown told the press: "This is one of the most difficult years for the world economy." If it is going to be difficult for the wealthy, it will be even harder for the poor. In this Brave New Pensions World, no-one has asked how the poor will be able to pay in their contributions. At the moment there are 2.5m working households in Britain who require tax credits to bring their income up to a living wage. For the first time in Britain's history personal debt (£1.35trillion) has exceeded Gross Domestic Product (£1.33trillion).

The accounting firm Grant Thornton predicts that in 2008, there will be 20% more personal insolvencies than there were in 2006. Christmas spending (largely on credit) is expected to account for one-third of the insolvencies anticipated in the first three months of this year.

Mortgage bills are 20% higher than two years ago, and in the coming year an additional 1.4m households will come to an end of their introductory, cheap, fixed-rate mortgages. Figures for housing reposessions in the first six months of last year were at the highest rate since 1999... and this was before the Northern Rock fiasco and the 'credit crunch' that has followed.

Energy companies have just announced that they expect to increase household energy charges by 15% in the coming weeks and over four million families in Britain have already been pushed back into fuel poverty as a result of last year's spiralling energy charges. Where will those who cannot afford to eat, who cannot afford to stay warm, who have to rely on credit rather than cash, find the money to open a personal pension scheme?

At the same time as the Prime Minister calls for austerity and self-restraint, newspapers continue to report the glittering rises of self-reward offered to those at the top of the financial tree. Often the rewards are as generous for failure as they are for success. 'Golden hellos' and 'golden goodbyes' seem to be a permanent feature of a financial world increasingly saying goodbye to other people's savings. Yet this is still the world into which people are being asked to entrust their pensions' future.

Britain last got caught up in a financial crisis in 2002 when the global dot.com bubble burst. £250bn was wiped off the value off UK pensions' savings in the course of that little fiasco. Today's credit crunch threatens to be much worse. Beyond Northern Rock and the sub-prime housing market in the US, a murky world is beginning to open up that is truly scary.

A number of blog sites have emerged, clearly written by people who swim in the deepest waters of the financial services sector. For the layperson, they explain the process through which Enron-accounting has made its way into the banking system itself. Essentially, it seems that in order to get round accounting rules about high risk loans that they were entering into, the major banks created an 'off-balance sheet' mechanism for trading bad debts with each other and hiding them under the carpet.

The technical term for these is 'Credit Default Swap Schemes'. It's a scam, but a clever one. They allow banks to swap bad debts and continue to borrow against them. Sounds great...until the bills have to be paid. That is what the credit crunch is all about. Despite money pumped into the system by central banks

in the US and Europe, the high street banks continue to be reluctant to loan to each other. Why? Because they know the scale of bad debts they're all sitting on.

One estimate of the scale of these debts have been placed at \$45.5trillion. For those not used to carrying this sort of cash around in their back pocket, it amounts to the equivalent the three times the size of the US economy. Throwing money into this crazy pot is just throwing petrol on a fire.

The most dangerous part of the Pensions Bill is simply that it will channel money into precisely those areas that have taken us into previous financial crises that wiped out the value of people's pensions. Step back for a moment and think about this.

Today, 99% of all equity transactions are in second hand shares. They do not create any new investments as such. The original shares could have been issued decades ago and ever since have just been traded speculatively between banks and financial institutions. At the same time, we face a crisis in supporting the new investments desperately needed within our economy. As a result, the Government invests in funny money schemes (the Private Finance Initiative or Public Private Partnerships) to borrow from the private sector in order to rebuild our schools, hospitals, infrastructure and environment.

At the moment, these schemes are charging the Government (i.e. the taxpayer) an average of 16.6% interest for the privilege of building (and often taking over) public assets. We could offer pension savers new 'bonds', with a guaranteed interest rate of 8%, and cut the taxpayer liabilities in half. This would also guarantee a return to the pension saver that would deliver a secure pension at the same time as an immediate improvement in the services and society in which they live.

To redirect our pension savings in this way would mean we wouldn't have to rely on a single funny money scheme in the land. It would also allow us to enter a new era in which pension savers had a genuine, collective, say in the redirection of their savings into a sustainable future. Public bonds rather than private equities would be the channel for doing so. It would also allow for such bonds to be promoted at a Government, local government or even community level.

None of this is particularly new or revolutionary. In 1962, 51% of total UK pension fund assets were invested in UK government bonds. Today the figure is down to 9%. Instead, some 80% of pension savings have been siphoned into the shares of private companies or corporate bonds. As you stare into the debts that lay behind the credit crunch, neither of these seem the wisest or most secure of choices.

The financial services industry always cries out at this point that over the long term shares have delivered better returns than bonds. Scratch the surface of this and we find a myth that should have been demolished years ago. How often have we heard of record company profit announcements only to be followed by huge redundancy plans to sustain these profits? How often are we told that record profits have to be paid for by the closure of 'unaffordable' final pension schemes? How often are equity values reliant on complete relocation of production to parts of the world where labour is cheap, lives are disposable, and environmental duties are non-existent?

The profits and glittering prizes are ones that the financial services sector pays to itself. In good times, the workers who contribute to their schemes get the crumbs. In bad times, they get nothing. If this is to

be one of the most difficult years for the world economy, maybe we should begin by taking more direct control for the wealth that we save and the pension's future we hope to enjoy.

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