



A State Pension for the 21st Century

This response is submitted by Unite, the UK's largest trade union with almost 1.5 million members across the private and public sectors. The Union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport and the local government, education, health and not for profit sectors.

Unite has argued and campaigned consistently for an improved State Pension as a foundation to our members' retirement incomes as well as for the extension and improvement of private provision.

Executive Summary

- The Government's stipulation that the reform of State Pensions has to be on a cost-neutral basis, involving no increase in total spending on state pensions and benefits for pensioners, condemns it to failure.
- This is most obviously made apparent by the fact that current pensioners are left untouched. It is further made apparent by the fact that the additional cost of the £140 minimum for future pensioners is

financed at the expense of reducing the already depleted scope of the state earnings related pension for those whose state pension would be above the minimum level.

- For the current workforce the reforms proposed under a headline of providing greater simplicity actually add further to complexity by superimposing a new system for future benefit on top of the system for benefits already earned. The Government is seeking to take advantage of current complexity to introduce a reform which will worsen the position of more people than it will help.
- Unite rejects both options for reform in the Consultation Paper. We believe that reform should be designed to raise the level of the Basic State Pension and that an earnings related state second pension should be maintained in addition to that.
- Unite rejects any further increase in the State Pension Age and in particular the idea of an automatic mechanism for determining such increases.
- This submission is intended to be supplementary to our support for the more detailed views expressed in the TUC submission, and reflects the importance we attach to the issues under consideration.

The Unite case in detail

1. Unite considers this is an inadequate consultation on inadequate proposals. While the political sound-bite of a £140 a week pension for all has caught the public's eye, the proposals actually on offer suggest the numbers of those gaining will be limited and that there could be more losers than gainers from the proposed reforms. At best there is a redistribution of benefits rather than any improvement in the general level.
2. Existing pensioners are left untouched by the new reforms proposed, and consequently are feeling betrayed and neglected.
3. Future pensioners are given little idea how the state benefits they have already contributed to will transition into any new system and no idea as to how much their future contributions will be. So even now the focus is on

marketing the principles rather than dealing with the practicalities or allowing any proper cost-benefit analysis to be done.

4. The proposals are subject to a principle that any reform has to be cost-neutral and this appears to be cost-neutral in expenditure terms, as there is no mention of any possibility that benefits might be modified on the back of changes in NI or tax revenues.

5. This framework inevitably means that the costs in respect of any winners will have to be offset by savings from other groups of losers. The Government has not produced any detailed information about exactly who the winners and losers will be.

6. A driving force behind the reforms is to simplify state pensions. However, while future entitlement earned may be simplified the overall position of today's workforce will be more complicated as both past and future systems will have to be reckoned with.

7. The reforms are also intended to improve incentives to save for retirement by reducing the disincentives caused by means-tested benefits. While the reforms may achieve this objective, it is in our view a secondary objective to providing the right level of state pension benefits. Lower paid workers will never be able to afford decent levels of pension. Improving their position requires a higher Basic State Pension

Q.1 Would the current state pension, if left unchanged, meet the Government's principles for reform and provide an effective foundation for saving?

8. Unite would not question any of the principles the Government advocates as a yardstick for reform i.e. personal responsibility, fairness, simplicity and affordability and sustainability. But we do have issues in regard to their interpretation.

9. Any assessment of a state pension system must also start off with a judgement as to whether the benefits it provides are adequate and whether the boundary between state and private provision is in the right place.

10. Individuals do have a responsibility to save for their retirement but that has to be in a framework where the state provides them with a proper foundation and employer contributions and tax incentives ensure that realistic levels of pension saving deliver substantial additional benefits.

11. Fairness is always required but needs to go beyond protecting the poorest, and covering the cost of that in a progressive way, to also according some due respect to the contributory principle and providing a fair return to those who in S2P have contributed longer and on higher earnings.

12. Simplicity is desirable but the Government should not exploit current complexity in order to conceal the effect of simplified proposals in making people worse off.

13. What is affordable and sustainable is not defined by what is provided now, as the Green Paper suggests. It is indisputable that the current NI fund and NI contributions could support higher levels of benefits than are now provided. Going beyond that, even higher benefits could be afforded and sustained if there was a willingness amongst people to contribute more or if higher rate pension tax relief was further restricted.

14. The only one of the criteria that the current pension satisfies is that it is affordable and sustainable, but it is far from being the maximum that could be afforded and sustained.

Q.2. To what extent would faster flat-rating (of S2P under Option 1) meet the principles for reform and improve savings incentives?

15. Unite opposed the move to evolve S2P to a flat-rate pension, as we felt that the principle which underpinned SERPS of allowing those with no access to an employer DB pension to accrue a limited state earnings-related (DB) benefit should be maintained.

16. With employer DB provision in decline, with overall employer provision declining in the years before auto-enrolment, with the decline in quality and switch to DC, and with the limited level of employer compulsion, we maintain this view.

17. Option 1 accelerates the evolution of S2P to a flat-rate benefit, so that the transition is completed by 2020 rather than in the early 2030's. This means that all those earning over around £14,000 will lose an element of earnings-related S2P accrual for a period of at least ten years. No one will gain. The loss of benefit, or saving to the Government, from this is barely acknowledged let alone quantified in the Green Paper.

18. When the current timescale was set part of the reasoning was that the phasing down of S2P would be offset to some extent by the increase in private pension provision brought about by auto-enrolment and NEST. The need for this overlap has increased due to the extended phasing-in of auto-enrolment and minimum contributions.

19. Another key issue is that whilst S2P is compulsory private pensions will remain voluntary and we have no clear idea as to the extent to which there will be employee opt-outs.

20. As the scope of S2P is restricted by flat-rating this would be associated with a decline in the size of NI contribution rebates received by occupational DB pension schemes. A faster decline may aggravate transitional problems and further destabilise these schemes.

Q.3 What further reforms might be made to the State Second pension, such as crediting arrangements and up-rating of pensions in payment, to better meet the Government's principles, recognising there is a trade-off between coverage and the potential level of any combined two tier flat-rate pension?

21. The Green Paper speculates, rather than proposes, that Option 1 might also involve a greater alignment of the more restricted S2P eligibility conditions with those of the Basic State Pension and an improved basis of indexation of S2P benefits in payment (they are currently up-rated by CPI).

22. Unite has supported more generous crediting arrangements, aligning at least with those applicable to Basic State Pension

23. We have opposed (and continue to contest) the change from RPI to CPI indexation for State Pension. We would support indexation of the State Second Pension on the same basis as the Basic State Pension, with RPI restored as one of the bases for the triple guarantee.

24. The savings inherent in Option 1 should have been made explicit and we would have expected that they would have committed to improve the basic benefit level or crediting arrangements, if Option 1 was being presented as a cost-neutral option. However we do not support faster flat-rating and otherwise rejects the constraint set by cost-neutrality.

Q.4 To what extent would a single-tier pension (Option 2) meet the Government's principles for reform and improve savings incentives?

25. A key feature of Option 2 is that a maximum of 30 years accrual is set for State Second Pension. This ceiling greatly increases the loss to contributors who stand to contribute or be credited for more than 30 years and compounds the losses from flat-rating. Contributors could have stood to benefit from up to 50 years of contributions, under flat-rating

26. The Green Paper fails to make explicit these losses which, in its cost-neutral framework are the main source of the finance needed to top up the state pensions of those who under the present system would not achieve the £140 level. A redistribution of benefits is presented as an improvement.

27. The single –tier pension on the basis proposed fails a test of fairness, because of this as it places the burden of paying for it unfairly on a restricted group of contributors, rather than on contributors/taxpayers in general. It does not appear that that any contribution towards improving the state pension will be derived from contribution or taxation on earnings in excess of the NI upper earnings limit.

28. Given that for present contributors, future benefits will be partly determined under the current system it is hard to see that the single-tier proposal delivers simplicity as it will involve dual arrangements for the next 40-50 years. Since it fails to deliver simplicity to the current workforce its effect in clarifying the incentive to save will be very limited.

Q.5 Which of these two options would act as the best complement for automatic enrolment?

29. For the majority of the current workforce it is not clear that there is much difference between the two options advocated in respect of how they would complement auto-enrolment.

30. While the second option may be better in this respect for those entering the workforce it would seem strange to weigh this highly in judging a reform relative to the position of the existing population of working age.

Q.6 Government would be interested in hearing views on other reform options that would meet the Government's principles for reform

31. The Government's interpretation of its principle that any reform should be 'affordable and sustainable' as requiring that any alternative proposal be cost-neutral is a barrier to any proper reform of state pensions. It is based on a false presumption that nothing which involves higher Government spending, however financed, could fall into the category of 'affordable and sustainable'.

32. The Government's interpretation of this particular principle, unlike its interpretation of the others, is entirely political. It is intended to curtail or narrow the scope for debate, which is a constraint we cannot accept.

33. Unite believes that the consultation should be extended to consider how the Basic State Pension could be raised to £140 and beyond that, and how that Basic Pension could continue to be complemented by an earnings-related S2P as well as by occupational schemes and auto-enrolment provisions.

34. The position of current pensioners should be central to the debate rather than their being left out altogether and the position of the next 2-3 generations of pensioners addressed in full rather than only in part as is implied by the long phase in period of the Government's options.

Q.7/8 What would be the impact of ending contracting-out, as implied by any single-tier model?

35. Both of the Government's pension options will have a big impact on contracting-out on a defined benefit basis. Option 1 implied a phased reduction in contracting-out rebates over a ten year period while Option 2 would remove them altogether

36. While we would hope defined benefit schemes will survive changes in contracting-out, and there is no reason in principle why they should not do so, there is no doubt that the additional costs from rebates being reduced will add to pressures on schemes to reduce benefits and make it more likely that DB schemes will be terminated rather than reformed.

37. On occasions we have already negotiated an end to contracting-out by particular DB schemes as a risk reduction measure to help prolong the life of DB schemes.

Q.9 Means-testing of pension benefits

38. Raising the level of the Basic Pension above the level of Guarantee Credit element of the Pension Credit and so removing most pensioners from the need to claim Pension Credit is the best way to overcome mean-testing problems.

39. Reform is needed now to tackle the large numbers failing to get their entitlements and this is not an issue that is sensibly debated in relation to future pensioners, as the Consultation appears to believe.

Q.10/11 What mechanism should be used to determine future increases in the State Pension Age?

40. Unite is opposed to the increases in the State Pension Age.

41. Increases will have a regressive effect as they will impact proportionately more on the less advantaged in society who have much shorter life expectancy.

42. We would further oppose an automatic mechanism linked to what are uncertain projections of future life expectancy as it would exclude the considerations of affordability based on growth in national incomes (etc) which should be a major part of any proper assessment of the issue.

Len McCluskey - General Secretary

For further information please contact

Bryan Freake

Unite Pensions Officer

bryan.freake@unitetheunion.org

020 7611 2525

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