



## **Workplace Retirement Income Commission**

### **Response from Unite to the call for evidence**

1. Unite is the UK's largest trades union with 1.5 million members spread across the private and public sector.
2. Unite believes that reinvigorating occupational provision will need to be a key part of a strategy to secure a decent level of retirement income for our members in retirement. However, we do not believe this should be an alternative to the reinvigoration of state provision; we believe it should be a complement to it.
3. We would broadly accept the Commission's overview of the current state of retirement provision and the future trends in it. One key point we would query is whether the Green Paper proposals for the future of State Pension will make it more 'generous'. This is not consistent with the proposals being expressly limited to cost-neutrality.
4. The purpose of the reform is clearly intended to simplify and to ensure more people achieve state benefits in excess of the qualifying income level for means-tested benefits. The resources to achieve this appear to be going to come from reducing State Second Pension benefits of most others participating in that scheme, many of whom would be earning pension not a great deal more than the target level produced by the reformed state pension.
5. What this means is that it will improve incentives to save in private pensions in two ways; one good and one bad. The good way, affecting the disadvantaged minority, is to raise the state benefit to a level where pension savings will be less likely to result in a loss of means-tested benefits. The bad way is that it will reduce state benefits for the majority and so increase their need to make pension savings.
6. This is why Unite believes that the appropriate policy is to up-rate the Basic Pension to eliminate means-testing without degrading State Second Pension. With the growth of defined contribution provision it becomes more important to maintain the defined benefit proportion of pension income which the state pension provides.

7. It is clear that defined benefit provision in the private sector is in decline but the preservation of defined benefit in the public sector will be an important factor in encouraging defined benefit schemes in the private sector to be retained. It has always been clear that employees prefer defined benefit pension provision which for them has represented a more certain return on their contributions and has been perceived as simpler in the important sense that it involved them in less decisions.
8. While reducing disincentives to save represented by loss of means-tested benefits will help to encourage people not to opt-out when auto-enrolled, much more needs to be done to incentivise participation.
9. Employees need to be convinced that pension schemes they enrol in are going to produce worthwhile benefits and benefits worth considerably more than what they put in regardless of likely market conditions.
- 10. Unite believes the critical element in reinvigorating occupational pensions is achieving high levels of employer contributions.**
11. The minimum contributions for auto-enrolment were set at a level which meant employer contributions were less than member contributions. This will provide a far smaller incentive for members to participate than is needed to achieve a high level of success.
12. The effect of the 'staging' and 'phasing' of the introduction of auto-enrolment may have helped reduce employer resistance but it means that if introduced at minimum levels the initial incentive to participate will be very small not only because of the low employer contribution but also the low overall contribution.
13. The Turner Pension Commission's analysis effectively suggested that you needed contributions at double the minimum level (of 8%) to achieve pension closer to its concept of adequacy. What would be needed is a programme to phase in contributions of 5% from the member with 10% from the employer.
14. Establishing a timescale for achieving this would put a real floor under private sector provision, encouraging a real improvement in the general standard of DC provision and leading to more levelling up than levelling down.
15. This framework recognises that the only basis on which a broad range of employees will achieve adequacy in retirement is on the back of a substantial employer contribution. Employees will not pay sufficient contributions themselves.
16. Most employees will always regard defined contribution pensions as a second best type of provision. It is generally perceived as inferior and requires them to take financial decisions to which they are not accustomed and for which they are not well-equipped.
17. **Defined contribution** does not leave employers with any significant **risk**. The risks that there may be to them, from poor investment performance or their ability to manage the transition of older workers into retirement, are real but very much second order risks. The first order risks all fall on the employee, and they are very aware of that.

18. There would appear to be some scope to achieve a **better outcome for employees from DC schemes** through lower charges and a limited degree of risk-sharing between members. There would seem to be advantages in the concept of collective DC schemes being further developed, and in the development of larger schemes with employers being content to take a less proprietorial interest in the scheme members are enrolled in and giving a higher priority to members getting better value from the contributions paid.
19. **Rising state pension age** will create problems for employees with DC pension schemes. Effectively it will mean that income from state pension will not be available until state pension age. This may cause particular difficulty for those who are not able to remain in employment until they reach that age. Access to means-tested benefits for people aged over 55 but under state pension age will be restricted by their possession of pension savings which they are able to access. In effect they will be forced to access them to the long term detriment of their income in later life.
20. A **reform of pension tax relief** would certainly question whether the continuation of tax relief at more than the standard rate is justified. However, whether provision of additional tax relief at lower contribution levels would be a better application of money saved rather than using it to boost the Basic Pension is questionable.
21. We would not see **deregulation** as having a big role in reinvigorating occupational pension provision. Some of the big ticket measures proposed have been focussed on removing member protections and such measures have not just directly detrimental effects but also serve to undermine member confidence in pensions.
22. In terms of **governance** member representation in all types of schemes needs to be strengthened with employees accorded at least 50% representation on trust boards and on joint committees overseeing the operation of contract-based schemes. Employees will identify with and have greater confidence in scheme when they can play a full part in ensuring they are properly administered.

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