

# ***Dignity and Security in Retirement***

**Pensions Policy Paper**

**Policy Paper 67**





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# ***Summary of Key Proposals***

This document considers the UK state pension system, and then builds on that basis to look at other forms of retirement income.

It presents a vision of a system where much more power and choice is put in the hands of pensioners and those saving for a pension, whilst recognising that pensioners also need a secure income from the state in their retirement.

Liberal Democrats propose that the state pension is reformed by:

- Ensuring that everyone has a decent income in retirement by creating a Citizen's Pension, with entitlement based on residency not National Insurance contributions - a policy that will be of particular benefit to women;
- Setting this pension at the level of the Guarantee Credit, thereby lifting nearly all pensioners out of means-testing;
- Uprating it in line with average earnings, so that pensioners share in the growing wealth of the nation;
- Guaranteeing this Citizen's Pension for all pensioners aged over 75 in the first full financial year of the parliament, as the first step to providing it for all pensioners.

Liberal Democrats propose that occupational pensions are reformed by:

- Establishing a kitemark system for occupational pensions so that all employees and job applicants can see the rating that a company's scheme has been given;
- Making occupational schemes 'opt out' schemes rather than 'opt in' schemes so that employees have to make a conscious decision not to save in the scheme;
- Allowing companies to make membership of their company scheme a condition of employment.

Liberal Democrats propose that private saving is reformed by:

- Increasing incentives for private saving by reducing means-testing and ensuring that every penny saved is a penny better off;
- Restoring confidence in private pensions by offering new, low-cost pensions run by National Savings;
- Removing the requirement to buy an annuity at 75, so that pensioners can decide for themselves how to use their savings;
- Giving everyone an annual pension forecast to help them plan their saving;
- Introducing new low-cost ways of accessing advice, including through local Citizen's Advice Bureaux.

Liberal Democrats propose that retirement is reformed by:

- Encouraging a 'flexible decade of retirement', where workers can combine part-pension and part-work so that retirement becomes a process rather than a sudden 'cliff edge' event;
- Bringing forward age discrimination legislation immediately and ensuring that it is vigorously enforced;
- Ensuring that employers scrap arbitrary retirement ages;
- Making it financially possible for older people to return to education and training, by making student loans available to those over 55.

# Current Issues in Pensions

## 1.1 The problem with pensions

1.1.1 Pensions policy in the UK is a mess. The current pensions system is the legacy of an earlier age, and needs a coherent vision for the twenty-first century. As Liberal Democrats, we believe that everyone should be entitled to a decent standard of living in retirement. To achieve this, the current system needs a radical overhaul. However, successive governments have failed to take decisive action, and have instead introduced endless schemes, add-ons, pre-election bribes and piecemeal reforms. As a result, people do not understand the pensions system, and neither do they have any confidence that it will provide security for them in retirement. Instead we are seen to be in the middle of a pensions crisis, which needs to be tackled urgently.

1.1.2 Over 11 million UK citizens - roughly one in four of the adult population - are over state pension age. Some are still in paid work or have been in high-income jobs, and can look forward to substantial occupational pensions and a high standard of living in retirement. Some are elderly widows struggling to survive on meagre incomes with limited savings. A coherent pensions policy needs to reflect this great diversity in the needs and expectations of people over pension age. As a priority, we need to end the scandal of more than 2 million pensioners living below the Government's poverty line. Currently a pensioner receiving the full basic state pension and with no other source of income is 25% below the official pensioner poverty line.

## 1.2 The state pension

1.2.1 Since the Conservatives broke the link between pensions and earnings in 1980 the value of the state pension has fallen further and further behind the wealth of the nation. In 2004 the value of the basic state pension is just £79.60 per week for a single pensioner and £127.25 per week for a couple. This is in spite of Government estimates that a single pensioner requires a minimum of £105.45 per week to live on, and a couple needs £160.95.

1.2.2 In addition, the state offers a second pension related to earnings over a working life.

This system, previously known as the State Earnings-Related Pension Scheme (SERPS) is now known as the State Second Pension (S2P). Some workers may 'contract out' of this system into a company pension scheme or certain private pension arrangements. In 2003, the average state pension payment - basic state pension plus state second pension/SERPS - for recently retired pensioners, was just one fifth of average earnings. There will be many people in the future receiving the full basic state pension and an additional state pension who will still be below income support levels, and will still have to go through the intrusive means-tests to receive enough to live on.

1.2.3 In addition to income from the state and private pensions, pensioners may receive income from a variety of other sources. Among younger pensioners, income from employment may be important. Many pensioners also enjoy income from investments and savings, although these amounts tend to be relatively modest, especially among older pensioners.

1.2.4 Labour came to power in 1997 with a pledge that "*all pensioners should share fairly in the increasing prosperity of the nation.*" Yet this Government has spent less of the nation's wealth on pensioners than the Conservatives did. Pensioners have not forgotten the miserly 75p increase they were awarded in 2000, and Labour is aiming to reduce still further the amount of income that pensioners receive from the state, from 60% to 40% of the average pensioner's weekly income.

1.2.5 Instead, as the value of the state pension falls, more and more emphasis is placed on means-tested benefits to bring people up to a decent minimum income. Under the Government's flagship Pension Credit, introduced in 2003, more than half of all pensioners have to go through means testing. The Institute for Fiscal Studies has estimated that this proportion may increase to 82% by 2050. In 2004, the Pension Credit aims to bring the income of all single pensioners up to £105.45 a week, and all couples up to £160.95. This benefit is linked to average earnings, so that it rises in line with the wealth of the country. The Pension Credit also includes a savings credit element which provides an

additional weekly payment for those with modest amounts of income from occupational or private pensions. However, many pensioners view these top-ups as an undignified handout rather than a right and the process of claiming such benefits is often very complex. Alarming, the Government itself predicts that 1.4 million pensioners will ultimately fail to claim the money to which they are entitled.

1.2.6 Of the 2.2 million pensioners currently judged to be living in poverty, about two-thirds are women. On average, women have much smaller pension entitlements than men, largely due to incomplete contribution records owing to periods out of the labour market. Even for those people retiring now, men have an average basic state pension entitlement of £73.45 per week, whereas women have an average entitlement of just £51.24 per week. Many poor pensioners are elderly widows, who have very low state and widow's pensions, and the cumulative effect of decades of inflation eroding the value of their savings. Many women have paid National Insurance contributions at the reduced married women's rate, which leaves them dependent upon a smaller pension based on their husband's contributions, but little or nothing in their own right. Although many women made an informed choice to pay reduced contributions, many more report that the implications of this choice were never explained to them. As a result, they receive a huge shock on the eve of retirement when they discover that they may be entitled to as little as a penny a week in state pension. The Government has recognised that poor women's pensions present a major problem, but it has done very little to address the issue.

1.2.7 In addition to the problems faced by women, older pensioners are also more likely to face poverty. The average weekly income of pensioners over 75 is almost 30% less than that of their younger counterparts. The Government has recognised this trend by entitling pensioners to free TV licences at 75 and extra winter fuel payments. It is also introducing a one-off £100 payment to help over-70s with their council tax. In addition, at the age of 80, people receive a tiny state pension top-up of 25p a week. However, these policies do not address the fundamental problem of an inadequate state pension.

### **1.3 The occupational sector**

1.3.1 In 2000, just over 10 million UK employees were active members of an occupational pension scheme. This is almost half of all employees, but the figure has declined by more than half a million since 1991. Recent events have presented real challenges to occupational provision, when confidence had already been dented by the Maxwell pensions affair. Some of these are being tackled by the Government; others need further action.

1.3.2 Many employers have traditionally offered pension schemes that guarantee a proportion of an employee's final salary in retirement. Increasingly however, companies have been switching from final salary or 'defined benefit' schemes to 'defined contribution' schemes. These shift the burden of risk from the employer to the employee, as returns on defined contribution pensions depend on the state of the stock markets at the time of retirement, and on annuity rates which have fallen sharply.

1.3.3 This trend away from final salary schemes has been going on for decades, but several factors have led to a sharp increase in recent years. The abolition of dividend tax relief on pension funds in 1997 takes £5bn out of company pension funds every year and pours it into the Exchequer's coffers. More fundamentally, we have come to the end of a period of buoyant returns where employers could take contribution holidays from their pension funds. Lower returns and rising life expectancy have together put real strain on company schemes. The FRS17 regulation - which takes a snapshot value of a firm's assets on one particular day - has perhaps reflected these changes over-dramatically. However, the underlying funding problems are there for all to see. Urgent reform is needed if the private sector is to take its proper role in a more equal partnership with the state to provide a major source of income in retirement.

### **1.4 Private saving**

1.4.1 In 2001 Labour introduced stakeholder pensions to expand pension provision among people on modest earnings (£9,000-£20,000 per year), many of whom have no access to occupational pensions. Of the 1.6 million stakeholders that had been sold by the end of 2003, more than a third (36%) have been bought



by those who fell outside the original target market or have been bought by people who already have other forms of private provision. Three-quarters of company stakeholder pensions are “empty shells” with no active members.

1.4.2 The Association of British Insurers has estimated that, in order to enjoy a comfortable standard of living in retirement, we need to save £27 billion per year more than we are saving at the moment. The Government’s 2002 Green Paper suggested that about 3 million people are seriously under-providing for their retirement, and another 5-10 million may also want to consider saving more - or working longer - depending on their circumstances and their expectations of retirement.

1.4.3 Debacles such as Equitable Life have demonstrated that private pension saving can be unreliable which, combined with the poor state pension, a culture of means testing and problems with occupational schemes, serves to damage confidence in pensions saving even more. We need to reverse this trend.

## **1.5 The cliff edge of retirement**

1.5.1 The demographics of the UK population are changing as people live longer, and the birth rate falls, which puts more pressure on the pensions system. The 2001 census revealed that there are now more people aged over 60 than under 16. The Government Actuary’s Department has estimated that by 2050 24.4% of the population will be aged over 65 and 9.1% over 80, compared with 15.6% and 4.0% respectively in 2000. It is getting more difficult to support the growing retired population solely by a smaller and smaller working age population.

1.5.2 Half a century ago a woman who had reached 65 could expect to live to 79, and a man to 77. Today however, the life expectancy of 65-year olds is 84 for women and 81 for men, and people can expect to spend the first ten or fifteen years of their retirement fit and active, and in relatively good health. Despite this rise in life expectancy, the provision for retirement has not changed.

1.5.3 People are still expected to retire completely when they reach a certain age. Having worked 48 hours a week, for 48 weeks a year, for 48 years of their lives, it can come as a great shock to reach the cliff edge of sudden retirement. People who may wish to stay in work, possibly by reducing their hours or changing jobs, or even go back to college, are discouraged by a combination of age discrimination in the workplace, outdated legislation and a general perception that older people cannot re-train.

## **1.6 The opportunity ahead**

1.6.1 The factors contributing to the ‘pensions crisis’ are widely seen as problems. However, we should be welcoming the longer life expectancy of our citizens, and looking at ways to harness the many talents and experiences of the older generations. The pensions system outlined above is complex, inflexible, inadequate, and unable to cope with present demand.

1.6.2 Ideally, progress on pensions should be on the basis of all-party co-operation, so that pensions cease to be a political football. We need to establish a stable basis on which individuals can base their financial futures, rather than allowing short-term political priorities to dictate changes in the system as one government succeeds another.

1.6.3 To this end, Liberal Democrats have long advocated a permanent Independent Pensions Authority, which would take many of the decisions about pensions policy out of the party political arena. This would involve all the major political parties, representatives of employers through the CBI and of employees through the TUC, independent pensions experts such as the Pensions Policy Institute, and representatives of pensioners such as Age Concern and Help the Aged. Pensions are too important to be used as a political football, with each successive Government changing the decisions made by the previous one and putting new requirements in place. This Authority would be advisory and not able to make policy, but it would bring together a group of experts from different sides of the debate to advise the Government of the day. It would also publicise the advice it gives to Government, so that the public can see the choices that a Government has made in relation to pensions, and can judge more easily whether those choices were right. People have the right to be better informed

so that they can judge what the Government is doing in their name. This would create the stability essential to enable people to plan for their retirement, and recognises that the pensions timescale is longer than any one party's time in government.

1.6.4 Liberal Democrats are therefore seizing the opportunity to look afresh at the issues, and to come up with new and innovative ways of addressing the crisis. Firstly, for each of the problems outlined above we clearly set out a vision of how it needs to be improved. We then

explain how we would achieve that vision, showing the immediate and medium-term steps that are necessary. Any responsible political party aiming to tackle the pensions crisis needs a vision of how the pensions system should be organised, but they need to be equally clear about the steps they would take to make that happen.

# The Citizen's Pension

## Policy Priorities:

- To ensure that everyone has a decent income in retirement by creating a citizen's pension, with entitlement based on residency;
- To set this pension at the level of the Guarantee Credit, thereby lifting nearly all pensioners out of means-testing;
- To uprate it in line with average earnings, so that pensioners share in the growing wealth of the nation;
- To guarantee this citizen's pension for all pensioners aged over 75 who meet the residence requirement in the first full financial year of the parliament, as the first step to providing it for all above state pension age.

## 2.1 The problem

2.1.1 The current system of state pensions is complex in the extreme. The state pension is based on the contributory principle which results in huge variations in the amount that a pensioner actually receives. Since the last Conservative Government broke the link between pension increases and average earnings, the real value of the state pension has been allowed to plummet. Since then the pension has generally increased in line with prices which can produce derisory increases such as the miserly 75p increase in 2000.

2.1.2 On top of the state pension, there are the additional state pensions - now known as the State Second Pension (S2P) which has replaced the State Earnings Related Pension Scheme (SERPS) - which individuals can opt in or out of. For many pensioners the two state pensions do not provide them with enough income to reach the level the Government deems acceptable. On top of this comes the Pension Credit, a means-tested benefit which half the pensioner population is eligible to claim. The Government predicts that within a generation up to three-quarters of the pensioner population will be forced to jump through the hoops of means-testing, even though they may

have built up entitlements to the additional state pensions.

2.1.3 In addition the Government has introduced the Winter Fuel Payment, free TV licences for the over 75s, 25p per week for the over-80s and a one off £100 payment to those 70 plus to help with Council Tax.

## 2.2 The vision

2.2.1 The Government's vision is to allow the majority of pensioners to retire poor and then claim complex state top-ups. Some do claim the money but incredibly the Government's own target for paying the Pension Credit assumes that 1.4 million pensioners will miss out. The system means no-one can be sure by how much, if at all, their various entitlements will increase. The system also means that no-one can be sure how their personal pensions and savings will affect the levels of benefits they may be entitled to in retirement.

2.2.2 The Liberal Democrat vision is to provide a radically simpler system that is understood by everyone. Liberal Democrats would introduce a Citizen's Pension paid to all individuals who meet a residence requirement as a right. It would be paid at the level the Government believes pensioners need to live on (the Guarantee Credit part of the Pension Credit, currently £105.45 per week for single pensioners and £160.95 per week for couples).

2.2.3 The Citizen's Pension would massively reduce means testing, with pensioners being 'floated off' Pension Credit and onto the Citizen's Pension. Importantly the poorest pensioners of all - those who are entitled to the Pension Credit but who are not receiving it, would be major beneficiaries from a pension by right. The Citizen's Pension would be paid without the need for form filling, phone calls to call centres, and the provision of personal and often intrusive details.

2.2.4 Liberal Democrats would ensure that the Citizen's Pension retained its value, by linking it to increases in average earnings, thus ensuring that pensioners shared in the increasing wealth of the nation.

2.2.5 It is vital that people know where they stand when it comes to private saving for retirement. The Citizen's Pension will ensure that every penny of pensions saving will give them a return. Unlike the current means-tested system, on top of the Citizen's Pension every penny of additional private and occupational saving would be retained.

2.2.6 The Citizen's Pension would ensure much of the current complexity is stripped away. The Citizen's Pension would ensure that a state pension is paid at a level that negates the need for additional state pensions. The State Second Pension would be phased out and with it would go the minefield of complexity that surrounds contracting in and out. The eye-wateringly complex Pension Credit would also cease to exist in its current form.

2.2.7 Entitlement to the Citizen's Pension would be solely on the basis of a residence test. In Government we would devise residence rules in detail based on Government data, but the principle would be that the recipient should have spent a significant amount of his or her life resident in the UK. One option for the UK residence requirement could be 20 years spent in the UK since the age of 25. Alternatively the New Zealand model could be mirrored, where the requirement is for someone to have been resident for 10 years since the age of 20, 5 of which must be since the age of 50. There is already a rule of this sort in the UK pension system where pensioners aged 80 or over are entitled to a non-contributory pension at a modest rate, provided they have resided in the UK for 10 of the last 20 years. Where an individual only partially satisfied the residence test, the rate of pension would be paid on a pro rata basis.

2.2.8 Payment of the Citizen's Pension would continue provided the person was resident anywhere in the EU, or another country which has a reciprocal arrangement with the UK over the payment of pensions. The Independent Pensions Authority would look at whether further reciprocal arrangements could be established with other countries to allow as many pensioners as possible to benefit from our proposals, whilst recognising that a country's first duty is to those who live within its borders.

## 2.3 Achieving the vision

2.3.1 As a first step to lifting pensioners out of means-testing and achieving a Citizen's Pension for all, in the first full financial year of a Liberal Democrat Government we pledge to give a Citizen's Pension to all pensioners aged 75 and over, meeting the residence requirements. For those currently receiving a state pension based on their own contributions the Citizen's Pension would be paid at the level of the Guarantee Credit (currently £105.45 per week). Married couples would receive a Citizen's Pension at the level of the Guarantee Credit for couples (currently £160.95 per week). For those currently receiving a full basic state pension this will add over £25 a week to their pension and for those receiving the married couple's pension it will add over £33 a week. On the first day that this policy comes into force, one million pensioners would be lifted out of means testing.

2.3.2 The current value of the pension is so low, that merely linking it to earnings would simply maintain it at a very low percentage of average earnings. Such a policy would only add around £7 to the weekly pension by the end of a Parliament. Ensuring that the Citizen's Pension is linked to average earnings means that those aged 75 plus get a significant pension boost and also that its real value is protected.

2.3.3 It is right to prioritise the oldest pensioners first because they tend to be the poorest. They have been retired the longest and are therefore most likely to have used up any savings they had. They are also more likely not to claim the means-tested benefits to which they are entitled.

2.3.4 Those who are not yet 75 when this policy comes into force will not lose out. They will keep their current pension entitlement, along with any means-tested benefits they are currently claiming. In addition, pensioners will be the main beneficiaries of Liberal Democrat policies to scrap the Council Tax and replace it with a Local Income Tax. Close to 90% of pensioners overall will be better off or unaffected as a result of Local Income Tax, with many paying hundreds of pounds a year less. This will be a massive boost to pensioner incomes, and will help many of the poorest under-75s.

2.3.5 This policy will cost £2.7 billion in the first year, rising to £3.2 billion over a parliament. The Liberal Democrat Spending Review has identified about 1% of Government spending - £5bn per year - that we want to spend differently, on our priorities. Pensions are a clear Liberal Democrat priority, and therefore the funding needed to implement the first stage of the Citizen's Pension would come from this Spending Review.

2.3.6 We will consider a number of ways of funding the move to a Citizen's Pension for all pensioners, but one option is changing the arrangements for contracting out of the additional state pension. There is only a need for an additional state pension whilst the standard state pension is inadequate - although some of those with additional state pension entitlements will still face means testing in their old age. Once all pensioners have been lifted above means testing, the need for an additional state pension will no longer exist. Therefore it would be illogical to keep the rebates which exist for those who have contracted out.

2.3.7 This is one option for funding the extension of the Citizen's Pension; another would be to raise state pension age. Whoever is in Government at the time, the state pension age for women will rise to 65 by increasing one year in every two between 2010 and 2020. The Government Actuary's Department has projected that life expectancy will increase by four years between now and 2050. Clearly, if life expectancy continues to improve over coming decades, it would be sensible to review the age at which the state pension is payable. We would ask the Independent Pensions Authority to consider this, looking at the changing demographics and other relevant trends.

2.3.8 We recognise that estimates about future changes in the state pension age are subject to change. The further into the future that we look, the more uncertain the estimates must be. However, Liberal Democrats realise that people need reliable information about their retirement if we are to encourage them to save. Therefore we guarantee that a Liberal Democrat Government would ensure that a clear statement of changing state pension ages is given out at least 15 years in advance of the change coming into effect, and that this statement would only be subject to subsequent change where there had been a major unforeseeable event.

2.3.9 Furthermore, we believe that decisions such as pension ages or changing the rebates for the additional state pensions should not be motivated by political concerns. We would ask the Independent Pensions Authority to look at both of these issues, in the context of the need to fund a robust Citizen's Pension for all, and to advise Parliament on any necessary changes.

## **2.4 Other retirement income from the state**

2.4.1 Many pensioners and people coming up to retirement benefit from additional SERPS, or State Second Pension entitlements. How the entitlements are paid will depend on whether people have contracted in, or out, or a mixture of both during their working lives. The entitlements may be in the form of personal pensions, whether occupational or private, or they may be entitled to receive an additional state pension.

2.4.2 When the Citizen's Pension has been extended to all pensioners, there will be no need for this extra state support because all pensioners will be guaranteed a decent income as of right. However, in the meantime many pensioners aged under 75 will welcome the extra support that the additional state pension provides.

2.4.3 Liberal Democrats will allow people to continue accruing rights to S2P so that they are helped to save for the years before they become entitled to the Citizen's Pension. Although the current system of contracting in and contracting out is complicated, we believe that it would best serve pensioners if it was phased out once the Citizen's Pension is fully extended.

2.4.4 There are many top-ups to the current basic state pension which provide pensioners with other retirement income. Under our proposals the largest of these, the means-tested Guarantee Credit, would, for those over 75, be superseded by the Citizen's Pension. However, to ensure that no-one loses out, those over 75 who do not meet the residence requirement, and whose income is below the level of the Guarantee Credit, would continue to receive a means-tested income top-up.

2.4.5 The existence of means-testing has forced the Government to introduce the Savings Credit, which rewards people who have modest pensions, savings and income. Under our system, there would no longer be a need for the Savings Credit



- pensioners would in addition to their Citizen's Pension be allowed to hold onto every penny of their personal pensions, savings and other income. However to ensure that pensioners do not lose out we would guarantee that those who receive enhanced amounts through the Pension Credit are protected. This includes people with disabilities, carers and couples whose combined state pension income is above the Guarantee Credit level.

2.4.6 To ensure that no pensioners are made worse off by the policy we would keep all other existing top-up payments, including the Winter Fuel Payment, free TV licences for the over-75s and the Christmas Bonus.

## 2.5 Women and the state pension

2.5.1 Women will particularly benefit from a Citizen's Pension paid as a right.

- Currently 50% of women receiving a basic state pension get less than the full rate of £79.60 per week.
- Newly retired women receive an average £51.24 per week basic state pension compared with £73.45 for men.
- Many women with insufficient contributions only qualify for a 60% pension, based on their husband's earnings.
- Many women lose out from the 25% rule. To get the minimum basic pension payable (25%) a person normally needs 10 or 11 qualifying years. If you have paid National Insurance contributions for fewer years they are effectively lost.
- Every year up to one third of eligible women miss out on £0.5 billion worth of means-tested pension top-ups.

2.5.2 In the long run, the Citizen's Pension will solve these problems. However, some women aged under 75 are receiving state pensions as low as 1p per week because they paid the married woman's stamp, which meant that their National Insurance contributions did not count towards their state pension. In the short term therefore, before the Citizen's Pension is extended to the under 75s, their pensions could be improved in the following ways:

- The Government needs to write to all the women who have ever paid this stamp to alert them to their current position and warn them that their pension rights may be in jeopardy. Many in their 40s and 50s will then have time to take steps to enhance their pensions in other ways.
- Women should be allowed to pay back National Insurance contributions for incomplete years, in order to boost their state pension entitlements.

# Occupational Pensions

## Policy Priorities:

- To establish a kitemark system for occupational pensions so that all employees and job applicants can see the rating that a company's scheme has been given;
- To make occupational schemes opt out schemes rather than opt in schemes so that employees have to make a conscious decision not to save in the scheme;
- To allow companies to make membership of their company scheme a condition of employment.

## 3.1 The problem

3.1.1 Recent events and the current economic climate have combined to present real challenges to occupational provision. Some of these challenges were discussed in section 1.3, but the most pressing current problem with pension funds is that of defined benefit schemes winding-up when the company becomes insolvent, often leaving insufficient assets to cover the liabilities. Many workers who have been accumulating rights in schemes throughout their working lives have been left with very little, or even with nothing at all.

3.1.2 The Government has proposed establishing a Pension Protection Fund (PPF) to address the problems of schemes winding up. This is to be a central fund, paid into by all employers with defined benefit occupational schemes. It will be a non-Government body, but will aim to pay at least 90% of their expected pensions to members whose schemes are wound up. It will continue to manage funds where the guarantor company has gone bust, which will ease the problem of all the liabilities needing to be paid at one time. Liberal Democrats believe this approach is right, but the Government needs to underwrite the Fund as lender of last resort, to ensure that it delivers on its promises and does not offer false security. We campaigned for a financial assistance package to protect those who had already lost their pensions, but we are concerned that the Government's solution does not offer adequate funds to cover all those

affected. More needs to be done to protect and encourage the occupational pension sector and those who rely on it to provide for their retirement.

## 3.2 The vision

3.2.1 Liberal Democrats believe that employers are a vital partner in pension saving, and that for many people occupational pensions are the best vehicle for saving in a pension. Therefore our vision is for an occupational pension sector which is attractive to savers, which is as straightforward as possible to join, and which offers secure investment opportunities. This needs to avoid placing unnecessary regulations and burdens on the employers that offer occupational pensions, whilst ensuring that employees can have confidence in their pensions.

## 3.3 Achieving the vision

3.3.1 Liberal Democrats welcome the Government's attempts to make occupational pensions more secure, and to strengthen the position of defined benefit pensions which can often offer the most reliable income in retirement. However, we do not believe that the PPF can credibly offer this security unless the Government is prepared to act as the lender of last resort. Without this level of Government involvement there can be no guarantee that scheme members will receive 90% of their expected pension. It would be indefensible for a Pension Protection Fund set up by Government, who nominate its directors, to dishonour its pensions promises - making that crystal clear now would be far better than an inadequate last minute rescue like the Government's recent retrospective compensation package. Moreover, Liberal Democrats believe that the PPF premiums should fairly reflect the risks of insolvency in each company's scheme; the premiums must not become a poll tax on pension funds, penalising responsible employers with prudent pension funds.

3.3.2 The compensation package announced by the Government is designed to offer assistance to those workers who have lost out through wind-ups before the PPF is established. The full details have yet to be announced, but it is clear that the £400

million package, spread over 20 years, will be nowhere near enough to fully compensate all those who have lost out. Independent figures suggest that the real cost of compensation is likely to be nearer £2.3 billion, over the next two decades. Liberal Democrats believe it is essential that the compensation package covers all those who have lost out through wind ups, including those who lost out when solvent employers wound up a scheme. We also believe the Government has a duty to properly compensate those who have lost out, and support a package that mirrors the 90% pay out that will in future be provided by the PPF.

3.3.3 Wind-ups should always be a last resort, and more can be done to protect individuals before the Pension Protection Fund needs to become involved. Pension funds are trust funds established by an employer or group of employers, but controlled by trustees. Some trustees are appointed by the employer and some by the scheme members. Since 1995 the duties of trustees have rightly become more onerous, and the Pensions Bill 2004 will require trustees to be qualified in knowledge of their duties and of pensions law. Liberal Democrats support this, but it is unrealistic to expect a good level of knowledge before someone has been appointed, and so training for trustees must be arranged. Member nominated trustees should reflect the full mix of scheme members including retired scheme members.

3.3.4 Even though the problem of occupational schemes winding up may be eased, the perception that pension saving is insecure remains. Some of the issues around this are dealt with in section 4.3, but one way of giving people more confidence in occupational pension products would be to establish a kitemark system. This would involve the Pension Regulator creating categories for pensions, so that a five star pension would offer the best package of benefits, and a one star pension would be the least attractive. Employees or job applicants would be able to find out the rating that their company's pension has, and could include that in their decision about where to work. Companies would not have to get their pension accredited, but a company which chose not to do so might find that employees and potential employees were drawing their own conclusions about why that might be.

3.3.5 In the past Liberal Democrats have considered whether Government could impose a compulsory saving levy on employees and their employers. The Citizen's Pension removes the need for compulsion as it guarantees a decent pension. The Citizen's Pension also provides an incentive to save as it ensures pension saving is fully rewarded. The decisions surrounding whether people wish to save to make their retirement more comfortable are then left to the individual.

3.3.6 Various Governments and other organisations, in this country and abroad, have experimented with various ways of encouraging people to save. In the UK, Tesco has developed a subtly different scheme from most other employers; one that clearly provides the kick start that is so often needed. They automatically enrol employees onto the pension scheme, so that an individual has to opt out of provision, whereas in most companies it is up to the individual to opt in. This generates participation levels of around 90%. This suggests that the bother of arranging pension provision, rather than the disincentive of paying money into it which could otherwise be spent immediately, is the major deterrent from saving. Therefore Liberal Democrats would legislate to make all occupational pension schemes opt out schemes rather than opt in schemes. This would hope to repeat the success of the Tesco scheme in terms of take-up, and would make it more trouble for someone not to have a pension than to have one.

3.3.7 In addition, we believe that employers should be able to make membership of their occupational scheme a condition of employment for new employees if they wish to do so. It should be left to individual employers, in consultation with their employee representatives, to decide whether or not to make use of this option.

3.3.8 Survivor's benefits are a minor part of occupational scheme design, but are nonetheless important to those affected by them. Many occupational schemes guarantee a pension for a scheme member's spouse if they should outlive the scheme member. However, since a pension scheme needs to be able to date its payments accurately and to have proof of a relationship, this has so far only applied to married partners. New Civil Partnerships legislation means that many more people will be able to register their partnership, and Liberal Democrats would ensure



that any scheme which offers survivor's benefits offers them to all legally registered couples.

3.3.9 Two other issues relating to the treatment of marriage in occupational pension schemes need to be addressed. The first is the fact that many schemes refuse to pay survivor's benefits to people who marry post-retirement. Whilst we understand the need to avoid death-bed marriages simply for pension purposes, we believe that such

restrictions on survivor's benefits are unfair and should not be allowed. The second issue is that widows who remarry often lose their widow's pension. We are concerned that the amount lost can be substantial and can in some cases impose a financial penalty on remarriage. We believe that scheme rules for widows who remarry should be reviewed.

# Private Saving

## Policy Priorities:

- To restore confidence in private pensions by offering new, low-cost pensions run by National Savings;
- To remove the requirement to buy an annuity at 75, so that pensioners can decide for themselves how to use their savings;
- To give everyone an annual pension forecast to help them plan their saving;
- To open up new low-cost ways of receiving advice, including through local Citizen's Advice Bureaux.

## 4.1 The problem

4.1.1 Pension saving should be a partnership between individuals, the state and employers. It is not necessary for the state to provide the whole of an individual's income in retirement, as this would prevent individuals from exercising their own choice about saving and spending across their lives. Contributions to pension saving from individuals and their employers are therefore important.

4.1.2 Very few people have private pension saving outside of occupational pension schemes. 14% of men and just 9% of women have a personal or stakeholder pension, and recent figures show that 41% of men and 47% of women do not have a non-state pension at all (Family Resources Survey 2002-03, table 7.12). This is very concerning when we consider the estimated £27 billion savings gap and the decline in occupational pension provision by employers. People are also deterred by short-term fluctuations in the stock markets and shocks from companies such as Equitable Life. Individuals are mistrustful of making a savings commitment in such a climate of uncertainty.

4.1.3 In addition, the extension of mean-tested benefits to more than half the pensioner population sends the message that it is not worth saving for retirement, since additional pension provision will be penalised by the means-test. The Government claims that the savings credit element of the Pension Credit provides an additional payment to reward people with modest occupational or personal pensions, but people still lose 40p in the pound of any savings. By abolishing means-testing as far as possible, we would ensure that every penny saved is a penny better off.

## 4.2 The vision

4.2.1 Liberal Democrats have laid out certain priorities for the reform of private saving:

- To ensure that every penny saved is a penny better off;
- To restore confidence in private pension saving by giving people access to a National Savings Pension - a simple, safe and affordable savings product;
- To relax the current requirements to buy an annuity by the age of 75;
- To ensure that consumers are better protected, by giving them information so that they are more aware of their pension provision and can make better decisions about their savings, by:

4.2.2 Sending everyone a clear annual statement of projected retirement income;

- Including courses on financial management in school Citizenship education;
- Establishing a network of advice services within local Citizens' Advice Bureaux or other local information providers.

### **4.3 Achieving the vision - National Savings Pension**

4.3.1 People should be responsible for their own private provision where possible, building on the foundation of a decent state pension. The state has a role in providing a stable framework, offering individuals simple, safe and affordable ways to save.

4.3.2 Liberal Democrats will therefore develop a strong new arm of National Savings and Investments, to be called National Savings Pensions (NSP). This will offer simple, inexpensive building blocks for savers and their advisers to use in planning a pension. In order to keep down the costs of these products, NSP could not afford to offer investment advice, but the NSP products would be a natural step for people advised by the CAB-based pensions advice network (outlined in section 4.5.6).

4.3.3 The strength of the National Savings brand and the economies of scale in these funds mean that NSP will offer pension savers a real bargain. Low long-term charges at wholesale rates on each fund would allow the power of compound interest over long periods to build up people's pension savings. It will offer four basic index funds: United Kingdom equities (through a 10 or 20 year FTSE Tracker), conventional gilt-edged, index-linked gilts and money market/cash deposits.

4.3.4 Equities have consistently produced very good total returns for long term savers. Equity investment is never risk free, and so-called guaranteed equity products bite hard into investors' income to pay for the guarantee. But anyone investing in the UK equity index for any ten year period since 1918 would have lost in capital terms only twice and gained 83 times. Even between 1928-1938 and 1964-1974, dividend income would have made up the capital loss. Despite the downturn in the market between 2000 and 2002, real returns, after inflation, on UK equities are still very satisfactory over the past ten and fifteen years, beating UK cash (short-term interest-paying deposits) although under performing gilts, and are way ahead of cash, gilts and inflation over the twenty years and longer. A ten or twenty year National Savings Pensions Equity Tracker would let small pension savers capture these historically excellent returns without being panicked out of equities in a downturn or suffering middlemen's excessive charges.

Average Annual Total Returns (Capital and Income Combined)				
Period to end May 2004	UK Equities	UK Gilts	UK Cash (Short Term Deposits)	Inflation (R.P.I.)
10 YEARS	7.3	8.2	5.8	2.5
15 YEARS	8.7	9.3	7.5	3.2
20 YEARS	12.2	9.9	8.5	3.7

4.3.5 Many people, however, no longer spread their pension saving sensibly over different types of assets, but are putting all their pension fund eggs into the housing basket. This is a dangerous concentration of risk on one or two individual assets, especially since most people's wealth, outside pension savings, is tied up in the house they live in. Liberal Democrats therefore opposed the Chancellor's Budget change allowing Self Invested Pension Plans (SIPPs) to include individual houses, second homes or buy-to-let properties.

#### 4.4 Achieving the vision - annuities

4.4.1 Current rules require every pensioner with a defined contribution pension fund - whether occupational, personal or stakeholder - to use the entire proceeds of that pension fund, minus a tax free sum, to buy an annuity by the age of 75. In return they receive a guaranteed annual income until they die.

4.4.2 There is a general perception among people in their 60s and early 70s that they are being forced to buy a product that will yield a relatively poor pension and cause the loss of all their capital. Many pensioners also take the view that they have saved for their old age and it should be their choice if they want to sacrifice part of their pension income now to preserve some of their capital to pass on to their children.

4.4.3 We would relax these rules and introduce greater flexibility into pensioners' choices. We will not force people to buy an annuity at 75. Annuities aim to ensure that pensioners do not become a burden on the state by spending all their savings and then ending up reliant on means-tested benefits. However, with the introduction of

our universal Citizen's Pension which will lift all pensioners above the poverty line, this argument becomes irrelevant.

4.4.4 In the transitional period, with a Citizen's Pension for those aged 75 and over, we will give people the option of purchasing a 10 year annuity with some or all of their savings at the age of 65, to ensure that they had an adequate income before the Citizen's Pension took effect at 75. These could offer a much better rate of return than traditional annuities - possibly as much as twice the weekly income - because they would be for a fixed term. Alternatively, if a person chooses not to buy an annuity, we would allow them to keep the savings to do with as they wish provided they do not come within the scope of means-tested benefits. These would be taxed on withdrawal in the same way as they are now, and any remaining savings would be taxed at the pensioner's death, as at present.

#### 4.5 Achieving the vision - independent education and advice

4.5.1 A poll by Age Concern found that the top priority for people in their 50s and 60s is access to good, independent information and advice. Commercial advisers are perceived to be very costly, and their independence is sometimes doubted, if they are tied to a company or paid on commission.

4.5.2 The Association of British Insurers also found a direct causal link between the amount of information available and the rates at which people save. People in lower to middle income bands (according to the ABI report, those with household incomes under £35,000 per year) are farthest from the target saving level, and therefore

most in need of advice. There is a clear role for Government to ensure that advice is readily available, independent, trustworthy and affordable to all.

4.5.3 It is vital that people receive a clear projection of the income they can expect in retirement. The Government is already committed to providing web-based retirement planners in the future, but its system is so complicated that there is little hope of such statements providing the necessary clarity. Neither do they give information on means-tested benefits, which will provide an incomplete picture if government policy succeeds in bringing three-quarters of pensioners within the scope of means-testing.

4.5.4 Liberal Democrats would ensure that everyone received an annual statement showing how much pension they had accrued, drawing together savings in different funds, as well as the Citizen's Pension and any other benefit entitlements. It would then set out the weekly retirement income that they could expect. This might project different income forecasts according to whether the individual retired at 60, 65 or 70. Once a person reached retirement, their statement would show them how much of their pension pot they had left, how much they had annuitised and their projected future income.

4.5.5 Such a pension forecast would enable people to become better informed about their individual positions, but would not of itself provide general information and advice, nor help them to choose the best pension products to meet their needs. We want to see courses on financial management and saving as a standard part of

Citizenship education in schools. The Financial Services Authority (FSA) has already begun looking at the part it can play to improve the teaching materials and information available in schools and colleges. Equally, courses on how to calculate a projected pension income could become part of the core secondary numeracy curriculum.

4.5.6 We also want to see the pensions industry involved with other savers. The FSA has suggested a series of generic services to help people identify their needs and the products which may meet those needs, but which would not offer the same individual and costly product-specific advice which advisers give now. One way for people to access this would be through local Citizens' Advice Bureaux or other local information providers. Communities would have an easy point of access for independent advice, ensuring that no-one was stranded without information. These local advice centres would need government backing if they were dispensing pension advice, to avoid crippling insurance premiums covering them against wrong advice. Alternatively, it may be increasingly logical to use the Internet, digital TV, mobile phones, ATMs and other technology to disseminate this information, taking the burden away from advisers altogether.

4.5.7 It is our aim to equip consumers with the skills to be discerning about the products and services they use. However, we must beware of placing too great a burden upon the financial services industry. Government must be careful not to add to the costs of providing advice, thereby causing advisers' prices to rise further.

# Retirement

## Policy Priorities:

- To encourage a flexible decade of retirement, where retirement becomes a process rather than a sudden cliff edge event;
- To bring forward age discrimination legislation immediately and ensure that it is vigorously enforced;
- To ensure that employers scrap arbitrary retirement ages;
- To make it financially possible for older people to return to education and training, by making student loans available to those over 55.

## 5.1 The problem

5.1.1 At the start of the 21st century, people are living longer, and remaining active and healthy for longer. As a result, many people are not ready to retire completely at 60 or 65. They may want to wind down gradually, mixing work with leisure and learning, or to move out of the occupation they have been doing for most of their life, and into a less pressurised job. The cliff-edge of retirement where someone is fully employed one day and fully retired the next is outdated. It can leave people feeling bored and frustrated as they struggle to cope with the sudden change. A survey by the Chartered Institute of Personnel and Development found that almost one third of people (31 %) wanted to work beyond 60 (Age, Pensions and Retirement - Attitudes and Expectations, CIPD 2003). Yet in 2003, just 8 per cent of men and 10 per cent of women continued to participate in paid work beyond state pension age (Labour Force Survey Autumn 2003).

## 5.2 The vision

5.2.1 Liberal Democrats want to solve many of these problems by changing the perception of retirement. It is out-dated to see retirement as a sudden event, so that people are full-time employed one day and full-time retired the next. We want to give more power to individuals to make their own choices about how and when they

retire, without them being constrained by arbitrary rules.

5.2.2 To complement this vision of a society where people make their own choices about retirement, we need to establish and enforce robust laws against age discrimination. This must include provision for equal access to education and training, as well as a change in the culture towards older people in the workplace.

## 5.3 Achieving the vision

5.3.1 We see no need for this cliff-edge to exist, and want to find ways of helping people to retire gradually and flexibly, over a number of months or years if they choose. Liberal Democrats have long been campaigning for a change in the Inland Revenue rules that prevent people from drawing part of their occupational pension if they still work for the same employer. We welcome the Government's commitment to abolishing those rules, which will allow older people to reduce their hours and draw some of their occupational pension to make up the short-fall in earnings. This will be a significant step towards helping people to have a truly flexible retirement.

5.3.2 If more and more people are able to follow this pattern of retirement, with some earnings to boost their pension at the start of retirement and the promise of a higher pension later on, the problem of people using up their private or occupational pensions in the early years of retirement and then living in poverty as they get older will be eased. At the moment many people use their private pensions to lift their standard of living at the start of retirement, but outlive their savings and are left with an inadequate state pension. The longer they continue to earn, and the more they save, the more this risk is alleviated. Moreover this recognises that people are individuals and have their own ideas about how and when they want to retire. They should be given as much freedom as possible in making that decision.

## 5.4 Age discrimination

5.4.1 Outlawing age discrimination in the workplace will also be vital to ensuring that



people can carry on working for as long as they want to, provided they are capable of doing the job concerned. Older people have huge talents and experience, which are often not fully recognised or utilised by the wider community. They are also able to pass on their skills and knowledge to their successors. In the workplace however, there is often implicit, and sometimes explicit, prejudice against older workers.

5.4.2 The Government has proposed to introduce legislation to tackle age discrimination in the workplace by the end of 2006. In opposition Labour hailed this as a priority, but in Government they have dragged their feet. This timeframe is not acceptable, therefore, we have been calling for immediate implementation of robust and rigorously enforced legislation.

5.4.3 We would also outlaw compulsory ages of retirement in the workplace. Obviously, to continue working, employee and employer need to agree that it is to mutual advantage. We see no reason to impose a mandatory upper age limit. There should no longer be an assumption that just because someone has reached a particular age, they are not fit to do a particular job. People should be judged on the basis of their ability to do a job, not on their date of birth.

## **5.5 The third age**

5.5.1 The expectations of those approaching retirement have shifted dramatically in recent years. The baby boomer generation has no intention of growing old quietly and feel that they still have plenty to give. The active years have been termed the third age - the period between work and the onset of the physical and often economic insecurity of old age - the fourth age - which used to characterise the whole of retirement. This subject has been examined in greater detail by the Liberal Democrats' *Third Age Commission*, which offers further suggestions and proposals.

5.5.2 Often, learning, education and re-training are seen as the preserve of young people. There is a perception that older people cannot learn new skills or information, and this creates a culture where many older people would never consider re-entering education. However, re-training can transform older people's lives. By the time they reach 55, let alone 65, many people are ready to stop doing the job they started thirty or forty years previously. It may have become monotonous, or a long period in a senior position may have become too stressful. Alternatively, career progression may not have brought all the person had hoped, or there may be another job which had always attracted them. At the moment many of these feelings lead people to see retirement as the best option, because they fear their age will prevent them getting a job in their preferred field, or because they need to re-train and believe they are too old. It is short-sighted of the Government to ignore the needs of people in this situation.

5.5.3 Liberal Democrats would therefore encourage people who wish to do so to re-train. We would allow those aged over 55, who are currently not eligible for a student loan, to secure such a loan against their house or other assets to enable them to study. This would be complemented by our policies to enforce strict anti-age discrimination legislation, and our belief that working culture needs to change so that people do not become burnt out. If we continue to work some of the longest hours in Europe it is little surprise that people reach 60 or 65 and need to stop. A change in working culture would benefit everyone, not least by enabling those who wish to work longer to do so. Assistance to people to wind down gradually from full-time work, and perhaps to find new interests and abilities as they get older, then becomes meaningful.

## ***Taxation of Pensions***

6.1 At the moment tax relief is available for pension saving, as an incentive for people to save more, and to reward those who are saving. Therefore contributions to a pension fund attract tax relief at the person's top marginal tax rate at the time they are paid in, investment returns are tax-free, and when the pension is withdrawn it is taxed at the person's marginal rate at that time. A tax-free lump sum can be taken instead of some of the pension income, which can reduce the amount of tax payable on withdrawing the pension. Liberal Democrats agree with the principle of giving tax relief on pensions, but we have some concerns over how this is implemented.

6.2 At present more than half the money spent on tax relief for pension contributions goes towards just 2.5 million higher rate tax-payers. This fails to give the most help to those who most need it, which is a crucial part of the Liberal Democrat approach to Government involvement in pension saving. However, another central part of the Liberal Democrat approach is to promote simplicity, and with the other changes we are currently proposing we believe that it would create more confusion than simplicity to change the tax reliefs as well. There is a great benefit to savers across the income range in having a stable taxation regime, but we would encourage the Independent Pensions Authority to review tax reliefs to find a fairer system.



## Conclusion

7.1 Every citizen deserves dignity and security in retirement, but the current pensions system provides neither. Successive governments have failed to tackle the issues, and piecemeal reforms have created layers of incoherent, highly complex schemes. Britain's current and future pensioners are facing an uncertain retirement.

7.2 An increasing reliance on means-tested top-ups to prop up the state pension system is rightly seen by pensioners as an undignified hand-out rather than an entitlement, so that many simply do not claim the money that is rightfully theirs. In addition, confidence in the occupational and private pension sectors has plummeted as firms close or wind up their company schemes, whilst stock market dives and the Equitable Life debacle have demonstrated that personal pensions are not safe either. The newspapers are full of high profile cases of workers who have saved for 40 years and lost everything. Many people no longer believe that a pension will provide them with a secure retirement income.

7.3 Liberal Democrats believe that we need a new coherent vision for the twenty-first century; one that will restore dignity and security in retirement. We will introduce a radically simpler Citizen's Pension, to be paid to everyone who meets a residence requirement, regardless of their National Insurance contribution record. It will be uprated each year in line with average earnings, ensuring that pensioners will genuinely share in the increasing wealth of the nation.

7.4 We will introduce the Citizen's Pension for everyone over 75 as a first step to extending it to all pensioners. Older pensioners tend to be the poorest, and it is right that we start by addressing their needs.

7.5 The Citizen's Pension will be paid at the level of the Guarantee Credit - currently £105.45 per week for a single person and £160.95 for a couple - and will immediately lift more than one million pensioners out of means-testing. It will benefit women in particular, many of whom currently have very small pension entitlements and are more likely to be reliant on income support. It will also be paid without the need for

form-filling, phone calls to call centres, or the provision of intrusively personal details.

7.6 It is also vital to restore confidence in occupational pensions, the traditional gold standard of pension saving. We support greater protection for those who have already lost their pensions when their companies became insolvent, and will ensure that the Government stands behind the new Pension Protection Fund, as the lender of last resort. This will enable it to honour its commitments to protect future entitlements.

7.7 We will ensure greater security for individuals in occupational pension schemes by introducing a kitemark system to grade the different packages of benefits on offer. Take-up of company pensions will be boosted by requiring employees to opt out rather than opt in to their firms' schemes.

7.8 To encourage individuals to save for their own retirement, we must ensure that every penny saved is a penny better off. Removing the bulk of means-testing will create an incentive to save, as no-one will be penalised for putting money aside for their retirement.

7.9 In the transitional period before the Citizen's Pension is extended to all pensioners, we will offer those under 75 the option of purchasing a 10 year annuity with some or all of their savings. This will ensure that they have an adequate income before they reach 75 and start getting the Citizen's Pension, and could offer twice the income offered by traditional annuities. We will also abolish the requirement to buy an annuity by the age of 75.

7.10 Many people are deterred from saving by the complexity of the products available and the lack of inexpensive, accessible advice and information. We will build upon a trusted brand to develop a new National Savings Pension, which will offer simple, safe and affordable savings products. We will introduce financial management and saving as part of Citizenship education in schools and look at ways for people to access savings advice through local Citizens' Advice Bureaux. Twenty-first century technology

can be harnessed to provide pension information and forecasts for individuals, and we will consider the best ways in which the Internet, digital TV, mobile phones and ATMs can be used to this purpose.

7.11 As life expectancy increases and people remain fit and active for longer, we need a new vision of retirement. We want to give older people the opportunity to wind-down gradually from work over a flexible decade of retirement rather than retiring completely overnight. To achieve this, we must transform today's ageist culture, which assumes that older people can no longer make a valid contribution to society. Age discrimination legislation needs to be immediately and vigorously enforced, and we will encourage older people to re-train, change jobs and even go back to university if they wish to do so. Older people have a wealth of knowledge and skills which we must not dismiss or devalue.

7.12 This paper lays out a twenty-first century vision for pensions and a twenty-first century vision for retirement. We believe that it will tackle the pensions crisis, sweep away pensioner poverty and restore confidence that a combination of state and private pension provision can truly provide security and dignity in retirement.

This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats and the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. If approved by Conference, this paper will form the policy of the Federal Party, except in appropriate areas where any national party policy would take precedence.

Many Liberal Democrat policy papers contain proposals which would change the way public money is spent. Many also involve passing new primary legislation. Clearly, in a single parliament, it might not be possible to implement all of our policies. Therefore, at the time of a General Election, the Liberal Democrats produce a manifesto which details specific spending and legislative priorities should the party be elected to government. This means that no proposal in this paper should be taken as a guarantee or as a spending commitment for a first parliamentary term until it has been published in a fully costed manifesto containing our priorities and guarantees.

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