



HOUSE OF LORDS

Select Committee on Economic Affairs

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2nd Report of Session 2003-04

**Government  
response to Aspects  
of the Economics of  
an Ageing  
Population**

Report

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# Reply by the Government to the Fourth Report of the Lords Economic Affairs Select Committee, Session 2002-2003

## CHAPTER 1: INTRODUCTION

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1. The Government welcomes the Fourth Report of the Lords Economic Affairs Select Committee, Session 2002-2003, "Aspects of the Economics of an Ageing Population" which was published on 10<sup>th</sup> January 2004. It provides a valuable and wide-ranging contribution to what is a very important debate. The Committee has acknowledged that the UK has made progress in adapting to the challenges and opportunities posed by an ageing population and that new laws on age discrimination commencing in 2006 should help empower and encourage far greater participation of older workers.
2. In addressing the demographic challenges of an ageing population the Government has sought to develop a balanced strategy that ensures today's and tomorrow's pensioners are able to share in the rising national prosperity and enjoy economic security in retirement, without placing an unsustainable burden on future generations. The Government has sought to support and renew the partnership between the State, individuals, employers and providers, all of whom have their part to play.
3. In short, there are four strands to our overall strategy. Firstly, the Government aims to deliver secure state pensions which provide a foundation for additional saving; tackle poverty by targeting help on the poorest pensioners and ensuring that past saving is rewarded in retirement. Secondly, the Government aims to enable future generations of pensioners to make real and informed choices on working and saving for retirement. Thirdly, we are ensuring there is improved security, greater simplification and strengthened confidence in the private and occupational pensions system. The final element is to provide flexibility in retirement and greater opportunity for later working. The Government's aim is to help people to choose how they plan for retirement, how much they save and for how long they keep working.
4. The immediate challenge when this Government came to office was to tackle pensioner poverty. Between 1979 and 1996/7 the richest fifth of pensioner couples saw their incomes rise by around 80 percent - more than twice the growth of average earnings. In contrast, the poorest fifth of pensioner couples saw their incomes rise by around only 34 percent<sup>1</sup>. The Government therefore introduced the Minimum Income Guarantee and above inflation rises in the basic State Pension. All pensioners are better off as a result.

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<sup>1</sup> Pensioners Income Series 2001/02, Department for Work and Pensions, 19 July 2003, ISBN 1843881608

5. With the introduction of Pension Credit, the Government has continued to build on these changes. This has not only targeted help on the poorest but ensured, for the first time, that pensioners are no longer penalised for having a modest occupational pension or savings. Instead they are rewarded for doing what successive governments have asked and saved. Recent figures show that 2.26 million households (2.73 million individuals) are now receiving Pension Credit. This and other measures introduced mean that on average, pensioner households will be £1,350 a year better off in 2004/05 as a result of our tax and benefit policies than they would have been under the 1997 system.
6. Pension Credit is being rolled out in a phased and managed way, to ensure a steady build of applications. This is supported by a marketing campaign which includes tailored communications for harder to reach pensioners such as ethnic minorities. The Government's aim is to ensure at least 3 million pensioners households receive Pension Credit by 2006.
7. Recent analysis has shown our overall strategy to tackle pensioner poverty is succeeding. The Households Below Average Income figures published on 13<sup>th</sup> March 2003 (Department for Work and Pensions, ISBN 1841235571) shows large falls in the number of pensioners on low income since 1997 - pensioner poverty has fallen by 60 percent in absolute terms or 20 percent in relative terms between the financial years 1997/8 and 2001/2.
8. A key challenge was also to help today's employees – tomorrow's pensioners – provide for retirement. The Government has therefore made reforms in the state system to ensure that future generations build up a decent income in retirement, specifically targeting those groups that the Committee has identified as being disadvantaged currently. These include replacing SERPS with the State Second Pension to provide more generous pensions for those on low and moderate incomes and, for the first time give a second pension to many carers and people with disabilities. As a result of this measure alone some 2.5 million carers, at least 2 million of whom are women and 5 million low earners, 70 percent of whom are women will receive an enhanced pension. Also 2.5 million disabled people will have their pension rights enhanced.
9. Whilst the Government provides the foundation of pension income, it is equally important in a voluntary system to ensure people are equipped to make savings choices and assess income and expectations for retirement; the Government has therefore introduced an Informed Choice strategy. This strategy is based around three steps – activation, education and information. The Government is determined to firstly, enable people to make the most of pension provision and encourage availability of simple and flexible savings products. Secondly, the Government is determined to raise people's awareness of their options and improve financial education and also ensure that everyone has high quality, accurate and timely information about their retirement income. The Government, employers, individuals, the financial services industry, trade unions and the voluntary sector all have a part to play in this.
10. The Government has also taken steps to improve pensions security, bolster confidence in the occupational pension system and radically simplify current rules. Proposals were set out in the "Simplicity, security and choice: Working and saving for retirement" action plan (Department for Work and Pensions, June 2003, Cm 5835) and more recently in the Pensions Bill published on

12<sup>th</sup> February 2004. Measures include the formation of a Pension Protection Fund, which will offer protection for employees with pensions in occupational schemes and the setting up of the Pensions Regulator, which takes a pro-active risk focused approach to pensions regulation – offering greater protection to scheme members without over-burdening those with well run schemes.

11. The Government believes that progress on investment in future pensions to meet the demographic challenges must be kept under review, so that sustainability of UK provision is assured. It has therefore established an independent pension commission which may make recommendations to this end.
12. To accompany this strengthening of the framework of the private and occupational pension system the Government is also taking action to allow individuals to enhance their income in old age through flexible retirement and the option of extending working lives. The Government aims to remove the barriers and increase the incentives for people, allowing them to have more choice around how they work and save for a financially secure retirement. Measures include encouraging more flexible approaches to retirement, enabling individuals to work longer by drawing part of their occupational pension while they carry on working for the same employer, opening up more options for deferring State Pension, encouraging employers to recruit, train and retain older workers, and providing extra back-to-work help for people aged 50 years and over.
13. The Committee has acknowledged that, in advance of the anti age discrimination legislation, the Government has been successful in combating age discrimination by employers through the issue of the Code of Practice on Age Diversity. The Government is also building on this work by seeking to promote the benefits of a mixed aged workforce and the recruitment and retention of older workers through the nationwide Age Positive marketing and education campaign.
14. The Government's response to each of the Committee's conclusions and recommendations is set out in the following section.

## CHAPTER 2: CONCLUSIONS AND RECOMMENDATIONS

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### The future impact of immigration on population ageing

**11.1 Although net immigration will tend, in the short run, to increase the relative proportion of younger persons within the population, it is neither appropriate nor feasible to attempt to counter the trend towards a more aged society in the United Kingdom through a manipulation of immigration policy (paragraph 2.17).**

The Government agrees with the Committee's conclusion. In the short run, increasing net immigration can help offset an ageing population because immigrants are predominantly of working age. This expands the working-age population relative to the state pension age population, thereby decreasing the old-age dependency ratio. The Government also has no doubt that immigrants have a positive impact on the economy. Home Office research<sup>2</sup> shows that in the financial year 1999/2000 migrants in the UK made a net fiscal contribution of around £2.5 billion. Whilst immigrants account for only 8 per cent of the population, they contribute 10 per cent of gross domestic product (GDP).

However, the level of net immigration that would be needed to maintain the same old-age dependency ratio in the foreseeable future is very large. The high levels of net immigration that would be required have not been observed in the past in this country and it seems extremely unlikely that such large flows would happen in the near future. Furthermore, although over 60 per cent of immigrants are in employment, they generally have a lower economic activity rate relative to the UK-born population, which means that improvements in the old age dependency ratio will not fully feed through into the economic dependency ratio.

This suggests that immigration alone is unlikely to be on large enough scale to provide the entire solution to the declining ratio of working age people to economically dependant, retired, people but it can play a role as part of a wider response in complementing other policy solutions.

### Reliability of population projections

**11.2 The Government should, when publishing long-range population projections, or pension or other expenditure projections which incorporate population projections, always report the "funnel of doubt" created by the variance between high and low assumptions about mortality and other key demographic variables (paragraph 2.24).**

The Government agrees that it is important to bear in mind the considerable uncertainties inherent in long-term projections of any kind. When considering the results of such projections, it is necessary to remember that they represent projections of future experience on the basis of a large number of assumptions which have been made, rather than being precise forecasts of the future. All the main assumptions, not only demographic ones, are variables.

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<sup>2</sup> Migrant Population in the UK: Fiscal Effects, Home Office, 2002, RDS Occasional Paper No.77, ISBN 1840827718

The Government Actuary's Department (GAD) publishes variant population projections as part of the regular process of producing the official national population projections for the United Kingdom and its constituent countries. The latest (2002-based) set of variant projections was published on 29 January 2004 and is available from the GAD website ([www.gad.gov.uk](http://www.gad.gov.uk)). The variant projections illustrate the effects of varying the fertility, mortality and migration assumptions from those assumed in the principal projections. The effects of these variant projections on total population size, and on the proportion of the population aged 65 and over, are routinely included in projection publications.

The Government Actuary's quinquennial reviews of the National Insurance Fund include an analysis of the effects on the projected long-term expenditure of the Fund of using the variant, rather than principal, population projections. For example, Chapter 8 of the most recent review (Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2000, Cm 6008), which used the 2001-based population projections. The Government Actuary's quinquennial reviews also consider the effects on projected expenditure of varying other key assumptions, such as real earnings growth.

The overall impact on the public finances of using the variant, rather than principal, population projections have been published by Her Majesty's Treasury in Annex A of the Economic and Fiscal Strategy Report (part of the 2003 Budget Report) and in the Long-Term Public Finance Report (Fiscal Sustainability with an Ageing Population, December 2002, HM Treasury - published alongside the 2003 Pre-Budget Report).

The Government will consider further the publication of variant pension and benefit expenditure projections, based on the variant population projections produced by GAD, and also based on alternative scenarios for other key assumptions.

### Ageing and aggregate labour productivity

**11.3 Population ageing does not pose a threat to the continued prosperity and growth of the United Kingdom economy; in this sense, therefore, there is no looming "crisis" of population ageing in the United Kingdom (paragraph 3.7).**

**11.4 This does not mean that the future growth of the economy is in any sense guaranteed; that depends on how the Government manage our economic resources. A failure, for example, to sustain historic rates of technological progress and productivity growth might drastically reduce future growth rates below those projected here. We conclude, however, that such risks exist independently of any demographic pressures on the economy (paragraph 3.8).**

Whilst the impact of ageing may be limited compared to productivity changes over the long term, the effects are potentially substantial. About 28 per cent of people aged 60-69 in Great Britain are in work. Currently about 14% of people aged 16-69 are in their sixties. By 2031 this proportion will reach 19% before starting to decline, according to the Government Actuary's Department principal projections. The over 70 age group will increase from 14 per cent of all those aged 16 and over now to about 24 per cent in 2042. If current employment rates by year of age were to remain constant, the

number of non-workers, including children, for every worker aged 16 to 70<sup>3</sup> would rise from about 1.1 now to exceed 1.3 by 2031. There are reasons why employment rates may change, but this case shows the potentially substantial impact of demographics if no changes were to occur. The activity rates of older men are currently low by historical standards. For example, the activity rate of men aged 60 to 64 is 55 percent in Spring 2003 compared to rates of over 80 percent seen prior to 1975. Age discrimination means that the talents of some older people are not well used.

The Government agrees that action on boosting productivity is essential and that is why it has a Public Service Agreement target to do so.

The Government is taking action to tackle each of the five drivers of productivity growth, for example:

- Skills - reducing the stock of people with skill levels under level 2 (defined as 5 GCSE's at grades A to C, or NVQ level 2)
- Investment - reforming the planning system through the Planning Bill currently before Parliament.
- Innovation - significant investment in the science base since 1997
- Competition - new competition regime in The Enterprise Act 2002
- Enterprise - consulting on setting up Enterprise Capital Funds

Full details are set out in chapter 3 of the Pre-Budget Report 2003.

#### Ageing, inflation, saving and capital accumulation

**11.5 Population ageing may affect savings, interest rates and capital accumulation, but its effect is likely to be small relative to the large range of other economic and political factors which determine the course of these economic aggregates (paragraph 3.18).**

The Government is aware of the potential impact of an ageing population on these economic aggregates and will remain vigilant to ensure that there are no detrimental effects on the economy.

#### Participation rates below pension age

**11.6 Official projections of future age-specific labour force participation rates are inconsistent with the Government's stated objectives and policy intentions of increasing the employment rates of older people (paragraph 4.12).**

**11.7 The Government should pay full attention to the need for their labour force projections and policy objectives to be consistent and compatible with each other, bearing in mind that each interacts with the other (paragraph 4.14).**

Government projections of age-specific economic activity rates are produced by the Office for National Statistics (ONS). The most recent set of projections, produced in conjunction with the former Department for

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<sup>3</sup> Workers aged 71+ are omitted for ease of analysis, but would remain small in number due to low current employment rate even with the near doubling of numbers in this age group projected between 2003 and 2042. Workers above SPA are also more likely to be working part-time than full-time.

Education and Employment, were published in June 1998<sup>4</sup>. These projections did not therefore take account of recently formulated policy intentions, particularly regarding the employment rates of older people. ONS currently expects to produce an updated set of labour force projections towards the end of this year. As part of the process of producing these projections, ONS will review the underlying methodology, including a consideration of the extent to which the potential future effects of government policies should be taken into account.

Paragraph 4.10 of the Select Committee's report refers to the age-specific activity rates used in the Government Actuary's quinquennial reviews of the National Insurance Fund. The reviews published in 1999 and 2003 were based on the latest official ONS economic activity rate projections referred to above, with an additional allowance for the potential effects of the future increase in female State Pension age. As the Select Committee notes in paragraph 4.11 of its report, the review published in 2003 ("Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2000", Cm 6008) includes sensitivity analysis considering the effects on the results of the review of assuming higher economic activity rates at older ages.

To project future GDP growth, HM Treasury's *Long-term public finance report*<sup>5</sup> uses the simple assumption that the total employment rate of the workforce will remain constant beyond the medium-term horizon. The Government's stated objective of increasing the employment rate of older people is therefore not explicitly modeled. However, with an ageing workforce, assuming a constant total employment rate implies that age-specific employment rates are assumed to rise. This could also include an increase in the employment rate of older age cohorts. A similar approach is taken in the illustrative long-term fiscal projections presented in Annex A of the Economic and Fiscal Strategy Report, published with the Budget.

### Participation rates above state pension age

**11.8 The Government should formally review the state pension age every five years in the light of trends in life expectancy beyond age 65, and in the light of their own desire to increase participation rates at older ages. Our own judgment is that the state pension age should be raised (paragraph 4.21).**

State pension age for women is already set to increase from 60 to 65 between 2010 and 2020 to match State pension age for men. In the Green Paper, "Simplicity, security and choice: Working and saving for retirement" (Department for Work and Pensions, December 2002, CM 5677), the Government made it clear that whilst it recognised the arguments in favour of increasing State Pension age, the arguments against are more compelling. Two thirds of men have already stopped work by the time they reach 65, so an increase in the State Pension age would not deal with the core problem of working lives ending too soon.

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<sup>4</sup> British Labour force projections 1998-2011, Bob Armitage & Mark Scott, Labour Market Trends, Vol 106 No.6, Office of National Statistics

<sup>5</sup> Long term public finance report: Fiscal Sustainability with an Ageing Population, HM Treasury, December 2003, ISBN 0-9478199-87-8

Furthermore raising the State Pension age would have the heaviest impact upon those currently most dependent on the State Pension. The same people also have lower life expectancies. So with fewer years in retirement, they would see a disproportionate reduction in their income. The effect might be particularly severe for those people who have done manual work for long periods in heavy industries, in which there is a record of low life expectancy.

However, the Government is introducing measures to encourage people to remain in work as long as they wish, such as changing the tax rules to allow people to claim their occupational pension and continue to work for the sponsoring employer, and more generous increases for deferring State Pension.

In this policy area, as in all others, the Government recognises the merit of reviewing policy periodically to ensure it continues to achieve its objective and reflects other social and economic developments.

### Diversity in patterns of participation: regional effects

#### **11.9 The Government should incorporate explicit targets with respect to older age employment in their Regional Economic Strategies and in the priorities they set for Regional Development Agencies (paragraph 4.27).**

The Department for Trade and Industry intends to replace the current framework for setting the tasks of the Regional Development Agencies (RDAs) from April 2005. This is in line with a recent National Audit Office report<sup>6</sup>, which recommended a simplification of the current regime.

In developing the new framework the Government will seek to provide flexibility for RDAs to develop targets which reflect the priorities identified in the Regional Economic Strategies, while joining these up with action on national priorities as reflected across Whitehall in Departments' Public Service Agreement targets. It will be for each Regional Development Agency with their regional partners to develop and update the Regional Economic Strategy, and within that to address the issue of older workers as appropriate for their region. It will also be up to the Agencies and their regional partners in developing and updating the Regional Economic Strategy to decide how far older age employment is a priority for the region. In drawing up and implementing the Strategy the Government has been clear that Regional Development Agencies must take account of the need to ensure opportunity for all in the region. Supplementary guidance updated in 2002 contained specific guidance on equal opportunities in relation to developing the Regional Economic Strategy.

The Department for Work and Pensions will be providing Regional Development Agencies with guidance this Spring, on the importance of increasing employment opportunities for older workers both nationally and regionally.

The Department for Work and Pensions will work with the Department for Trade and Industry to review the Regional Development Agencies' next regional economic strategies and comment on their plans to increase the employment of older workers. This will build on a first Department for Work

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<sup>6</sup> Success in the Regions, National Audit Office, HC 1268 2002-2003 19 November 2003

and Pension's review of the Agencies' current strategies, the report of which is to be published in Spring 2004.

The Government's Age Positive campaign continues to strongly promote the business case for employing a mixed age workforce, including the recruitment and retention of older workers. In Scotland and Wales, where the employment rates for the over 50 year olds is lower than in England, the Government has reinforced the campaign by engaging with external partners specific to those countries, and through Age Positive Cymru and Age Positive Scotland, is increasing levels of information and employer awareness.

### Diversity in patterns of participation: the impact of ethnicity

**11.10 As part of the Government's evolving strategy for improving the position of ethnic minorities in the labour market, particular attention should be paid to the "double disadvantage" of age and ethnicity encountered by members of ethnic minorities aged over 50 (paragraph 4.32).**

The Government recognises a gap in evidence about the relationships between ethnic minorities' labour market participation after age 50, their varying employment patterns, how those patterns relate to labour market disadvantage, decisions to remain in work, sources of financial support, planning for income in later life and family circumstances. The Department for Work and Pensions is planning in 2004 to 2005 to conduct research into these relationships to assist the Government to fill this information gap and thus to assess the best way to tackle the disadvantages mentioned by the Committee.

### Explanations of early retirement: supply and demand

**11.11 The Government should commission further research and analysis into economic inactivity among persons aged 50+, in order to produce a clear basis of evidence on which to build policies to promote higher rates of labour force participation among older persons (paragraph 4.47).**

The Government has been undertaking research and analysis in this field. In 2003, Department for Work and Pensions published the findings from a survey designed to further understand the factors that affect labour market participation amongst people aged 50 to 69 (*Factors affecting the labour market participation of older workers, DWP Research Report 200*).

The Government is also contributing to the funding of the English Longitudinal Study of Ageing<sup>7</sup> which follows up some 12,000 people aged 50 years and over. A report of the first wave of the study in 2002 (Health, wealth and lifestyles of the older population in England: The 2002 English Longitudinal Study of Ageing, London: Institute for Fiscal Studies)

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<sup>7</sup> ELSA is being conducted by a team from several research institutes, led by Sir Michael Marmott, Professor of Epidemiology and Public Health and Director of the International Centre for Health and Society, University College London. The researchers are drawn from the National Centre for Social Research, the Institute for Fiscal Studies (IFS), and the universities of Cambridge, Oxford and Nottingham. The first follow-up of participants is due in 2004 and subsequent waves are anticipated, although funding has not yet been agreed for these. DoH and DWP are the major UK government funders, along with the US National Institute on Aging.

published in December 2003. By following individuals at two yearly intervals the research will provide a wealth of additional evidence on how health, income, assets, qualifications, skills and type of employment affect individual and household labour market participation and retirement decisions among over 50 year olds.

#### Age and work capacity: the impact of health status

**11.12 The Government, employer and labour organisations should collect information and disseminate “best practice” guidelines on ways in which jobs and workplaces can be redesigned to facilitate the employment of older workers who have activity-limiting health status (paragraph 5.7).**

**11.13 Employers should actively evaluate and instigate the redesign of job tasks and workplaces in order to maximise the opportunity for retention and recruitment of older workers (paragraph 5.8).**

The Health and Safety Executive in conjunction with the Institute of Occupational Medicine is developing a guide for employers, to be published this Summer, to support effective management of health at work and retention and rehabilitation of employees with health problems. It is intended as a straightforward aid for use by employers to help them highlight areas where they may need to act to prevent work-related ill health or injury. It will provide an authoritative source for best practice on the actual processes, which employers, in partnership with their employees, can use to help, people return to and stay in work after illness or injury.

Health and safety legislation<sup>8</sup> already requires employers to regularly assess the risks to their employees from their work activities and where appropriate take steps to reduce them. It also requires employers to review, as necessary, employees' continuing capabilities to carry out their work, regardless of their age.

Physiological and psychological changes can occur with age but a specific biological age is not a good predictor of an individual's ability or a good basis for assumptions about their strength and performance.

The Government has already published reports which include good practice guidance. 'Good Practice in the Recruitment and Retention of Older Workers' (DWP, 2001, RR303 ISBN 0 84185 498 0), and 'Flexible Retirement – A snapshot of Large Employer Initiatives' (DWP, 2002, APR001, ISBN 1-84388-039-3) both include case studies showing the benefits to both employers and individuals of non-ageist employment practices.

#### Age and work capacity: the impact of education and skills

**11.14 The Government and employers should work together to develop mechanisms to promote equal access to workplace training and life-long learning for workers regardless of their age (paragraph 5.17).**

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<sup>8</sup> Approved Code of Practice on the Management of Health and Safety at Work Regulations 1999, HSE Books 1999, ISBN 0717 624 88-9

Participation of people aged 50 and over in learning and development is increasing and the Government aims to encourage this trend. Since 1997, participation among the over 50 age group has increased by seven percent the National Adult Learning Survey 2002 showed that 74 percent of those aged 50 to 59 years are learners compared with 67 percent in 1997, and of those aged 60 to 69 years the proportions learning rose from 47 percent to 51 percent in the financial year 2002-03 nearly a quarter of Learndirect's participants were aged 50 and over. Evaluation of the Union Learning Fund showed that two thirds of those involved in learning were aged 41 to 60 years. Prospectuses for later rounds have promoted active ageing, and encouraged bids that provide learning opportunities for all ages.

The policies in '21st Century Skills: Realising Our Potential' (DfES 2003) will have a beneficial impact on older people. With people aged 50 and over generally less qualified than younger age groups, they stand to gain specifically from a range of measures set out in the Skills Strategy particularly: funded training to level 2 qualifications the removal of the upper age limit for Modern Apprenticeships, learning communities in deprived areas which will foster a culture of learning by encouraging children, parents and grandparents to learn together, and employer training pilots which are testing a package of financial support to enable employees to attain basic skills and level 2 skills. To date, 5,000 employers are involved in the pilots and over a third of the 20,000 employees who are involved are aged 45 to 55 and a tenth are aged 55 years and over.

### The relationship between age and job performance

**11.15 We believe it is essential to improve knowledge of the relationship between individual age and worker productivity in order to provide a sound foundation for evidence-based policy. We therefore recommend that the Government commission research on the relationship between individual age and worker productivity in order to strengthen the evidential base for future policy initiatives in the area of older age employment (paragraph 5.26).**

In 2003 the Department for Trade and Industry published "Retirement ages in the UK: a review of the literature", (by Pamela Meadows, DTI Employment Relations Research Series No. 18). This concluded that:

- The evidence on the effect of age on job performance is consistent with there being no deterioration in performance in most types of work, at least up until the age of 70 years. The small number of people who have worked beyond this age means that it has not been possible for studies to measure the workplace performance of people over 70 years old.
- There is no evidence to support the view that older workers are inherently less productive than younger workers, except in a limited range of jobs requiring rapid reactions or physical strength, and people tend to move out of these as they become harder for them. Only where older workers do not receive the same level of training as younger workers doing the same kind of work does their performance show differences. Older workers who receive job-related training reach the same skill standards as younger workers. However, their past experience of education can mean that they sometimes learn more slowly and can be helped by training methods which use small steps, build on existing experience and allow plenty of opportunity for practice.

## The extent of age discrimination

**11.16 We conclude from the evidence available that there exists a significant degree of age discrimination in employment, and that this discrimination occurs throughout the economy and in both public and private sectors (paragraph 6.14).**

**11.17 Few employers operate overtly ageist recruitment and retention policies (except in so far as they use fixed retirement ages). Age discrimination is frequently the unconscious outcome of an employer's more general human resource management policy and procedure (paragraph 6.15).**

The Government agrees. Too many employers still practice ageism in their work practices. However, the Age Positive campaign is actively encouraging employers to realise the business case for employing a mixed age workforce, including the recruitment and retention of older workers. Research has shown this is having an impact. Evaluation of the Code of Practice<sup>9</sup> shows that the number of companies using age in recruitment fell from 27 percent to 13 percent between Spring 1999 and early 2001.

A sample survey of employers in 2003 indicated that a third claim to have introduced non ageist practices, and a third are preparing to do so but would like further information. The Government is now planning with leading employer organisations more detailed practical guidance on age positive employment practices including more flexible approaches to retirement.

In 2004 the Government will be undertaking thorough research to provide a more detailed update on age and employment policies and practices. This will inform the production and dissemination of further guidance, to further help employers to adopt non-ageist policies and practices, ahead of age legislation in 2006. In 2000, the Government agreed the European Employment Directive, which provides a common framework of protection against discrimination at work on the new grounds of age, sexual orientation, and religion or belief. Regulations for the latter two provisions within the Directive came into force in December 2003. The deadline for the implementation of the age provisions is December 2006. However, the Government will implement age legislation on 1 October 2006.

The Age Matters consultation took place from 2 July to 20 October 2003. This sought views on a number of proposals in relation to implementing the age provisions of the Employment Directive. The Government is currently in the process of carefully analysing over 400 responses received. This will ensure that the Government builds up a full picture of the substantial and diverse responses which will allow it to develop its approach for draft regulations.

**11.18 Ageism in public appointments, whether directed against those considered too old or too young, should be brought to an end, and an explicit commitment to age diversity in public appointments should be made by the Government and by all sponsoring Departments. We believe that this can best be achieved by ensuring that the process of appointment to any public body complies with the terms of the forthcoming legislation on age discrimination in employment, even in**

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<sup>9</sup> Evaluation of the Code of Practice on Age Diversity in Employment DWP 2001

**those cases in which such appointments do not constitute formal employment (paragraph 6.24).**

The Government is committed both to appointment on merit and to achieving greater diversity in public appointments. It is keen to encourage people from a wide range of backgrounds and ages to take up public appointments so that these bodies can reflect and better understand the communities they serve. The Government is also committed to a significant legislative agenda on equality matters, including the implementation of the European Employment Directive. The Regulations prohibiting discrimination in employment described in the paragraph above include provisions applying to public appointments. The Government intends to implement the same approach for public appointments within the age regulations where practicable.

**11.19 The Commissioner for Public Appointments should be given statutory authority to seek out cases of ageism in public appointment procedures, and should also have powers which would lead to the diminution and eventual eradication of ageism (paragraph 6.25).**

The Government believes that the current powers of the Commissioner are effective. The Commissioner for Public Appointments *Code of Practice* (Office of Public Appointments, December 2003) provides the regulatory framework for the appointments process and is designed to ensure appointment on merit. The principles of equal opportunity and diversity are inherent in the *Code* which makes clear that the public sector should not discriminate on a number of grounds, including age. The Commissioner monitors and reports on cases of non-compliance with her *Code*. She also has a well-established complaints procedure and can investigate the process used to make an appointment or the manner in which an application for appointment has been handled.

**11.20 In relation to ageism, the remit of the Commissioner for Public Appointments should be extended to include appointments to those publicly funded bodies which currently or prospectively lie outside this remit (paragraph 6.27).**

The Cabinet Office is responsible for the Public Appointments Order in Council, under which the Commissioner for Public Appointments is appointed, and for the Schedule listing the public bodies that come within her remit. As set out in the Government's response to the Public Administration Select Committee's Report *Government by Appointment: Opening up the Patronage State*, published on 17 December 2003, the Cabinet Office is updating the Schedule in consultation with the Commissioner and departments. The Cabinet Office is also undertaking a review of the types of public bodies in existence and it is possible that other bodies may come within her remit.

**The legislative environment**

**11.21 The Government should be as explicit as possible in providing illustrations of the circumstances in which exceptional treatment may be justified, in order to provide the clearest possible guidance to both employers and workers (paragraph 6.34).**

**11.22 In order to minimise the cost to all parties of disputes relating to age discrimination, we recommend that the Government should**

**incorporate in the forthcoming legislation on age discrimination the option of rapid and low cost arbitration of disputes (paragraph 6.41).**

**11.23 The Government should not permit the continued use of a normal retirement age by employers, whether at age 65 or 70 or 75, unless the employer can provide a reasoned and objective justification for the use of age rather than performance criteria in the determination of employability. The Government should set an example of good practice by explicitly removing upper age limits in all public-sector employment in advance of the implementation of the forthcoming legislation on age discrimination (paragraph 6.43).**

**11.24 A move from age-based to competency-based criteria for recruitment, promotion and retirement will require a profound cultural shift on the part of both workers and employers. Long established conventions about seniority-based promotion and pay will have to be challenged, employers will have to operate transparent and justifiable personnel policies, and employees will have to accept regular performance monitoring and assessment (paragraph 6.46).**

**11.25 As soon as the draft legislation on age discrimination is in place, the Government, in conjunction with both employer and worker organisations, should embark on a major campaign to raise awareness of the impending legislation, and of its likely effects (paragraph 6.48).**

**11.26 Just as legislation is now scrutinised for possible infringements of, for example, human rights, it should become routine for such scrutiny to cover the issue of age diversity, and for Ministers to certify that policy and legislation do not contain an ageist element (paragraph 6.49).**

The Age Matters consultation sought views on a number of proposals including:

- a number of specific aims that would be set out in legislation that employers could point to for justifying differences of treatment;
- making retirement ages unlawful unless employers are able to justify a retirement age by reference to a specific aim set out in legislation;
- a default retirement age of 70 which would mean that employers would be able to retire their employees compulsorily at or after age 70 without having to justify their decision.

The Government has worked closely with all stakeholders and consulted widely to develop the proposals in the Age Matters consultation. The Government is currently in the process of carefully analysing the over 400 responses received so that final decisions can be made for draft regulations, ensuring that legislation is sensible, workable, and effective. All Government Departments are working closely to ensure a joined up approach. The Government aims to consult on draft regulations in good time so that employers and individuals have time to prepare for the changes when legislation comes into force on 1 October 2006.

In order to help employers and individuals, the Government intends to publish guidance when the regulations have been approved by Parliament. Additionally, the Trade and Industry Minister, Patricia Hewitt, announced at an Institute Public Policy Research conference in October 2003 that the

Department for Trade and Industry would arrange a nationwide campaign, working with businesses to help gear up for the introduction of the new legislation. This would build on best practice and prepare people for the new laws.

Under the forthcoming legislation, an individual will have the right to complain if they believe they are the subject of unlawful discrimination in the same way as for discrimination on other grounds, such as gender and race.

Following the consultation 'Equality and Diversity: Making It Happen', (Department of Trade and Industry, 2002, URN: 02-0353) the Government announced in October 2003 the formation of the Commission for Equality and Human Rights (CEHR), which will provide an effective and flexible framework for supporting all who will be covered by equality and human rights legislation. It will take on responsibilities for discrimination on the grounds of new equality legislation including age. A taskforce of stakeholders has been established to develop the vision and priorities for the Commission.

A White Paper this Spring will set out more details on the powers and functions that the CEHR will have and will seek comments. The Government expects this will give a picture of the role, objectives, governance, powers and functions of the body and set out proposals on what is to be prescribed in legislation.

There will be efficiency gains to individuals, employers and service providers in time and cost savings from joined-up advice and guidance. CEHR will improve support for individuals through better and more accessible provision of services, particularly advice and information. It will serve individuals better, providing a one-stop shop for information, advice and guidance on securing effective remedies where discrimination has occurred. It will serve business and service providers better, providing joined up advice and advice and support on good practice.

## Consumption

**11.27 The restriction of student loans to people below the age of 54 is blatant discrimination (paragraph 7.10).**

**11.28 The Department for Education and Skills should explain why age discrimination exists in the provision of student loans (paragraph 7.11).**

The Government believes that age limits are justified because student loans have to be repaid until the borrower reaches State Pension Age, when any outstanding debts are written off. The Government's purpose in offering student loans, for both maintenance and fees, is primarily to encourage access to higher education to improve the skills and qualifications of the workforce and so to raise the economic performance of the UK, to the benefit of all its citizens. Requiring students to repay their loans ensures that those who benefit most from access to higher education - the students - contribute to the cost. The Government considers that that is the appropriate method of funding higher education, and allocating finite resources.

In setting an age limit for loans, the Government has taken into account the period that students are likely to form part of the workforce following graduation and are likely to be able to contribute to repayment of their loans.

Since loans are intended to be repaid generally by the economically active, no repayment is required beyond the current age at which a person may claim State Pension. It would be inappropriate to place such a financial burden on people who may have a smaller income in retirement.

A balance has to be struck between making loans available for persons seeking access to higher education and ensuring that loans are not made available to persons who are unlikely to be in a position to repay the loan. In the Government's view, the student needs to be under 55 years old when starting the course. For people aged 50 to 54 years inclusive, who are likely to have time to repay the loan from earnings, the Government requires an assurance that the person intends to become economically active after studying. This ensures the purpose of the loan is fulfilled.

In refusing a recent application for judicial review (*Douglas v North Tyneside and DfES*, December 2003) the Court of Appeal found in their Judgment the following points compelling in favour of the Secretary of State for Education's argument that the funding arrangement is justified:

- Higher education is a scarce resource; it is not available to everybody as is primary and secondary education.
- The government is entitled to decide the priorities in the allocation of scarce resources.
- The arrangements are entitled to treat older students differently on the ground that the scheme is a loan scheme and the money is expected to be repaid. It is a reasonable assumption that older students have less chance of being in a position to repay than younger students. (The obligation to repay the loan ceases at age 65.)
- The age cut off is part of a larger picture on which a judgment is made.
- There are other measures that may be available to assist a student who is ineligible by way of age for a loan. These are fee waiver [for part-time students] and a hardship grant.

## Women

**11.29 The contribution basis of the basic state pension acts as a significant barrier to the acquisition by women of full state pension entitlements (paragraph 8.7).**

**11.30 The basic state pension should be paid on the basis of citizenship rather than contribution record (paragraph 8.10).**

The Government recognise that women face particular barriers to adequate pension provision, and are grateful for the report's analysis (at paragraph 8.4) as to the shape of these problems.

The Informed Choice agenda, which was announced in February this year via the Department for Work and Pensions Command Paper "Simplicity, security and choice: Informed choices for working and saving" (Department for Work and Pensions, February 2004, Cm 6111), includes specific provisions that take account of the economic situation in which women find themselves. The Government will make women more aware of their pension situation through the distribution of tailored communications, so that they can make more informed choices about their individual circumstances. Groups such as the Fawcett Society have pointed out a disparity between the

information available to men and to women. We intend that this programme will help to resolve that.

The Government believes that the basic structure of state provision that has been put in place is the right one for today's pensioners. The basic State Pension recognises and rewards the contributions people have made in a variety of ways during the course of their lives. The Government understands that not everyone can work and pay contributions throughout their lives. That is why we have taken action to protect the pension position of many people who we do not expect to contribute in the normal way. For instance, Home Responsibilities Protection is available for years spent caring for a child under the age of 16, or a sick or disabled person. This helps many people, the majority of whom are women, to maintain a full contribution record. National Insurance credits are also available to protect the entitlement of some carers, people who are not working but who are actively seeking and available for work and claiming Jobseekers Allowance, or are unable to work and claiming Incapacity Benefit. These credits help many more people to build up their basic State Pension.

The introduction of the State Second Pension (S2P) in April 2002 effectively boosts the pension rights of low and moderate paid employees. Some 2.5 million carers, at least 2 million of whom are women, will begin to build up entitlement to additional State Pension for the first time, and around 5 million low earners, 70 per cent of whom are women, and 10 million moderate earners will also gain. Additionally, 2.5 million disabled people will have their pension rights boosted as a result of the introduction of S2P.

This Government has also taken a number of other important steps towards improving the situation of poorer pensioners in general and women in particular. The introduction of Pension Credit guarantees that no-one has to live on less than £102.10 per week, and no couple has to live on less than £155.80 per week. Pension Credit has abolished the upper capital limit that excluded pensioners with savings of £12,000 from any help, and, as a result of Pension Credit, more pensioners will be entitled to help through Housing Benefit and Council Tax Benefit, with almost two million pensioner households standing to gain. Two-thirds of people who are benefiting from Pension Credit are women.

These pension-centred policies have been accompanied by a number of policies aimed at narrowing the gender pay gap. The National Minimum Wage, for example, benefits over one million people, around 70 percent of whom are women. The Low Pay Commission estimates that it has had the greatest effect on women's pay since the 1970 Equal Pay Act. The improvement in pay should, in the long term, equate to an improvement of these women's pension position.

### **Opportunities for private provision for retirement**

**11.31 In order to strengthen consumer confidence in equity release products, we recommend that all such products be brought within the FSA's regulatory jurisdiction as soon as is practicable (paragraph 9.4).**

Mortgage-based equity release schemes will be regulated by the Financial Services Authority from 31 October 2004, alongside other mortgages. The Government is also currently consulting (Regulating home reversion plans,

Consultation Document, November 2003, HM Treasury) on whether Home Reversion Plans should be regulated by the Authority. Responses were due by 13 February and an announcement will be made in due course.

**11.32 The Government should consider phasing out over time the tax-free lump sum (paragraph 9.9).**

The Government remains committed to providing the tax-free lump sum, as confirmed by the Chancellor in his 2002 pre-budget report. The Government recognises that some people may need encouragement to lock away their money, perhaps for many years, until they are ready to draw benefits from their pension saving in retirement. The tax free lump sum provides part of that encouragement. The Government's proposals to simplify the taxation of pensions reaffirm the commitment to a tax-free lump sum, and to set the maximum amount for all schemes at 25 percent. For many people, this represents a significant increase in the tax-free lump sum they can obtain.

**11.33 The Government should set an example by explicitly including information on the value of employer pension contributions in pay slips and in recruitment material for all public-sector jobs. We further recommend that a timetable be established for extending this practice to private-sector employment (paragraph 9.16).**

The Department of Work and Pensions currently shows the value of employer's pension contributions on the monthly pay statements its staff receive and has a policy of including pension benefits in its job adverts.

The Cabinet Office has a communications strategy to recommend that all Civil Service employers show employer pension contributions on payslips over the next three years.

The Government is working in partnership with a number of organisations which represent employers in the UK, and part of that work will include plans to extend this practice to private sector employment.

**11.34 The Government's policy goal of encouraging the delivery of more financial advice to individuals via the workplace is to a significant degree frustrated by the Government's policy goal of ensuring that financial advice is provided according to FSA rules (paragraph 9.19).**

**11.35 The Government, in co-operation with the FSA, should take action to resolve this conflict of policy goals in order to facilitate the provision of financial advice by employers and make clear the basis on which employers may provide advice, without lowering standards (paragraph 9.20).**

The Government's aim is a proportionate and effective regime governing the sale of financial products and advice on saving and investment, which is straightforward and clearly understood by employers.

The Government is aware of the perceived difficulties in this area. It made it clear, at the time of the publication of the Pension Green Paper<sup>10</sup>, that the regulatory regime that governs the provision of information and advice on pensions in the workplace will be kept under review.

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<sup>10</sup> See paragraph 110, chapter 4, (page 73) of the Green Paper CMND 5677 (2002)

The Government needs to ensure that a careful balance is struck. It is important that employers in particular should be able to communicate about pensions with confidence and certainty, while important protection for employees is maintained. To that end the Government is working closely with the regulator, the Financial Services Authority and with the industry, employers and consumers, to tackle these difficulties in two ways.

Firstly, as proposed in the Pensions Green Paper, the Department for Work and Pensions is developing a 'pensions information pack' to help employers by setting out the messages that they can safely communicate to their employees, within existing regulations. An Association of British Insurers led consortium<sup>11</sup> is producing a prototype pack that will be tested and evaluated with employers and employees during 2004. This builds on material the FSA has already produced to address the communication concerns of employers offering stakeholder pensions.

Secondly, when announcing (on 4<sup>th</sup> November 2003) the outline of its review of the Financial Services and Markets Act 2000,<sup>12</sup> the Government explained it would 'be consulting publicly on whether more can be done to reduce the impact of regulation on employers'. The Government issued a consultation document<sup>13</sup> detailing proposals for change on 27<sup>th</sup> February 2004.

Without prejudging the outcome of this consultation, the Government will ensure that any explanatory material for employers stays abreast of any changes in the detailed regulation of advice in the workplace. The Government is, of course, working closely with the regulator and others in taking all of this work forward.

**11.36 We believe that there is a role for Government in providing a simple, secure and guaranteed long-term savings instrument which can be used by lower-income individuals who do not wish to expose themselves to the costs and risks involved in purchasing a commercial pension product. The Government should provide such a product, in the form of a pensions bond with a real rate of return linked to the economy-wide growth rate and administered by National Savings (paragraph 9.25).**

The Government is currently developing a suite of simple, risk-controlled, competitively priced products to meet the short, medium and long-term saving needs for all, and particularly for those on low to medium incomes. The suite was recommended by Ron Sandler in his Independent Review of Medium and Long-term Savings in the UK commissioned by HM Treasury<sup>14</sup>. This suite will provide good value for those on low to medium incomes to save for their retirement, as well as other savings needs they might have. Part of the suite is a deposit account (a re-branded CAT-marked Cash

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<sup>11</sup> The Association of British Insurers led consortium is made up of representatives from National Consumer Council, Trade Union Congress, Small Business Council, Association of Independent Financial Advisors, Association of British Insurers, Engineering Employers Federation, Department of Work and Pensions Communications and Department of Work and Pensions Informed Choice Team.

<sup>12</sup> Detailed regulation of the provision of advice, and of the promotion of investment products, is undertaken through secondary legislation.

See the 4/11/2003 statement at <http://www.hm-treasury.gov.uk>

<sup>13</sup> Available at [http://www.hm-treasury.gov.uk/consultations\\_and\\_legislation/fsma\\_twoyrrev/consult\\_fsma2yrev\\_index.cfm](http://www.hm-treasury.gov.uk/consultations_and_legislation/fsma_twoyrrev/consult_fsma2yrev_index.cfm)

<sup>14</sup> Ron Sandler, Medium & Long-Term Savings In The UK – A Review, July 2002

ISA) which allows those who are more risk averse to save without any risk to their capital.

National Savings and Investments' remit is to provide cost-effective financing of the Government's debt, which it does by offering a range of attractive savings and investment products to individual savers. The range of products is regularly reviewed to ensure it continues to meet changing customer needs and to maintain National Savings and Investments' position within the highly competitive financial services industry.

It is likely that customers already use their products to help to save for their retirement. Any proposal for a specific retirement savings product would have to be assessed against National Saving and Investments' core remit to provide cost-effective financing for the Government.

**11.37 A general extension of compulsion in pension savings should be avoided. However, that requires the Government to take action to provide a higher minimum state pension (paragraph 9.32).**

The Government believes it is right that those who can save for their retirement should do so, and that wealthier workers should be expected to rely on voluntary occupational and private pensions and savings to supplement State Pension income. The Government is currently taking action to remove some of the barriers to an effective system of voluntary provision to supplement the foundation of State provision. However, the Government believes it is important that progress is independently monitored. That is why it has established an independent pensions commission, following publication of the Pensions Green Paper in June 2003, to monitor how the voluntarist approach is developing.

The Government's strategy is based on keeping costs under control through targeting additional resources on people who are less wealthy. Though flat-rate benefits have also been increased, the first priority has to be to tackle poverty amongst today's pensioners. The Government will be spending around £9 billion in the financial year 2004/5 (in 2003/4 prices) on pensioners as a result of measures introduced since 1997. This includes spending around £4 billion more on the poorest third of pensioners.

The Government has also taken action to help certain vulnerable groups build up a decent second pension. From April 2002, 20 million people, including 2.5 million carers, 2.5 million long-term disabled people and 15 million low and moderate earners, have benefited from the State Second Pension.

### Uncertainty and private pensions

**11.38 The Government should explore with the voluntary sector and the financial services industry the possibility of developing a national financial advice network for low-income individuals (paragraph 9.38).**

The Government is participating with the regulator, the industry and the voluntary sector in work to address the need for a national financial capability strategy. Work continues to explore issues, such as how, for example, innovative technology might offer effective advice tools to the voluntary sector. The Government hosted a joint event with the Financial Services Authority in 2003 to explore what such a generic advice tool might offer, and what form it might take.

The Financial Service and Marketing Act (FSMA) review referred to at paragraphs 11.34 and 35 of the Committee's report acknowledged: "There is also some evidence that Citizens Advice Bureaux and similar advice centres are reluctant to provide advice on financial issues, for example to consumers with debt problems, because they fear being caught by the requirements of financial services regulation". The review will address these anxieties with detailed proposals.

**11.39 The proposed reform to the regulatory and tax environment of occupational pensions will come too late to reverse, or even stem, the tide of closure of defined benefit pension schemes (paragraph 9.42).**

The Government has no preference for one type of scheme over another. Different types of scheme will suit different types of people and different economic climates. The vast majority of employers who close a Defined Benefit scheme to new members make an alternative form of provision, such as a Defined Contribution scheme.

The Government is, however, committed to ensuring that people have the confidence and information they need to be able to save for their retirement. The Pension Protection Fund will provide a valuable reassurance for employers to continue their Defined Benefit schemes by boosting confidence in pensions generally and rewarding employers with increased recruitment and retention benefits. The Government's Informed Choice program will also raise greater awareness of the value of employer pension provision and especially employer contributions.

Strengthening the pensions partnership remains at the heart of the voluntarist approach to private pension provision in the UK. The Government continues to work in partnership with the Employer Task Force seeking to tap into employer experience and innovation and to increase and extend occupational and private pension provision.

Additionally the Pensions Bill contains a number of measures to cut through complexity in the system, making it easier and simpler for firms to run pensions and the Government's proposals to radically simplify the taxation of pension schemes would sweep away the existing eight tax regimes and replace them with a single lifetime allowance.

**11.40 The closure of defined benefit pension schemes seems to be associated with a reduction in overall pension savings, which will have the effect of reducing the value of future pension entitlements (paragraph 9.44).**

There has been an overall increase in pension contributions since 1997. Nevertheless the Government recognizes the challenges posed by the changing landscape of occupational pension provision.

The situation where employers make changes to their pension provision and in the process cut their contributions is of particular concern. The Government plans to table an amendment to the Pensions Bill to require employers to undertake consultation when they make major changes to pension schemes, involving recognised trade unions or approved workplace information and consultation arrangements.

The existence of any shift from Defined Benefit to Defined Contribution schemes changes the nature and extent of the risk which employers and employees bear and increases the number of decisions which face the

employee. (e.g. decisions over the level of contributions to make, investment risk and annuitisation).

The Government's programme of informed choice seeks to empower individuals to take control of their retirement planning and to be better placed to take the decisions they face as a result of these changes to the landscape of pension provision.

Of course, the provision of occupational pension schemes must also work for employers. Ultimately, the decision to make a change to its pension provision is an employer's own business decision. However, the Government's informed choice measures seek to raise awareness of the value of employer's pension contributions and ensure that employers take into account the recruitment and retention benefits which they can enjoy from providing and contributing to pensions.

While the Government works to increase the quality of information and the range of savings products available, it also welcomes innovations and imaginative ideas from employers and the industry which consider approaches to risk-sharing and pension provision which are most suited to the specific needs of employees.

### Complexity and uncertainty

**11.41 The state pension system is too complex to function effectively, and the Government have taken insufficient notice of widespread concern about this complexity in their formulation of pensions policy (paragraph 10.6).**

The Government has made considerable strides in ensuring that any complexity does not affect the experience of the customers who benefit from Government services.

The creation of the Pension Service in April 2002 established a new customer-focused delivery organisation. It provides products and services for today's and tomorrow's pensioners, and uses modern technology where appropriate to help its customers, no matter how they choose to make contact.

Although the primary means of contact is via the telephone, people can also make contact by post and increasingly do so via the internet and by other electronic means, such as interactive digital television. The important face-to-face contact with customers continues to be provided; indeed, where customers find it difficult to access services, there is a community based local service to support them.

The Pension Service issues invitations to people to make a claim for State Pension once they are close to State Pension age. Claims for State Pension and for Pension Credit can be made by telephone, when staff can assist completion of the claim forms. Telephone applications to Pension Credit take on average twenty minutes and a recent survey revealed that nine out of ten customers who applied for Pension Credit were happy with the application process and the staff service they received.

The Government is committed to providing people with the information they need. For people approaching, or who are of State Pension age, The Pension Service provides a wide range of help and advice including a series of leaflets on a range of pension matters. Information is also available on The Pension

Service website<sup>15</sup> which has won awards for its accessibility. The Pension Service also provides State Pension forecasts to help future pensioners make more informed choices and decisions about saving for their retirement.

## Purpose

**11.42 The Government should produce a clear set of pension performance objectives which include indicators of the outputs of the pension system (present and expected future pensioner income) as well as the inputs to the system (the scale and source of pension finance). The Government's success in meeting these objectives should be regularly monitored and published (paragraph 10.13).**

As part of its Public Service Agreement (PSA), the Department for Work and Pensions has a stated objective to “combat poverty and promote security and independence in retirement for today’s and tomorrow’s pensioners”. This is supported by PSA targets to: “By 2006, be paying Pension Credit to at least three million pensioner households” and to “Improve delivery of Department for Work and Pensions services by setting published annual targets for each major business addressing accuracy, unit costs and customer service, becoming progressively more demanding over the three year period”.

The Department publishes a wide range of indicators of progress, including contributions to and payments from the pension system, Departmental spending on pensioners, the number in receipt of pensioner benefits, and pensioners’ incomes. Many are published regularly, in publications such as Households Below Average Income, Opportunity for all (Department of Work and Pensions, 2003, Cm 5956), Pensioners’ Incomes Series and Work and Pensions Statistics (Department for Work and Pensions, 2003, ISBN 1843882302). Forecasts of public expenditure on pensioners are published as part of the Budget, alongside the Pre-Budget report, and in the Department for Work and Pensions’ Departmental Report. In addition, the Government Actuary reports regularly on both projected National Insurance expenditure, and the projected level of benefits provided to individuals from the National Insurance system.

Different people will have different approaches to how they want to provide for themselves in old age: some people will choose to retire early, others will want to work past State Pension age. The Government does not think it is right to prescribe to people exactly what level of income they should be aiming for in their retirement.

As pensioner incomes come from a variety of different sources, including state benefits, private pensions, earnings, and other investments, and so future incomes will depend on how people behave as well as how different investments will perform, the Department does not think pensioner incomes could be forecast in the long-term to the level of accuracy and robustness needed for a high profile indicator of progress. However the Government will keep this under review.

**11.43 The Government should provide an explanation of the rationale for the continuation of age related benefits such as subsidised travel (paragraph 10.15).**

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<sup>15</sup> <http://www.thepensionservice.gov.uk/>

The age-related concessions and payments are important for addressing problems of low income and social exclusion among older people. They enable the Government to focus resources on issues of particular concern to older people, and to remove or reduce barriers to independence and participation. Concessions such as free prescriptions and free or reduced-price travel also provide flexible support to people who may have large costs. The rationale for particular measures is always kept under review, but the Government believes that age-related concessions and payments serve a useful purpose alongside the other support systems.

The rationale for some of more common benefits are detailed below:

**Subsidised Transport Concessions**—Transport provides an essential link to friends, family and the wider community—a vital lifeline to maintaining independence. Cost is a significant factor determining people’s ability to travel as often as they would like. Research has shown that a lack of mobility can prevent older people from participating in social activities and lead to low morale, depression and loneliness. It can also have an impact upon others, such as carers, social services and health agencies.

**Winter Fuel Payments** for households with someone aged 60 years and over, and the annual 80+ payment for households with someone aged 80 years and over. The risks of cold-related ill-health apply to all people, however, the elderly are especially vulnerable and the very elderly are the most at risk. Pensioner households account for around 52 percent of fuel poor households. Older people are likely to be at home for most, if not all of the day, so their homes can be assumed to require heating for longer periods than average. Elderly people are more likely to live on fixed incomes in poorly insulated, large, under-occupied homes with inefficient heating systems. The Government’s fuel poverty strategy targets all these aspects. Winter Fuel and 80+ payments are an integral part of this strategy.

**TV licences** for people aged over 75 years. Older pensioners, who tend to be less mobile and to be among the least well off, rely more than most on their televisions for information and entertainment. Ninety six percent of over 75 age group watch television everyday<sup>16</sup>.

### Means testing and public pensions

#### **11.44 The Government’s heavy and growing reliance on means testing the pensioner population is regrettable because it:**

- **unduly penalises current pensioners who have struggled hard to provide a small private income for themselves in retirement**
- **sends a clear signal to many current workers that it is not in their interests to save for their own old age**
- **is unfair to tax some of the poorest members of our society at marginal rates as high as or higher than those imposed on the rich (paragraph 10.25)**

**11.45 As a top priority, the Government should consider introducing a non-means-tested state pension paid on the basis of citizenship to all persons of pension age. We believe that the provision of this baseline**

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<sup>16</sup> The Numbers Game: Older people and the media report, Independent Television Commission, 2002

**state pension is a necessary element for the development of a more extensive system of voluntary pension saving in the United Kingdom (paragraph 10.28).**

The Government is determined to continue to repair the damage caused by past neglect of pension provision and to increase the economic security of older people without placing an unsustainable burden on future generations. The Government wants all pensioners to have a decent and fair income in retirement and to share in the rising prosperity of the nation.

Basic State Pension is an important component of retirement income. It forms the basis of retirement provision on which people can build and recognises the contributions people have made in a variety of ways during the course of their lives. The Government believes it should continue to form the foundation of pension provision.

There would clearly be significant cost implications of implementing a Citizenship Pension. The net costs of paying the full basic State Pension regardless of contribution history, at the level of the maximum rate of basic State Pension, to all pensioners would be £5.7 billion in the financial year 2004/5.

The Government does recognise that there are groups of people who could not be expected to contribute in the normal way, but nevertheless ought to be able to continue to build up a basic State Pension. The Government has acted to protect the pension position of many people in these circumstances, and to ensure that the wider contributions people make to society are recognised. That is why, for instance, Home Responsibilities Protection (a form of enhancement of the pension) is available for years spent caring for a child under the age of 16, or a sick or disabled person. National Insurance credits are also available to protect the entitlement of some carers, people who are not working but who are actively seeking and available for work and claiming Jobseekers Allowance, or are unable to work and claiming Incapacity Benefit. These measures help many people to maintain a full contribution record.

The Government believes it is right that those who can save for their retirement provision should do so. The Government is encouraging those on modest incomes to save for their retirement. The basic State Pension and S2P already provide a platform for private saving. The introduction of the S2P in April 2002 has effectively boosted the pension rights of low and moderately paid employees. Low earners will receive at least double what they would have got from SERPS, while carers and disabled people with broken work records will be entitled to an additional second-tier pension for the first time.

The Government has also introduced Stakeholder Pensions; 1.8 million have been sold so far. However private pension income is naturally skewed towards wealthier people, and the Government recognises that not everyone will be able to build up an adequate pension during the course of their working life. When this Government came into office far too many older people were still living in poverty. That is why the Government believes that it is right that the limited resources of the state should be concentrated on those in the greatest need, and why Pension Credit is the right mechanism to support today's pensioners.

Pension Credit targets the limited resources of the state on those who need it by providing a guaranteed minimum income of £102.10 a week (£155.80 for couples). By introducing first the Minimum Income Guarantee, and then Pension Credit, the Government has made a very significant impact on pensioner poverty.

Pension Credit is more than just a means-tested top-up for pensioners. It goes further by rewarding pensioners aged 65 and over who have made modest provision for their retirement. This reward is worth up to £14.79 a week for single pensioners (up to £19.20 for couples). The capital rules are also more generous than those for its predecessor, Minimum Income Guarantee, and coupled with the savings credit for those over 65, overall savings are treated five times more generously than they were under Minimum Income Guarantee.

Pension Credit is an innovative approach to a familiar problem – the tension between the need to ensure there is a floor below which pensioner incomes do not fall, and the need to ensure that people are rewarded for saving. It is wrong to say that Pension Credit sends a message that it is not worth saving – we think the opposite is true. Under the old arrangements pensioners faced a 100 per cent withdrawal rate. Their means-tested benefits were withdrawn penny for penny to take account of any modest provision they had made. This resulted in an intolerable situation where people who had been thrifty and made some modest provision for their retirement were little or no better off than those who had never saved at all. The Government thinks that is a real disincentive to save. Pension Credit sends the message that for most people most of the time, it pays to have saved: virtually all are better off for having saved.

People's decisions about saving are complicated, and are influenced by a wide range of factors – not just the availability of State support in the future. There is little evidence of how the various factors actually affect people's saving behaviour and this is something we are seeking to establish.

**11.46 The Government should expeditiously develop a fully costed proposal for the payment of the basic state pension at the level of the minimum income guarantee for all pensioners aged 80 and above (paragraph 10.31).**

The table below shows the annual costs net of income related benefits in the next five years of paying the full basic state pension at the level of the Minimum Income Guarantee to all pensioners aged over 80 years.

£billions					
Year	2004/05	2005/06	2006/07	2007/08	2008/09
Net Cost	3.2	3.3	3.6	3.9	4.1

1. Figures are in 2003/04 price terms.
2. 15. No allowance has been made for couples. It has been assumed that all individuals over age 80, regardless of contribution record, would receive a basic state pension at the level of the guarantee credit for a single pensioner.

It is also worth noting that while older pensioners are more likely to be poor, it is not true that most poor pensioners are older pensioners. Only 22 percent of low-income pensioners are aged 80 years or over.

#### The concept of a “pensions crisis”

**11.47 In order to increase the level of consensus associated with long-run pension planning, the Government should establish an independent authority to monitor, undertake research and make recommendations on pensions policy (paragraph 10.42).**

This is an area the Government has been seeking to address in creating the independent Pensions Commission, which was announced in the Pensions Green Paper published in December 2002. The terms of reference for the Commission will include reviewing the regime for UK private pensions and long-term savings, taking into account the proposals in the Green Paper, assessing the information needed to monitor progress; and looking at current and projected trends in the level of occupational pension provision, the level of personal pension savings and the levels of other saving such as financial assets. On the basis of this assessment of how effectively the current voluntarist approach is developing over time, the Commission will make recommendations to the Secretary of State for Work and Pensions on whether there is a case for moving beyond the current approach.

The initial focus will be analytical and an interim report, planned for September 2004, will describe in detail the present situation, the trends in place, and the challenges which need to be met. It is anticipated that the first report, including preliminary recommendations, will be complete by Summer 2005.