

Pensions Commission publishes report

1 BACKGROUND

On 12 October 2004, the Pensions Commission published its first report. Headed by Adair Turner, the Pensions Commission is an independent body set up in the wake of the Pensions Green Paper to keep under review the system of private pensions and long-term savings in the UK.

The Pensions Commission is responsible for looking at how the pension system is developing and whether it is adequate. In particular, the Commission has been asked to make recommendations on whether it should move beyond the current voluntary approach.

2 KEY FINDINGS

The aim of the first report is to “stimulate debate”. A key focus of the report is therefore to explore how to deal with the pensions challenge posed by an ageing population. Four possibilities are identified, including:

- lifting taxes to pay for the state pension;
- raising savings levels;
- increasing retirement ages;
- accepting that the number of poorer pensioners will grow.

The Report suggests that the eventual solution is likely to be a mix of the different proposals. It also argues that the option of poorer pensioners is the least attractive and that some combination of the remaining options will be needed.

But the Report does recognise that one of the responses to the ageing population must be a rise in the average age of retirement. (At present only 42% of men are employed at age 64.)

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3 RECOMMENDATIONS / OPTIONS

Under the Commission's remit, it need not make recommendations as to how the pension crisis should be tackled until Autumn 2005. Therefore, the Commission has not made any recommendations at this stage. But the eventual recommendations, likely to be made after the next election, could provide the bedrock for future pension legislation.

However, the Report has identified a number of options which will form the focus of the Pensions Commission's time between now and the publication of the second report. These are:

- a major revitalisation of the voluntary system;
- changes to the state system;
- increased compulsion "beyond that already implied by the State Second Pension and contracting-out arrangements".

4 CONSULTATION

The publication of this report kick starts the consultation process. The Commission is seeking views on the appropriate role of the Government in ensuring pension adequacy, on whether there is agreement on the facts set out, and on the best mix of the three ways forward identified above.

The Commission has asked for written submissions by the end of January 2005.