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STATE AND OCCUPATIONAL PENSION PROVISION

THE Sessional Meeting held on 25 October 1971 was devoted to a discussion on the Government's White Paper *Strategy for Pensions* (Cmnd. 4755).

An abstract of the evening's discussion follows:

Mr E. F. Rogers, in opening the discussion, said that the Institute was meeting for the second time within three years to consider major Government proposals for the reform of the social security system and its co-ordination with occupational schemes. The approaches taken by the successive administrations were fundamentally different, but the two White Papers were both superbly clear documents which gave little excuse for misunderstanding. He thought that the new White Paper was better in that the proposed structure was itself less complicated. Many of those who were sympathetic to the basic objectives of the earlier Crossman plan were worried by its complexity, not only because of the administrative problems, but because misunderstanding and suspicion seemed inescapable in so intricate a relationship between the State and occupational systems.

Both schemes involved a switch from flat-rate contributions to a wholly earnings-related system. The dangers of a flat-rate system had been emphasized during the Institute meetings which had discussed the original Beveridge proposals twenty-five years before. There had been the fear that the flat-rate contributions would prove an unduly heavy burden on the lowest paid, which had been amply justified by subsequent events. Also, concern had been expressed that the contributory principle could give rise to excessive expectations in a system that involved so much redistribution of income. That was the first major difference of principle between the Crossman plan and the new proposals. The Crossman plan had laid great stress on the contributory principle, and he thought that such emphasis would almost certainly have led to escalation far beyond the area of basic needs to which the social security system ought to be confined.

The new proposals admitted the redistributive nature of the basic State scheme and set out to charge an earnings-related social security tax (although the Government preferred to call it a contribution) for a flat-rate scale of benefits. He welcomed that change in emphasis wholeheartedly and noted how calmly it appeared to have been accepted by the general public. Previously it had been thought politically impossible to charge an earnings-related contribution for a flat-rate benefit. It was possible that the true significance of the change had yet to make its impact. The pill had been sweetened for the higher paid by an alteration in the contribution split between employer and employee—from about 50:50 to about 60:40. It was a sensible change and the increase in employers' costs might be more apparent than real, since unduly high employee contributions had their effect on wage claims. The Netherlands provided an extreme example; the employees' social security contribution had been allowed to rise to over 10% and every major increase in rate had been matched by a fully compensating wage claim.

He regretted that the Government had not gone even further back in its examination of the basic issues. As early as 1943, Haynes and Kirton, in *Income Tax in Relation to Social Security* (*J.I.A.*, **72,** 79), had suggested that the development of personal income tax and social security should be consolidated in a logical manner. The concept of a unified personal taxation and social security structure under which all citizens were entitled to flat-rate allowances and all income below surtaxable levels suffered tax at a standard rate had great logical appeal. In recent years it had won increased support, particularly in the United States, where Prof Milton Friedman was perhaps its best known advocate. Shortage of time might have deterred the Government from so fundamental a reappraisal and there would have been immense transitional problems in switching to such an entirely new concept but it was helpful nevertheless to keep the tidier concept in mind as an ideal.

His most serious reservations about the new Government proposals related to the benefit levels in the basic scheme. Surveys had shown that about one-third of all existing pensioners were entitled to means-tested supplements, and another one-third had incomes only marginally above the level at which they would be entitled to them. The situation of the latter one-third concerned him particularly. In a society that constantly stressed the importance of personal saving, a system was accepted that imposed savage penalties on those who saved in circumstances which involved the greatest self-denial. The new proposals had done nothing to rectify the situation, which presumably was tolerated only because of the semantic fog that shrouded the social security system. If the Government had found it practicable to adopt a unified personal tax and social security structure, the three elements of tax that were currently labelled as income tax, social security contributions and means-tested restrictions on benefits would all have been called simply income tax. The enormity of imposing 100% marginal tax rates on low income pensioners would then have been clear for all to see. Failure to remedy the situation would cast doubts on the stability of the proposed system.

There appeared to be only two basic ways of tackling the problem. One approach would be along the lines of the Crossman plan, with earnings-related rights building up gradually over the future. The other would be to increase the flat-rate pensions to the point where the need for means-tested supplements would be largely eliminated. His preference was for the second approach. An earnings-related approach would almost inevitably produce an escalation of the social security system well beyond the area of basic needs. Benefits tended to be concentrated on the younger, better-paid employees who were in most cases adequately covered by occupational schemes, while little or nothing was done for those who were most in need of help.

The Government argued against any substantial improvement in the real value of flat-rate benefits by pointing to the enormous cost. Thus § 13 of the White Paper quoted a cost of £700m. a year for raising retirement pensions only to the supplementary benefit level, and £1,000m. a year for raising all benefits to that level. In that presentation of the problem it seemed that no allowance had been made for the consequential reduction in supplementary benefits, or for the increased income tax yield. Those two items combined would produce a counter-balancing saving at least in the range £200–300m. a year. No responsible person could argue seriously in favour of an immediate raising of flat-rate benefits to that extent, taking into account the inflationary pressures that would be engendered and the excessive provision that would be made for those already retired on generous occupational pensions, but he asked whether it would really be beyond the country's capacity to adopt a phased programme for raising the basic benefits by, say, some 40% in real terms over a period of 20 years. The Government Actuary's estimates were based on the assumption that the basic scheme would continue to be financed by a joint contribution rate of 12½% of earnings to 1½ times national average, together with an Exchequer supplement of 18% of contribution income. A phased improvement on the relatively modest scale he had mentioned would involve increasing the joint contribution rate by 1995 to about 15%, after taking account of the surpluses expected to arise under the Government's proposals. He wondered if it would be so intolerable a burden. His 15% rate was based on the Government Actuary's pessimistic assumption that earnings and prices would rise in step. On the more likely assumption that earnings would rise at least 2% a year faster than prices, a phased programme on the scale he had been discussing could be covered throughout by the initial 12½% rate.

It had been put to him that the Government's proposals left scope for future development along the lines he had suggested and that it would be wrong to pre-empt the future, but it was the absence of a commitment that disturbed him and seemed to jeopardize the acceptibility of the scheme as a whole. He took the example of a man aged 45 who previously had not been a member of an occupational scheme and who then found himself obliged to join the Reserve Scheme. If he knew that his basic pension would reach the supplementary benefit level by the time he retired, he would see the advantage of contributing to the Reserve Scheme. If he thought that he was merely buying his way out of his means-tested supplement, would he not regard his compulsory contributions to the Reserve Scheme as just another Tory swindle? It had also been argued that such a programme would be wasteful of resources in that substantial improvements would go to pensioners who were already adequately provided for through occupational plans or other means. The validity of that argument seemed questionable in the current inflationary situation. The Government had expressed its concern that many employers had been slow to recognize their responsibilities towards former employees. An improvement in the purchasing power of the basic social security pension would provide much-needed help.

In considering the adequacy of benefit levels, there was also the influence of trends elsewhere in Europe. The single person's social security pension payable to a British employee who retired on average industrial earnings was currently under 25% of pay, including any graduated pension entitlement. That compared with a level of about 35% to 40% for countries such as the Netherlands and France, and 50% to 60% or more for countries such as Germany and Italy. In the Netherlands, which had the lowest pensions of any of the countries mentioned, proposals for a substantial increase were likely to be implemented within the next year or two. In France, there was draft legislation to raise benefit levels by about one-quarter. International comparisons could be misleading and it was worth noting that France and the Netherlands, the two E.E.C. countries with the lowest level of basic social security pension, were also the only other countries with a network of occupational pension plans comparable in scale and scope with those of the United Kingdom. Nevertheless, it seemed likely that entry into the E.E.C. would increase public awareness of social security standards elsewhere and thus increase political pressures for a more rapid improvement in levels. On the basis of the Government's proposals, it would be some thirty years before the social security pension for a man on average industrial earnings rose from the current level of just under 25% to the comparatively modest target of 35%, which was the lowest level in any of the E.E.C. countries.

The Government proposed to establish a fully-funded State Reserve Scheme which would be compulsory for employers who would not operate their own schemes at a specified minimum level. That was an entirely new approach; one or two other countries had taken the view that compulsory pension provision should be improved by the expansion of occupational schemes rather than the basic State scheme but they were tackling the problem by requiring employers to establish their own schemes. Finland operated legislation of that type, and the Netherlands and Switzerland were discussing its introduction. He thought the British Government was right to have decided against similar legislation. The administrative complications were considerable and they could be the cause of much ill-feeling. The structure chosen for the Reserve Scheme was a money purchase scheme with contributions payable at the rate of 2½% by employers and 1½% by employees on earnings up to the social security ceiling. The proposed tariff was based on an interest rate of 4% and surplus investment earnings were to be used to provide bonus additions. The question of whether those additions would be sufficient to offset the rise in the cost of living was important. The White Paper had suggested that there would be a 'reasonable expectation that these bonuses will prove sufficient in amount to offset any price increases'. The Government Actuary, who would presumably make the necessary valuations in due course, had suggested that 'over the years these bonuses might be expected to offset, or offset to a substantial extent, the effect of rising prices'.

The Government's argument for a money purchase approach was that whatever the age at which an employee was compulsorily enrolled in the scheme he should receive value for the contributions paid on his behalf. Although that argument clearly had some force, there were serious disadvantages to be set against it. Firstly, the chosen approach to the basic problem of improving benefit levels was an extremely slow one. Secondly, the contrast between the money purchase approach and the benefit patterns of most occupational schemes presented some difficult problems to which he would refer when discussing recognition. Any form of accelerated maturity was precluded in a scheme operating in direct competition with occupational schemes, and a final pay formula would clearly be inappropriate, but a possible and preferable alternative would be to express the pension as an age-independent percentage of assessable earnings. A scheme constructed on those lines would fit in better with the normal pattern of occupational plans, where it was generally accepted as socially desirable that pension outlay should be concentrated more heavily on the older employees.

Another area of concern was the proposed method of financing the Reserve Scheme. To ensure fair competition with private plans, the Government had decided that it should be run on fully-funded commercial lines with an independent board of trustees. In that respect it would be unique amongst national pension systems, the nearest equivalent being the large scale supplementary State systems in Sweden where substantial buffer reserves had been accumulated and invested by an independent board. While the Government's motives were both understandable and welcome, there would be a definite risk that a huge State funded system would be subject to heavy political pressures. Pressures for benefit improvements or contribution reductions arose in private plans as the fund assets built up to what seemed to the layman to be excessive levels. In the politically sensitive area of national pensions, those pressures seemed likely to be magnified enormously. It needed little imagination to foresee the public indignation if the bonuses allotted out of investment surpluses fell notably short of the rise in the cost of living. Political pressures of another kind might arise over the investment of the funds. The Government's intention was that the independent trustees should have the same freedom of action as the trustees of private plans. He wondered if it were safe to rely on that independence being preserved over the years. The White Paper estimated that the Reserve Scheme funds could rise at present price levels to something like £5,000m. within 25 years. Such a fund would be a powerful economic force and its control could be highly attractive to future Governments pursuing particular social or economic aims. Clearly the task of the trustees would be no sinecure, and much would depend on the quality and standing of the men selected.

He was not wholly satisfied that the advantages of operating the Reserve Scheme on a fully-funded basis outweighed the disadvantages. It was clearly essential that the contributions should represent a fair commercial charge for the promised benefits but the Government could have provided adequate assurances on that aspect without separate funding. Apart from simplicity, a major advantage of operating on an unfunded basis would be that the surplus revenue in the early years would have made a useful contribution to the cost of the improvements in basic pensions that would probably be essential to the viability of the overall system.

He was more encouraged by the Government's plans for the development of occupational schemes, and found himself in agreement with most of what they had proposed. In particular, their approach to the problem of the regulation of pension schemes was enlightened in its emphasis on simplicity and on the participation of the pensions industry in the development of the appropriate machinery. The pensions industry had been largely self-regulated and it had been able to remain so over the 50 odd years of its development only because of the maintenance of the highest professional standards. If, however, they wanted to maintain, as most did, that occupational schemes could do in Britain a major part of the job that was done elsewhere by earnings-related State schemes, they could not resist the argument that occupational schemes ought to offer fully comparable standards of security, at least up to the level of benefits that would otherwise be provided through an extended State system. They ought, therefore, to accept the case for Government regulation of occupational schemes on such matters as minimum benefit levels and adequate security for those benefits.

He was heartened that regulation was to be achieved through the establishment of an Occupational Pensions Board as an independent authority with its members appointed after consultation with employers' and employees' organizations, and others appointed for their special knowledge and experience of pensions matters. The emphasis on joint consultation as the means of finding equitable solutions to problems as they arose was evidence of the much closer contacts that had been established between the Government and the industry in recent years. He was further encouraged by the method of ensuring that recognized schemes met the minimum requirements. The Government had avoided the detailed individual comparisons of benefits of the Graduated Scheme and of the Crossman plan. Instead, they had proposed to rely on a relatively simple set of minimum benefit rules which should cause little administrative difficulty to employers. Basically, the employer who sought recognition would have a choice of guaranteeing a pension of 1% of total career earnings up to the social security ceiling, with provision for cost-of-living increases, or a higher percentage (perhaps 1¼%) with no cost-of-living commitment. The main administrative complication was that fund administrators would have to record separately P.A.Y.E. earnings up to the social security ceiling, which would rarely be exactly the pensionable pay defined in the Scheme rules.

Three methods of providing for cost-of-living increases were to be permitted, and the choice between them might not always be easy. A growing number of employers had acknowledged in recent years their moral obligation to protect their pensioners from at least the worst consequences of inflation, but most had preferred to make their increases on an *ad hoc* basis, having taken the view that it would be wrong to enter into outright commitments for their pensioners that they had not so far been prepared to extend to their active employees. It seemed unlikely, therefore, that many employers would want to make use of the first option offered by the Government, which was a direct link to a cost-of-living index. The second possibility, which was to make financial provision for a fixed rate of post-retirement increases, might be more attractive since a number of insured plans were already financed on that basis. Clearly, employers' attitudes would depend very largely on the scale of predetermined increases required by the Government. The third possibility was to satisfy the Occupational Pensions Board that reasonable provision would be made for the provision of post-retirement increases by means of surpluses arising in the fund. That option appeared to fit best with the approach adopted in most self-insured plans that already aimed to provide cost-of-living increases, but again much would depend on what the Government meant by 'reasonable provision'. The White Paper had not attempted to define standards but a clue could be found in the financial structure of the Reserve Scheme. If the Reserve Scheme was eventually established on the basis of a 4% tariff, it would be difficult for the Occupational Pensions Board to apply stricter standards to recognized plans. It seemed reasonable to assume that an actuarial basis that left investment earnings over 4% a year available for benefit increases would normally be sufficient to secure recognition.

In principle, the price protection obligation would apply only to the minimum benefits that had to be guaranteed to secure recognition but it would appear virtually impossible for an employer to accept the obligation in respect of that part of the pensions without extending it to the balance. Many employers might therefore prefer the higher non-adjustable guarantee, provided that did not seriously exceed the suggested figure of 1¼% of career earnings. Even those employers with a good record of cost-of-living adjustments in the past might be reluctant to enter into the formal commitments required by the proposed legislation.

The benefit tests for recognition he thought sensible in themselves, and much to be preferred to the alternative of a contribution test, which had been actively canvassed but which would in practice have proved administratively difficult to control. His main concern was that the benefit structure of the Reserve Scheme contrasted so sharply with the recognition criteria. The money purchase formula for a man who had spent ten years in the Reserve Scheme, from age 21 to 31, would produce pensions ranging from around 1·9% of assessable earnings at age 21 to about 1·3% at age 31—in round figures, a pension for the ten years of about 15% of average earnings. If bonus additions were allowed at, say, 3% a year, the pension payable at age 65 would be about 45% of those average earnings. If instead, the man had been a member of a recognized occupational scheme, the minimum benefit would be 10% of average earnings, and the obligation to provide cost-of-living increases would not take effect until after retirement. He wondered whether such a wide disparity would prove acceptable. It seemed possible that there might be pressure, either for entry into occupational schemes to be deferred to a later age or, more probably, for preservation levels to be raised for those who left occupational schemes at an early age. That would be an unfortunate development. Pension planning was so often a problem of deciding priorities for the allocation of the available resources. In prevailing inflationary conditions, the first priority should surely be to ensure adequate provision for those who were approaching or already in retirement. From the employers' viewpoint, the recognition tests should be acceptable and he expected most employers with established pension plans to seek exemption from the Reserve Scheme. The assurances that the latter scheme would operate on strictly commercial lines appeared watertight, and from a purely investment viewpoint there appeared to be no good reason why employers should expect a higher return on contributions paid into that scheme than they could secure in their own funds.

In considering administrative simplicity and ease of explanations to employees, there were considerable advantages in integrating with a flat-rate social security pension rather than a two-tiered pension which incorporated an earnings-related element. Moreover, he would, in general, expect employee attitudes to encourage employers to seek recognition. Somewhat different attitudes might, however, prevail amongst low-paid employees. Many employers had found increasing resistance amongst that group to compulsory membership of contributory schemes, one important factor being the social security means test. Employers might be tempted to abandon the struggle by making membership of their own schemes voluntary for manual workers, leaving the Reserve Scheme to cover those who were unwilling to pay higher contributions.

He was very largely in agreement with the Government's proposals on preservation. Even so, occupational schemes could never fulfil their proper purpose until the right to employee refunds was withdrawn. The initiative had had to come from the Government because employers would have found it virtually impossible to have taken action themselves in the current industrial climate. Secondly, the obligation to offer full preservation would impose a heavy burden on some employers who had operated non-contributory plans with severely restricted vesting provisions. He had some sympathy with the point of view that retrospective legislation of such a type was inequitable but the direction in which social pressures were taking them had been clear for many years.

He had put the emphasis on the basic structure of the social security system because the most encouraging aspects of the White Paper were the stress the Government had put on the development of occupational schemes and the sensible and flexible way in which it had tackled the problem of control. To secure the healthy and rapid expansion that should be possible within the suggested framework, they needed above all a period of stability and consolidation in the social security system. To achieve that, the system had to be acceptable not only to those who were already adequately covered by occupational schemes, but also to the many millions who had to look largely to the State for their protection.

Mr H. A. R. Barnett joined the opener in considering pressure for expansion of the flat-rate system. He thought that until the flat-rate system had reached the level at which supplementary benefits no longer applied, there would be pressures and he would have liked to see some phased increase up to that level.

Entry into the European Economic Community would affect public attitudes but he hoped that, in State pensions, Britain would become a leader rather than a follower. He saw the scheme as a means of leading in a system where true partnership between State pensions and occupational pensions would be possible. Some workers' schemes would disappear if they were either at a very low level, below the minimum requirements, or if it was difficult to establish whether or not they were below requirements. On the other hand, if that happened he thought the tendency to accept the higher paid works employees into staff schemes would gather momentum. Also, he thought that there would be a number of what might or might not be called 'Q' schemes. As a result, he did not see the numbers of persons in occupational schemes decreasing. Whether they would increase sufficiently to prevent the Reserve Scheme reaching the monumental dimensions which seemed to be envisaged he did not know, but he hoped that it would not get too big because the success of the experiment depended upon a good response from employers.

He thought that the financial proposals for a fully funded Reserve Scheme should work. It was right that if employers were asked to bring their schemes up to a minimum requirement, and that that minimum requirement was based on a scheme which was fully funded, then the employers' schemes should also be fully funded. However, if the Reserve Scheme were not fully funded, the Government would be asking employers to keep up standards which the Government themselves were not adopting.

The Reserve Scheme, even if kept modest in size, would undoubtedly cause pressure on the availability of investments and he thought that there would be an unnatural increase in the prices of many ordinary shares simply because of the demand. He hoped that the trustees of the Reserve Scheme would be really broad minded and would go as far afield as they could for their investments, even overseas.

Mr C. J. Cornwall supported the suggestion put forward by both previous speakers that the basic State pension should be increased to eliminate the need for at least some pensioners to be paid supplementary benefits. That did not mean that there should be a predetermined progression of increases in the real value of the pensions, whether in terms of percentages of average earnings or by any other formula. A course of pre-planned increases was open to all the objections against promises for the future which purported to commit future generations to do more than the present generation was willing to do. Such decisions had much better be left to future governments. However, they could decide to start the new arrangements in 1975 from a higher base. By 1975 the gross national product was likely to have risen by at least 10%, and very possibly more. If it were decided to allocate no more than 2% of that increase (of the order of £900m. in 1971 terms), it would almost cover the gross cost of £1,000m. (§ 13 of the White Paper) required to eliminate the need for supplementary benefits to all in receipt of contributory national insurance benefits. As the opener had pointed out, it would more than cover the net cost.

Alternatively, some of that £900m. could be used to relax the rule that any income over £1 per week served to reduce supplementary benefit on a pound-for-pound basis. The rule discouraged employees from accepting contributory pension schemes and employers from granting increases to their pensioners.

If it were agreed to transfer more spending power to pensioners, the cost should be met either by increased Exchequer grants out of general taxation, or by increased employees' contributions. The abandonment of the 50:50 principle, which shifted part of the burden of contributions from employees to employers, seemed unwise at a time of high unemployment and, indeed, the White Paper had made no attempt to justify it. Basic scheme contributions proposed for employees would in most cases be less than paid at present, as Tables 1 and 2 on p. 28 made clear. The opener had pointed out that higher employee contributions tended to result in higher wages and salaries but he thought the overall effect was preferable to that of a further direct pay-roll tax on employers.

Doubt had been cast on the suitability of the money purchase basis for the State Reserve Scheme. It was, he believed, common ground that the State Reserve Scheme should be self-supporting, unsubsidized and non-profit making. The question was whether there should be cross-subsidies between the members. Given that the scheme would cover isolated periods of members' working lives at particular ages and for particular employers, any cross-subsidy seemed undesirable. If there were cross-subsidy, the result would be either selective participation, as in the Boyd-Carpenter scheme but with far worse consequences because the scheme would be self-contained, or restrictions on selective participation as in the Crossman plan. Such restrictions might fail in their purpose. The situation was quite different from a company scheme where a single employer might adopt rules which had the effect of allocating his employer's contributions to the unequal benefit of different classes of his employees.

If, however, the State Reserve Scheme were money purchase, there was no special virtue in a career average salary formula as the criterion for exemption. It did not ensure that no member got a smaller pension than he would under the State Reserve Scheme and the opener had given some illuminating figures on that score. It was regrettable, therefore, that to comply with the formula, final-salary schemes (the majority, and in many circumstances the best, of occupational schemes) would have to maintain records of P.A.Y.E. earnings of all members throughout membership. Occupational schemes would be encouraged in accordance with the Government's aim if an alternative criterion based on a final-salary formula could be used in suitable cases.

Mr R. J. W. Crabbe compared the new scheme with the Crossman plan and found an identity of objective but a difference of method. The Crossman plan had aimed at a situation where the State would provide universally but would withdraw in favour of the private sector when it had to. Sir Keith Joseph's scheme, on the other hand, took the objective that the State should provide what it had to and ensure that the private sector did the job where it could.

The new scheme had been at pains to keep the employee's contributions the same as under the Crossman plan. If he was not contracted out, an employee paid 6¾%. If he was contracted out he had a reduction of 1·3% under the Crossman plan, and a reduction of 1·5% under the new scheme. The total cost, however, showed a marked contrast. Under the new scheme the contribution was initially higher; with the Reserve Scheme contribution, or presumably its equivalent, paid compulsorily into an occupational scheme, it required a total contribution—employer and employee—of 16½%. The Crossman plan, on the other hand, started out at about 13¼% with the prospect of rising, probably to over 16%. It was clear from the White Paper that under the new scheme the contribution was unlikely to rise unless there were changes in the planned benefits. It had therefore avoided the reproach that the present generation was not prepared to match what it demanded from its children. However, that was reflected in the benefits promised. Ultimately, by projecting into the future and ignoring inflation, the guaranteed benefits of the new scheme would substantially exceed those of the Crossman plan. At the outset both schemes gave substantially the same benefit since they both built on the basic pension which obtained at the time they were established. Owing to the quicker maturity of the Crossman plan, it went ahead in the first 20 years but was caught up by the new scheme after a little more than 30 years. He was very strongly in favour of the opener's suggestion that the Reserve Scheme should be altered and, whilst still based on a quasi-money purchase principle, should depart from the pure money purchase basis of the White Paper. He thought it ought to be altered to some form of age-independent scheme.

The promise of escalation of basic pensions was limited to at least the extent of price protection. On the other hand, the scheme had avoided the incubus of rising contribution rates; indeed, it expected that they could be reduced in future if the benefit escalation were limited to price protection, If, therefore, the economy showed a reasonable rate of growth, the scheme should automatically throw up, as a previous speaker had indicated, the necessary resources to raise the basic pension much further than was needed for price protection.

Looking back over the last 25 years, there was no doubt that the basic pension had regularly risen more rapidly than mere price protection. He would expect that pattern to continue and the White Paper suggested that it would, although it did give a hint that new resources becoming available might be used in other directions if experience showed that there was a social advantage in doing so. For example, in meeting the situation of the over-eighties who were likely in future years to need much greater benefits than younger pensioners due to such things as loss of public transport.

In spite of that, he agreed that a first claim on available resources was to lift the basic pension up to the supplementary level. However, during the whole of the first 20 years or so of the operation of the Beveridge scheme great efforts had been made to lift the basic pension up to the supplementary level but without success. The reason was that throughout that period everyone had rising concepts of what was the minimum standard desirable below which people could not be allowed to drop. That situation might well continue and, if the basic pension rose to a level which would currently be regarded as adequate without supplementary pensions, in 20 years the next generation would still feel that they wanted to pay supplementary pensions above that level.

He thought that in their likely out-turn the two schemes had much more in common than was generally recognized. The debate turned on personal preference between a scheme which sought to lay down in advance precise regulations governing the whole of its development for the foreseeable future, and a scheme which left much to future decision and on which improving occupational schemes and other benefits could be built. He favoured the latter.

Mr K. M. McKelvey felt that the proposals on preservation in the White Paper, which obviously envisaged a large proportion of pensions being preserved in the fund which the member had just left, were going to be unworkable. There would be a considerable number of people ending up with their pensions in many pieces. It seemed to him that the Government must set up a clearing-house for transfer values which could be remitted and received *en bloc* monthly by every fund in the country and by the State Reserve Scheme itself. He hoped that an economy which could devise a system for clearing millions of bank cheques every night could clear two or three million pension transfer values per annum.

Adding to Mr Crabbe's list of resemblances between the two schemes, both the previous government and the present government seemed to be insistent that the 2¾ million married women who currently paid some 2½p per week and opted out of the rest should be included in the revised scheme. He was sure that they did not want to be and it was very interesting to find both parties competing to lose 2¾ million votes.

Mr F. M. Redington announced that the man of the same name who had addressed the Institute 13 years previously on the subject had had 13 years of disillusionment since then. One of the illusions to go had been the economic validity of a State funded scheme, a term embracing not only the Government Reserve Scheme but any part of the new obligation which went into the private sector. The aim of funding was admirable; it was to make real investments to underpin promises which had to be honoured later. However, it was an illusion to believe that a compulsory increase in savings created more investment. It did not. Industrialists built factories because people were *spending*, not because they were saving. The irony was that the very papers which had announced the scheme for £400m. increased savings were on other pages saying that investment was flagging and that the economy needed some £400m. increased spending. That had been the theme for many months and, if the scheme were successful in reducing consumption by, say, £400m. when it started in 1975, it could be an economic disaster. Perhaps people's indifference to the glaring contradiction was because they knew very well that the scheme would, in fact, have very little effect one way or the other on investment. Most of the consequences would be frittered away in inflation before they could do any damage of a more unusual nature. Increased contributions would lead to price increases, then to wage increases, and in the end consumption would not be reduced.

A truly funded State scheme required three steps. First, increased savings by way of higher contributions must be imposed. That was the easy step which the scheme took. Second, those savings had to be kept out of the wages/prices spiral, i.e. real consumption had to be reduced. (If they knew how to do that, they could solve all the economic problems.) Third, the savings had to be pumped, presumably by the Government, into real productive investment. It was extraordinarily naïve to think that by taking the first step alone anything had been achieved. It was going to the church door but not staying for the service.

The most natural question was why funding should be bad or useless in State schemes if it was good in private schemes. The fact that the question seemed fair and natural—and it did—showed how little the ecology of the economic system was understood. To claim that life and pensions saving created investment was utterly wrong. To claim, however, that they *facilitated* investment was right. In a naturally developing economy there was a symbiosis between saving and investment; they grew together gradually and naturally, responding to each other and to all the other subtle changes in the economic climate. The economic virtue of actuarial activities lay not in the ritual of actuarial accounting, necessary though it was, but in the natural, gradual, voluntary and sensitive growth of savings as part of a living economy. A State scheme was the antithesis of all those things. It was sudden, compulsive and insensitive, and no observance of actuarial ritual by the State could give it the virtue which it lacked by nature. If the economic virtue of the State wearing actuarial clothes was illusory, there was nothing illusory about the fact that they did not fit. In 1957 he had with Perks had to face that problem and they had come to the same conclusion, as had the Government, that the only practicable solution was a money purchase scheme. A more desirable solution was to define the right benefits but the problems of re-calculating the contributions for all changing circumstances, including age, meant that the main beneficiaries of the scheme would be the makers of filing cabinets. The only practicable solution was to define and collect the contributions in the simplest possible way and calculate the benefits later, probably at retirement. That had a minor disadvantage because nobody knew what they were going to get but the major disadvantage was that contributions which gave reasonable pensions for young persons provided miserable pensions for older persons. From Table B on p. 23, after 20 years' contributions, the pension was 8% of earnings for men and 6% for women. This was no more than a small penthouse on the large structure of the basic scheme,' and that was exactly the dilemma which he and Perks had faced in 1957.

Funded schemes were so very, very slow to mature that for many years they could only be a penthouse on the basic structure and were no answer if the problem was of any size and urgency. On the other hand, if the problem were small and remote, was it worth the great upheaval and endless complications of a funded scheme? He thought the problem was of sufficient size and urgency for them to have to do more and he was very conscious of the continental comparisons that had been mentioned. He did not think that people in 20 years' time were going to be satisfied with pensions of 8% and 6% on top of basic. They would say: 'The fund grows and grows and grows and the actuary has no intention of ever using it.'

Mr C. D. Sharp thought everyone accepted that pensions, particularly State pensions, were a political matter. It was important to recognize how far the Conservative philosophy had changed in five years. The new proposals contained three elements: compulsion, price protection, and the Reserve Scheme. Five years earlier those would not have been acceptable to Conservative thinking. In the course of time they would also see a shift towards the larger pensions which various speakers had supported, but he thought that increases should be made when practicable.

Very large funds would become available for investment from the Reserve Scheme. Actuaries were accustomed to thinking in terms of money but it was the reality behind the scheme which was important. He accepted Mr Redington's symbiosis but believed that real investment could be encouraged by persuading people to save, although economists and others would argue for ever about that.

Thoughts about a State pension scheme were in terms of 20, 30 or 40 years. It was possible to see 10 or 15 years ahead but the domestic economy was only a small part of the world economy. A tidal wave of population was rushing forward and the world population would double before the end of the century. He did not believe that they could contract out of the problems which that implied.

Mr E. M. Lee remarked that what had struck him about the Reserve Scheme was the marked difference between its operations before retirement and its operations after retirement. The White Paper envisaged thousands of different employers and a vast number of employees moving in and out of the scheme; in that complicated situation the scheme had to be self-supporting with the minimum of cross-subsidy. There was to be a statutory obligation to invest the scheme and operate it in such a way as to secure the best pensions for the scheme members. It was a complicated picture. After retirement, there were simply current pensioners, male and female, single and married, to be provided for from the common fund. Faced with those features, the designers had chosen the form of a basic scale benefit with bonuses. The basic benefit was not guaranteed in the sense that it would have been under a with-profit contract but it depended on operating on its own with no subsidies; that meant a conservative bonus policy, at least in the early years. Nevertheless, he presumed that the bonus policy would be to approximate to the actual investment performance.

He thought that when discussing Melville's paper (*J.I.A.* **96,** 311) the meeting had agreed that it was very difficult to design bonuses that closely reflected investment performance. It would be even more difficult with the Reserve Scheme with continual movement of members. There would be pressure to provide such bonuses because the scheme would be compulsory, whereas with the normal with-profit contract voluntarily entered into a simple bonus structure sufficed.

He concluded that for the contributory accumulation period what was wanted was a straightforward 'savings bank' for each individual. At the end of each year the accounts and balance sheet would be drawn up, members' units would be credited with the earned rate of interest, and debited with the proper expenses, and with the cost of the life assurance cover. Under his system, few records would be needed but the simple book values would help in explaining to people why there was such a lot of money around. They would know how much of it was theirs. At retirement, the accumulated amount would be transferred to the pension section of the fund.

Mr P. J. Turvey said that whilst the proposed preservation rules were more stringent than those generally found in practice, they were still inadequate, especially when applied to final-salary schemes. With a final-salary scheme, any employee who changed jobs would, other things being equal, eventually receive a lower pension than if he had remained with the same employer throughout his career. The difference could be very large, and he considered that that was highly unsatisfactory. They should instead be looking for what Escolme (*J.S.S.* **19**, 124) called Third Order Preservation, or full transferability. Full transferability would not be a reality until an employee who moved from employer to employer, each having identical pension schemes, would ultimately receive the same pension as if he had remained with one employer and followed the same salary progression. He would like to see legislation which would further that concept. It would be difficult to define a paid-up pension entitlement satisfactorily but that should not stand in the way of a move towards equitable treatment of those who changed employers.

The proposed legislation was adequate for money purchase and average salary schemes and any inequality could be ascribed to the general benefit pattern rather than to the preservation rules. For final salary schemes, the paid-up pensions were too low because they did not allow for future salary increases. An immediate problem was to decide who should bear the cost arising when an employee changed jobs. It was clearly unreasonable to make the liability under the old scheme dependent upon salary levels paid by the new employer as that could give rise to very anomalous situations. It was also impracticable to fund the whole pension under the new scheme by insisting on a transfer value being paid. The best solution would be to leave the old scheme with the liability for the actual period of service, with the liability independent of the actual future salary progression of the employee. Increases in general salary levels (because of inflation, productivity, etc.) could easily be allowed for by expressing paid-up pensions in terms of a wages index. For example, if salaries had doubled between the date of leaving a scheme and retirement, the index-linked pension would be double that calculated at withdrawal on the usual proportional basis. Index linking would apply only during the period of deferment; post-retirement increases were a separate problem.

Allowance for salary increases due to progression was immensely difficult. Some employees reached their maximum level at an early age; others looked forward to a series of promotions. Some employers had clearly defined salary scales; others did not. A practical solution to the problem might be based on the use of notional salary scales used only for the purpose of calculating a pension entitlement although part of the contract of employment.

Mr G. V. Bayley compared the Reserve Scheme with normal occupational plans. The White Paper made it clear that the Reserve Scheme was not intended as a substitute for an occupational scheme, nor a model which occupational schemes should copy. Indeed, the very nature of the benefit test in § 57 should encourage employers to design their schemes in one of the forms which had become popular in recent years. To illustrate a consequence of the difference in design, he chose the case of a man earning £1,000 per annum who entered the Reserve Scheme at 25, with earnings which increased at 6% per annum, and who left after five years. The Reserve Scheme would produce an expected pension (allowing for bonuses of, say, 2½%) of about £215 per annum, plus post-retirement bonuses. The proposed benefit test for the same period (1% of relevant earnings) would be only £56, plus provision also for post-retirement escalation.

Those were strikingly different figures. Indeed, the occupational scheme needed to be much more generous than the recognition level, either as to the pension fraction, or by adopting some form of escalation of the pension during service, in order to reduce the disparity in accruing pensions at young ages. If the employer could not afford to do that, what then should he do for employees who left him after short periods of service? To pay back 4% contributions to the Reserve Scheme would be to deal more generously with leavers than with stayers. If he preserved accrued pensions in his scheme, he had to face the general criticism that employees who had left would have done better if they had been in the Reserve Scheme, and he had an administration problem. The dilemma was most acute in respect of manual workers, among younger age groups, and where changes of job were frequent. People at younger ages were, however, notoriously indifferent to the provisions made for their pensions. He thought it would be ironic and very sad if sectional pressures persuaded employers to seek refuge in the Reserve Scheme for substantial numbers of people, possibly building on top of it for the older ones and the higher paid. That would divert employers' contributions from the older to the younger age groups and reverse the trend developed by occupational schemes to provide pensions that were realistic in relation to terminal pay. There was a deeper worry too. The particular problem he had referred to made it peculiarly difficult to devise an occupational plan that looked attractive for younger age groups once they were participating in the Reserve Scheme. It was not only inertia, but material vested interests, that would interfere with weaning all age groups away from it into a new occupational scheme.

He thought that all that was necessary was to alter the design of the Reserve Scheme to an age-independent benefit of, say, $\frac{2}{3}$% of relevant earnings. That figure was by no means arbitrary. It would permit uniform bonuses of the same order as envisaged in the White Paper, pre- and post-retirement, and also widows' benefits. The effect would be to alter materially the comparison he had just given. Using the same example, the Reserve Scheme would provide, after five years, a deferred pension of just under £100 per annum for an entrant at 25, and about £45 per annum for an entrant at 55, thereby greatly easing the comparison with the proposed benefit test of £56 per annum in the example. Another advantage was that the pensions produced by the Reserve Scheme during its early stages would be greater. One of its social objectives could therefore be more rapidly achieved.

Although the alternative of an age-independent scale appeared to depart from a money-purchase plan, the bonus element greatly reduced the extent of that departure. He believed, also, that any age selection by employers, mentioned by Mr Cornwall, would be kept to negligible proportions in practice. For all those reasons he believed that, within the framework of the White Paper proposals, the case for a with-profit age-independent shape for the Reserve Scheme was the more compelling and would achieve the Government's objectives rather better.

Mr F. W. Bacon did not believe that it was possible to separate out the different streams of savings in the way Mr Redington had suggested and to say that some streams which were generated in the private sector were good and others which were generated in the public sector were bad. It was true that he had long been associated with the view that pensions should be funded to enable capital investment to be built up, so that those pensions could in due course be paid out of the national income so generated without reducing the standard of living of the active population. To think otherwise was to confuse a short-term and long-term problem. As a good Keynesian, he had never argued that savings would automatically be converted into capital investment. What had gone wrong was that there had been mismanagement of the national economy, which he hoped would be of a short-term nature, but in the 1970 Budget they had a large dose of deficit financing which some people feared might lead to inflation two or three years later, just at the point when the new scheme might start. There was still a need for much more investment if there was to be the growth in national income which was desired. It was essential to arrange that all savings, including those generated through pension funding, would help to finance increased capital investment. Failing that, there would be no real increases in pensions, whether they were funded or unfunded.

Mr C. S. S. Lyon questioned the philosophy behind a funded Reserve Scheme from the point of view of the employer or the employee. One major point for the Reserve Scheme was that an employer who had a final salary scheme should have no difficulty in seeking recognition and should not be troubled with trying to work out whether it was better to go into the Reserve Scheme or to sit on top of it. The Reserve Scheme was financially neutral as far as the employer was concerned and the choice was not affected by the age distribution of his employees; he should therefore seek exemption. If he did not, he would have difficulty in designing a scheme to sit on top of the Reserve Scheme because its benefits were even more obscure than those of the Crossman plan.

At the other end of the scale, an employer who was not sure whether he was really committed to providing pensions at all for employees such as blue collar workers had to decide whether to put them into the Reserve Scheme or to set up a recognized scheme. Here the shape of the Reserve Scheme would have the opposite effect. The 1% formula had been designed rightly to ensure that most employers would find it more costly to set up a recognized scheme than to go into the Reserve Scheme. There was no scope for 'Q' schemes. It would be an even more expensive choice for an employer who wanted to bring young employees into a recognized scheme because he might feel that he could not get away with a 1% benefit when the Reserve Scheme was giving a 5% benefit. That was a serious disincentive to employers who had no scheme for their employees, or who had non-pensionable or under-pensioned employees, to do anything other than put them into the Reserve Scheme, and once there it would be difficult to get them out again. He thought that there could be a tendency for the coverage of occupational schemes to remain unchanged, or even to decline.

He criticized the Reserve Scheme because it ignored such serious social problems as invalidity and divorce. Invalidity was a risk that was covered by most European state schemes. There was no sense in providing a man with a retirement pension at 65 which was related to his earnings if, had he to stop work before then, no such benefit was granted until he became 65.

The Reserve Scheme did too little too late for people who were not in occupational schemes. Given that basic State pensions were set at a very low level, it could be argued that the area which would be covered by the Reserve Scheme fell largely within social security rather than savings. The point at which redistribution should stop and begin would be subject to political debate. He thought that the Government had got it wrong and that, if the scheme came into being in its proposed form, it would give a big boost to savings and insurance companies' premium income in 1975, but he would like to be sure that would still be there in 1985.

Mr C. G. Lewin said that the conditions for exemption from the State Reserve Scheme were an encouragement to many employers who had pension schemes with relatively low benefits to move to an average salary pattern. That pattern had given rise to a lot of difficulties in times of inflation, and it seemed to be a retrograde step which was likely to give rise to a great deal of dissatisfaction with occupational pension schemes.

He asked why a benefit test was really necessary. The White Paper was not proposing a test which would provide each employee with the same benefit as he might have got in the Reserve Scheme. Why, therefore, was there need to put any form of guarantee on the amount of benefit each employee would get out of an occupational scheme? If an occupational scheme was of a reasonable standard, surely it was unnecessary also to guarantee each employee's individual benefit. That thought led to just a simple test that a scheme itself was of the required standard; a contribution test, for example, or an imputed contribution test, on a prescribed basis to say that, once the scheme was of the recognized standard, then employees could participate in it and get the benefits under the rules, but without an individual guarantee applied to each employee. That would overcome many of the difficulties caused by an individual benefit test which did not correspond with the benefits produced by the Reserve Scheme.

Mr G. Heywood, in closing the discussion, noted that the Institute had discussed proposals for changing government pension schemes on a number of occasions. In 1942 they had had no less than three sessional meetings devoted to the Beveridge Report. They had had a discussion on the proposals which had led to the National Insurance Act, 1959, which brought in the graduated scheme; then the Crossman plan had been the subject of the last discussion some three years previously. There were certain basic principles which had pervaded all those discussions, and had been repeated consistently throughout. Perhaps the most important was the need for financial discipline in a Pay-As-You-Go system. One of the most important aspects of the White Paper was that that view had been accepted by the Government almost unreservedly. Beveridge had lasted 25 years. The Graduated Pension Scheme looked as if it would last 14 years. The ill-fated Crossman plan had been a casualty of the election. The question that emerged was whether the new scheme would come into effect in 1975 and, if so, whether it would last for a generation? He thought it likely that legislation would reach the statute book not in the 1971–72 session (which would be too busy with admission to the Common Market) but possibly in the one afterwards. Politicians claimed that once an act was on the statute book it was difficult to repeal, so that he thought that the scheme would go into operation in 1975 as planned and, even if there were a change of government, it would be altered only in minor respects.

The discussion had dealt with five main areas: the overall strategy, the Basic Scheme, the Reserve Scheme, the conditions for recognition, and preservation. The overall strategy was summarized by the eight objectives in § 8 of the White Paper, none of which had been criticized. Many were the same as those set out for the Crossman plan but, as the opener had said, the way in which it was proposed to achieve them was much simpler. Partnership between the State scheme and the private sector had been welcomed, as expected, and the division of the arrangements into a Basic Scheme and a Reserve Scheme was preferred to the combined idea of the Crossman plan. Nobody had quarrelled with the proposal that the Basic Scheme should be financed on a Pay-As-You-Go basis, although, surprisingly, one or two doubts had been expressed as to whether the Reserve Scheme should be fully funded or not. In the main, the general view of the basic strategy was that the Government had just about got it right.

The benefits of the Basic Scheme were to remain flat and were to be financed by the Pay-As-You-Go method through the medium of earnings-related contributions. The principle of financing flat benefits by earnings-related contributions was new and, although it had been said to be politically impossible, it had been calmly accepted by the general public and by a number of speakers during the discussion. The relative merits of flat versus earnings-related contributions was one of the subjects which had pervaded the early Institute discussions, and doubts had been expressed as long ago as 1942 about the regressive effect of flat contributions and the unusually heavy burden which would fall upon the lower paid workers. Those doubts had been fully justified by the course of events, with the result that with the flat benefit at its current level there was little alternative but to finance on an earnings-related basis. That, together with the need to produce a buoyant contribution income to meet the cost of future increases in flat-rate benefits which impinged immediately on the outgo, was the second reason why earnings-related contributions seemed inevitable for the future. That change was the final factor which led to the complete acceptance of cross-subsidies from the young to the old, and from the higher paid to the lower paid, and to the disappearance of the actuarial contribution and the insurance principle. It was, however, surprising that having gone so far, the Government had not taken the final step of referring to these payments as taxes rather than to continue the terminology of a contribution.

Few people had commented on the estimates in Appendix 3 of the White Paper which showed that the proposed scheme would be inter-balanced from the outset until the end of the century. That was a vast improvement on what they had seen before. The last sentence of § 2 of the White Paper said: 'There must be no promises that depend on our children doing more for us than we are willing to do now for our parents', and the last two sentences of § 12 went on: 'There will then be scope either to reduce the general level of contributions or to increase the range and level of benefits. The choice is one to be made when the time comes; it must not be pre-empted by commitments entered into now.' The main responsibility of actuaries in the field of State pensions was, and had been, to state as clearly as possible the financial implications of long-term decisions. Mr Crabbe had welcomed that discipline but he had gone on to point out that one of its consequences was a rather slower maturity than in the Crossman plan.

The main criticism of the Basic Scheme had been of the level of benefits, benefits singly in the Basic Scheme or together with those in the Reserve Scheme, which would mean that there was unlikely to be much reduction in the current level of supplementary benefits. In contrast, the removal of supplementary benefits had been a declared aim of the Crossman plan. The opener had wanted to achieve their removal by an immediate commitment to increase flat benefits at future intervals, whereas Mr Cornwall and Mr Sharp had wanted that to take place more gradually and to emerge over a longer period. Whatever happened, he thought that the cost of providing for an increase in benefits, even after taking into account any saving on supplementary benefits, was still formidable. On the other hand, he had been very much impressed by everything that had been said about the low level of benefits, and that was one area at which he hoped the Government might look again.

Comments had been made about the effect of entry into the E.E.C. and in support of putting up the level of benefits. It had been pointed out that in Britain the level was, in general, less than in most E.E.C. countries, but the point had also been made that those countries which had the lower level of State pensions had, in general, a higher level of pension provision from the private sector.

The Reserve Scheme had been welcomed in principle by a number of speakers although there had been many criticisms on points of detail. The difference in emphasis between the Crossman plan and the new proposals was that under the Crossman plan employees were contracted out, whereas under the new proposals employees were contracted in only if other provision did not rise to a sufficient level. In designing the Reserve Scheme, the Government had had to make a fundamental decision on a matter of basic policy, namely, whether there was to be any cross-subsidy, or whether the benefits emerging were to be equal in value to the contributions paid by the employee or on his behalf by the employer. One consequence of the Government's decision to have no cross-subsidies and to have benefits which were to be equal in value to the contributions paid was that that led to benefits emerging in a pattern quite different from that of a normal occupational scheme. A number of disadvantages arose because, in the Reserve Scheme, the benefits purchased at the younger ages were much greater than those purchased at the older ages, whereas in the private sector the reverse was usually the case. A suggested solution was that the Reserve Scheme might have benefits calculated on career average salary at a percentage low enough to allow for the emergence of bonuses which would add more to the benefits at the older ages than at the younger ages.

Mr Redington had expressed doubts as to whether the Reserve Scheme should be fully funded or not. Perhaps it was a little surprising that such a doubt should be expressed at the Institute but he had gone on to indicate that he seemed to have become an economist rather than an actuary and that had probably led to the views he had put forward. Mr Redington had agreed that it was right for contributions to be increased but that when they were increased they should be kept out of the pay packet, and when they were invested care should be taken to see that they got into real investment. On that particular point, Mr Bacon put forward the orthodox view. They would have to wait and see which of the two views turned out to be correct.

On full funding, the advantages were obvious, but disquiet had arisen because of the ultimate size of the Reserve Fund and the enormous amount of money which would fall under the control of government. The proposed independent board of management appeared to provide a safeguard but those appointed would have to be strong-minded individuals who would refuse to be influenced by the government of the day. There was more to it even than that, because there was nothing to stop a future government, of whatever political persuasion, when under pressure to increase benefits, from altering the degree of funding or changing the constitution of the independent board of management so as to use the funds for other purposes. One suggested way of making the board of management more independent of the government was to have members appointed by such individuals as the President of the Royal Society, the President of the Institute of Chartered Accountants and the President of the Institute of Actuaries.

Another way of reducing the dangers in the Reserve Scheme was to keep the numbers as low as possible. The Government Actuary had mentioned a figure of 7 million potential members, and one speaker had expressed the view that that number might be exceeded if some existing works schemes closed down. The difficulties to which he had referred, quite apart from the administrative problem of handling preservation in the private sector, tended to support that view. On the other hand, there were many whom he thought would avoid the clutches of the government at all costs, especially in view of the unfortunate experience in the Graduated Pension Scheme. The trades unions also, whenever they expressed a view, seemed to prefer independence from the government, whatever its political persuasion. Nor should they underestimate the considerable amount of marketing which was likely to occur in the future, either to raise the benefit level of existing schemes or to introduce new schemes. The ultimate figure was, therefore, very difficult to guess. Mr Lyon had summed it up by taking the view that final salary schemes would stay out of the Reserve Scheme, that works pension schemes with benefits on a low level would be in, and that where there were no schemes at all members would go in. That had led to the view that the estimated figure of 7 million was likely to be exceeded. If, however, the Government wished to minimize the size of the Reserve Scheme and to encourage the private sector, then one way would be to look again at the benefit pattern of the Reserve Scheme on the lines which had been suggested during the course of the discussion.

The opener had expressed the view that the terms for recognition would probably be accepted in the main by employers and also would be approved by the employees. The use of 1% of career average earnings as a test of recognition had been criticized, and it had been pointed out that it would not ensure that the private scheme benefits were larger in every individual case. One speaker had put forward an unusual idea, which might have some merit, of dispensing with a benefit test and replacing it by a test of the contributions which should be paid.

The very few people who had commented on preservation had welcomed it. He had always been in favour of preservation, while appreciating the difficulties which it entailed, and he supported the view expressed that the proposed rules were not sufficiently stringent. The difficulty of having lots of small frozen pensions to deal with had been referred to and the idea of the State setting up a clearing-house for transfer values had been suggested. If it were not undertaken by the State, he thought the private sector should consider it.

He expressed the hope that the years of uncertainty which everyone had had in the pension field for some time were at an end, that the legislation would reach the statute book in 1973 and that they might then all get on with the vast amount of work which lay ahead.

The President (Mr R.S. Skerman) expressed thanks to Mr Heywood for an admirable summing-up and to Mr Rogers for initiating the discussion so well by his thought-provoking remarks. The proper development of national pensions was of such great significance to the welfare of the community that it was important that plans should be widely discussed, particularly by those well-qualified by their expertise and experience to do so. He was sure that actuaries could fairly claim to be so qualified to express views on two aspects; first, on the likely long-term financial effects of a plan; and secondly, on the form of partnership which should exist between the State Scheme and occupational schemes.