

**DISCUSSION ON THE PENSION PROPOSALS IN
THE GOVERNMENT'S WHITE PAPER
Reform of Social Security—Programme for Action (Cmmd 9691)
AND THE SOCIAL SECURITY BILL 1986**

[Held on 17th February 1986]

Mr. A. J. Low, opening the discussion, said:—I suppose, like many of you here tonight, my first reaction on reading the contents of the White Paper in December and the Social Security Bill last month was to breath a pretty hefty sigh of relief.

It seemed that the worst excesses of the Green Paper proposals had fortunately been dropped. In particular, I have in mind the proposed compulsory money purchase benefits and the proposed implementation date for the new arrangements of April 1987—these have been dropped despite the indications at the time of the publication of the Green Paper that these particular aspects were non-negotiable. I suppose that gives us perhaps a little encouragement for the next stage. I must say the prospect of having to arrange millions of individual Personal Pension policies, quite apart from the complications for occupational schemes which were going to have to ensure that appropriate money purchase benefits were provided for members in respect of the initial part of contributions, was absolutely horrifying and I think that would have been the case, whether the implementation date had been 1987 or, for that matter, 1997.

How proposals of this nature could even be considered by the Government far less accepted and published in the form of a Green Paper leaves me, at any rate, to wonder just what they are playing at and what other impractical nonsense is perpetrated in areas of government policy about which we know perhaps rather less. However, at least as regards these two aspects of the original proposals, common sense seems to have prevailed and we must welcome the fact that the new proposals will not be implemented until April 1988 which seems to me at least to be feasible, although perhaps difficult, as a timescale.

On the subject of timescale though, I must make a plea to the Government for the publication of all the relevant regulations reasonably far in advance of the implementation date. By well in advance, I do not mean just two weeks before, which was the timescale with which we have had to contend as regards the regulations which followed the 1985 Act. I suppose a helpful factor in this context is that the Government presumably is going to be fairly keen to produce the regulations before the next general election and that perhaps will encourage a slightly longer preparatory time than might otherwise have been the case. I am not encouraged by something which was suggested to me this afternoon, namely that the Treasury is not going to pronounce to us about the tax treatment of Personal Pensions until the autumn statement—now that may or may not be right, but if it is right, it is rather discouraging and simply adds to the uncertainty which is going to prevail during the next 18 months.

Perhaps I should emphasise at this stage that I am in a bit of a minority in that I do not support the Government's decision to retain a modified version of SERPS. Those of you who read a paper which Peter Felton and I had the

privilege of presenting to the Faculty in 1975—I realise that probably means very few of you, if any—will be well aware of my views on State Earnings-Related Pension Schemes. I have never been able to understand why consecutive governments have been so obsessed with arranging the country's social security system so that that part of the working population which has been privileged to earn higher rates of income during employment should have higher income maintained after employment at the expense of the taxpayers of the time. It seems a strange way, from my point of view at least, to *organise a system*.

I suppose the principal justification is that perhaps it provides Government with an argument which supports the payment of earnings-related contributions for pension benefits without specifying these contributions as straightforward taxation. But taxation is what they are and I think that this is becoming more widely recognised and the Government ought now to accept it. It is certainly my view that the Government, as far as pensions are concerned, should be concentrating the maximum resources on those people who need support most and that means the people who are dependent on the flat-rate pension and very little else other than social security. This would leave those in employment to make such additional provision as they think fit for their retirement and perhaps just as importantly they would be able to make it when they think fit and when they can best afford it. It seems to me that this fits in reasonably well with the Government's apparent philosophy as regards freedom of choice for the individual.

The Government Actuary's Memorandum in the White Paper indicates a total ultimate cost for the revised scale of benefits in about 2030 of £42bn as now proposed assuming that the flat-rate pension increases in line with prices. With no SERPS and the flat-rate pension increasing in line with earnings the estimated cost would in fact be slightly higher at about £50bn. It seems to me that that in itself is a pretty good case for abandoning SERPS and sticking to a flat-rate benefit and increasing it at a higher rate than is now being proposed.

Anyway that is perhaps enough of that particular hobby-horse. Let us now turn to the Social Security Bill proposals themselves.

In the first place, despite what I have said so far, there are a number of proposals which I think we ought to welcome. Firstly, the abolition of the various requisite benefit rules for contracted-out schemes, I think can only be regarded as a step forward—although before we become too euphoric about the possibilities for simplifying scheme rules we are going to have to check that the amendment provisions of individual schemes do in fact allow us to sweep away the various requisite benefit requirements, at least as regards accrued benefits. However, it is a step in the right direction I am sure.

Also I welcome the proposal to require occupational schemes to provide members with a right to pay additional voluntary contributions subject, of course, to overall Revenue limits, although I think we could quite happily operate without Revenue limits in the context at least of voluntary contributions without creating any serious problems for the Treasury in terms of loss of revenue.

I give a guarded welcome to the proposals for a DHSS organised clearing house to cover the payment of personal pension scheme contributions if we have got to have them. This should help to limit the administrative burdens which are going to fall on employers in the future, although I must confess to being somewhat concerned as to what happens when the DHSS computer system is next strike-bound. Under the existing system, a defined benefit system, it has been possible following the recent strike to calculate members'

benefit entitlements in arrears. When we are dealing with personal pension contributions it will not be quite so easy. If the onward transmission of members' contributions is delayed on account of a strike or other industrial action for any length of time at all, but particularly if it runs to several months as could quite conceivably be the case, members are potentially going to suffer in terms of loss of interest, loss of capital appreciation, and so on. These aspects have legal implications which need to have some fairly careful consideration on the part of the Government.

Now can I turn to what I regard as the less attractive aspects of the Bill and first of all, a word or two about the proposed additional national insurance contribution rebate of 2% of relevant earnings. This, of course, is intended to apply to occupational pension schemes which become contracted-out for the first time but only to the extent that they apply to employments which have not been contracted-out previously under any other occupational pension scheme after 1 January 1986. There is a nasty complication here that I foresee, in that it is not always entirely clear just exactly what an employment is and, particularly in the context of mergers and take-overs, we are going to have some circumstances where it is not clear whether an individual or a group of members actually qualifies for the 2% additional national insurance contribution rebate or not. The additional rebate or bribe or whatever is also going to apply to those who effect Personal Pension policies between 1988 and 1993, even if these individuals have previously been members of contracted-out occupational schemes and would not be eligible for this additional rebate if they remained in membership of those schemes. The logic of this is really quite clear, just as long as you take the view that it is desirable for as many people as possible to establish individual Personal Pension policies. Otherwise it seems wholly inequitable and I find it quite astonishing that the Government has come up with a proposal of this nature. It does seem extraordinary to have a situation where two companies could be providing exactly the same benefit packages for their employees at present, one contracted-in and the other contracted-out, to find that post-1988 the contracted-in company can contract-out, provide the same total benefit package and have a £200 per head subsidy from the taxpayers—quite extraordinary and I do hope that sufficient pressure can be brought to bear on the Government to remove this proposal.

Next I would like to say a word or two about the new revaluation rate which we are going to have to contend with after 1988. We are going to have so many revaluation rates of one kind or another after 1988—it is bad enough as it is at the moment—that I doubt if any single computerised administration system can cope with them. A scheme can have Section 21 orders, 8½% fixed rate revaluation, 5% limited revaluation, and that only takes GMPs up to retirement age. Then there is statutory revaluation for post-1985 deferred pensions at the rate of 5% per annum, or the increase in the RPI if lower, but of course it is a different 5% from the first 5% because it has an RPI ceiling and not a national average earnings ceiling and also, it applies in respect of complete years up to the date of retirement, whereas the first 5% only applies up to the end of the tax year before retirement, and so it goes on. And now we are going to have 3% per annum revaluation on post-1988 GMPs, perhaps discretionary increases on pre-1985 deferred pensions and who knows, maybe a guaranteed 2½% per annum under the scheme rules on some other bit of a member's benefit. It really is almost unbelievable. But I suppose it is good news for actuaries and it is good news for people who have got computerised administration systems which can cope with it. I think myself that there is a grain of truth in the suggestion that it is a deliberate plot on the part of the Government to discourage occupational pension schemes as we

know them now and to encourage employers to encourage their employees in the direction of Personal Pension policies. You certainly do not have to be an actuary to see the attractions.

Well, what about Personal Pension policies themselves, or to be more accurate, money purchase benefits? Well any decent Part 8 student will be able to tell you the pros and cons of money purchase schemes, so I do not propose to do that. You might think it would be difficult for me to pose as a decent Part 8 student anyway. I do accept, of course, that in some circumstances a money purchase scheme will provide better benefits than a defined benefit scheme, in the same way a Turner might be a better bet for someone than a Constable. It really depends which one of each you are talking about and what you are expecting to get from it. So I think we ought not to be too quick to condemn Personal Pension policies. I must say that if recent investment returns and inflation rates continue to apply, I will be quite happy with mine, but, however carefully I select the investment medium for my own policies, there is bound to be a substantial element of luck involved in what comes out at the end of the day and a decent defined benefit scheme backed by a suitable pool of investments in a Trust Fund seems quite an attractive proposition to me.

I am particularly concerned also in the context of Personal Pension policies at the likely level of expenses. These are quoted as ranging variously from 10% to 20% of premiums. Even at the lower end of the scale this is a substantial part of an individual's contributions to be disappearing without any corresponding benefit. But expenses do have to be quite high to justify the sales costs and the complications of organising systems to cope with very large numbers of small policies, particularly if they involve fluctuating weekly or monthly contributions. It may well be that the Government will impose statutory restrictions on expenses, commission and the like, which discourage insurance companies from getting involved in at least the smaller end of the market, but of course this would defeat the object of the exercise as far as the Government is concerned. It would be wrong for me to leave the subject of Personal Pensions without mentioning the contracting-out option as such. Quite apart from the extra 2% rebate, it is easy to see that contracting-out with a Personal Pension policy is going to be quite an attractive proposition for some groups of occupational scheme members, particularly younger employees whose option is a contributory occupational scheme and who will be able to obtain a quite significant increase in take-home pay. It will be particularly attractive to those who are waiting to fulfil eligibility conditions for an occupational scheme where the same benefit would apply assuming, of course, that tax relief is going to be available on Personal Pension contributions. The result of this, of course, could well be an upset in the age distribution of contracted-out occupational schemes which might well be left with the older employees of those who are eligible. This, of course, would lead to the situation whereby the resulting contracting-out rebate may become inadequate to enable the occupational scheme to meet the cost of its GMPs. This, in turn, will tend to lead us into a situation where the occupational scheme will perhaps contract-in, and then we go round and round in a circle and I am not quite sure where that leads us. I am sure there will be rather more of that later and I look forward to hearing your comments about it.

I am sorry not to have included anything specific in my remarks about the Government Actuary's paper on the proposed rebate. I was abroad for most of last week and recovering slowly yesterday from time-change and the aftermath of a certain rugby international when I was confronted with the news that the paper had actually surfaced. Unfortunately I have not yet been

able to fight my way through it. I shall leave that to someone else to deal with, with apologies from me to the Government Actuary. I am also aware that I have not said anything this evening about unisex annuities. Unisex annuities is a subject which I, myself, find rather difficult to get excited about and again I shall look forward to hearing someone else's comments about that.

But to finish on a slightly lighter note, surely something is going to have to be done about the proposals as regards spouses' pensions and the fall in these pensions which is proposed for April 2000. Those of you who are employed had better look out if you are still around about April 2000. If you die on 4 April your spouse's earnings-related pension in today's money could be about £2,500 a year but if you survive for another couple of days it is down to £1,250. I think that sounds like a good time to leave your spouse for a few weeks and take a holiday by yourself. Fortunately those of us who are self-employed will not have to worry about that. We will not have the privilege of a state earnings-related pension, but perhaps very likely the whole scheme will have been changed again by then, and there might not be any anyway.

Mr. I. M. Aitken:—Prior to April 1978 a Class I employee paid national insurance contributions at the rate of 5·75% of earnings; the employer paid a further 8·75% of earnings, making a total contribution of 14·5%.

Immediately after contracting-out, the employee's and employer's contributions (in respect of earnings in excess of the Lower Earnings Limit) were pitched at 4·0% and 5·5% respectively, making a total contribution of 9·5%—a significant financial reduction on the previous contributions. In return, the employee was promised enhanced benefits from the State; the main benefit being an inflation-proofed increase on the Guaranteed Minimum Pension. This fallacy is the result of financing pensions on a "pay as you go" system. It stood to reason that, with the progress of time, the contracting-out contributions had to increase and the Government's White Paper "Reform of Social Security" is written acknowledgement of the increasing costs. The result is that both SERPS and GMPs are to be cut back.

The Government continues to be enthusiastic about contracting-out and now proposes to introduce Personal Pensions. An inducement of 2% of earnings in excess of the Lower Earnings Limit is to be made on behalf of people who contribute to an appropriate Personal Pension scheme for the 5 year period 1988/1993. This is a very generous enticement and will be appreciated by a significant number of the 11 million people who are not in occupational pension schemes. Indeed, it will also be an enticement to some people in inadequate schemes.

I am concerned on two counts. Suppose 2 million people enter appropriate Personal Pension schemes and receive the 2% inducement. If these people are earning approximately £7,000 per annum, the cost to the Government will be approximately £100 per person per year, i.e. in total £200m and, over 5 years, it amounts to £1bn in present day monetary terms. Is it right that the taxpayer should subsidise this one particular section of the community at this cost? I make no mention of pension schemes which become contracted-out for the first time. The selective nature of this inducement would appear to penalise the many employers and employees who participate in existing contracted-out schemes. Is this fair?

My second point is that the more people who are encouraged to contract-out, the less income the National Insurance Fund will receive. The result is that all employees, whether contracted-in or contracted-out, will have to pay higher national insurance contributions and I estimate that, based on 2 million people, this could increase the proposed national insurance contribution rates by ½%.

I am in favour of introducing Personal Pensions and allowing people to make their own choice. However, I think the terms should be financially neutral and I do not think people should have financial inducements from the Government to enter appropriate Personal Pension schemes. After all we shall all have to pay for it in the long term!

Mr. A. Neill:—Like Mr Low, one of my many worries about the Green Paper proposals was the thought of millions of people in March and April next year having to make decisions as to which institutions would invest their compulsory Personal Pension contributions. It just did not seem possible that there were enough consultants and salesmen to give responsible advice and clerical staff or computer capacity to establish the records, and it was no answer to me that the employees could perhaps change their minds later and change their vehicle. Now at least we have no compulsion, but the pensions industry as it is now, plus the newcomers to be allowed in, are all going to have to do far too much in a short time around April 1988 if employees do find the idea of the 2% subsidy or bribe attractive. I am still in fact a bit lost as to what actually will happen in April 1988. Do people then make decisions as to who is going to invest their Personal Pension contributions, and records are set up, with the actual first contributions from the DHSS not being made until over a year later? Newcastle will presumably not get the records from employers until after the end of the 1988/89 tax year and then will not get round to paying the rebates to the contracts until the autumn of 1989. Perhaps the employees do not decide which institution to use for their Personal Pensions until then?

On the question of the contracted-out rebate under the new conditions and the Government Actuary's recent Memorandum, I was very glad to see that it at least recognised that consideration needs to be given to two different figures. One is the value of the Guaranteed Minimum Pensions for which the State scheme ceases to be responsible whether the alternative provision is through occupational schemes or Personal Pensions, and the other is the cost of the Guaranteed Minimum Pensions for defined benefit schemes since it is only they which have to give the statutory Guaranteed Minimum Pension. The second figure is likely to be higher than the first. As we have heard, the younger members are more likely to opt for Personal Pensions, but how much higher is very much a matter of guess work, depending on the number opting for Personal Pensions. The Government Actuary has assumed a figure of ½ million people opting for Personal Pensions which, of course, reduces the rebate. If this figure is actually the case, we are going to have hundreds of life offices, building societies, unit trusts and banks trying to get the custom of ½ million people. Now is it reasonable or economic for all these institutions to be establishing new contracts and computer systems for their fraction of this market?

It would seem that one of the main reasons for the recommended figure of 5.4%, the new recommendation by the Government Actuary, being less than the figure of 5¾% quoted in the White Paper and the 5½% quoted in the Government Actuary's report on the financial effects of the Bill, is perhaps that the gap between the earnings increases and investment yields has been increased from 1% to 1½%.

Initially the contribution to a Personal Pension is going to be over 5% plus 2% and that is almost respectable. What is it going to be in the long term? The technical annex assumed the rebate reduced to 3¼% by the year 2018. The Government Actuary in his other report said 3½% in 2033 which is a higher figure later, which looks slightly odd to me. But if the assumptions are changed the way that they are being changed we are going to look at an

eventual rebate of the order of 3% or even less. Does that not seem rather a lot of fuss to be making for quite a small contribution?

As Mr Low remarked, there is this problem of administrative time and while I welcome the decision on the White Paper to postpone change for a year, I do not think it is enough. I do not think the Government realise the administration problems that they cause when they make alterations in pension arrangements and the complete impracticality of their timescales. As has been mentioned some of the Social Security Act 1985 came into force on 1 January; we are still awaiting the guidance notes from the OPB and the alterations to the Practice Notes by the SFO. We did not get, as has already been said, the actual regulations from HMSO in Edinburgh until 17 December.

Consultation is vital. It is also important that the Government pays some attention to the comments made, but adequate time between the final decisions and the implementation of change is also vital and this does not seem to be realised by those at Elephant & Castle.

Mr. G. Bannerman:—I regard the White Paper and the Social Security Bill as a good example of the political approach of cobbling together a number of commitments which are thought to be vote-catching without regard to the consequences.

One example of this is the promise that people should not suffer for periods of unemployment or family responsibilities and the method adopted to give effect to this promise. In the Bill the averaging period has been extended from the best 20 years to the whole of the person's working life after 1978 but excluding years in which the person was precluded from regular employment by responsibilities at home or was given credits to enable him to satisfy contribution conditions.

Think how this works in practice. On the credits side the present legislation says that if a person is unemployed for a part year his total contributions paid in the year are increased, if necessary, to the extent needed to satisfy the minimum and any excess over the minimum paid in the year creates an earnings factor for the year.

A man who earns 6 times the minimum level for 2 months and then becomes unemployed will get no credits because he has satisfied the minimum for the year. That year will be brought into the average at zero earnings whereas if he had earned nothing, the year would not be counted at all and the average would be higher.

I can see the same thing happening to mothers who take part-time jobs—if they work they could finish up with lower pensions than if they do not. A woman who works full-time for 10 years before having her family and 10 years after they have grown up can qualify for a full earnings-related benefit. If, while her children are in their teens, she decides to work part-time and earns only the minimum level, each year is brought into the average at zero earnings, and if she works for 10 years in this way her earnings-related pension will be ⅓rds of the level that would have applied had she not worked at all for these years.

I referred earlier to a man being 'unemployed'. The White Paper refers to people who are 'disabled' but the Bill does not make this distinction and it may be that this will be a matter for regulations. I shudder to think of the complications which will arise here.

Mr. C. F. Low:—I agree with my namesake, the opener, in one or two points, not least of which is not getting very excited about unisex annuity rates. What I do particularly share with him is his doubts about the

Government's real intentions. Perhaps it is asking too much to have an honest politician. They have stated that the object of the exercise is to reduce the cost of SERPS and to be fair, some of their Bill proposals have attacked the root cause of the problem—the fraction of spouse's pension and the reduction in accrual. However, the shape of the rebate does not attack the root of the problem and in my opinion will merely exacerbate it.

There are two points which are highly objectionable. The first is the 2% bribe. Here, at least, there may be some cloak of honesty because they have not attempted to disguise the fact that it is an encouragement for people to contract-out. However, it is patently unfair that those employers who have already contracted-out will not get this 2%, whereas those who have to date participated will, and more importantly, so will everybody effecting a Personal Pension. Now, where I attack the Government's dishonesty is that their intention in my opinion is not just to reduce the cost of SERPS—that is a convenient excuse—it is to have Personal Pensions at all costs, or privatisation of State pensions at all cost. It is not my stance tonight to take a political view as to whether as a private person I would or would not agree with that intention. It is the manner of its implementation and its implications on the pensions industry which concerns me and this comes in the shape of the rebate suggested at 5.4%. Obviously, as we all know, the rebate should come adjusted by sex and by age and the Government Actuary illustrates this for us in Appendix C as varying between 2.2% for a male of 16 to 12.5% for a female of 55. It does not surprise us that the Government Actuary knows that. What does surprise us, perhaps, is that the Government has taken no notice of that when the Secretary of State himself in his Blue Paper 'Portable Personal Pensions' in June 1984 said, when talking about voluntary contracting-out, "of course the rebate must be related to the age and sex of the individual". We find today a Government Actuary's Report, where perhaps he is not free to recommend an age and sex related rebate, certainly setting it out clearly for all to see, and we find the political decision that there be one rebate. Now what is the effect of that rebate?

Option against the State:

1. Any male under age 45 or female under 40 will get a rebate greater than that needed to buy his additional component, so therefore contract-out and have a Personal Pension. That is even without the benefit of the 2% bribe and when, of course, you come to the break-even age, there is no reason that I can see why you cannot cease to have a contracted-out pension and opt back into the state for an additional component.

i.e. Option against the State; Option against us and our money.

2. How will this not only fail to help the Government's supposed objective of reducing the cost of SERPS but exacerbate it? We have heard mentioned by the opener briefly that, for schemes contracting-out, members have the right to elect out of these schemes just as out of SERPS. The younger members will no doubt elect to contract-out of the scheme and take a Personal Pension. Many of them, we know, should not because the value of their final salary benefit will be greater but I suspect that quite a few of us will fail, wearing our occupational scheme hats, to persuade them. Perhaps wearing certain other life office hats we might count this success.

However, $\frac{1}{2}$ million or 2 million? Many people will leave occupational schemes and take a Personal Pension. The average age in the occupational scheme will rise and the rebate will be insufficient. What then happens? In the next quinquennial review, does the rebate go up to recognise this? If so,

the difference between the two rebates for those having Personal Pensions and those in occupational schemes will get wider and wider. By slanting it that way the youngsters will contract-out and the old people will not, so the burden of SERPS will remain until the end of this century and into the early years of the next century. Whereas, if exactly the same amount of money, 5·4%, was re-spread so that it cost the State no more in an age and sex related rebate, group money purchase schemes could viably be sold, particularly to the great un pensioned 11 million—those in agriculture, construction and distributive trades that the Government has quoted. We could have money purchase schemes costing the employer no more than the contracting-out rebate because the older man receiving 10·2% or 11% as recommended in the Government Actuary's table could get a fair benefit for that to compare with the value of the entitlement he is giving up.

I believe that representations have already been made jointly by both professional bodies to the Government on this point between the time the White Paper was published and the Bill was tabled before Parliament. Certain unofficial indications may be that they are unlikely to succeed. I do plead for the profession and for all members to continue pressing on this point. If it can be brought home to backbenchers on the Standing Committee considering the Bill, I believe it is not yet too late.

Mr. J. S. R. Ritchie:—I have fairly brief remarks to make under three headings:

1. Contracted-Out Rebate

A rebate for individuals which is independent of age implies that contracted-out Personal Pensions will be more attractive to young people. This seems perfectly logical for a Government which is worried about State scheme costs forty years hence.

The Government Actuary has a difficult task in estimating 1988 national insurance contributions both for the contracted-in and the contracted-out. One reason for his difficulty is the uncertainty in knowing how many extra people will contract-out and their age, sex and salary profiles.

This uncertainty is graphically illustrated by his report on the Bill, which allows alternatively for ½ million, 2 million and 5 million extra people to be contracted-out. In his consultative document the Government Actuary makes the point that the resulting contributions are not very sensitive to the extra numbers assumed contracting-out.

I would venture to suggest, however, that an extra 5 million people contracted-out, most of them via Personal Pensions, would have very major implications not just for the pensions suppliers but also for the DHSS administration systems.

2. Proposal to make preservation compulsory after 2 years instead of 5 years

I can understand why the Government has suggested this—after all, the object of a pension scheme should be to provide pensions and not a refund of contributions. However the practical effect may be *either* that the employer will reshape the eligibility conditions to keep new employees out of the scheme for as long as possible *or* the trustees will be landed with a lot of small paid-up pensions and disgruntled ex-employees who wanted a refund of contributions.

I would therefore urge the Government to reconsider this proposal from a purely practical standpoint.

3. Government Leadership

The Social Security Bill makes specific provision for government

employees to take out a Personal Pension. The crucial point is whether the Government will make realistic employer contributions to the Personal Pensions.

If the Government offers its employees a Personal Pension based only on the contracted-out rebate it offers no real choice at all, since the Civil Service pension scheme would be obviously better value.

If the Government has the courage of its convictions and wishes to demonstrate leadership, it must offer a *fair* deal, not a *minimum* deal, to civil servants independent enough and adventurous enough to be interested in Personal Pensions.

Mr. R. K. Sloan:—I believe it is most important, amongst all the welter of information that has emanated from the Government Inquiry, consultative documents, the Green Paper, the White Paper and now the Social Security Bill, to distinguish between matters of a political nature and those of a technical nature. Being realistic about the situation, I felt that we would not have any real chance of swaying our political masters, but I have been encouraged by the strongly worded statement in the report issued last week by the Social Services Committee to the effect that they feel that the Government's proposals for reforming SERPS are much too hasty and should be deferred for more considered analysis.

Given that there may perhaps be this welcome breathing space, I would just like to voice my two main objections on the political front, which I have elsewhere likened to "the stick and the carrot". While I accept the demographic arguments regarding the long-term cost of SERPS, and hence support the abolition of the "best 20 years" rule in favour of career average, subject to the modification suggested by Mr Bannerman, I believe that the quantum reduction in the SERPS benefit from 25% to 20% is an unduly hard "stick". Moreover, the proposed timing of the change seems to smack wholly of political expediency, as it were putting off the evil day—rather than the electorate!

Having dealt with the SERPS "stick", I now come to the "carrot" in the form of the 2% inducement to contract-out, particularly through Personal Pensions. The Government's argument in favour of money purchase rather than final salary benefits is totally non proven, while the apparent investment freedom does not really achieve any wider economic objectives. Indeed, experience in other related areas would seem to suggest that money purchase provision is likely to result in lower pensions, and that the investment avenues selected by individuals are likely to be very conservative, often taking the form of deposit accounts. Moreover, where this is not the case, then individuals tend to choose managed funds of some kind, which is but another form of institutional investment, for which the Government professes to have such a strong dislike.

So much for my main complaints on the political front, but what technical changes might reasonably be made to render the current proposals more acceptable, or perhaps less unacceptable? If SERPS is to be cut back from 25% to 20%, then why not simply curtail the current maximum 1.25% accrual in April 1994 by when, 16 years on from 1978, the benefit will have reached 20%? Under the current proposals, the SERP benefit goes on building up to the original 25% by April 1998, where it remains for two glorious years until April 2000, before reducing to 24.73% the following year. One might have been led to believe that the transition to 20% would have been completed by the year 2010, but the change in fact tapers in very gradually until the new 20% level is achieved for the first time in April 2037, a mere 51 years hence!

As regards the Guaranteed Minimum Pension (GMP), this always has been

based on career average earnings, so that one might now reasonably have expected this to have become the same as the SERP. Not so, however, because GMP starts reducing from April 1988, some 11 years earlier than the SERP, with the maximum differential being reached in April 1999, when the SERP will still be 25% as compared with GMP of 22·38%. The two benefits thereafter converge gradually until they become equal at 20% in 2037, or 2032 for females. Some administrative simplification is therefore surely essential.

Moving on now to Personal Pensions, if the 2% bribe has to be retained to encourage contracting-out, then the least that could be expected would be that this should apply to Personal Pensions *only* when the employment concerned has not previously been contracted-out employment, in similar fashion to money purchase *schemes*. This would prevent the present absurd position where members already contracted-out through a good occupational scheme, are to be bribed to do precisely the same through a Personal Pension.

Next, the much-vaunted freedom of choice seems not to apply uniformly. For example, members of occupational schemes who are now to be given the *right* to pay AVCs seem not to have available the full choice of Personal Pension contracts. This should surely be amended to enable them to effect self-employed type section 226 policies, which likewise should have their investment choice widened, as under the Personal Pension proposals.

Mention of these different types of pension provision prompts me to comment on the growing problem posed by the different tax regimes that currently apply. If the Personal Pension proposals are to make any kind of sense, then these tax regimes must be integrated and rationalised. Perhaps I might be allowed to repeat my own suggestion contained in my submission to the Secretary of State's Inquiry two years ago. I believe what is needed is an overall *benefit* limit at the point of retirement, from *all* sources, whether occupational scheme, S.226 or Personal Pension, and inclusive of the single person's State pension and the pension equivalent of any tax-free cash commutation. I believe a reasonable maximum limit, in gross pay terms, would be 80% of the best 3 year average of dynamised earnings during the last 13 years before retirement. Moreover, there seems no reason why this limit should not be applied at any age after (say) 55, in conjunction with payment of actuarially reduced early retirement benefits under the State scheme.

Another immediate concern regarding the Personal Pension proposals is that they currently relate solely to money purchase retirement benefits, which would preclude the provision of insured death benefits, although I understand that this definition is on the point of being amended. However, even if this is changed, then there is still no guarantee that employees who leave existing occupational pension schemes will necessarily take out equivalent death benefit cover. Indeed, having myself managed to persuade Nigel, now Lord, Vinson that the choice to opt out of an existing scheme should apply only to *retirement* benefits, he informed me only last week that he expects to see some minimum death benefit requirements embodied in the Personal Pension *regulations*. I thoroughly deprecate this kind of approach and ask how anyone can reasonably be expected to support this important legislation in the absence of so many fundamental details.

Having on a previous occasion in this hall adapted Talleyrand's remark about "war being much too serious a thing to be left to military men", I am now moved to draw an analogy between the present situation and the First World War. What we now have is political generals manoeuvring to gain a few marginal yards of Personal Pensions ground, seemingly oblivious to the large number of private pensioners likely to be left as financial casualties in their inadequate money purchase trenches—not to mention numerous destitute Personal Pension widows—all sacrificed in this largely ideological battle.

In closing, I feel that the Government's whole attitude is symptomatic of its disregard for all the fundamental principles of collective insurance. This manifests itself in deliberately ignoring the benefits of the investment pooling of final salary pension schemes, overlooking the advantages of insured death benefits and mis-allocating the flat-rate group contracted-out rebate to individual Personal Pension policies, as already discussed earlier tonight.

The one crumb of comfort I can see stems from several references in the Bill to the Public Service schemes, which leads me to support the National Association of Pension Funds in asking the Secretary of State if he intends in accordance with his current philosophy, to change the Public Service final salary schemes into money purchase schemes and, if so, whether the scheme for Members of Parliament will be the first to make this change?

Mr. D. J. D. McLeish:—I should like to speak in support of much of what has been said already and, in particular, to focus further attention on the rebate being granted for contracting-out. Mr Low mentioned the Blue Paper. I do have the quotation here from that Paper and I think perhaps it warrants placing once again on the record. I will therefore quote one paragraph from it:

"The amount of the rebate is calculated by the Government Actuary as an average of the widely differing cost for providing pensions for male and female employees of differing ages. In practice the cost to employers of providing a pension is less for younger employees and more for older employees. The balance of schemes would be disturbed if the pattern of those choosing to take out Personal Pensions was tilted towards one age group or sex. In particular employers should be protected from having to pay higher pension contributions overall if a large number of employees opt for Personal Pensions"—The words of the Secretary of State in 1984.

We have also referred this evening to the proposed rebate of 5.4% but glancing, inevitably rather quickly, at the Government Actuary's paper, and looking at paragraph 40, it does say that, notwithstanding the fact that in that paragraph two different rates are discussed, the rebate will have to be one rate.

The two rates discussed in that paragraph are deceptively close to one another. The rate for all those effectively contracted-out is 5.27% and the cost estimated for providing GMP in contracted-out defined benefit schemes is the 5.4% to which reference has been made earlier. No doubt we could add them up and divide by 2 to arrive at the one answer.

These two rates derive, as has been mentioned, from some inevitably speculative assumptions and I would extend our collective sympathy to the Government Actuary for the job he was asked to do. I do not know whether it would be improper to invite him to enlighten us on how he reached his assumptions in this regard.

The rate of 5.27% is, of course, a function of those not yet contracted-out who are tempted so to do and in that regard he has assumed a million will contract-out, but that their age and sex distribution will be the same as that of the total population not contracted-out. Now, if that is so, those who are selling Personal Pensions are doing certain elderly members of that particular population a great disservice.

When it comes to looking at those who will transfer from existing contracted-out defined benefit schemes to Personal Pensions, the Government Actuary makes the assumption of 0.5 million, but in this regard he does

recognise the greater attractiveness to the young people and says that all of those 0·5 million will be under age 40.

But if it is attractive to young people in contracted-out defined benefit schemes, it is even more attractive to those who are not contracted-out at all, because the only comparison they have to make is between SERPS and Personal Pension—they are not confused by the intervention of a perhaps attractive occupational pension scheme. So I am not all clear as to why the million of those who may for the first time contract-out or be effectively contracted-out of Personal Pensions, should not likewise be skewed with a young age distribution. Of course, if that were the case, the 5·27% would reduce.

If more than 5% opted from our occupational schemes, lured by the attractions, in some cases, of almost 3 times what they need to buy their SERPS in a Personal Pension, and instead of 5% transferring, 10% or 15% or 20%, did so—and may I say your guess is as good as mine—then the 5·4% would greatly increase and then we would not be looking at two rates which are but 0·13% apart, but at two rates which are considerably wider apart, underlining the whole nonsense of the flat rebate. Then, adding up and dividing by 2 perhaps would be consistent with the approach from the Government in terms of its sophistication thus far—but would have nothing else to commend it.

Mr. A. D. Wilkie:—It seems to me that a useful way of looking at the contracting-out rebate is the other way round from its being a rebate. Imagine that the base rate is the contracted-out rate and that one is then obliging everybody to pay a certain contribution, which equals the rebate at present, which may go either to a contracted-out scheme or to a minimum contribution Personal Pension or to buy the SERPS benefit. It is clear that if the SERPS benefit is offered on flat-rate terms which are not comparable with the market terms obtainable elsewhere, then the system is unstable and, while it will take quite a long time to fall over, there is no doubt in my mind that the system cannot possibly last beyond the mid-1990's. It will take until we are approaching the second quinquennial revision before it becomes obviously ludicrous.

A different way of looking at it again: instead of using a flat rebate, why not an age-related accrual within SERPS? I have not thought this through to the end, but administratively it is going to be far easier to require a flat minimum contribution for Personal Pensions rather than an age-related one, but it is not administratively too difficult to run a SERPS benefit, which is really a money purchase scheme obtainable from the Government, on some sort of appropriate basis where the accrual rate or the revaluation rate gives different benefits at retirement for contributions at different ages.

Nobody has got terribly excited about unisex rates and I would agree with that. While I certainly do not like the idea for many reasons of imposing unisex rates on open market annuities or life assurances, since there are enormous economic disadvantages that would flow from that, in this particular case there are three exceptional reasons why we need not get too excited about them. The first is that, as far as I understand it, the minimum retirement age for women will remain at 60 and for men at 65, so the unisex rates will be those applicable to females between 60 and 65 and those applicable to males from 65 onwards. It may give a small encouragement to females to postpone their retirement to 65, and if they take this encouragement in sufficiently large numbers, this would actually equalise retirement ages in the only sensible way that can be done, which is by putting them up to 65 for women or 64 and a bit for both sexes.

Secondly, the rates need to be unistatus, i.e. they need to pay no attention to the marital status and the age of the spouse of the person and I think for practical reasons that if spouses' pensions have to be provided for any spouse, i.e. the particular spouse to which the person was married at the date of death, then unistatus rates are almost necessary for administrative purposes because it is very difficult to design rates which do not allow too many options against the providers of pensions.

A third reason for not worrying too much about these rates is that the minimum contributions will have to go up as we have seen on a rather funny basis of a minimum of zero and a maximum of 3% and the RPI if it is in between, in any one year. That is not a sensible annuity escalation basis for any other annuities to be written on, so there will be no comparability between these particular annuity rates for the proceeds of minimum contributions and any other particular annuity rates, at least I cannot imagine there being many people wanting either to write or to take annuities on that rather funny escalation basis.

I think it is worth observing with amusement the fantasy that is going to occur as regards the escalation of Personal Pension minimum contributions. As I understand it, one calculates the benefit that the person would have got if he or she had been in SERPS and escalates that according to one formula. One then calculates the benefit that he or she would have got had they been contracted-out of the Personal Pension scheme and had got GMP and escalates that according to a different formula. One takes the difference between them and the DHSS then pays the difference between two fictional pensions as an increment to a third pension, the proceeds of the minimum contribution pension, which is quite different although it is actually escalated on the same basis of one of the two fictional pensions. I do not see the whole thing lasting beyond 1999 under any conceivable circumstances.

Mr. H. W. Gillon:—I am very much in sympathy with the points that have been raised at tonight's meeting but there are one or two points that I would like to take a stage further. One is the point that Mr Bannerman was raising about exclusions from periods counting towards the SERPS benefit. I think the situation may be a little worse than the picture that he painted in that, as I understand it, the working lifetime over which earnings are averaged runs from 6 April preceding the 16th birthday up to pensionable age, at least for people who came into the workforce after 1978, and therefore all the people who stay on at school or go to university will have that period included in the calculation and ultimately—this is beyond the year 2037—nobody in practice will ever get up to the full 20% level. Perhaps this is something that might come within the category of misleading illustrations.

I am one of those that do get a little bit excited about unisex annuity rates. If you go into Marks & Spencer, you do not expect to pay exactly the same for men's socks and women's tights and Halfords do not charge exactly the same for tandems as for ordinary bicycles. It seems to me exactly the same problem that we are facing if the Government forces insurance companies to charge exactly the same rates for annuities on men and women and indeed to charge the same for annuities on two lives as for one. I am also worried about the precedent that would be created once Government starts interfering with the rating policies of insurance companies. It does seem to me that that could just be the first step and it would be a most unhappy precedent to create. A lot has been said about age and sex related rebates, and it is worth saying that, if we had these then, of course, the need for unisex annuity rates would not arise. Indeed it would be quite definitely wrong to have unisex as that would frustrate what the Government wants to achieve.

Finally, I do not think we can reasonably expect that we are going to convince the Government on some of the points that have been mentioned tonight by reasoned argument. I think that it is too late to try to do that but I think what the profession perhaps could do is to emphasise whenever possible that, if the Government goes ahead with some of the features that have been seen as objectionable tonight, they are doing so for political reasons and not allowed to hide behind the guise of actuarial principles.

Mr. E. A. Johnston:—May I comment on two points which have been mentioned by earlier speakers.

Several speakers have referred to the inequities of giving a flat-rate rebate to Personal Pensions, rather than a rebate specific for sex and age. This is a separate question from my task of reporting on what the rebate should be; in doing so I take the flat-rate proposal as fact and simply try to clothe it with figures. Mr McLeish made some play with the problems of averaging the sex and age specific rates, and it will indeed make some difference just how many people take up Personal Pensions. The alternative figure which I quoted, referring to defined benefit schemes only, is also affected by how much of the take-up arises from people currently in occupational schemes who leave them to take Personal Pensions. It may be that the rebate will have to be adjusted later in the light of experience. This has happened before; the rebate fixed in 1975 had to be altered somewhat at the first quinquennial review because the actual age and sex distribution of the contracted-out was not quite what had been allowed for beforehand. Since then the distribution seems to have remained steady, and it may be hoped that the same will happen again because people do not always make their choices purely on rational financial grounds.

As regards the unisex annuity rates, we ought to make it quite clear to everyone that the proposal rests on a package of benefits which happens to cost much the same for both sexes, as you can easily test with a copy of PA90. Simple arithmetic will show that the package of benefits costs much the same for men and women of the same age, at almost any reasonable rate of interest, whatever the marital status and age disparity, except for very wide age disparities, and single men. I think we should all be very clear that the proportion is the reasonableness of applying an average cost to this package of benefits, and not that we should cease to distinguish between male and female mortality.

Mr. A. U. Lyburn, closing the discussion, said.—This evening we have had the first professional discussion or debate and I believe the second major public discussion on the Government's latest proposals on State, Occupational and Personal Pensions for which I trust the abbreviation 'SOPS' will be fully understood and appreciated.

In general I believe it correct to describe the proposals as controversial, i.e. the Government in almost splendid isolation has developed an ideology with which very few others, including Mr Sloan, seem to enthuse or even endorse, so I suppose it is not all that surprising that, within this Hall this evening there has been a singular lack of disagreement, a point also mentioned by Mr Gillon.

Before going on to detail it must be noted with some dismay that the Minister has been unable to attend this evening or even to be represented by his DHSS Officials—do I here call 'come back Brian O'Malley?'—at least he came to this Hall 12 years ago to listen to us. He went away and acted on what we said, which makes it all the sadder that Mr Gillon has been driven to advise us that, to have any chance of effect, our actions must now be political rather than practical, theoretical or both.

Turning to detailed points let me first thank Mr Johnston for his additional comments on the calculations underlying the flat-rate rebate. I suggest, however, that it will take the age distribution considerably longer to settle down than either he or quite a few other people appear to think. As to his question about the single man, may I also suggest that he could go and buy a single sock.

The proposed timetable came in for adverse comment, particularly from Messrs Low and Neill although some degree of approval was accorded towards the delay in implementation from 1987 to 1988. Mr Sloan drew our attention, however, to a report of the Commons Select Committee on Social Services published last week (12 February). It recommended that the Government should delay even further its plans to change the State Earnings-Related Pension Scheme until it has more comprehensive and comprehensible proposals. This has a very ominous ring about it when it appears likely that there will be a General Election before 6 April 1988, a point to which I hope to return later.

Quite apart from any implementation date, there has been strong support for Mr Low's plea that regulations should be made considerably more than two weeks before they are due to come into force, especially when we believe that MPs, so we are told, dislike ministerial powers. It appears now that in the haste to push through the current Bill all the nuts and bolts, if not large chunks of the framework, will be left to regulations. Here in a way we have a bit of a dilemma—the pensions industry looks for plenty of consultation, but the more consultation we have, the longer we have to wait for actual regulations. Mind you in view of some of the regulations we have had, and particularly the disclosure regulations which are not yet public but due to come into effect on 6 April—all of 7 weeks away—some cynicism may well be forgiven. Perhaps I should explain that the draft regulations themselves have been the subject of only very limited consultation on the grounds that they are reputedly based on the Consultative Document on Proposal for Regulations and Disclosure of Information by Occupational Pension Schemes which was published last June and on the pensions industry's responses.

As far as AVCs are concerned there has been a very warm welcome for the proposals that everybody should be allowed to make additional contributions. The suggestion was made that these could be made without any Revenue limits but I cannot see that being very acceptable to the Revenue who seem to be intent on retaining close control. In addition there is some danger. If we make too many pleas for the relaxation of the restrictions we could end up with one uniform code—a code which could be very unwelcome and severe on defined benefit schemes particularly where contributions to individual arrangements may be 70%, 100% or more of salary. If we have an overall restriction of, say, 15%, 20%, 25% of pay there could be a substantial reduction of money going into these classes of pension schemes. One day, however, we might just achieve our 'Cherry Orchard' and see all the unnecessary restrictions fluttering away like blossoms in the breeze, perhaps in exchange for a very vigorous clampdown on the amount of cash which might be taken tax-free at retirement.

With regard to the DHSS acting as the clearing house for Personal Pension contributions, Mr Low expressed concern about the effects of the next and subsequent DHSS 'computer' strikes. Concern was also expressed about delays in remitting contributions to the right pension provider. It goes a bit further than that though. No doubt if contributions are to be paid in arrear yearly plus, as has been mentioned, this will permit the DHSS to earn some interest which will no doubt help to pay part of their expenses. We have not

however had an answer as to who is to pay initially for dependants' life cover or how the salesmen are to stay alive if pension providers do not advance commission—talk about indemnity terms! Nor do we have a solution to the problems of providing the full amount of pension when it falls due. I think it was Mr Neill who raised the further problem of when employees have their beauty parades—do they wait until the end of the year before they line up investment managers and say “tell me why I should invest with you”? I do not think that is terribly likely.

Undoubtedly in the discussion tonight the 2% rebate has come in for considerable comment—one might say universal condemnation. Speaker after speaker for a variety of reasons commented not only on its inequity but on some of its possible effects. Having accentuated the attraction of Personal Pensions to the younger employees (and here I use Personal Pension to mean that secured by the proposed minimum contributions) the main effect may well be to increase the average age of employees remaining in defined benefit schemes so that for employers to continue such schemes on a contracted-out basis the flat-rate rebate will have to be increased—this point was made very clearly by Mr Low—increasing the attractions of Personal Pensions now, say, to middle-aged employees and so on until it is financial folly to provide GMP for an employee. The ultimate then is the demise of GMP and I forecast future design as Personal Pension (secured by the minimum contributions) for younger employees with a switch to SERPS at the age where SERPS looks a better bet than a Personal Pension, plus, for the lucky ones, an occupational pension on top. This will not happen overnight but it will come and probably well before Mr Wilkie's 1999.

What I have just said adds to the justification of our unanimous rejection of the flat-rate rebate. However the Government have a dilemma, I think, in that the younger employees might well object to being permitted to contribute only a little over 2% to Personal Pensions and older employees might equally well object to having to contribute up to 12% or more. This emphasises what was said when contracted-out Personal Pensions were first mooted, namely that contracted-out Personal Pensions are totally incompatible with GMPs.

As an alternative to an age (and preferably sex) related contribution we could have an age and sex related GMP. This was suggested by Mr Wilkie and I believe by Mr Lyon at an Industrial Society Conference last week. Alright in theory but I query the practicality. In fact I believe this would be a major addition to the practical problems Mr Low well and truly illustrated with his category of seven different rates of revaluation with presumably more rates to come in future. For the time being one might just say seven more nails in the occupational pension scheme's coffin—is that all part of a deliberate plot? One may be forgiven for thinking so as does, I think, Mr Low. I am content merely to repeat the suggestion.

Mr Ritchie mentioned the further complications of a two year preservation period. I think, however, it will not be quite so bad for the holding scheme as he suggests as I believe there will be power for the trustees to compel the employee to take a transfer value—it does not say to where—but that is the employee's problem. Mr Low mentioned spouse's pension and outlined the desirability of taking a few weeks solitary holiday before 4 April near 2001. This might not be such a far-fetched idea as some may think. Only last week there were newspaper reports of fake death frauds costing millions. The case that was perhaps most amusing referred to one insured life who chose to be the victim of a fatal motor accident in mountainous country near the Pakistan border where the common form of transport is the ox. Reverting to perhaps more serious matters we had from Mr Bannerman and Mr Gillon detailed condemnation of the proposed ways of restricting credits for SERPS

and I sincerely trust that this is a matter to which officials will pay greater attention—I do not know how much this will actually become political in due course but it obviously does require a lot more thought. Mr Ritchie raised the question of a fair deal for civil servants and I think Mr Sloan pursued that point—perhaps he might persuade Lord Vinson to raise the matter in the House of Lords and get a written answer to a good question.

One aspect which I was surprised has not been mentioned is the actual amount of money which is likely to flow into pension schemes in the future—apart from a possible bonanza for insurance companies and perhaps other pension providers. Dealing with the bonanza first of all, I actually query there will be a bonanza for many of the existing providers. On the latest estimates the contribution level will be on the average 7·4% of a figure of (£9,186-£11,846) and that comes to £545. Now, as Mr Neill pointed out, that is only going to be for the first five years and then it will fall substantially. Unless all sales and administration expenses are rigorously controlled, shall we say below 20%, and that does not sound like rigorous control to some people, we are not going to have much in order to enable people make a living selling these policies to individuals. But if we do not have rigorous controls such policies will be a very poor buy except perhaps for the really young for whom, even on current commercial terms, 7·4% should secure more than GMP.

Further, I query that there will be an increase in total contributions to 'SOPS' in due course. If we ignore the contributions to State pensions, in other words we consider only occupational schemes and Personal Pensions excluding the current self-employed, I believe there could be a fall in contribution level. This is supposed to be somewhere around the region of £16bn per annum just now and over a period of time I suggest that there would be a fall of up to £1bn in today's terms. Next I reckon that insurance companies are likely to lose up to about £1·5bn of their £4bn share of that £16bn and in exchange they will pick up some portion of perhaps up to £5bn going into Personal Pensions, but I fear that share may not be terribly large. Very briefly, I justify the fall, which in the context of overall purchasing power distribution between pensioners and those still at work may well be a good thing, by the fact that voluntary contribution schemes appear to have participation in the range of 40-50% whereas compulsory schemes have participation of between 80 and 100% of the total workforce. Ultimately therefore there will be a significant drop in the number of members of occupational pension schemes. Those remaining will tend to be the older people—the younger people will not join and some will come out and many of those are unlikely to have a Personal Pension above the minimum level. In other words many younger employees will be quite happy to have minimum Personal Pensions and quite a few out of sheer inertia will, in my opinion, stay in SERPS.

Finally I am happy to join Mr Low on his hobby-horse regarding the role of the State in pension provision. Actually I have been on that horse myself since about 1974—perhaps we would have been more successful had we been on a unicorn. Generally I fear that the Government is paying the merest of lip service to its declarations that its proposals are not intended to harm good occupational final salary pension schemes. There is no doubt in my mind that the emphasis on money purchase is generally retrograde and will undoubtedly harm final salary pension schemes. All in all a very sad tale, but let us not give up hope. That part of the 1973 Act which created the Reserve Scheme due to come into force in April 1975 was, I believe, enacted in September 1973. The Tory Government lost the February 1974 General Election and on 7 May 1974 Barbara Castle dropped her bombshell—I well

remember it. I was chairing a small international conference in Amsterdam and one of my colleagues was due to discourse on the British Employee Benefit Scheme directly after lunch on 8 May. Just as we went into lunch we heard about Barbara's bombshell—the Joseph scheme was shelved—all I can say now is that I hope those of us who are going on to dine tonight enjoy our dinner considerably more than my colleague enjoyed his lunch. Despite the appalling thought of another dose of unproductive work, I suppose there must be many of us wondering whether or not to vote for another bombshell. Perhaps I have got it quite wrong but let me put it this way—pensions are too important to be left to politicians.