

On 24 February 1986 a discussion took place on the pension proposals in the Government's White Paper *Reform of Social Security—Programme for Action* (Cmd. 9691) and the Social Security Bill 1986.

ABSTRACT OF THE DISCUSSION

Mr H. W. Gillon, F.F.A. (opening the discussion): The future of pensions provision in the United Kingdom has been the subject of much discussion in recent years. Mr C. S. S. Lyon made a significant contribution to the debate in his Presidential Address to the Institute (*J.I.A.* 110, 1), and then initiated a joint Institute/Faculty seminar for an invited audience in November 1983. This took place a few days after Norman Fowler had announced that he was setting up an Inquiry into Provision for Retirement. Much has happened since and nobody, including Norman Fowler, could have anticipated at the outset how things were going to develop. In quick succession we have had a sub-Inquiry into personal pensions, the main Inquiry, a blue consultative booklet on personal pensions, a Green Paper outlining a programme for change, a White Paper with its programme for action and, finally, the current Social Security Bill, which has had its Second Reading in the House of Commons and is now under consideration in Committee.

The Pensions Legislation Joint Committee has been actively involved at each stage, submitting papers, giving evidence, and making representations on behalf of the profession. Much of the material has been made available to members. It has been an excellent example of co-operation between the Institute and the Faculty, ensuring not only that the two bodies speak with a single voice, but also that they are seen to be speaking for the profession as a whole.

The pensions provisions in the Bill pursue two main objectives. The first is a gradual reduction in the state's role in pensions provision, and with it a move from the pay-as-you-go system of finance towards funded pensions. The second is an expansion of individual provision through the promotion of personal pensions. This inevitably involves a drift from defined benefits to money purchase, and a drift away from occupational schemes sponsored by employers. I am not particularly enthusiastic about this approach. While I applaud the Government's stated aim to build a sound foundation for the next century, I seriously doubt whether the Bill in its present form will stand the test of time.

Actuaries understand better than most people that effective provision for retirement involves long-term planning. It is vital that whatever new structure is created should be capable of enduring through the lifetime of successive future Governments. Nothing could be more counter-productive than demolition and rebuilding every few years.

I want to stress the gradual reduction planned in the state's role. Existing pensioners are not to be directly affected, nor are those due to reach pensionable age over the next 14 years. Indeed, they are to continue to accrue SERPS rights at the full existing rate, and those reaching pensionable age during the following decade are to be given preferential treatment under the new arrangements, with the result that those whose SERPS benefits start between 1994 and 2009 will enjoy higher benefits than earlier and later generations. I find this approach difficult to justify rationally. The ultimate target is said to be a pension of 20% of relevant earnings averaged over the working lifetime, but all those already in the workforce will enjoy the benefit of the higher rate of accrual up to 1988, so that in theory the 20% level will not be reached until 2037—or 2032 in the case of women. In practice the ultimate level for those retiring after that will generally be less than 20% because the working lifetime over which earnings are averaged is deemed to start on the 6 April before the 16th birthday although very many youngsters continue in full time education and do not have earnings to count. I wonder if the 20% provision comes within the category of misleading illustrations?

Considering the effect of the proposals on occupational schemes, I regret the Government's intention to sacrifice the principle that those contracting-out of SERPS should do so on financially neutral terms. A recent memorandum from the Government Actuary clearly demonstrates that, on stated assumptions, the cost of replacing guaranteed minimum pensions which will accrue between 1988 and 1993 varies between 2.2% of relevant earnings for men under age 25 to 12.5% for women over age 55. If individuals who choose personal pensions are allowed the weighted average rebate of

5% to 6% plus a 2% incentive, the most attractive choice must be full participation in SERPS for the older generation and contracting-out *via* personal pensions for younger people, at least for the first five years. A uniform rebate will distort the individual's choice and the distortion is being introduced for political reasons, not for actuarial reasons. Let no one seek to justify the Government's approach by pretending that it is required to satisfy sound actuarial principles. An evenhanded approach demands a financially neutral rebate which depends on the individual's age and sex. The Government itself argued the case very convincingly in the blue consultative document issued just 18 months ago, and came to the same conclusion. I quote four sentences: "To make employers pay the standard amount of the rebate in every case would not be right. 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 younger employees opt for personal pensions. They should be required to pay to the personal pension a percentage of earnings related to the age and sex of the employee rather than the amount of the average rebate."

The Government Actuary has referred to the problem in his most recent memorandum and illustrated, on necessarily speculative assumptions, the increased cost to defined benefits schemes of replacing GMPs if younger members tend to opt out. Sadly, the DHSS, in a note issued with the memorandum, dismisses the possibility of differential rebates for defined benefits schemes and money-purchase arrangements. Some final salary schemes may find it to their advantage to devise a method of contracting out using the money-purchase route, and I hope the final legislation will be sufficiently flexible to accommodate this approach. The balance of advantage will be further distorted by the proposed addition of 2% to the calculated rebate for the first five years for those choosing personal pensions and for newly contracted-out schemes. This seems to me to be an unsavoury provision. It belies the claim in the White Paper that personal pensions will be able to compete fairly with the state and occupational schemes. Those who have taken successive Governments at their word when they attached importance to fostering a lasting partnership between state and occupational schemes may reasonably feel betrayed, and I question whether the granting of selective subsidies in a discriminatory manner is a proper use of the resources of the National Insurance Fund, which is simply meant to be a clearing house to facilitate the collection of National Insurance contributions with the one hand and the payment of current benefits with the other. I am particularly concerned that young employees whose long-term interests might be best served by continuing membership of a good final salary scheme may be seduced into minimum personal pensions on the basis of short-term considerations, perhaps attracted by the temporary 2% windfall and an immediate increase in the weekly pay packet. The balance of advantage may change as they grow older and they may then find it attractive to participate fully in SERPS during the latter part of their working lives. This sort of strategy would, of course, frustrate the Government's desire that there should be a permanent reduction in the numbers depending on SERPS, and I am seriously concerned that the overall result of the whole operation will be a reduction in the level of pensions provision being made.

The Institute and Faculty have opposed the proposal that insurance companies should be prevented from selling certain annuities on terms which depend on sex and marital status. Why should companies be debarred from selling their products on commercial terms, which involve differentiation between products for men and products for women, and which involve higher prices for annuities for a married couple and the survivor than for annuities for single persons? State interference in the pricing policies of insurance companies cannot be in the wider public interest. It would create a most dangerous precedent and threaten the continuing operation of a free and competitive insurance market based on sound actuarial principles. Is it right that a fundamental matter like this should be dealt with by Regulations prescribed by the Secretary of State for Social Services, as seems to be the intention, rather than by primary legislation promoted by the Secretary of State for Trade and Industry, as Minister responsible for the supervision of insurance companies? The whole question should be academic, because a contracting-out rebate which varies by age and sex would effectively achieve the Government's desire for equal treatment for men and women in this area, without unisex annuity rates.

It saddens me that the Government is missing a golden opportunity to eliminate the gap between pensionable ages for men and women. This fundamental anomaly is perhaps the greatest

anachronism in the present state pension scheme, and I find it scarcely credible that it could survive any serious attempt at reform. It would make sense to move towards equalization combined with some flexibility in the age at which state pensions may be drawn. The claim in the White Paper that nobody has suggested a way of introducing flexibility without substantial initial costs seems less than fair. I can only suppose that the Government has discounted suggestions which looked politically unattractive.

The possibility that administrative charges might absorb an undue proportion of personal pension contributions is a legitimate area of concern, but I am equally concerned about the proposition that the expense charges should be controlled by Government regulations. I believe that competition between providers will be sufficiently keen that market forces, coupled with safeguards for the investor under the Financial Services Bill, will afford the consumer ample protection against exploitation. Moreover, I do not know how charges could be controlled effectively in a market where there is a wide variety of legitimate charging methods, some of them inextricably linked with the investment return. For example, the banks and the building societies tend to make no explicit charges, but the return to their customers is lower than it otherwise would be. In the case of insurance policies, provision for risk, interest and expenses is combined in a premium rate, and in the case of with-profit policies variations between actual experience and the underlying provisions can be reflected in bonus additions: *separate identification of the individual component is not possible. Indeed, our actuarial training and experience tell us about the dangers of disregarding the possibility of escalating costs under long-term contracts.* In some ways I am less worried about excessive charges than about undercharging by inexperienced providers who may underestimate the complexities of handling pension business. Providers who undercharge could run into difficulties of their own or, more likely, find that they are unable to provide the consumer with an adequate service.

It is perhaps too early to predict how easy it will be to operate occupational schemes and personal pensions in the new era, and consequently what a reasonable level of charges might be. Much will depend on details which have yet to be given: through Regulations, which are bound to be voluminous; and the conditions of approval for tax purposes, about which very little is known at this stage. It is important that these matters are sorted out in 1986 and not 1987, far less in 1988. I would make a plea for full and early consultation, which must be in the interests of the Government, the industry and the profession, and for a tax regime which reconciles the DHSS's objective of encouraging provision for retirement with the Treasury's duty to maintain an orderly tax system.

I have concentrated my remarks on aspects of the Government's proposals where there seems to be room for improvement. I hope I have not given the impression that there is nothing good to be said about the proposals. That would not be fair. The proposition that the DHSS should act as a clearing house for minimum contributions to personal pensions, for example, seems eminently sensible, and the Government's commitment to simplification will be widely welcomed if it is vigorously promoted, both by the DHSS and by the SFO.

Financial security in old age is an important social objective with extremely long-term implications. Today's teenagers will not start drawing their pensions for more than 40 years and many will still be receiving them in 60 years' time. The nation requires a stable pensions policy which will meet their needs. I am far from convinced that the present Bill in its current form will provide it, but I do not think it would be realistic to suppose that at this stage the Government will be persuaded by reasoned argument to alter course. I hope that this meeting will send a clear signal that the Bill as it stands does not carry an actuarial seal of approval.

Mr P. Basten: The Bill introduces arrangements for contracting-out by reference to a test of contribution levels. Hitherto we have been accustomed to tests based on benefit levels. Those employers who have contracted-out under the present arrangements will be aware that they have had to take on a great deal of administrative complexity. A modification of the Bill now under discussion might enable them to be relieved of this unnecessary burden.

Under the new proposals it will be possible to contract-out members of a money-purchase scheme subject only to the joint contribution of employer and employee being not less than the contracting-out rebate. In the case of personal pensions, individuals and their employers will pay the full National Insurance contribution, but the DHSS will pass the equivalent of the contracting-out rebate to the

personal pension arrangement. Does the employer who has contracted-out on the basis of final salary benefits still have to be subjected to so much additional administrative work? Merely putting a test on the total contributions paid to a final salary scheme does not ensure that an individual member receives an appropriate benefit, but do we need to continue the present rigmarole of GMP records?

Things have changed since the present contracting-out arrangements were introduced. In particular, in respect of future accruals of benefit the legislation on preservation and revaluation of early leavers' benefits goes a long way to secure a reasonable benefit for early leavers in final salary schemes. At present a scheme which is a candidate for contracting-out has to satisfy a quality test based on the normal benefit accrual and a quantity test based on the GMP. It is proposed to drop the quality test, described in paragraph 2.26 of the White Paper as 'complex conditions governing the relationship of pensions to earnings'. However, it is the quantity test rather than the quality test which causes the complexity. If the Government want to make contracting-out simpler, and in this White Paper they *say* they do, then it is the quantity test, rather than the quality test, which should be removed. In the new framework a quality test, combined with a requirement that total joint contributions were at least equal to the contracting-out rebate, would be an adequate basis for contracting-out final salary schemes. These requirements, in conjunction with the preservation and revaluation legislation, would provide reasonable safeguards for individual members. The new quality test would presumably include a requirement for inflation proofing up to 3% p.a. on a specified part of the pension. Final salary schemes could then be treated for contracting-out purposes in a similar way to money-purchase schemes and personal pensions. In particular, it would be unnecessary for scheme administrators to keep records of GMP accruals after April 1988 or to obtain actuarial certificates for submission to the Occupational Pensions Board in respect of accruals after that date. Furthermore, this simplified procedure could be applied to the pre-1988 contracted-out period for any final salary scheme which extended the revaluation of early leavers' benefits to include benefits accrued during the whole period covered by the contracting-out certificate and satisfied the new quality test in respect of that period. Schemes contracted-out under the present arrangements which were tested on this new basis from April 1988 should be regarded as newly contracted-out for the purposes of Clause 7 of the Bill, unless Clause 7 is deleted, which it should be.

Mr C. S. S. Lyon: At a meeting in this hall in June 1985 (*J.I.A.* 112, 407), I was highly critical of the Green Paper's proposals on pensions so, like many other commentators, I am glad the Secretary of State listened to the chorus of concern that grew in volume over the succeeding months.

My main objection to the phasing-out of SERPS and its replacement by compulsory private pensions was the sheer impracticality of such a proposition. An article in the December 1985 issue of the *Employment Gazette* (published by the Department of Employment) entitled 'Pension scheme membership in 1983' enables me to put that argument into perspective. According to the DoE's survey, nearly all full-time employees in the public sector were covered by pension schemes, but in the private sector the proportion was just under a half. However, this conceals a wide variation by size of establishment. For example, more than three-quarters of the full-time employees of private sector establishments of 1,000 or more were members of a pension scheme, but only a quarter of the employees of establishments of fewer than 25. There are estimated to have been 3½ million full-time employees in this last category, of whom more than 2½ million were not members of a pension scheme. Who are these people? In the main they must be working for small builders and contractors, small merchants and shopkeepers, garage proprietors, hoteliers, restaurateurs, farmers and so on. Some, but probably not very many, may have provided for themselves under section 226. It was quite unrealistic to think that in a short span of time they could be compulsorily covered by a pension scheme or a personal pension at an economic cost, unless there were a much higher earnings threshold for compulsory pensions than presently applies to SERPS. Whether we like it or not, the PAYE system provides a very cheap and efficient mechanism for collecting pension contributions from employees of small or seasonal businesses and it would be foolish to ignore that fact. Tailoring the richness of the SERPS coat to suit the current perception of the national cloth is another matter. So is voluntary contracting-out.

The proposal to extend to money-purchase and personal pension schemes the present averaged basis of contracting-out may seem logical to the legislators or may even be politically Machiavellian as

the opener has suggested, but it is absurd. In return for a flat rate of rebate, which, allowing for the 2% bribe, will decline over the years to less than its starting level, a deduction will be made from a person's state pension. I want to focus attention on this. For a given amount of rebate in a particular tax year and a given year of attainment of pensionable age the deduction from the initial state pension will be a fixed percentage of the person's revalued earnings. That percentage will be higher the earlier the year of retirement, which is the opposite of what the money-purchase principle demands, although it will level out for retirements in the late 2020s and beyond. However, instead of a differential based on the year of retirement, what will then happen is that the deduction from the state pension for a woman reaching pensionable age in a particular year will be about 11% greater than that for a man due to retire in the same year. That is the result of the full SERPS pension being deemed to accrue over a period of 49 years for a man but only 44 years for a woman. To import this into the terms for contracting-out is another contradiction of money-purchase principles, because the amount deducted from a woman's pension ought to be less, not more, than that deducted from a man's. Is this not also a contradiction of the unisex policy that is to be imposed on the private sector providers of pensions?

Such an inequitable basis must not be imposed on us for individual contracting-out, for if it were, would not independent intermediaries be required by the much-discussed 'best execution' or 'best advice' principle to draw a client's attention to the inbuilt financial disadvantage of contributing to a contracted-out personal pension plan in the later years of working life, whether those were now or in the future? The solution does not lie in age-related contracted-out rebates, as many people have suggested, for they would be complex for employers to administer and be prone to error, for instance, by misstatements of age, and so on. Would it not be better to opt for age-related deductions from the state pension which are conservatively equivalent to the flat-rate rebates obtained? The DHSS computer should be capable of handling these without difficulty, and I can see advantages, as Mr Basten does, in extending the system to defined-benefit schemes as well. It would not be without its problems, no system of contracting-out could be. One of the problems would be that the deduction from the state pension might erode the basic pension in some cases. At least it could avoid gross inequity and should therefore be more durable. It is an option that I believe should be explored by the DHSS as a means to an integrity which is lacking—and which the opener believes to be deliberately lacking—in the basis presently proposed.

Mr E. Short: In the current pension situation there has never been a greater need for the actuarial profession to make its voice heard and its views known. As the opener pointed out, the long-term nature of pensions means that the actions taken now are going to affect the pensions of our children with the bills being paid by our grand-children.

There are three areas on which the profession needs to concentrate its efforts. The first is that, even at this late hour, they must assess the principles upon which the Government case is based and speak out on them. Those members of the public who are interested in these proceedings must be thoroughly bemused by the claims and counter-claims of the Government and Opposition over pension costs in the next century. We have seen a misuse of figures from the Social Services Secretary, Mr Norman Fowler, that must surely qualify him to get an extra chapter in the famous book 'How to Lie with Statistics'. On the other side, the Government Actuary must be feeling highly embarrassed with the constant way in which the Opposition spokesman, Mr Michael Meacher, uses him as a supporter for Labour's counter-argument over costs. I feel that the profession must go somewhat further than simply producing figures. They need to explain the figures, no matter how much harder that would be. The layman is still bemused by the effect of compound interest, and the effect of a $1\frac{1}{2}\%$ differential between earnings growth and prices inflation over 40 years is the root cause of all this misunderstanding.

The second area which the profession needs to speak on concerns the provisions of the Bill itself. I do not think any actuary here can add much to what the opener has said. Perhaps it should highlight the differences between funding and pay-as-you-go. The Government seems to imply that by transferring pension costs in the next century from the public to the private sector it will somehow solve the problem, whereas the Opposition is highlighting the fact that somebody has to foot the bill. The bill remains the same; it is just a question of who pays for it.

The third area is that there is a need to plan for pensions and the new working environment. Employees have become more mobile; job sharing and part-time work is going to be much more common. We still seem to provide pensions for people in work. Nobody discusses how we provide pensions for people who do not work. With the present level of unemployment this problem needs to be dealt with.

I feel the root cause of all the present problems is the insistence that we can consider one particular pension arrangement which will meet everybody's requirements. It is because final salary schemes did not fully cover the needs of the mobile worker that we have reached the present situation. Now we are going to the other extreme and assuming that everything can be solved with a personal pension.

Mr M. W. Miles: My first point raises the fundamental principles, and concerns the 2% bribe to be offered to those thinking of taking out personal pensions or employers contracting-out for the first time. I was pleased to see that the Institute and Faculty had written to Mr Fowler regarding this.

We were promised a partnership between state and occupational pensions when SERPS commenced in 1978, with contracting-out terms to be calculated on a financially neutral basis, but we now find that employers who chose the contracted-out route will have to pay for the 2% bribe from which only others can benefit. To this extent, at least, their competitors in business will have an advantage over them. We saw something similar happen with the state graduated pension scheme in the 1970s. Employers who contracted-out on agreed terms found themselves not included in a subsequent improvement introduced by the state and paid for by everyone. Perhaps the regulations controlling the sale of personal pensions will insist that this track record of legislative changes which retrospectively worsen previously agreed contracting-out terms will be pointed out to prospective purchasers?

My second point is more a matter of detail, but I think it also touches on underlying principles. I understand that, although a money-purchase scheme will be able to contract-out using the money-purchase test, a scheme offering the better of money-purchase and final salary related benefits will not be able to do so if the Bill goes through as it stands at present. There can be a not particularly convincing argument for insisting on the retention of the GMP test for ordinary final salary schemes despite waiving GMP requirements for personal pensions, but any such argument falls away completely when the final salary scheme satisfies the money-purchase test.

Many contracted-out final salary schemes are struggling under the administrative burden which grows heavier with each year's legislation. A significant part of this burden concerns the keeping of GMP records and the associated calculations. The state is missing an obvious opportunity to relieve the pressure somewhat. I would have thought that this Government in particular might like to encourage final salary schemes to introduce a money-purchase element so that individuals could identify with part of the assets. Perhaps they fear that a final salary scheme with a money-purchase underpin would look so attractive that the anticipated stampede to buy personal pensions would, in the event, never occur.

Mr Fowler tells us that the time for consultation is over—now there must be action. We must make sure that he understands that consultation on these and other points has yet to begin. Certainly there need to be changes in pensions legislation, but the changes must be the right ones if we are to avoid increasing administrative problems, and maintaining the ability of caring employers to look after the needs of their workforce. It is ludicrous to pretend that we have had consultation already when the White Paper and the Bill are introducing concepts which were not even hinted at in the Green Paper and earlier announcements.

Mr W. B. McBride, F.F.A: An air of *deja vu* has hung heavily over this discussion, as it did a week ago in Edinburgh, and the ghost of the state reserve scheme can be heard rattling its bones behind the pension arras. There is little to say on the subject that was not said in the debates of ten years ago. However, life office actuaries now find themselves under a somewhat stronger spotlight than before, in that in a number of quarters our views are taken to be coloured by the prospect of the new business bonanza which personal pensions are expected to bring. Mr Drew Lyburn, at the most recent Faculty meeting, pointed out the reasons for suspecting that the bonanza may not be so great after all. Nevertheless, I suggest that there is nothing inherently wrong with welcoming the prospect of a

growth in business and of making decent profits out of it while at the same time being opposed to much of what lies behind the promoting legislation. I would certainly welcome a better press appreciation of this viewpoint, with no disrespect to the press present tonight; and it is with a view to making my voice heard and view known, as Mr. Short requested, that I am making a small contribution.

I see no necessary real economic distinction between the promise by the state of an unfunded index-linked pension and a private sector pension funded through index-linked securities. I repeat 'necessary' distinction; in practice, making allowance for human nature, there is a great deal to be said for self-reliance. My natural preference for private sector funding is therefore not essentially dogmatic, which makes it difficult to live with legislative proposals which seem to be largely so flavoured, as the opener vigorously pointed out. For example, the future cost arguments for making SERPS less comprehensive are not convincing and when coupled with the unsuitable flat-rate rebate financing of minimum personal pensions and with the ethically dubious supplementary rebate indicate that objective actuarial thinking is hardly the sole motivating force behind the Bill. The same applies to the promotion of the cause of defined contributions rather than defined benefit schemes, again a development which on the face of it would favour the life offices, but is not necessarily welcomed by them on that score. Finally, the cost of documentation, of recording retained and maximum benefits etc., weigh heavily on modest contribution levels when seen against the administrative simplicity of the DHSS's computer.

The life office actuary faces the choice of being damned by some if he does not support the democratic process, and by others if he does. I can only hope that through the professional quality of our submissions to the authorities there will be significant modifications of the less acceptable parts of this proposed legislation.

Mr C. M. Stewart: I looked first at the long-term financial estimates of the social security scheme and tried to work out how it was that the standard rate of contribution could be held at about 14½% for the next 50 years, although the number of pensioners went up from something like 10 million to 14 million and the expenditure on SERPS went up from practically nothing to £13 billion or £14 billion. The answer is straightforward: the Government's estimates on that basis would hold the basic state pension and other flat-rate benefits at 1985 terms, whereas the average earnings of the workforce would double in real terms over the next 50 years. Not many years ago I was able to say and to write that long-term estimates on that basis would be seriously misleading unless they were accompanied by the publication at the same time of corresponding estimates of GNP, and would not be properly informative unless they also indicated the relationship of the standard rates of benefit to average earnings at the time. The estimates, which assume that the basic pension retains its 1985 value, imply that over the next 50 years it will fall from 20% of average earnings to about 10% of average earnings and speaking from memory, that the sickness and unemployment benefits would fall from about 16% of average earnings to perhaps 8% of average earnings, which results in not much of a social security scheme in 50 years' time.

The Government Actuary did not publish estimates of GNP over the next 50 years, but he did the next best thing by showing estimates on the basis of state benefits being linked to earnings, the way in which long-term social security estimates used to be presented. As they are being presented now, they must be looked at very carefully to see what they mean in terms of the level of social security benefits.

What concerns us most here is the disturbance of SERPS and its interface with occupational schemes. When SERPS was conceived ten years ago it was a clearly defined benefit scheme. It was not the kind of scheme that I would have chosen, with contracting-out, but given a defined benefit scheme with contracting-out the rebate had to be age- and sex-related.

The Government escaped doing this ten years ago by doing two things. It confined contracting-out to defined benefit schemes and the whole scheme had to contract-out. That left the problem that some schemes might be at a financial disadvantage because they had too many elderly workers or too many female workers. That disadvantage was overcome by the Government adding a margin to the Government Actuary's calculations. This was a very precarious arrangement, but it has worked and I think it would continue to work if it was not disturbed. However, the proposals we now have before us are such a disturbance of that precarious arrangement that I wonder whether it can continue. Other speakers have said much the same.

We do not know what the contracting-out contribution rebate is going to be. We are told in the DHSS covering note to the Government Actuary's consultation note that there is to be only one rebate, not two. What we want to know is which is it going to be? There is a choice between the rebate representing the weighted average for all those contracted-out or only for those who remain in contracted-out defined benefit schemes after the younger members have been enticed away by the salesmen of personal pensions. We do not know what the effect of that is going to be.

The Government Actuary, quite rightly, points out that the average is not all that volatile. He gives us two answers. For all those contracted-out, the answer is 5.27%. Limited to members remaining in schemes, the answer is 5.40%. Just suppose that the 1 million extra contracted-out persons are not distributed over all the working ages, but in fact are all aged under 30 or aged under 40, or that the numbers enticed out of defined benefit schemes do not number half a million but number 1 million. Such changes could widen the gap between the Government Actuary's two estimates. Instead of 5.27% and 5.40% they could easily be 5.0% and 5.5%. None of us knows the answer and there may be not all that much difference between the two, but if this scheme is to go ahead, it would surely have to be on the basis of the average rebate appropriate to those remaining in contracted-out schemes. That does not for a moment concede that it is at all sensible to give the same average rebate to those contracting-out individually from the state scheme.

I am not an expert on group money-purchase schemes, but it has struck me that they must be put in a very difficult position by the exhortation to them to contract-out under the new arrangements on a flat contracting-out rebate. A flat rebate would be an enormous bargain for the younger members of money-purchase schemes, but the older members would not be able to purchase anything like the amount, the GMP, which the state will deduct from their SERPS entitlement.

It seems clear to me that the present proposals are not suitable either for individuals contracting-out, who would do very well indeed, or for group money-purchase schemes where there is going to be very severe conflict of interest between younger and older members. The present proposals are really illogical and unpalatable to those who wish to see a proper design for the state and occupational scheme partnership.

I had not heard before Mr Lyon's idea of having contracting-out on a flat rebate with an age and sex related deduction from the state pension. What the flat rebate would represent I am not very sure, but it is an interesting proposal. I am certainly very concerned that what we have before us at the moment produces such a serious disturbance of what I regard as a fairly precarious, but at least a workable system of contracting-out.

Mr S. J. Green: Mr McBride seemed to imply that there was very little difference between the Government providing an index-linked pension and an insurance company providing a pension which is based on index-linked securities. I would hope that the majority of insurance companies do vary their pension fund investments, and at this time have a broader spread than just index-linked. One of the great advantages of a funded arrangement is the advantage of being able to spread investments and particularly to spread investments overseas. What the members of today and the pensioners of tomorrow are going to see is that a very significant portion of their pensions is going to be provided from the income from overseas investments. That is something to bear in mind for those people who can only see one pot from which to pay pensions. It is a very different and much larger pot once you have a funded scheme.

Mr M. H. Field: I agree with the opener's remarks concerning the proposal to control administrative charges. Apart from the impossibility of achieving the Government's presumed objectives by controlling this item in isolation, there is the very great difficulty of having to try to fit what should be perfectly legitimate methods of providing personal pensions, for example, with-profit deferred annuities, into such a strait-jacket. Further, as the opener has hinted, constraints applied in this area could endanger the solvency of the provider of personal pensions in the event of rapidly rising costs of administration. Insurance companies are used to this, and indeed, are required to demonstrate solvency against the full consideration of such risks. We are now, however, contemplating unit trusts and the clearing banks as pensions providers. Perhaps there is the prospect of actuarial

demonstrations of solvency for all personal pensions providers. Also, the philosophy of administration cost control runs totally counter to that of the Financial Services legislation.

Another aspect of the Social Security Bill provisions that worries me greatly is the need to comply first with such requirements as may be prescribed as regards the investments of a personal pension scheme, and second with any direction of the Occupational Pensions Board that no part, or no more than a specified proportion, of the scheme's resources shall be invested in investments of a specified class or description. This follows through to money-purchase occupational pension schemes. I also note from the Social Security White Paper (admittedly in connection with the role of building societies) that a 'reasonable spread of long-term investments' is seen to be necessary for pensions provision. We have indeed come a long way from Lord Vinson, but what does it mean and how is it to be applied to financial institutions which have other investment constraints, for example, unit trust schemes and life assurance companies?

Is it in mind that the OPB will ban certain classes of asset? There might be some sympathy in connection with commodities or futures, but supposing they banned unlisted securities? This would rule out any unit trust scheme which had an unlisted stock in its portfolio. Similarly, it would rule out a with-profit policy if the life assurance fund contained such an asset. Surely this is not in mind.

Similar, but rather different arguments apply to the compliance with a maximum proportion provision. We, more than most, know of the dangers of putting all one's eggs in one basket, even though Lord Vinson advocated a business man investing his personal pension in his own business. However, early on in the lifetime of a pension plan it is important to find an effective hedge against inflation, whereas nearer to retirement it is more important to secure money values in the face of volatile markets. It could indeed be very sensible for the whole accumulated fund to be invested in an asset such as a building society deposit in the year or two preceding actual retirement.

The really worrying feature is the possibility and the consequences of the OPB imposing their own requirements over and above those of the financial institutions permitted to write personal pensions. The differences in treatment between unit trust schemes and the managed funds operated by life offices are already confusing and anomalous (and even misleading where the managed fund is made up of units in an authorized unit trust). To apply another regime on top of the two existing and inconsistent regimes and, moreover, to apply it only for a sector of the total business being written, would surely cause consumer choice to be lessened. Managers would not wish to restrict their investment choice for the totality of their business merely to cope with the OPB restrictions for a small part, and thus personal pension schemes might be available only with linkage to funds especially created for the purpose. This cannot be what was originally in mind. The solution surely is for the OPB to exercise care in prescribing the descriptions of the persons or bodies who may establish personal pension schemes and having done so, let them get on with the job in accordance with their own investor protection legislation, which is difficult enough.

Mr J. H. Ward (a visitor): I have not detected any reference so far to the Parliamentary debates which have been taking place on Second Reading and also in the Committee stage in the House of Commons, and in fact many of the issues that have been raised have already been debated in those assemblies which means that the only Bill debates left now will be the Commons Report and Lords stages.

There have been many references to documents that have been issued by the Department and by the Institute and Faculty, but none, so far as I have been able to detect, to the proceedings in the Committee stage of the House, and I think it would be inappropriate for me to say anything on which Ministers have already made their position quite clear without first suggesting that it would be well worthwhile people reading the proceedings of that Standing Committee. They will find and recognize many of the arguments that have been made and have the opportunity of seeing exactly what Ministers' responses are on the various matters. Continuing from that, there are undoubtedly a large number of issues where there is still a great deal of room for consultation. Ministers have throughout made it clear that they very much value the responses that they have received in consultative processes, particularly from the Institute and Faculty, and I am sure that will continue to be the case.

Mr R. E. Brimblecombe: I have read some of the debates on the Committee stage and the Second

Reading of the Bill. One point which has already been raised, and which the Government has, I believe, agreed to look at, is that of allowing the money-purchase test to apply to final salary schemes which have a money-purchase underpin. At least the Government has said that it will take the thought away, basically accepting the principle and will come back at Report stage.

Concerning the contracting-out rebate, as has already been said by the opener and others, the original blue book did have age- and sex-related rebates into personal pensions. We seem to have forgotten that that suggestion was rejected by almost everyone as impracticable and totally incomprehensible to the layman. I would suggest that we only have ourselves to blame that we have a single rate of rebate into personal pensions in the current proposals. I agree entirely with other speakers that this could destabilize final salary schemes. The Government Actuary's consultative document on the rebate appears to allow for this by calculating the rebate necessary to provide GMP for those still in final salary contracted-out employment after those who opt for personal pensions are taken away. The Government Actuary has assumed in making his recommended rebate that 5% of those currently in contracted-out final salary schemes will opt for personal pensions. These will constitute half a million young employees. I assume that if more do opt for personal pensions the rebate would then be higher. I hope that we do not have to wait until 1993 for the rebate to be recalculated. We are in uncharted waters here, but I hope that the Government will, in accordance with the Social Security Pensions Act, 1975, exercise its right to change the contracted-out rebate during the period 1988 to 1993, after giving one year's statutory notice.

As against this allowance in the contracted-out rebate, we have the 2% additional contribution. I do not think that it has been stated here, but I believe that this is possibly justified to encourage new personal pensions and group money-purchase schemes because this will show a long-term reduction in the cost of SERPS.

Like others, I can see no justification for—what now appears to be hallowed wording—a 2% bribe on personal pensions for those currently in contracted-out final salary schemes opting for personal pensions. As a profession we have a duty to point out the socially undesirable effect of any bias towards personal pensions for those currently in final salary schemes. I would suggest that many younger employees will be 'seduced' by the 2% and it will certainly be an easy option for those currently in contributory final salary schemes because it will increase their take-home pay immediately.

One of the things which seems to be quite untenable is that a personal pensions buyer will not know what he is buying, mainly because he does not know what the contribution will be in the years following 1993. I have searched the Government Actuary's paper very carefully, but he does not tell us what the contracting-out rebate is for 1993–1998, 1998–2003, and so on, and without that information I do not know how a potential personal pension holder can make a reasonable judgement about opting for that rather than a final salary scheme.

The current in-word is 'investor protection' and although I think that the Government's proposals allow for a cooling-off period and notice for personal pensions vehicles when people go into those, I would urge that they also have a cooling-off period for those opting out of final salary contracted-out schemes, including the provision of a cooling-off notice to those employees tempted to go for personal pensions, giving full details of what each member is giving up in his final salary scheme, including death benefits, provision for widows, early retirement provisions, and so on.

There is one other major point which does not seem to have dawned on the Government. That is that there is a fundamental difference between the Green Paper proposals of summer 1985 and the White Paper proposals. This has led to two particular aspects being carried forward from one to the other without due consideration. The main point is that the Green Paper provided for compulsory occupational pensions or personal pensions, and as they were compulsory and therefore replaced state provision, there might have been some argument at that time for limits on charges and possibly for unisex annuities. Now, however, personal pensions and group money-purchase schemes are voluntary because the individual is entitled, if he is currently in a final salary contracted-out scheme, to stay there, or if he currently has no personal provision, he can rely on SERPS. So the new regime is voluntary not compulsory, and I therefore see no justification for carrying those two aspects forward into the new regime. Therefore I agree with other speakers that in accordance with the Government philosophy of competition we should allow market forces to apply, particularly in the area of charges.

Any remaining argument for unisex annuities also falls away for the same reason. After all, men and women with the same earnings experience will not have the same pot of money at retirement. One will have invested his money in, say, a building society or a bank deposit whilst another may have invested in commodities or a unit trust. As they will not have the same pot at retirement, they will not get the same income, even if there were unisex rates, so I see no justification for unisex rates on that ground. Why should men subsidize women? Why should the single subsidize the married? The same rates will have to apply for single people as married people because you will have to provide a widow's pension or a widower's pension for an as yet unknown spouse. There is no remaining justification either actuarially, socially or politically for unisex annuity rates.

Mr M. H. Winters: I agree with Mr Lyon about the concept of having a reduction from SERPS based on contributions rather than on benefits. This seems to me to be the basis on which we should proceed.

We need simplicity, and the experience of SERPS and contracting-out gives no sign of increasing simplicity; in fact, the reverse is the case.

If we had the basic concept that in future there will be no GMP, but an abatement from SERPS equal to the accumulation of a mixed abatement contribution, not to be revalued by the Government Actuary every 5, 3 or 1 years, say of 5% or 6%, we will have considerable simplicity.

I have been brought up on final salary schemes and I recognize the political point that Norman Fowler is making that the early leaver is not looked after. Mr Brimblecombe has drawn attention to the point which the Government has undertaken to examine, namely whether a final salary scheme which includes a money-purchase guarantee is an acceptable form of pension provision. Let us go back to fundamentals and consider what sort of pensions provision there should be. That concept would, I think, be acceptable to the normal basic political objectives of Norman Fowler. It would be acceptable to those like myself who think final salary schemes are doing a good job, and giving a decent income in retirement.

Like others, I also object to the bribe.

Mr C. D. Daykin: Mr Short commented on the possible embarrassment of the Government Actuary. As a Department we are always embarrassed when our figures are misused, when people focus on one figure which we have produced whilst ignoring all the others which are intended to be shown alongside, and when it is purported that Government Actuary has said or has not said something when he has simply put forward his professional advice and has not offered a subjective judgement on the matter in question.

The figures presented in the Government Actuary's financial memorandum on the Social Security Bill were presented on stated assumptions to show the effects, well into the next century, of the proposed scheme as compared with the existing SERPS, the intention being to make clear the implications of the demographic effects, the consequences of the maturing of the various provisions and the relationship between them. Figures were shown in terms of constant prices since this is the currency in which MPs and Governments have come to make their decisions; as Mr Stewart has pointed out, this has some limitations from the point of view of the pension projections. We have shown figures for earnings upratings of flat-rate benefits alongside the figures showing the prices upratings required by the present Social Security Acts. This illustrates the fact that there is a wide divergence caused by the 1½%. The implications can be looked at in two ways: either that on earnings upratings the cost would be very much greater, or, as Mr Stewart has indicated, that on prices upratings the benefits would be correspondingly smaller.

Also implicit in the projections are stated assumptions about employment in future years. This raises some wider issues on which Mr Short has touched, such as the nature of employment in the Twenty-first Century. It is not for us to speculate on what the situation might be in regard to work-sharing or all the other types of arrangement which might exist then—whether only 10% of the population might be employed, for instance, in the middle of the next century—who knows? That would be a very different world from that in which we find ourselves, and as the world develops, and as the future becomes the present, then different arrangements may have to be devised in order to meet the situation as it emerges. That could mean having to look at other ways of effecting transfers

between different sections of the population; it could have implications for pension age and for many other things. So the question of affordability in the next century is an issue on which we have not sought to present a professional view. It is something which is very subjective and on which different people have different opinions—on which politicians can pronounce from their own particular perspective. We have simply sought to show how the costs would develop and what the implications would be if there was a workforce similar to the one that we have at the moment, developing in line with the demographic characteristics, but reflecting a similar level of unemployment throughout the whole period.

Considering the contracted-out rebate, the other area in which we have given advice, comments have been made about the memorandum by the Government Actuary on the contracted-out rebate. This has been made publicly available under a covering note from the DHSS. The issues of flat-rate rebates and incentive rebates are clearly matters for ministerial decision rather than matters of actuarial advice. GAD has provided Ministers with advice on what the age/sex-related rebates would be.

The document which has been issued on the contracted-out rebate does not present the Government Actuary's view that the rebate should be a particular figure, as some have tended to imply. It suggests that, on the same assumptions as the rebate has been calculated hitherto, and allowing for all of those contracted-out under the new regime the rebate should be about 4·27%.

This assumes that those who opt for personal pensions, who although not strictly contracted-out in the terms of the Act, will be to all intents and purposes in that category. It also assumes that the contingency margin built into the rebate is much the same as has been built in on previous occasions, i.e. about 7½%. It was thought in 1975 that the rebate should be higher than that calculated actuarially in order to make it attractive to a wide range of schemes to contract-out and not just to those who happened to have a favourable age distribution. The actuarially calculated rebate would now be about 5%. The additional ½% is the loading.

When people talk about that as being the starting point for negotiations, they are talking about increasing the loading rather than adding in a loading. There is already a loading and it must be clear also that the basis for the contracted-out rebate proposals now, as in 1975, already incorporates a margin. It is a costing basis which is not a neutral funding basis, but one appropriate to the calculation of premiums and therefore would be regarded, I think, as moderately cautious.

The question of what happens when a number of people leave defined benefit schemes and go for personal pensions has also been covered in the memorandum, although not quite in the terms that have been mentioned. The Government Actuary does not say that half a million people will leave schemes to go for personal pensions and that 5·4% is the right figure. It is simply stated that if half a million people do leave to go for personal pensions, and if they are all under 40, then the cost of GMPs for these schemes will go up from 5·27% to 5·40%. If the figure leaving for personal pensions was 1 million, then the increase would be approximately double and the cost would exceed 5·5%.

The point is made in order to give a measure of the sensitivity to that feature. The other feature to which it might be sensitive is the overall number of additional people contracting-out. I think that I am right in saying that the 5·27% was derived from a figure of about 5·29% before allowance for that factor. This is what is implied when we say that the figure is not very sensitive to the assumption of 1 million people contracting-out who were not contracted-out before.

I think that it is also true to say that Ministers have stated in Committee—and that will be on the record for those who care to look—that the 5·40% figure is a sensible figure as the starting point for discussions on the level of the rebate. These rebates are reviewed every 5 years in accordance with Section 28 of the Act, although, as has been pointed out by a previous speaker, the requirement is to have a review at least every 5 years and the Secretary of State may from time to time review it anyway. I think that it is a point reasonably made that, if circumstances turned out to be very different from those assumed in arriving at the rebate, the Secretary of State should review the position again in the light of the circumstances and on the basis of a further report by the Government Actuary examining the changes and their effect on the rebate.

Mr Brimblecombe said that he had not been able to find anywhere what would happen to the rebate in later years. I suggest that he looks at paragraph 24 of the Cmnd. 9711 financial memorandum, where he will find that on the basis of an assumption of about 5½% for the rebate in the 1988–93

quinquennium, the rebate will fall to about 5% in the quinquennium 1993-98, and steadily thereafter to about 3½% in 2033-38.

Mr R. Chadwick: I want to give three illustrations that highlight the current state of the pensions market that have been induced by the recent debate on personal pensions and ask questions that arise from these three illustrations. The first I found today when I read an insurance company circular that said that 'the 2% incentive rebate is also available to schemes which applied to become contracted-out in 1985, but have not yet received their contracting-out certificate. Trustees in this position may apply to adjust the date of contracting-out.' My question is: why is there no suggestion in the circular that the incentive rebate is not yet approved in law?

The second is that in July 1985, immediately after delivering a seminar on the Green Paper to clients in Edinburgh, I stepped out of the hotel to see a bus going past with the slogan: 'XYZ, first for personal portable pensions.' XYZ, incidentally, is an insurance company that does not have its head office in St Andrews Square but is not a million miles from the front door of Staple Inn! My question here is: is this really the right way to treat the most valuable asset that the average man on the Edinburgh omnibus can ever build up?

The third is that insurance companies, according to the statistics published for the year 1984 by the ABI, currently speak for only 2.6 million pension scheme members out of a total of approximately 10 to 11 million members who are in pension schemes. The figure of 2.6 million includes some people in managed funds and those with executive or top-hat pension arrangements. My question here is: why is it that whenever the subject of pensions is raised or debated there is a queue of insurance companies waiting to be quoted in the press? Is it anything to do with the volume of advertising that they pay for?

Bearing in mind that Mr Ward from the DHSS has said that a number of matters that we have been debating have already been debated in Committee stage, the Bill is currently so full of provisions for prescribed conditions, or conditions to be laid down in regulations, that I consider that the floor is still open for any points to be made in this vital debate.

Mr R. B. Colbran (closing the discussion): We have had what must be for this subject a relatively low key discussion, although not a great deal of enthusiasm is to be detected, to say the least, for the Government's proposals. Mr Gillon wants us to send out a clear message that they have not got an actuarial seal of approval.

Mr Gillon briefly summarized the development over recent months and the profession's involvement in them. Never have we seen two, let alone three, different sets of proposals under the same administration. In 18 months we have had three different schemes and two U-turns. I suspect that the reason why the discussion is rather low key is that it is hard to take it all seriously and to believe it will ever actually happen.

I was pleased to hear from Mr Ward that consultation is taken seriously. Some times we feel it is; at other times we begin to wonder. We wonder what happens to all the letters written and sent to Government departments, when we receive some rather strange replies. We feel sometimes that they have failed to understand the point or just do not want to know. Yet they spoke proudly of the consultation process in the White Paper, and we all get a quotation to make us feel good.

It was also interesting to read the Social Services Committee report, produced in a short space of time, and providing a remarkable number of quotable phrases. It lists about nine points on which the interaction with other parts of Government policy are mentioned. It says that the Committee is not convinced that these have been fully taken into account, and quote the Secretary of State from as recently as June 1985 telling us why a modified SERPS is not a very appealing prospect. It says, as regards the White Paper, having then seen the Bill: "However, these proposals are still, in the main, expressions of Government aspirations rather than concrete plans".

Not a great deal has been said about tax, which is one of the points that the Social Services Committee made, apart from the opener asking for this to be sorted out this year rather than next.

Despite representations from the NAPF, from this profession and from others on the need for co-ordination, there is absolutely no sign of this. I have the feeling, for example, that the paragraph on voluntary contributions in the White Paper, that the Inland Revenue are very much in control, and

that the Department of Health Ministers and officials do not have a great deal of power to influence things.

One possibility is that the fact that voluntary contributions are not to be allowed outside employer's schemes would be a strong pointer to personal pensions not being allowed on top of a contracted-in occupational scheme. I think it would be a great pity if that were to happen.

Turning to the effect on schemes and on the level of provision generally, I felt when I first read the White Paper, and I still feel, that the overall proposals are hostile to occupational schemes, particularly to contracted-out final salary schemes. They may not be intended to be, but they seem to be.

Certainly, as has been mentioned, the members of contracted-out final salary schemes are really the only group that does not qualify for the 2% rebate, and they are going to pay for everybody else's. As noted by Mr Miles and Mr Winters the administrative burden is heavy and increasing and we have the regulations on disclosure still to come.

Various ways of accommodating final salary schemes on a contracted-out basis were mentioned. I was very pleased to hear Mr Basten wanting the GMP test abolished. I have been suggesting this idea and found very little sympathy. I think the profession was the only body to support this, and I had an uphill job even trying to get that into our own evidence, let alone to get it accepted by Government. I was told that it would involve re-opening the whole early-leaver revaluation question which would hardly be acceptable in the pensions industry generally.

Mr Winters, supporting Mr Lyon, wants a variable deduction from State benefits to allow for the true value of the flat rate rebate which, unfortunately, would hardly make things more simple. On the other hand, we hear that Mr Miles' wish to be able to contract-out final salary schemes on the money-purchase test may well be granted. We must hope so. Even there the combination of GMP for the past and money-purchase for the future is worrying.

Much was said on the rebate and the 2% incentive. Uniform rebate certainly distorts choice, as the opener pointed out, and Mr Lyon was not happy with it. Mr Stewart mentioned age- and sex-related rebates. The Government is, I think, aware that there are options against it. Whether it is as aware as it ought to be of just how these options could be used, and the possible cost of them, is another matter. They certainly seem unconcerned.

Mr Daykin referred to the assumption of $\frac{1}{2}$ million extra employees choosing personal pensions and Mr Stewart suggested that it might be as many as 1 million. I wonder why it should be as few as a million, or why the Government should think so. They in effect told us in the Green Paper that there were 49% of the workforce not in pension schemes. It seems obvious from the Government Actuary's figures that it must pay the younger element to take a personal pension rather than participating in SERPS. They are going to get what now appears to have become 5.40%. They are going to get the 2% rebate for five years. They are going to get tax relief, which may well be paid in to their pension fund on their own share of the 5.40%. If the pensions industry cannot get the majority of those at present non-pensioned at the younger ages into personal pensions for five years, then they are a lot poorer salesmen than I give them credit for. If we had some figures on three or four million taking personal pensions then they might give some food for thought.

Mr Daykin indicated that Mr Brimblecombe's plea for an early review of the contracting-out rebate might be granted. Clearly if the younger ones opt for personal pensions then the cost of the GMP rises and contracted-out schemes are going to need higher rebates. Of course the Government is free to adjust the terms, and it may well be that while the present administration is in power, it will be favouring contracting-out, although if the colour of the Government changes then we might find the opposite.

The CBI seems to have had a strong influence on the Government's thinking, and in their pronouncements on the Green Paper they were very bothered about paying twice—paying for this generation and for the next one at the same time. It could be that if personal pensions are the success that Government may hope, they will find themselves paying twice by a different route.

Mr Brimblecombe certainly saw no justification for the unisex requirement, and it is a little difficult to understand quite why the Government is so keen on this. Up to 1971 the actual differences between male and female mortality in the population were increasing. I have a suspicion that imposing certain equal treatment burdens on occupational pensions is a way of covering up the fact that they are not

doing too much in the state scheme. Mr Field dealt eloquently with the problems caused by possible investment controls on personal pensions and struck a chord with me. I have been involved recently in two money-purchase schemes on a unitized basis and we made a feature of the fact that the member could switch to a cash fund as retirement approached if he wanted to protect the value of the appreciation he already had. Probably the biggest practical worry about the personal pension proposals I suppose is whether the collection system will work. I wonder whether that has really been thought through, how long it will take and what will happen as people change jobs, and all the different things that can go wrong before the money gets to its proper destination.

I can understand the concerns of the opener and Mr Field about controlling charges. Mr Brimblecombe said, since the arrangements are voluntary, there is no need for control. Maybe it might be hoped that disclosure will solve the problem. The current MIBOC proposals on disclosure seem to be based on a misunderstanding of the way in which commission motivates brokers and thereby prevents people being sold what they really need. I was pleased to see that the Consumers' Association and the Office of Fair Trading are putting them straight on this point. The number of times when this is a situation where front end loadings have absorbed a significant part of savings is horrific.

A number of people wanted the profession's message to come over loud and strong. The opener wants us to send out a clear message that the proposals do not have an actuarial seal of approval. Mr Short wants the profession to take a clear stance. Mr Miles wants us to make it clear that consultation has yet to begin. Mr McBride hopes our submission will be significant.

At one time we tended to make representations only on what we regarded as professional points. These were never precisely defined, but seemed to confine us to the areas where only actuaries could comment. More recently we have struck out and have tried to recognize that actuaries have a great deal to contribute from their knowledge and experience of other relevant matters. At the same time we have tried to stand back a little from a vested interest position and take a wider view more in the national interest and say to Government what are the consequences of its actions rather than lobbying for a particular course of action. Whether the subtlety of this is appreciated on the other side, I doubt. However it is difficult to know what other course reasonably to pursue. We have to try to maintain the quality of the evidence. To get the profession to agree on a clear stance on any major issue would present tremendous difficulty.

Overall I wonder if there is any solution to the problems of earnings-related pensions in the state scheme. Mr McBride recognized the ghost of the State Reserve scheme and reading the White Paper I felt that this was the gap. The State Reserve scheme was never a happy concept, but looking at these proposals I see why it was invented. Under the present proposal, when it is mature, we are offered a scheme which will produce a mere 20% of upper band earnings for a full career starting at 16. As the opener has said, it seems that if someone stays in education beyond the age of 16 they will not even get the full 20%. This is coupled with a basic pension which can only be price protected. The White Paper, by stressing the value of price protection, leads us to think that the Government is not too hopeful of doing much more. If this is really so, there seems little doubt that it would have been far better to devote available resources to improving the basic pension. While this might be realistic, it is politically unacceptable. I had hoped that a modified SERPS might actually avoid overturn of the whole set-up again on a change of Government, although the opener doubts this, and perhaps rightly.

My biggest objection to the state's involvement in earnings-related pensions is the loss of flexibility. Mr Daykin referred to what we can afford many years ahead, and the need to be able to change to meet future conditions. No-one can say how it will be appropriate in 40 years' time for the then Government to allocate resources, so the more promises that are made now, the more difficult it will become to change to fit the circumstances at the time.

One hint which we did drop in our evidence on the Green Paper was how the Government might try a little better to sell the idea of abolishing SERPS. They seem to have taken more notice of the siren's call which came from Centre Point.

The President (Professor P. G. Moore): Acts of Parliament on pension matters are mercifully rare, but when they do occur they are then usually of extreme importance. Each Act is no exception, with at least three new principles included. In particular, the portable personal pension is a new concept and

it is being introduced with a great deal of complexity surrounding both its birth and its growth to full manhood. While the concept may seem a very simple one, the practice appears to be going to be rather involved because of the Government's desire to retain various safeguards that would have been present if his or her pension arrangements, had the individual not taken a personal pension, still existed. I question whether the balance between simplicity and safety is correct, or whether the whole matter could not be greatly simplified by using the basic approach adopted for the self-employed—a sector that is, incidentally, rapidly growing in numbers in pension matters and hence deliberately placing the *onus* on the individual to manage his own pension account.

One point that does worry me is who is going to advise the individual who is considering a switch to a personal pension. At present, it is just scheme managers who have to understand pension complexities. Now we are letting loose a large number of the working population, the precise figure depending upon which newspaper you read, who will be amateurs in these matters and will expect to find simplicity and clarity when they come to make this decision.

When I, with the Faculty President, wrote to the Secretary of State recently, on what has been termed the 2% bribe, the reply I received was that the cost would be so minimal that I was making a fuss about nothing. The only deduction I can make is that the Secretary of State himself does not expect many people to take up the offer.

Proposing a vote of thanks tonight when we have no formal paper, or at least no author here present, is a difficult task. We have had a lively discussion with a wide range of contributors and we thank them all for their contributions. However, a great deal of work has been done over the past years in this area by the Legislation Pensions Joint Committee who have drafted a number of submissions on our behalf to Government and others and I would like to mention the names of this Committee as normally they are hidden behind the veil more or less of secrecy, although they appear in the *Year Book*. The Chairman is Mr Gillon, who has opened the session tonight. The Deputy Chairman is Mr Colbran, who closed the discussion. From the Institute we have Messrs. Brimblecombe, Martin, Snelson, Taylor, Turner, Wilkie; and from the Faculty we have Messrs. Grace, Lowe, Marshall, Mason and Streatham.

I would like therefore to close by proposing a hearty vote of thanks to that group for all the hard work that they have done and also in anticipation of the work that lies ahead of them in the near future.