A political football

For many years, parliament has been accused of being too 'short term' in its handling of pensions issues, resulting in long-term implications for the industry. Peter Davy examines the relationship between politics and pensions

Summary

- Politics and pensions remain intertwined due to older people being most likely to vote and the cost of pensions tax relief for the government.
- Political intervention can be of benefit to the industry, such as the recent budget removing people's suspicions about pensions being 'locked up' until retirement. However political sensitivity means issues, such as the funding of public sector pensions, are avoided.
- Pensions are generally subject to short-term political thinking as politicians are tied to electoral cycles, meaning there is no long-term accountability.
- The fast pace of reform has undermined public confidence in pensions, but has allowed the industry plenty of opportunities to have its voice heard through government consultations.

Politics is never far from pensions – and vice versa – as the recent battle over the Scottish referendum showed. While nationalists promised higher pensions and accused the Westminster parties of a 'pensions con' Labour MPs hit back, one saying the SNP was planning the "biggest mis-selling scandal in history".

The debates hit home. A poll for *The Sunday Post* in August found 72 per cent of voters worried how the state pension would be funded in the event of a Yes vote, with almost half (48 per cent) also concerned for private sector pension funding.

Despite constant complaints about lack of public engagement and interest in pensions, they remain a key issue for voters.

"There's a clear paradox in that people profess not to be interested in pensions and don't do anything about them, but when you scratch the surface they are always interested," says Rachel Vahey, independent pensions consultant, who as head of pensions development previously advised Aegon Scottish Equitable on pensions policy.

From Gordon Brown's infamous 75p state pension more than a decade ago, to public sector strikes in the current parliament, they are never far from the headlines.

"Pensions are always a good doorstep issue," agrees NAPF director of external affairs Graham Vidler. "We all have or need one in the future, so every party will want to take a stand on pensions."

As a result they frequently become a political football.

In fact, there are two reasons why politics and pensions remain intertwined, says Barnett Waddingham senior consultant Malcolm McLean. One is the votes – particularly since those most interested in pensions are also most likely to vote. Turnout at the last election rose steadily with age from 44 per cent among

18 to 24-year-olds to 73 per cent of those aged 55 to 64, and 76 per cent of those aged 65 or over, according to estimates by pollsters Ipsos MORI.

The second reason is the costs. Government figures show pensions tax relief alone amounted to £50 billion in 2012/13. That ensures politicians take a keen interest.

"It's true even on big policy changes like the March 2014 budget. Ostensibly it was all about letting people access their own money and spend it how they liked, but underpinning that was the realisation we saw from the Treasury's documents that there would be quite a big tax hike as a result of people spending the money," says McLean.

"When you look at the cost implications of pension policy changes it will always require a Treasury hold over it, so we are stuck with this for better or worse."

In the short-term at least, it is likely to get worse. The General Election next May will see the parties seek to differentiate themselves in the run-up to it, while roll out of auto-enrolment – the 'high point' in political consensus concerning pensions for over a decade, says McClean – is now well underway. That spells a more fractious future.

A game of two halves

This is not always bad news for the pensions industry. The budget changes in March, for example, significantly increasing pension freedoms and ending compulsory annuitisation, are seen by many as a development driven by the Conservative-led Treasury. Some doubt they are even fully supported within the DWP, headed by a Liberal Democrat, much less Labour.

Hargreaves Lansdown head of pensions research Tom McPhail agrees: "I would actually question how committed to the idea Steve Webb is, because everything else I've seen from him is very paternalistic and interventionist."

Nevertheless, that does not mean it will not have beneficial effects. In fact it is potentially among the most helpful developments to be seen for pensions for some time, according to LCP senior partner Bob Scott.

People have become wary of pensions, he argues, viewing the prospect of locking up their money into something unknown until they were 65 with suspicion. In this respect, the budget changes should help.

"What the budget did was say to people if you save into a pension and want to access the money you can take it once you get to 55. You can invest it how you like and use it how you like; it's your money. That message made pensions less remote and accessible," says Scott.

"I think it's the most positive statement that has come out about pension funds for many, many years."

There is another side to it, however. First, political sensitivity is an obvious deterrent to addressing significant issues: public sector pensions reform being the most obvious example.

After the Hutton Review, these remain mainly DB packages paid for by and large by the private sector, and cost remains a major issue, says Michael Johnson, research fellow and pensions expert at the right-wing think tank Centre for Policy Studies (CPS): "The cash flow deficits –pensions in payment exceeding contributions – are growing rapidly."

"The National Audit figures and ONS

figures all show the reforms to date don't actually make those schemes significantly more affordable," agrees Martin Jenkins, head of pensions at lawyers DWF.

Nevertheless, there is little appetite to address it. "No one is going to want to touch it," says Johnson. "What is the political upside?"

And where the politics is right, the economics for pensions may not be. That was the case with the removal of Advanced Corporation Tax relief under then-Chancellor Gordon Brown, says Independent Trustee Services director and former DWP civil servant Peter Askins – claimed to cost funds £5 billion a year.

"The official advice from DWP was don't do it, and that was ignored for political reasons," says Askins.

"Pensions are always a good doorstep issue. We all have or need one in the future, so every party will want to take a stand on pensions"

Changing times

Perhaps the fundamental problem is that politicians are tied to electoral cycles, while pensions are not.

As McClean says: "In terms of politics and policy, no government is really going to look beyond the next five years." Auto-enrolment was the exception, rather than the rule, he notes.

The results are two-fold. First, a lack of genuine accountability. Johnson, for instance, argues that evidence from Australia suggests that ending annuitisation, for example, can cause longer-term costs for the government, but they are unlikely to impact the current administration.

"If it's going to back-fire in the long-term they won't be on the hook," he says.

More definitely, short-term thinking results in constant flux in pensions policy. Indeed, a big part of the reason suspicion of pensions built, according to Scott is what he says is a "constant diet of change" affecting them undermining confidence and certainty in the system.

That continues to this day. Indeed, the pace of change has been at "rocket speed" in the current parliament, according to Vahey.

On the bright side, it means the industry theoretically has plenty of opportunities to have its voice heard. As one recent analysis showed, there was only one consultation on occupational pensions in the year to May 2009; in the year to this May, there were 20.

"Consultation is healthy, but it can get too much," says Mercer partner Deborah Cooper. "Sometimes you are consulting on the same thing over and over again; they have had four or five consultations in relation to risk sharing, for example," she says.

Better too much than too little, though, she adds.

"It's helpful for them to know how advisers feel their proposals might turn, and also how the groups that represent pensioners or employees think they will pan out."

However, there is a limit to how much influence outside voices have – "You tend to get listened to more if you're saying what a politician wants to hear," says one commentator.

There is also little chance any consultation will bring an end to the constant tinkering.

"I don't think we are anywhere near approaching a stable environment," says Cooper.

Vahey agrees: "We naïvely thought that when we got auto-enrolment that would be it. But, then, I remember 2006 when we got pension simplification and everyone said that will be it as well."

Few now expect the recent changes to be the last word. "It will carry on changing regardless of who gets into power," says Vahey.

"In pensions, the only certainty is change."

Written by Peter Davy, a freelance journalist

A vain hope

Calls to separate politics and pensions are nothing new. "In my early days, the refrain often ran 'keep politics out of pensions'," the NAPF chairman at the time, Alan Pickering, told the association's annual conference in 2000, another pre-election year.

The call was partly misconceived, he continued: "Politics and pensions are about the same thing – the allocation of scarce resources between conflicting priorities. A more realistic plea might have been 'keep party politics out of pensions'."

This call continues today. Independent pensions consultant Rachel Vahey, for example, says: "Personally I would rather see the politics taken out of pensions completely and decisions taken in an independent pensions commission."

There are examples elsewhere. Both the Netherlands and Sweden in Europe, for instance, require reforms to be negotiated between political parties; New Zealand has its Retirement Commissioner, responsible for a review of pensions policy every three years, for informing policy development and for providing "policy stability".

Nevertheless, Vahey admits the money involved makes de-politicising pensions challenging.

"It's very difficult, for example, for an independent pensions commission to comment on taxation," she says.

Nor is consensus necessarily in the interests of pension members. Independent Trustees Services director, Peter Askins, argues that setting up the Turner Commission was itself a political decision to avoid accountability for pensions reform.

"The creation of the commission enabled politicians to say, 'We didn't do it,'" he says. There is something "strange", he adds, about "the idea that you outsource pensions policy making to a fund manager, an academic and someone from the TUC" – as he characterises the commission.

Askins eventually left the DWP as a result of the auto-enrolment policies, which he still opposes and argues explain the recent budget changes around liberalisation.

"The fact was they were facing an insurmountable problem; they were going to create lots of people with small pots who couldn't buy an annuity, so they had to do something," he says.

As he concludes: "Even if there is a consensus, if the policy is wrong, the policy is wrong."