Summary

- The Treasury's involvement with pensions policy increased under George Osborne's chancellorship.
- The DWP and the Treasury share a joint responsibility for retirement saving. But with state pension reform completed and automatic enrolment in place, many of the most important questions in pensions now fall to the Treasury to decide.
- The increasing Treasury involvement in pensions is generating fears that pensions are being used as a 'cash cow' and that new savings vehicles and tax changes are damaging faith in pension saving. The fast pace of reform has also led to concerns that the underlying complex nature and the long-term consequences of changes are not being fully considered.
- An independent pensions commission has been suggested to provide a longer-term societal view of pensions policy. Another approach would be a single minister in charge of pensions, based in the Treasury.

Pushed aside

The balance of power over pensions policy has tipped in favour of the Treasury in recent years, leading to some claiming that retirement saving has been damaged as a result. What can be done to give the Department for Work and Pensions more of a say, and restore some equilibrium?

The Treasury ruffled a few feathers at the start of the year when it released its *Ways to save in 2017* infographic.

The mini-guide caused offence, not for its garish design, nor the strange image in the centre that appears to show a man strangling an infant, but for its omission of a mechanism that most financial advisers would still identify as the best to use when saving for retirement.

As the infographic came out just after the Christmas holidays, it's possible that no one was in the DWP's offices when it was ushered through government for any checks and final amendments. But in reality, this was no oversight. The Treasury has given the impression that it's been trying to eradicate the word pension from the savings lexicon ever since George Osborne became Chancellor of the Exchequer.

"There is a long-standing trend of the Treasury being intimately involved in pensions and rightly so, as it is the nation's spending ministry," says PLSA's director of external affairs, Graham Vidler.

"What we've seen over the last seven or eight years is a slight difference under Osborne's chancellorship."

"We had a chancellor who was driving ideas to improve pensions and retirement savings. So you had a very different sort of dynamic behind things like pension freedoms and the Lifetime ISA and obviously a very different way of bringing them into the public domain.

"There was a much more rabbit-out-of-the-hat style of policy making."

Treasury domination

It is not, however, just a strong personality that has handed more power to No.11 Downing Street, according to Steve Webb, the Pensions Minister in the coalition government from 2010-2015 and the current director of policy for Royal London.

Webb says that at first glance the two departments appear to share a joint responsibility for retirement saving. The odd divisions between the two departments, such as where contract-based pensions come under the Treasury's remit and trust-based schemes are the DWP's responsibility, seem to bear this out. However, policy on pension tax relief, and so long-term saving, is handled by the Treasury.

"With state pension reform completed and automatic enrolment in place, many of the most important questions in pensions now fall to the Treasury to decide," he says.

His opposite number during his time in the Commons, Gregg McClymont, believes that the Treasury's increased involvement in pensions policy is a worrying precedent, especially as it has coincided with the downgrading of the Pensions Minister to the third rung of ministerial office – from Minister of State to Under-Secretary of State.

"This might seem arcane but it matters and is not a promising portent from a DWP perspective," says McClymont, who is now head of retirement savings at Aberdeen Asset Management.

"The concerns about Treasury domination are justified to the extent that the Treasury's interest is simply financial control. Government needs this of course – it's fundamental – but pensions policy demands analysis beyond the financial bottom line."

He says that this requires an understanding of the total pensions landscape, which is complex. With the Treasury lacking the necessary knowledge of this landscape, McClymont warns of a danger that policy will be made without an adequate grasp of its consequences for the different pillars of the pensions system.

Dangers

This danger has already become a reality, says Aon Hewitt principal consultant Lynda Whitney. In her view, the Treasury is damaging faith in pensions through tax changes and the introduction of new savings vehicles.

She says that with pensions seen as a bit of cash cow that can be squeezed to fill gaps elsewhere, there is a distinct possibility that the government is killing the overall support for company pensions from the top, with its cuts to the annual and lifetime allowances.

"We've also seen the Treasury adding to the savings confusion with several new types of ISA, including the new LISA," she says.

"I don't object to LISA, but its primary focus is property. The fact that it has the word pension tagged onto it makes people think they're doing the saving they need to for a pension. But they're really doing it for property."

Vidler says that the Treasury's greater involvement has also resulted in too much policy being introduced in recent times.

During the previous administration, he points out that the DWP, then under Steve Webb, was pushing through very material changes to the structure of the state pension, as well as continuing the momentum the previous administration had started with automatic enrolment. It was also completing the agenda around the governance of workplace pensions.

"At the same time, there was lots of additional policy being driven from the Treasury and one outcome of that was that we had simply too much pension policy in the last parliament under the coalition government," says Vidler.

"There was too much going on for it all the connections to be made and the long-term impact and unintended consequences to be thought through.

"So you might in retrospect say, would it not have been better to complete the job of auto-enrolment before we started insisting that the same schemes that had tried to get that job done also had to implement pension freedoms?

"That might have been a better way of doing it and getting the pension freedoms off to a flying start."

The most recent former Pensions Minister, Ros Altmann, is more critical. She has said that the power struggle between the two government departments is putting pensions in mortal danger.

Writing on her blog a day after the release of the now infamous infographic, she said that future generations would face worse incomes in later life if the Treasury succeeded in undermining pensions.

"During my time as Pensions Minister, there was clearly a difference of view between Treasury and DWP about private pensions. The Treasury sees them as a cost to the Exchequer. DWP sees them as a benefit for people to give them a better later-life standard of living.

"Having battled against the lifetime ISA, it is deeply troubling to see the latest public information from the government talking about 'ISAs and other savings options' *[while]* the huge advantages of pensions are totally ignored."

Anyone using a lifetime ISA, instead of a pension, is likely to end up with less in later life, she warns, leaving future governments and younger taxpayers with the unwanted job of having to provide for poor pensioners.

Finding a solution

In order to avoid such a catastrophic result, Whitney says that an independent pensions commission should be set up to provide a longer-term societal view, rather than a purely political one.

History has already shown that it can work well too, she says, citing the one-off commission headed by Adair Turner that carried out the background thinking and research that eventually produced the policy on auto-enrolment.

The PLSA has been a strong advocate for a commission as 'part of the solution' to the politicisation of pensions. Vidler says that a separate body overseeing how pension provision should develop would be beneficial in three ways.

"First of all it will give us an agreed evidence base on which to base our decisions," he says.

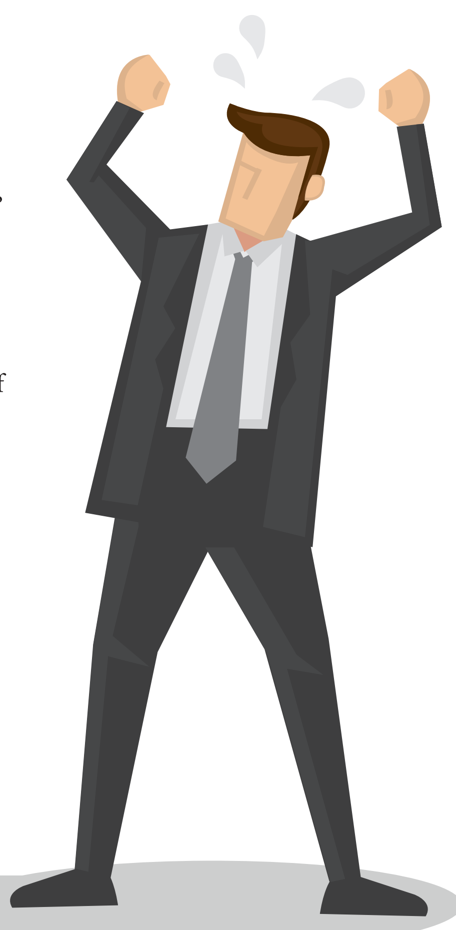
"Secondly, it will give us an opportunity to build the sort of consensus that the pensions committee under Adair Turner built at the start of this century, and thirdly, it will give us an opportunity to agree on a statement of what we're trying to achieve through our pensions and long-term saving policy."

Webb, however, thinks that there may be a simpler remedy.

Ultimately, he argues, it cannot make sense to have two separate departments and two separate regulators overseeing pension policy.

"This results in inconsistent policy-making, of which the lifetime ISA is the latest example. The Treasury likes the ISA approach because it is relatively simple and cheaper than pension tax relief, but seems to be blind to the impact on automatic enrolment and workplace pensions because that is handled by another department.

"There probably needs to be a single minister in charge, and if that minister is to have any power then they have to be based in the Treasury."



Unchaining Pensions from Politics (UPP)

In 2015, *Pensions Age* launched its Unchaining Pensions from Politics (UPP) campaign to highlight the need for a permanent independent pensions and retirement savings commission to consider the long-term implications of occupational pension policy and to advise government.

Written by Marek Handzel, a freelance journalist