

# Looking to the Left



## Summary

- The Fabian Society recently released a report where it outlined several recommendations for what action a Labour government should take in relation to pensions.
- Whilst much of it was positively received, some recommendations were perceived as controversial by industry experts, such as the emphasis on guaranteeing a retirement income for life.

The report outlines three key priorities that the society believes a left-wing government should provide, namely a retirement income for life available to all as the norm, support for everyone to save enough to meet their future financial needs, and fair, affordable and effective social security and tax policies.

Providing some background on the report and the reasons for the report's creation, the Fabian Society general secretary, Andrew

Harrop, states that: "There aren't that many centre-left think tanks with much engagement in these sorts of pensions policy debates."

After the release of the report there has been a fair amount of industry reaction to it, much being positive.

One area of agreement was with its recommendations surrounding collective defined contribution (CDC) pension schemes.

The report included many proposals about CDC schemes, such as the introduction of legislation to enable pension providers to offer CDC decumulation-only pensions if they wish and to challenge large employers who would have once operated defined benefit (DB) pensions to establish collective pensions using the CDC model.

These proposals were met with

## ➤ In light of the recent publication of a new report by the Fabian Society, Tom Dunstan examines both the report's contents and the industry's reaction to it to understand what the political pensions landscape might look like under a Labour government

Politics have, of course, always been very closely linked to the world of pensions (something last year's mini-Budget under Liz Truss made very obvious) and so the people and party in government is very important to the running of the pensions industry.

Whilst the next general election may be a while away (with the next mandatory election occurring in 2025 if it is not called before then), a recent publication has provided some insight

into what attitudes a Labour government might have towards pensions and what changes they may implement if they came into power.

### On the bright side

A recently released report from the Fabian Society, a centre-left thinktank, entitled *Good Pensions For All: The Left's Agenda for Private Pensions*, details perceived issues with the current pensions system and its suggested recommendations for fixing these issues.

general positivity and enthusiasm by the pensions industry, such as from LCP partner, Steve Webb, who comments: “I think there is a strong CDC sentiment within the industry.”

The report’s proposals surrounding auto-enrolment and tax reform also received a positive reception from members of the industry. For instance, Webb states that “we do need to take a proper look at tax relief”. However, not all recommendations in the report were received with such universal approval, such as its suggestion for providing a guaranteed pension income for life.

### Lifelong guarantee

One of the main ideas the report argues for is pensions being primarily for the purpose of providing a guaranteed income for life. On this topic, the report suggests the steps that could be taken to achieve this goal, such as raising the minimum age for drawing a private pension to 60 or 62 once state pension age reaches 67 and revising pension communication requirements for people in their 50s to focus on saving more and working longer, rather than accessing pensions.

One of the biggest parts of the strategy to ensure everyone has access to a guaranteed retirement income for life is the plan to reverse the direction of recent policy and develop a framework where pension deliver incomes for life as the norm for most people. This is an idea that has been somewhat controversial in the pensions industry.

There has been positive reaction to the idea, such as from the Pensions and Lifetime Saving Association (PLSA) head of DC, master trusts and lifetime saving, Alyshia Harrington-Clark, who states: “Some of the issues that they draw out are the same ones that we found, namely that some people are making sub-optimal choices and that they risk making poor decisions that lead to them either running out of money too early or use their retirement income for something

that isn’t really about retirement income”, giving the example of using retirement income for personal use.

However, there are some in the pensions industry who have not looked on the idea as favourably, such as Webb who voices concern that the implementation of such a framework might be seen as a rolling back of pensions freedoms.

He says: “Of all the things on the list, that would probably be the least popular one with the industry.”

In addition to possibly being unpopular with the pensions industry, Webb casts doubt on the idea that the measures suggested by the Fabian Society would be introduced by a possible Labour government, stating: “Pensions freedoms is very popular and raises money for the Treasury so I think this questions the extent to which a Labour government would row back on those freedoms.”

Webb also criticises the lack of clarity surrounding the report’s proposal, saying: “It’s not clear what they mean by an income for life being the norm for most people. Do they mean you have to have a certain amount of pot before you could do something else other than buying an annuity?”

Responding to this controversial reception on the report’s guaranteed income framework, Harrop states: “I wouldn’t claim that this is something that the industry is going to be 100 per cent behind.”

Harrop also says that the report does point out exceptions to the suggestion of changing to a framework that provides an income for life, such as for particularly small pension pots as “in that case it does make more sense just to maybe take it as one payment”. It also specifies that it is the “middle group” of pensions that are the chief concern for the paper’s framework.

### Coming up short

The idea of the new pension framework

was not the only controversial part of the report. Harrington-Clark voices some concern about the report’s suggestions on auto-enrolment, although for a different reason.

Whilst Harrington-Clark made clear that some of the reforms to auto-enrolment suggested by the report, namely reducing the age for auto-enrolment and to judge auto-enrolment on the first pound of earnings, had almost ‘universal’ backing from the pensions industry, she also states that “almost universally people think that we should go further than that”, thereby suggesting that perhaps the report’s recommendations could have done more.

This sentiment is also echoed by Webb, who states: “There’s a spectrum of suggestions in the report, some of which are pretty mainstream.”

Auto-enrolment was not the only area in which Harrington-Clark had an issue with the report. She clarifies that, whilst there was not a specific line of policy recommendations in the report that she disagrees, her concerns lie more with the fact that the report didn’t go far enough on the concept of minimum income standards as they have, in the past, asked for “a proper, holistic and considered objective for the overall framework”.

The report has certainly managed to produce some interesting conversations surrounding what direction a potential Labour government could take the pensions industry in and, although some of that conversation has been contentious and controversial, it certainly hasn’t failed to pique the industry’s attention.

A week is a long time in politics, so the saying goes, but just how long a time is two years? That could be a lifetime. So, whilst the Fabian Society’s report does indeed ask some thoughtful questions, it is difficult to say at this stage exactly how accurately the report would reflect the realities of a new government.

✉ Written by Tom Dunstan