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Secretary of State for Work and Pensions

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Thank you for giving me this opportunity to address your conference so soon after becoming the Secretary of State for Work and Pensions.

There are big challenges and opportunities – helping still more people into jobs, tackling child and pensioner poverty and advancing opportunities of disabled people. I pay tribute to the work the TUC has done, working with Government and business, in all these areas.

Let me also pay tribute to the work of my predecessor, Alistair Darling. In carrying through policy reforms and getting the new Department underway, he has left a sound base for me to work from and I am grateful for that.

It's certainly an interesting time – to say the least - to be taking on responsibility for pensions policy.

Let me say right at the outset, building on the foundations of the reforms and improvements we are carrying through on the State Pension, State Second Pension and Pension Credit, the future for occupational pensions can only be decided on the basis of partnership.

We will get the right outcome – a secure income in retirement - for present and future generations of pensioners only if employees, employers, pensions providers and government all work together, share a vision of what we can achieve, and dedicate ourselves to making it a reality.

We need to combine a coherent analysis of the challenge, clear and radical options for reform, with the broadest possible consensus and commitment to making proposals work.

This is why I very much welcome the recent TUC paper 'Prospects for Pensions' as a very valuable contribution to the debate.

I applaud partnership working between Trade Unions and business. I know what can be achieved when we work together, because I saw it have such great success with the New Deal. If there was ever an area where we needed to build and strengthen partnership for the country's future, it is now on these crucial questions of ensuring security in retirement for all.

So Ian and I are here today, not only to set out what we see as the key issues that we need to address – how we'll build on the reforms we've made over the last four years - but also to listen to you.

We want to hear your views and observations on what the Government can do to help people save more for their retirement.

Because that's one message that's coming through loud and clear – people aren't accumulating enough savings for their retirement.

We will be making proposals this coming autumn, informed by the Pickering and Sandler reviews – which we'll receive next month. The Inland Revenue is also reviewing simplification of the tax rules for occupational pensions.

I welcome the fact that those reviews have been given wide ranging terms of reference and encouragement to be radical in their proposals.

### **Achievements so far**

We will be building on the progress we have already made since 1997. As your recent paper acknowledges a lot has already been achieved.

Our first priority as a Government was to address the immediate problem of pensioner poverty and ensure that pensioners share in the nation's rising prosperity.

That's why we introduced the Minimum Income Guarantee – a single pensioner now receives at least £18 a week more, in real terms, than when we first came to office – with couples getting at least £27 a week more.

And we have ensured that the basic state pension will rise by at least £100 a year every year from next April.

Both these measures build on the historic partnership we've enjoyed in this country – a partnership between the state, individuals and employers and between the funded sector and the state sector.

This is a partnership where the State provides a basic pension on which people should build. It also provides the state second pension. I am proud that this government is so significantly extending its benefits for the future to carers and people with broken work records

Many on moderate and higher earnings have of course benefited from the opportunities of private occupational and personal pensions, generally on a funded basis.

It is worth remembering that with more and more people retiring with good private pension provision – including occupational pensions - pensioner incomes have risen almost twice as fast as incomes for people in work over the last twenty years.

So the challenge today is how we build on the changes we've already made to help more employers and individuals to make more pension provision.

### **Challenges and choices**

The fact that on average people aren't saving enough for their retirement has come into sharp focus in recent months as the stock market has proved it can

go down as well as up, and as some employers have closed occupational schemes and cut pension contributions.

Whilst not new phenomena, the very understandable anxieties they have given rise to are thrusting pensions policy to the heart of public debate.

I am not going to anticipate today the outcome of the current reviews, or announce new policies in advance of the public consultation we need to have.

What I would like to do today is to set out the principles which I believe should underpin the debate. And the changes that need to take place if we're to achieve our ultimate aim – ensuring people build up enough savings to ensure a secure income when they retire.

Whilst there is a lot of complexity in pensions, much of it redundant and counterproductive, several things are very clear.

Firstly, to enjoy a secure income in retirement people need on average to build up more savings.

So for those of working age who've never had the opportunity to join a company scheme – around half the workforce – we've introduced new options for saving for retirement.

For example, the Stakeholder pension was introduced to provide a new, low-cost option – that's flexible, portable and available through the workplace. The latest ABI figures show that in the first year over 800,000 have already been sold

But more needs to be done. We recognise the value of being able to make pension saving through the workplace and we want to make it easier for employers to maintain or set up a pension scheme for employees.

## **Partnership framework**

Regardless of whether someone is in a Defined Benefit or Defined Contribution scheme – both have advantages and disadvantages - we need to make sure that as much goes into the pension pot as possible, avoiding any excessive costs in selling or running the scheme.

We have to take a hard headed look at the options in this area. We need reforms which have the confidence of business as well as trade unions.

It's no good preaching at workers to save if they lack the means to do so or the confidence they need in the pension products being offered to them.

It's no good loading employers with so many requirements, so much red tape or costs that they cast off any responsibility for helping their employees build up a pension.

It has to be worthwhile for employees to save, confident in what they will get in return, and easy for employers to contribute. We need a framework that builds partnership in pension provision not a mutual aversion to responsibility.

For employers, a good company pension can help with recruitment and retention – especially when facing skill and labour shortages.

For employees, a company pension is a valuable source of future income.

For wage negotiators, it is not just about take home pay but also about securing future benefits for their members.

And for the Government, it ensures that the system as a whole produces the incomes in retirement that people want.

### **Better information**

A second key principle is that people need to be able to make more informed choices.

For far too many people at the moment looking at their pension provision and planning is an incomprehensible maze – something it's easier to put off to another day. This has to change.

I believe government does have an obligation, working with providers to help people get the information they need to make informed choices.

Last October, in partnership with volunteer employers and private pension providers, we launched combined pension forecasts. These forecasts will allow people to see more clearly what pension they can expect to receive when they retire.

This is a crucial first step in raising awareness to make sure people have enough income when they retire. It is often a rude awakening when people see that what they will be getting when they retire is less than they expect – and inevitably a lot less than they are getting in work.

We will build on this approach from April next year when members of money purchase occupational schemes, stakeholder pensions and personal pensions will start to receive an annual illustration of their future pension rights.

These are important steps. But I think we can go further still. I would like to see a situation where talking about pensions and financial planning is more of an every day issue.

To this end we are also working closely with the FSA and others in the industry to promote the need to save and ensure people have the information they need to make the right savings choices for them.

### **Incentives to save**

Another key driver in ensuring people are aware of the need to save are the right incentives. It should be a statement of the obvious that it should pay to save – yet until now this has not always been the case.

That's why we're introducing the Pension Credit to come in from next year.

With the Pension Credit, for the first time we will be able to say to people – if you save even modest amounts above the basic state pension you will be rewarded for your efforts - I am pleased to see that you welcome and support the Pension Credit.

## **Simplification**

A third key principle is simplification. As you know, the key next step forward will be the Pickering and Sandler reviews, which are due to report in the next few weeks. The Inland Revenue will also be reporting on its tax simplification review later in the year.

Alan's report will look at how we can strip away unnecessary regulation, and make pensions much simpler. So we make it easier for employers who run a company scheme, and easier for the industry to sell pensions. Above all - make it easier for people to save.

We need to take a hard look at the regulation surrounding pensions and make a conscious decision to simplify the system.

We need to make sure that pensions are accessible to the people who need them.

The three reviews will look at the framework right across the funded sector, to promote choice and accessibility in the pensions market. And make it easier for employers to provide a company pension.

We will receive the final Pickering and Sandler reports in the next few weeks – and the findings of the Inland Revenue review later this year.

And then, as I've said, we will come forward with the Government's response.

Through this process your views and input will be invaluable. We must seize this opportunity and work towards creating a platform for a new national consensus.

I believe together we can make significant improvements to help increase saving and people's income in retirement.

### **Opportunity to remove the cliff edge between work and retirement**

But as well as making it easier for people to save, we need to give people the opportunity to prepare for retirement.

Too many people experience a "cliff edge" between work and retirement - that on Friday they are deemed to be valuable members of the workforce but the following Monday they are shuffled off into retirement.

More and more people want to be able to experience a gradual downshifting into retirement.

We need to be able to provide real opportunities and incentives to enable people to stay in the work place for longer - where they want to. As well as getting rid of the perverse incentives to retire even when it might suit people to carry on working, perhaps part time, for longer.

We also need to do more to enable the over-50s to stay in work for longer. We need to reverse the trends of the 1980s and 1990s which saw the proportion of men between the age of 50 and state pension age, not in work, double.

In the 1990s, youth unemployment quite rightly became the focus of many Governments efforts to get people into work. In this decade, I believe a new drive to help the over-50s is essential.

We've seen progress –the rate of employment for over-50s has risen every year for the last four years and it's now one of the highest in Europe. The



number of people aged 50 or over in work has increased by 900,000 since 1997. But there's still more to do.

I believe that especially with increasing longevity people should be able to choose to combine work with income from retirement - not just in the years up to state pension age but beyond. We need to make sure that our pension and employment policies work together so that there is the flexibility that people and employers want.

To this end to tie in with the active ageing agenda for which my Department has responsibility, as well as the steps we are taking to implement age discrimination legislation – I have asked my officials to look at options to make sure that people have flexible options once they reach retirement age.

## **Conclusion**

I firmly believe that the overall pensions framework is the right one. We will continue to build on the changes we've already made.

We are going through a period of change and challenge. It's important that we understand the reasons behind this, build on what works, with reforms designed for the long-term needs of us all.

In developing our proposals over the next few months we will build on the principles I outlined earlier;

- Enabling people to make better informed choices in saving for their retirement
- Ensuring better information to help people make more meaningful choices
- Providing a range of simpler products
- Cutting red tape
- Encouraging partnership
- Removing perverse incentives by aligning pensions policy with the employment and active ageing agenda

We will be prepared to take radical action to renew peoples confidence in the pension promise.

I look forward very much to your views. I can assure you that the needs of present and future generations of pensioners are very close to my heart. I will be practising the sort of partnership with you, and with employer representatives, and with the pension providers, which I want to see you deepen between each other.