

Pensionomics.com Commentary 11<sup>th</sup> October 2010  
***Pensions – A complex issue spanning all parts of society -  
And not going away any time soon***

(Dr Frank Eich)

When we started sketching out our Thought Leadership project in early 2008, the world was a different place. By late 2007 Britain had seen its first bank run in a century as Northern Rock collapsed but that the entire global financial system would go into meltdown in late 2008 was still unimaginable. Soft landing certainly, recession perhaps, deepest crisis in living memory, never...

As the economic and financial storm was brewing, we launched the Pensions Tomorrow initiative with the London School of Economics, kicking it off with a session on the general pensions landscape. We felt that there was the urgent need to address the shortcomings in the British pension system, which could leave millions of future pensioners worse off than expected. We argued that the allocation of risks and responsibilities across individuals, businesses, the financial markets and the government must be reconsidered in order to create an efficient, equitable and sustainable pension system fit for the new century. We also argued that a new debate on the future of pension provision in the UK, involving all parts of society – policy makers, the media, pension professionals, academia, businesses and individuals – is needed urgently.

We then set out to research some of the key issues in pensions, including the impact of increased longevity on pension provision. However, the economic and financial events of late 2008 and 2009 created their own research agenda. What was the impact of the crisis on the British pension system? We concluded that it had brought to the fore the underlying problems, which we had identified earlier, and added its own new challenges. Our advice: *Back to the drawing board*. Could anything be learnt from the experiences in other countries though? We answered that question by looking at a diverse range of countries around the world. The answer was obviously yes.

While the crisis was unfolding around the world, another pension issue, this time of a domestic nature, made it into the headlines: public sector pensions. Were they really “gold plated” as suggested by parts of the media? As is so often the case, the answer was not straightforward. Crucially, to derive an answer we argued that it was important to take account of public and private sector pay differentials, which vary across the genders, the regions and the skills sets. After all, pensions are deferred pay. In any case, why does the Government pay occupational public sector pensions in the first place? At its most basic, it is because the state employs people to provide goods and services. In addition to offering a wage, the Government also offers a particular pension as part of its remuneration package. This is not necessarily the same everywhere. As an international comparison found, first, governments across the world have quite different views on what should be provided and/or funded by the state. Second, they also had quite different views on what a public sector pension should look like. In some countries there was no difference between occupational pensions in the public and private sectors. In others, the distinction was even more marked than in the UK. Again, one can learn from international experiences.

If any further proof was needed that pensions really affects all aspects of society and the economy, our commentaries covered all kinds of issues, from the impact of the BP oil spill in the Gulf of Mexico on pension funds, to ageing and global macroeconomic imbalances, to the pros and cons of the early access to pension savings, to the appropriate coverage of NEST, to the decline of occupational pensions in the private sector. The topics are endless and there is no sign that the pensions issue will become less complex any time soon.

We more than ever believe that Britain deserves a better pension system fit for the new century. Moving from the status quo to this new system will be a challenge but will also offer opportunities. We might even have some ideas how to achieve that in the future.

We hope that pensionomics provides food for thought and helps move the debate forward.

This is Frank Eich’s last commentary on pensionomics.com as senior economist at Pension Corporation.