

future of pensions for the next 40 years.

Why this sudden ferment of activity? The pension funds are very big, it is true, and many of us have large amounts of money tied up in them, with no right to say how or where it is invested. But that has been the case for a long time, as the funds have grown inexorably towards the £100bn mark. The largest of them, the Post Office Fund, is worth several billion pounds, larger than several of the major merchant banks. What has started all these different things happening is that various groups of people have decided that all is not well in the pensions world, though from a number of different points of view and for their own different reasons.

First, the right-wing Centre for Policy Studies has produced a plan for 'portable pensions' which has caught the eye of the Prime Minister and some DHSS ministers, though it is being rubbished by both the civil servants and the insurance companies. The right-wingers believe that current pension funds are an abomination, for two reasons. First, they dislike the collective nature of them — the fact that the young cross-subsidise the old, the healthy the sick, and men women. To the rest of us, our pension scheme may not smack of

socialism, but to these folk, dedicated to 'standing on your own two feet' it does. Secondly, they dislike the power of the big financial institutions just as much as the Left does. They see them as a conspiracy against the small entrepreneur in whose hands, they consider, salvation" lies. So their aim is a system where pensions — preferably all pensions, including those currently provided by the state — are saved for by individuals with their own accounts, so that the money can be invested in small businesses, insurance policies, or whatever. What would happen to the individual whose investment in a small business went bust they do not relate.

This proposal is not unlike what has happened in Chile — indeed, one of the proponents of the idea, a Dr Madsden Pirie of the Adam Smith Institute, was unwise enough to talk of the 'Chilean solution' to pensions at a conference not long ago. In Chile, everyone is compelled to take out individual pension policies with the insurance companies, but they can switch their contracts freely between the companies at the end of each year, and this has led to enormous instability in the financial institutions' cash flow.

Since there would be business for the insurance companies in Britain from the Centre for Policy Studies idea, one might expect them to support it. However, the larger, establishment insurers are not keen. Such enterprises are no longer interested primarily in insurance — a company like the Prudential is a conglomerate financial institution, with insurance being only one small part of its activities. Anything which disturbs the smoothness of their cash flow makes planning difficult, and is therefore to be deplored.

Meanwhile, other groups have their worries, for other reasons. Civil servants at the Department of Trade and Industry have responsibility for keeping an eye on the insurance market and other places where small investors can lose their money. Over the last year, they have seen a number of scandals, first among the commodity brokers and later in Lloyds of London, the biggest insurance market in the world, who had assured everyone that they could police themselves very well but turned out not to in practice. Pension funds similarly are not tightly controlled under the law. Theoretically they are ruled by a framework of trust law going back to the middle ages. This though is too vague, and too difficult to enforce, to be any real protection. The DTI has had a Professor Gower, who started off as one of Mrs Thatcher's pals but is probably less so now,

PENSION FUNDS

Many people pay 5 or 10% of their earnings into a pension or superannuation scheme today without knowing too much about it, and certainly without realising the extent to which pensions are becoming part of the political battleground in the cabinet.

Pension funds are based on the idea that the contributions you make, together with those made by the employer on your behalf, are invested to produce income which is used to pay for your pension when you retire. The system has a number of faults, the main ones being that they tend to redistribute income towards the higher paid, and that they favour the rare person who stays with one employer, unaffected by redundancy or takeover, throughout their working life, at the expense of more normal people who for one reason or another leave their jobs several times. The schemes are able to provide pensions for the fortunate few on the cheap, because the majority have made contributions for which they do not see the full value.

After dithering for two years or more, the Government has finally decided to legislate over this second problem. It is likely also that they will force the funds to disclose more information about what they do with the members' money. However, they have also invented a new sort of public body, a public inquiry, with ministers sitting on it, with a more general brief to discuss the



looking into the protection of investors for some time now, and being a man of logical mind he finds it difficult to see why insurance companies should be heavily regulated and pension funds *not at all*.

The pensions interests are thus trying hard to head off both him and the DHSS, who have at last convinced ministers that the bad treatment of 'early leavers' can only be dealt with by legislation, rather than leaving it to the altruism of employers. So they have produced a red herring in the idea that we 'cannot afford' in this country to pay decent pensions. If we stop cheating early leavers, they say, we will have to cut the benefits of those who stay, otherwise in the future pensioners will be too well off, and the country won't be able to pay for them. There is a grain of truth in their argument, because the pension funding system relies on economic growth and positive results from real investment — rather than buying and selling second hand stocks and shares — so that without economic growth there will be problems paying for pensions, unless there is some heavy redistribution. Rather than face the question of how to create real investment, as the TUC have been demanding, the vested interests in the pension world prefer to make future pensioners live in poverty, as current ones do.

There is no doubt that the pension funds, and the financial institutions who manage their money could force the Government to change its economic policies, if they wished to. Many pension funds have trade unionists sitting as trustees, but they tend to be over-awed by the smooth talking of their City advisers and follow their orthodoxy. The funds, together with the insurance companies by whom much of their money is controlled, are the major buyers of the gilt edged securities the Government issues to finance its borrowing. In 1976, it was the activities of the financial institutions that created the 'crisis' that brought in the IMF and scuppered Labour's economic policies. But as supporters of Thatcherism those who control the pension funds will not take action to ensure that there is the economic growth the country needs. Instead, they will be pouring in evidence to Norman Fowler's 'super inquiry' to show that the promises made to future pensioners are not 'too generous'. Since those future pensioners are all of us, it is to be hoped that other forces, not least the TUC and individual unions, who have been taking a much higher profile on pensions matters lately, will contest their views.

*Jane Harris*