

Spotlight on Pensions

PRESENTS

LeGrand View



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Improving pensions policymaking

For many years there have been suggestions (including from this author) for the creation of a permanent Pensions Commission to promote stability and consistency in pensions policy, based upon clear research, and thereby encouraging political consensus.

This may now be in sight, following the publication of [a recommendation from two think tanks](#) and expressions of support in principle from a number of politicians of different colours, and a wider cohort of expert commentators.

A key driver behind the idea of a permanent Commission has been the dearth (with the occasional notable exception such as automatic enrolment) of consistent joined-up policies addressing key issues. Instead there has been a deluge of knee-jerk fixes more narrowly focused on addressing particular symptoms.

However, the success of automatic enrolment demonstrates what can be achieved with evidence-based broadly-supported policies. It is worth remembering that automatic enrolment itself emanated from an earlier, although fixed-term, Pensions Commission. The protagonists of a permanent Commission envisage a body with similar gravitas and influence. However, opinions differ as to how a Commission should be constituted, and of the powers it should possess.

New proposal

The think tank proposal is actually for two Commissions. The first, for a fixed term of perhaps two years, would address current, more pressing issues. The second would be a permanent body which would move on from there.

The remit of both would include extensive public engagement and a requirement to consult opposition political parties as well as the Government. They would also be tasked with building a shared understanding and consensus and be expected to publish interim reports featuring explanation and analysis with the explicit aim of building that consensus.

Each would feature a board with an independent chair and around five members, representing:

- employers,
- employees,
- the self-employed,

- other pension stakeholders and
- independent experts.

It would be staffed by civil servants and a "small proportion of secondees from the research community and private sector with the necessary technical knowledge and skills". To avoid being caught up in turf wars between DWP and HM Treasury it would be an arms-length body established on a statutory basis outside of those two departments, but "accountable" to both.

Representation

The constitution of a Commission would be key to its success. The board must collectively possess knowledge of all parties likely to be impacted by its work, along with a grasp of the full range of issues involved. If that is not (or is perceived not to be) the case then its work will lack the necessary gravitas and relevance and it will become side-lined in the pensions debate.

However, care needs to be taken with "representation". Those affected by or involved in pensions may be categorised in many ways, whether as providers or consumers, and by reference to their personal circumstances. Many could fall within several categories, depending upon how those are defined. It would simply not be practical to have a "representative" of every possible category on a board – it would be too large to function. Consequently, the focus should be on ensuring expertise across the board that covers all relevant areas, rather

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as with the trustee board of a well-run pension scheme. If specific practical knowledge is required at any time to help consideration of an issue which is not directly held by any of the board members, it should be their responsibility to obtain access to it from an outside source.

Remit

In developing its model, the group considered a number of options around the Commission's remit and powers. Past debates have shown this to be a contentious issue. A key objective of a Commission would be to gather accurate relevant information, building up a knowledge base and associated expertise, and to apply this appropriately to inform pensions debate in an impartial way. This is a valuable task in itself, since although currently there exists a wealth of information, there is no one body with a statutory responsibility for gathering and collating it across the whole piece.

However, even with the significant amount of information available, and the practice of Governments, statutory bodies and regulators of consulting on proposals, pensions policies have, for many years, continued to lack consistency of direction. As such, these policies have often failed to deliver the benefits expected by their protagonists. Therefore, there is a strong case for the new Commission at least being able to take the knowledge it holds and to apply it to formulate policies. The status of those policies and the extent to which a Government might be required to consider them is a question for wider consideration. If the new Commission were to be given a statutory role in developing policy proposals, this would need to be factored into the experience and skillset required of the board, and of its staff.

As background the report group looked at a number of Commission-like bodies in other areas, whose roles could be categorized in one of three ways:

- providing transparency or insight,
- providing advice, or
- making decisions and/or enforcement.

The recommendation, with the greatest support from those consulted, is for the body to be able to advise on policies. This is a balanced proposal. The Commission's expertise and knowledge could be lost, wasted or misinterpreted if it was not allowed to then apply that to real-life situations. The risk of a lack of political consensus undermining the Commission's considered proposals would still exist but, in reality, it is unlikely that politicians would ever cede decision-making on such an important area to a non-political body.

Why stop at pensions?

At one time pensions were seen as stand-alone entities, focused on a specific benefit provided for a clearly-defined phase of life. This worked in the age of the stable nuclear family, which was generally well-served by the final salary workplace scheme design. Today we recognise that a much more flexible model is required, and that pensions are part of the wider financial picture. They must fit with other benefits, and crucially must fight for funding against a number of other financial needs over a working lifetime, each of which has a valid call upon an individual's income. Consequently, pensions policies cannot be developed in a vacuum.

That could be an argument for extending the breadth of the Commission's remit beyond just pensions. One such area would be care costs, which in respect of later life care is an area in crisis and for which pensions may provide at least a partial answer. However, it is important to avoid making the remit so wide that it dilutes the Commission's effectiveness to address the important issues in pensions.

That is not to say that the Commission should not take account of wider issues. For example, if a future solution to the care crisis involves such things as higher personal funding and a facility for joint funds to be available for pension or care costs at any relevant time of life, it would be necessary for the Commission to adjust its recommendations accordingly, such as in respect of tax incentives to encourage greater amounts of savings, built up earlier in life.

Moving forward

The creation of a respected permanent Pensions Commission, properly constituted, should improve the standard and effectiveness of pensions policymaking. This latest proposal provides a sensible basis for consideration and given the apparent widespread support that it has received, hopefully it will come to fruition.

However, there is one addition that should be made to its statutory remit. Since the explosion of legislation that started with the Pensions Act 1995, pensions legislation has become a bloated monster so large and complex that even the most informed practitioners struggle to interpret it. This pressing issue not only causes practical problems on a daily basis, but also brings the sector into disrepute – not a happy position where increasing emphasis is being placed upon the need for lay individuals to engage constructively in crucial financial decisions.

A permanent Pensions Commission should help to mitigate that problem over time, with sensible evidence-based policy recommendations. However, there is a need to simplify aspects of the system now. A statutory priority should be imposed upon the Commission to undertake an urgent review of the complexity of the system, to identify where simplifications can be made, and to make appropriate recommendations.

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