100 YEARS OF STATE PENSION: LEARNING FROM THE PAST

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Discussion Held at the Institute of Actuaries

[26 January 2009]

Mr A. A. S. Bryans, F.I.A. (introducing the book)**:** On behalf of the authors, I am delighted to start this presentation of our book '100 Years of State Pension'. The book has taken us over two years to produce, with it finally arriving from the printers on 15 January 2009. This meeting is the launch of the book.

The agenda for the meeting is for me to give you a presentation about the book. Mr Salter will look at some of the themes of the book, and Mr Redman will conclude by setting the scene for the discussion based on our findings. It is then over to you. We look forward to a lively and interesting discussion. At the end, Mr Hewitt, on behalf of the authors, will answer any points raised in the discussion and Mr Ridsdale will close the discussion.

The origins of the book go back to the Pensions Commission. You will recall that this was set up by the government in 2002 to look at the private pension system. Lord Turner was the Chairman and the other Commissioners were the trade unionist, Jeannie Drake, and the social policy academic, Professor John Hills. They quickly decided that it was impossible to remedy what was wrong in the private pension system without also looking at the state system. As a result, their review became much wider than first envisaged by the government. We, in the Ageing Population Interest Group, had a number of discussions on the work of the Pensions Commission. The Ageing Population Interest Group was, at that time, a sub-group of the Social Policy Board. Last year, it became a Members' Interest Group as a result of the reorganisation of the Actuarial Profession. The Group's aim is to contribute to the debate on issues in the public interest.

Our discussions kept throwing up a question that the Group could not resolve, namely, 'What is the state pension for?', something to which the Pensions Commission did not provide an answer.

After the Commission's reports, the White Paper 'Security in retirement: towards a new pensions system' was issued (in May 2006) setting out the government's proposals in the light of the Commission's recommendations. The final part of the relevant primary legislation — the Pensions Act 2008 — reached the statute book last November. Deborah Cooper, a member of the Group, published an article in the October 2006 issue of The Actuary in which she pondered the purpose of the state pension in light of the White Paper but did not reach a conclusion.

At that time, the Group realised that we were approaching the 100th anniversary of the State Pension Scheme. The first state pension act was the Old Age Pensions Act enacted on 1 August 1908 with the first state pension payment being made on 1 January 1909.

The group decided it was an opportune time to produce a history of the first 100 years of the state pension scheme with the hope that this would reveal the answer to the above question: 'What is the State pension for?' Four members of the group willingly volunteered and became the authors. Mr Redman is a Fellow of the Faculty of Actuaries and I am a Fellow of the Institute of Actuaries. Both of us are now retired but have had a career in pensions with Mr Redman having both insurance and consultancy experience with a number of companies while I have been in consultancy throughout my career, staying with the same company although it went through a number of mergers. Mr Salter, an Affiliate of the Institute, has worked in local government, the insurance industry and consultancy. He was a member of the Basic Income Research Group from the early 1980s and a trustee of the Citizens Income Trust from 1989 to 2001. For many years, he has had a deep interest in pension policy, fairness and equality, researching and writing many articles on these matters.

Mr Hewitt was a social policy academic before moving to the Actuarial Profession in 2001, first as the secretary of the Social Policy Board and now as the manager of the Pensions Practice Area. Between the four of us we had a wealth of experience in the pension arena with Mr Salter being able to recall that, as a teenager in the war days, he too was swept along by the wave of excitement towards the Beveridge proposals. We therefore had a flying start.

From the outset we realised that if we were to write the book, it would be an extensive and time consuming project. On reflection, we underestimated how extensive and time consuming the project would eventually become. Having said that, the experience has been fascinating and we are all glad we took on the project. Our first task was to determine the book's guiding principles. We wanted the book to be readable by both specialists and general readers. We wanted to set it in the economic and social context of the day. We wanted to address not only what happened but also the underlying thinking. We hope that when reading the book you will find it informative and thought provoking and that we have kept to our guiding principles.

Even though we had a flying start with Mr Salter's and Mr Hewitt's past research and our collective experience, it nevertheless took us over two years to produce the book as you see it today. This time was spent in researching, drafting the document, then editing, rewriting it, adding extra material and, of course, discussions. Fortunately, all the discussions were very friendly and we actually reached agreement on all points discussed.

Although we are the authors and we take full responsibility for the book, we did not do it all by ourselves, and are thankful for all the help that was given to us. If it had not been for that help, the book would still be a glint in our eyes. An example of this assistance is that, when the document had reached the homeward straight, we decided that it was an opportune time to ask our fellow members of the Ageing Population Interest Group and two academics, Pat Thane and Barbara Waine, both of whom are here tonight, to review it. All provided us with very useful criticism and favourable comments on the book. Their input has certainly improved the book.

Finally, I would like to touch on some of the issues that kept recurring throughout the 100 years. First, the effects of the ageing population and longevity have been a cause of concern throughout the 100 years with examples being in the period following the First World War, in the fifties and, of course, now. It was a concern even before the state scheme started in 1909. Second, the pension age. The pension age of the 1908 state pension scheme was 70, and even allowing for the recent legislation, the pension age is only planned to increase to age 68 for people born after 5 April 1978. For most of the past 100 years, the pension age has been 65 for men and 60 for women.

The Phillips Committee in the 1950s recommended that the pension age for men and women should be increased by 3 years — men from 65 to 68 and females from 60 to 63. This recommendation was not accepted by the Conservative government of the day. The Phillips Committee also considered equalising the pension age for both males and females. They concluded that there were good and strong reasons for doing so, including the equality argument, but were persuaded not to recommend this change because it would not achieve any considerable saving. In hindsight, they jumped the wrong way.

Throughout the 100 years and before 1908, when poor law relief applied, society has been wrestling with the thorny problem of how to provide in old age without falling back on to means testing and the attaching stigma. However, every time what actually happens is that means testing continues on the grounds that this uses the available resources more effectively. There has always been compromise between the pension level, pension age and the cost. I therefore leave you with a thought. Have we got the right balance on how much of the society's cake should be spent on providing pensions for all?

Mr T. A. Salter (introducing the book's themes): Throughout the history of the British state pension, two major policy narratives can be discerned. One is essentially a 'demand-side' account of social policy-making (in which priority is given to meeting human needs) whilst the other is a 'supply-side' account (in which priority is given to reconciling the meeting of human needs with the efficiency of the economic market). Both narratives proceed from the common assumption that the central aim of any state pension policy is the alleviation of old age poverty. The failure of the 'new poor law' to relieve poverty outside the workhouses meant that the problem of old age poverty at the end of the 19^{th} century had become critical. Old people constituted the largest single group of paupers and a public, or state, old age pension eventually came to be seen as the only solution to the problem.

Demand-side accounts have generally focused on the economic welfare of old people who no longer have any future labour market value. They have stressed the inherent citizenship value, or worth, of old people, emphasising their moral claim on society's resources for a full subsistence pension (i.e. one sufficient to live on without recourse to other income or financial assistance). Such a moral claim arises, as a matter of natural justice, from the service or contribution rendered to society by old people in their past working lives.

The leading protagonists in the demand-side narrative were the trade unions and the reformers such as Booth, Barnett, Rowntree, and the friendly society actuary Ralph Price Hardy. They tended to the view that a universal tax funded state pension scheme represented the most effective means to eliminate, or alleviate, poverty in old age. The state pension scheme which actually emerged in 1908 was tax funded but, because of its exclusion clauses applying respectively to age, means, status and character, it was far from universal.

Supply-side accounts have invariably reflected concerns that pensions policy should always be consonant with, if not actually subordinate to, meeting labour market needs. An overriding value was placed on economic efficiency, the productivity of workers and labour market flexibility. Although pension policy should assist the 'shake-out' of elderly workers, ostensibly to promote industrial efficiency, it should nevertheless be subject to socio-economic constraints, such as the minimisation of redistribution between different economic groups in society. Reissue of redistribution has often been seen as the source of the whole problem of inadequate state pension provision.

Social expenditure on pensions, according to the supply-siders, had to have a low priority, not only because such expenditure would entail redistribution, but also because it was wasteful to divert resources towards those citizens who had no future labour market value.

The main protagonists in the supply-side narrative were, in addition to Joseph Chamberlain, another friendly society actuary, Sir Alfred Watson, Winston Churchill, the young William Beveridge and Neville Chamberlain (son of Joseph). The last two criticised the tax funded scheme which emerged in 1908. The latter dismissed the 1908 scheme as 'radically rotten in principle' and a 'discouragement to thrift'. All of them supported, or came to support, the 'fiscally conservative' instrument of contributory social insurance pensions as the most economically efficient means to alleviate old age poverty. The aim, however, was 'not to provide full subsistence, but to reduce to a minimum the need for discretionary poor relief'.

The persistence of pensioner poverty in the inter-war years led to a renewal of the debate on public pensions policy. The National Conference on Old Age Pensions, a pensioners' organisation grounded in organised labour, renewed its campaign for universal tax-funded state pensions, and Hugh Dalton (later to become Chancellor of the Exchequer in Attlee's post-war government) argued that a higher rate state pension could be provided through a combination of tax and social insurance funding.

This led in due course to the 1925 Act which introduced a new contributory social insurance pension scheme to operate alongside the means-tested, non-contributory pension scheme established in 1908. The provisions of this Act were based on the recommendations of the Anderson Committee, which was advised by Sir Alfred Watson, the first Government Actuary. But Chamberlain had also set up his own party committee on social insurance and had acquired the services of the Liverpool actuary, Duncan C. Fraser, to provide him with advice. Watson and Fraser had discussions on actuarial calculations and played a part in the development of this very important legislation.

The next major development came with Beveridge. Beveridge had become convinced that a universal social insurance scheme could serve as a vehicle for achieving a national minimum pension which, if set at the threshold of need, could eliminate poverty entirely. The scheme's flat rate benefit would be at subsistence level to meet basic needs, as of right and without means test. It would be financed by flat rate contributions paid by employees, employers and the state. He had, in effect, caught hold of Dalton's idea.

The contributory principle was an indispensable element in Beveridge's pensions framework, as was subsistence. This stemmed from his social philosophy. He viewed social assistance, or poor law relief, as servile and not compatible with full and equal citizenship. The fact that the proposal 'was not about giving something for nothing' or for freeing recipients from personal responsibility to give service (through labour) and to pay contributions, went a long way to meeting the concerns, or most of them, of the 'supply-side' policy planners. Beveridge was thus able to straddle both the 'demand-side' and the 'supply-side' policy narratives in the history of the British state pension. Yet in a way he went beyond both. He aimed for both 'adequacy' and 'equity' in state pension provision. His benefit was to be 'a minimum income for subsistence with equality of contributions' to ensure that 'as recipients of benefit the poorer man and the richer man are treated alike'.

Beveridge's objectives of rationalising the administration of the 1908 and 1925 schemes and creating the framework for a new universal contributory social insurance scheme were achieved. Economic constraints, however, dictated lower full rates of benefit which were nearly a third less than Beveridge had proposed for subsistence. As a result the national assistance system (which replaced the poor law in 1948) did not, as Beveridge predicted, wither away but continued to have a vital role in supplementing social insurance pensions as the Pension Credit still does today.

In the 1970s, Barbara Castle argued that the first aim of pension policy must be to lift everyone in retirement off supplementary benefit. Nevertheless, her Social Security Pensions Act which embodied the provisions for SERPS (the State Earnings Related Pension Scheme) and was enacted in 1975 with the support of an all-party, all-interest parliamentary coalition, was repeatedly criticised in both the Commons and Lords, as well as in Committee, for offering 'no significant improvement in basic pension that would raise the current generation of poorest pensioners out of their means-tested dependency'.

After the 1970s the view that pensions policy should always be subordinate to the supply-side priorities of economic policy became almost all-pervasive. Its influence on social policy making was entrenched with the return of the Conservatives to office in 1979 and continued relatively undiminished under subsequent Conservative administrations and the New Labour Governments which followed. New Labour has given priority to public expenditure on education and training. The needs of those in society who were seen to have a future labour market value were given precedence over the needs of pensioners. The Old Labour ideal, of the social democratic state, it seemed, had transmuted into the social investment state.

The five shillings a week pension, when the state scheme started in 1909, was about 18% of national average earnings. In 1979 the value of the basic state pension had reached 26% of national average earnings. Since then the basic state pension has, as a matter of policy, been allowed to decline in value to just below 16% of average earnings in 2008. In 1891 the friendly society actuary, Ralph Price Hardy, estimated that more than 40% of old people at the time were chargeable to the poor rates. In his view this was a grim commentary upon our social system. Standards of poverty have changed since 1891, but the DWP estimated in 2008 that 40% of pensioners qualified for the means-tested Pension Credit. They also estimated that in 2007 there were as many as up to 1.8 million pensioners who, although eligible, did not claim the means-tested benefit.

Over recent years we have also seen a decline in private sector final salary schemes with three quarters of them closing to new entrants. The National Pensioners Convention estimates that currently as many as nine million workers may have no pension arrangements outside the state scheme. Dependence on the means-tested Pension Credit is likely to increase.

Governments argue that they cannot afford to provide a universal state pension at a level sufficient to lift all pensioners off means-tested benefits, but affordability is arguably a relative concept. According to one estimate 'paying a universal pension at the 2005 threshold for means testing (i.e. 22% of average earnings which was the level of the state pension in 1985, 20 years earlier) would cost an extra £7.3 billion net in the first year'. This represents about a third of the cost of tax relief in the same year on private pension contributions, i.e. about £21 billion.

'Bread for everyone before cake for anyone' said Beveridge in a speech in 1943. These words helped to shape the moral imagination of the time. Along with the notion of a universal minimum income for subsistence, they are part of the history of the British state pension. After reading the history what will you think of them now?

Mr C. Redman, F.F.A. (setting the scene for the discussion)**:** My role tonight is to open a debate and provoke discussion. What can we learn from the past? What do we want from state pensions in the future?

I would like to start by summarising some of the authors' main conclusions. First, despite the introduction over 100 years ago and subsequent development of the state pension scheme, the question remains, 'What is the state pension for and what part should the state play in ensuring adequate incomes for everyone in retirement?'

Secondly, we have a habit in the UK of tearing up our pension legislation every few years. As a result, the stability and continuity needed for people to plan for retirement does not exist. Our political parties need to develop long term, ongoing cross-party agreement to create a sustainable structure of state, occupational and private provision.

The steady development of state pension provision over the first 70 years of its existence has been reversed over the last 30 years. The reduction in the value of the basic state pension and the recent decline of final salary schemes has left a huge gap in provision and will lead to increasing numbers of people reaching retirement without adequate pensions and being eligible to claim means-tested Pension Credit.

We now live in a society where more emphasis is being placed on personal provision for retirement. People are being encouraged to save through individual and employer-sponsored money purchase schemes with fund values linked directly to stock-market performance. The recent turmoil in the world's financial markets demonstrates the unsuitability of these plans as savings vehicles for those on low and medium incomes. If those people are to be encouraged to save for retirement they need savings vehicles with low charges and less volatility.

Another issue drawn out in the book is that inequalities that exist during people's working lives are carried over into retirement. Many workers are not eligible to join adequate pension schemes and the low-paid, part-time workers and non-employed carers of children and the elderly often do not qualify for a state pension.

State pension provision has been out of favour and political parties have seen little value in promoting the benefits of social insurance and the contribution it can make in creating a stable and socially cohesive society. A modernised and revitalised national insurance scheme could provide better pooling of risk, lower costs and greater stability and much more certainty for ordinary people to save for adequate pensions on which to live in old age.

I will now move on to the questions I would like to consider this evening. We cannot talk about how to fund pensions in the future without first considering what it is we are trying to do. What are our objectives? As Richard Titmuss, a great contributor to thinking on social welfare, pointed out as long ago as the 1950s, pensions policy is first and foremost a philosophical and moral question. What type of society do we want? What standard of living do we want for those in old age who no longer work and many consider have little or no ongoing economic value? Other questions include: who should pay for these pensions? Should responsibility fall primarily on the individuals themselves? What contributions should employers make? What should come from general taxation?

Over the last 100 years we have had a variety of answers to these questions. The 1908 scheme was paid for completely out of general taxation. The principle of the Beveridge plan in the 1940s was quite different. Everyone paid the same fixed rate contribution and everyone received the same benefits. The rich man and the poor man were treated the same. Today the basic state pension (supported by Pension Credit) is funded by earnings-related NI contributions and through general taxation, therefore representing some redistribution from the well off to the less well off. It is however arguable that private pensions tax incentives with higher rate relief and around a quarter of the benefits payable in tax-free form favour high earners and represents a redistribution back to the well off.

We certainly cannot answer the question who will pay for pensions without tackling the R-word — not recession, but redistribution. Free markets, low tax and 'trickle down' have been the buzz words of the recent decades. Alleviation of poverty through means-tested benefits has been high on the political agenda, but redistribution has become a subject that, perhaps like sex, polite people do not talk about. Should pensions be primarily about personal provision through individual and employer based schemes or should an adequate level of pension be funded via the tax system? Should the well off pay more to ensure better guaranteed pensions for those who have earned much less during their working lives and who have had less scope to save?

What burden can we put on today's generation to pay pensions to today's elderly? This is a question about redistribution between generations. A related question is what do we mean by retirement and from what age should benefits be paid? How do we achieve a balance between those in work and those in retirement claiming pension benefit? How should we deal with improving longevity?

But the crucial question is 'What is the role of the state?' Should the state merely provide the framework and legislative backdrop for pensions or should it play a more active participative role? In just a few months, within the banking industry we have seen a massive shift from *laissez faire* free market economics with light touch regulation to significant nationalisation of the banks, considerably more control and much more intervention.

The Beveridge objective in the 1940s was to produce an adequate state pension for all through a national insurance system. A similar unfulfilled objective came with SERPS in the 1970s. At the other end of the political spectrum we have the arguments of people like Macleod and Powell in the 1950s who attacked universal state benefits and argued that no social service should be provided without a means test and the state should not waste resources by providing benefits to those that do not need them. Up to around 1980 the idea of universal state benefits prevailed. Since then we have seen a trend to less intervention and an emphasis on individualism and self provision. The continuation of this trend is part of current government policy.

So, how do we get the balance right between social insurance, means testing and private sector provision? Whatever structure we want, how can we get our political parties to agree to that structure surviving for decades rather than just a few years? We need more continuity and stability to encourage people to save over the long term. We need continuity and stability to ensure equity between generations. Why should today's working population agree to pay pensions to the elderly now if the next generation of workers does not accept a similar obligation?

Surely, some people will say, with all our problems, now is the wrong time to look at pensions yet again. The world is suffering a severe economic downturn. There is a collapse in the banking system. Have we not just looked at pensions? Don't we have very recent legislation with Pensions Act 2007? Do we not have other priorities? We would suggest that now is the right time to consider these issues anew. It is only when we face serious problems that we start to question what we are doing and why. It is worth mentioning that the Beveridge report was written during the dark days of the Second World War and implemented in the 1940s at a time when the country was almost broke. SERPS was introduced in a time of great economic difficulty in the seventies. It was achieved with cross-party consensus illustrating that such things are possible. History shows that the current turbulent times may be just the opportunity we need to think again.

In our view, the question 'What is the state pension for?' needs to be re-addressed. Despite the achievements in pension reform over the past century, there is much that still needs to be done to build a sustainable system that ensures everyone receives an adequate income in old age.

Dr D. R. Cooper, F.I.A. (opening the discussion): I must, of course, begin by congratulating the authors for this fine and timely book. The large part of it sets out clearly how successive governments have rambled from one pensions policy to another, rarely actually achieving their original plan, sometimes just revisiting the ideas of previous governments. To lighten the discussion I thought I might say how the development of pensions policy during the 20th century reminded me of the film Groundhog Day, but at least in that film, in the end, the hero gets his girl. This story, so far has no such happy ending.

Although I risk putting words into the authors' mouths, the tension in the UK between a belief in the protestant work ethic and the concept that there is an 'undeserving poor' seems to have resulted in a reluctance to provide sufficiently adequate and sustainable retirement support for the elderly — the logic being, I suppose, that the elderly generally couldn't work, but could have saved enough to support themselves had they been sufficiently 'deserving' when younger.

The book is timely not just because 100 years have passed since the first state pension was paid, but also because the 2007 and 2008 Pensions Acts have created a new juncture in UK policy. In another Groundhog moment, the present Labour government is planning to introduce an old Tory policy, relying even more on private savings to secure retirement incomes.

Of course, criticising governments is considerably easier than creating or implementing policy and the authors are largely scrupulous in not laying blame for the position we now find ourselves in. However, they end the book by considering whether current policy makers have learned the lessons of the past. Putting together their careful research with my possibly imperfect knowledge of the current debate, I am left with the impression they have not.

Oliver Hardy famously said to Stan Laurel, 'Here's another nice mess you've gotten me into'. The UK's state pension provision must be about the most complicated and least trusted or understood in the world, whilst providing amongst the lowest level of protection in any developed country. What we have today is the result of continual tinkering, even following the much vaunted political consensus that was referred to earlier.

The book looks in detail at both Beveridge's and Barbara Castle's plans. Although Mr Salter pointed to criticism of the Castle scheme because it did not address the needs of the existing pensioners, to my mind it represented a rare moment of clarity in the UK's pensions policy. The revalued career average design of SERPS meant the real value of accrual was protected until retirement, the best 20 years rule meant that people without complete careers, largely women and other carers, could still accrue a good proportion of benefit. Its target benefit, together with the then largely earnings related basic state pension, ensured a reasonable replacement income for people on low to medium incomes, and because it was defined benefit, those with little other saving were protected from the vagaries of financial markets.

The purpose of SERPS was clear — to give everyone able and willing to participate in the labour market the opportunity to retire with a salary-related pension, enabling them to retire with a standard of living related to that experienced whilst in work. It was also redistributive, transferring wealth from those with continuous working histories — largely the better off — to those with periods out of the labour market. It aimed to do away with the two nations in retirement that Richard Titmuss accused occupational schemes of creating.

Beveridge's plan also had purpose — to get rid of poverty in old age. This is utopian in comparison with Castle's (to my mind) more achievable aims. I appreciate this view might appear unsympathetic, but if society tolerates poverty amongst families and working age individuals — which we do — why should it perceive benefit in alleviating poverty amongst the old? In particular, to what extent is it reasonable to make the working poor less well off when they are younger, perhaps raising children, just so they can possibly be marginally better off once in retirement?

Of course SERPS was not without difficulties, and its pay-as-you-go nature created inter-generational cross-subsidy that made it vulnerable in an environment supportive of low tax. So, we are where we are, with the fleeting sense of purpose identified by Barbara Castle gone.

At the moment, occupational defined benefit schemes are widely mistrusted and the BSP and S2P are viewed as expensive. The alternative for private sector employers has been defined contribution schemes, since these appear to cap employer costs by passing all the risk on to the individual member. Following the Pension Commission's proposals, this is also to be the alternative for state earnings-related provision.

The Commission's reports are admirable for bringing together a wealth of information and analysis, much like this book does, but I have always wondered at its conclusions: it has resulted in a system that requires new private and public sector managerial structures and where the only certainty is that investment managers will continue to accrue fees for handling the money of those less well paid than themselves.

The resulting policies reflect a dubious paternalism that saving is somehow 'good for you', regardless of your status or whether it provides any real return. Indeed, the government has published research that subverts normal economic theory by aggregating tax relief and employer contributions together with assumed investment return on employee contributions, to demonstrate what good value personal accounts will turn out to be. Even the lowest earner is to be quasi-compelled to rely on financial markets to deliver their retirement saving — I would guess I am not the only person in this room who feels slightly nervous at the prospect of an entire cohort of employees reaching retirement expecting the contributions deducted from their pay to deliver a comfortable pension in retirement, only to discover that the returns they expected have not materialised. But not to worry — the Pensions Credit will come to the rescue.

I said at the outset that it is easy to criticise. The book also includes useful appendices including statistics relevant to the past 100 years of pensions development, and policies for the future that highlight some of the real difficulties that policy makers face. The Pensions Commission contemplated ways of balancing a triangle of issues — increased life expectancy, increased pensioner poverty, and increased taxation. These now have to be considered alongside increased market uncertainty.

The Pensions Commission, and the subsequent Green and White Papers produced by the government, did not resolve fundamentally what role the state has in providing retirement provision so any consensus built around the Pensions Act 2007 proposals is fragile at best. The only agreement we have is that we need to do something, rather than that there is a specific goal. The book that we are here to discuss provides a wealth of data and informed research that indicates that this is not a stable platform on which to build policies that need to last through people's working and retired lifetimes.

Mr B.H. Davies, F.I.A.: I have spotted a few errors, none of which are of any great consequence. I hope I will be forgiven for mentioning one which is that they got my name wrong — or, rather, they gave someone else as the author of an IPPR report which I wrote!

Turning to the substance of the matter, what comes out of the book most clearly to me is how the same debates have taken place generation after generation. In part this is due to a reluctance to learn from history, hence the importance of a book like this. But we must also recognise that there are some basic ideological differences about how our society should be run. So crucial decisions about a matter like our system of pensions are, and are bound to be, political rather than technical in nature.

Nevertheless, there are some consistent lessons to be learnt. First, I think it ought to be absolutely clear by now that a market-based approach does not provided a satisfactory solution to the authors' key question, "How can a decent standard of living be provided for those who could no longer work?" We know this because, for example, going back even beyond the timespan of the book, the fact that Gladstone introduced post office annuities in 1864 was because of a market failure at that time.

The recommendation in the Beveridge report — one that I think deserved a mention in the book — was that industrial insurance, which at that time was one of the main ways in which working people saved for their retirement, should, because of market failure, be nationalised. And, of course, there is the whole personal pensions scandal.

The second, but less clearly understood lesson, is that the most successful state pension system we have had is the State Earnings Related Pension Scheme. I am extremely happy to follow what Dr Cooper has said on this issue. This success is given little attention. Partly, this is because very few people now have a stake in promoting the success of SERPS; certainly neither of the main political parties now do. So, it is given little recognition, except, perhaps, by those who retired over the past ten years or so, who, because of SERPS, now receive an income that provides a more acceptable standard of living, compared to that offered by the state basic pension by itself. People retiring now receive a full SERPS pension, which, while not providing a comfortable standard of living, does to an extent provide an adequate standard of living – certainly it has been far more successful than any other approach to providing an adequate living in retirement.

SERPS has been criticised, of course. It has been accused of not being sufficiently redistributive, but this is not really its main role. In the original Castle plan, the redistribution was through the state basic pension, and that has been lost through the failure to revalue that in line with earnings. SERPS was also accused of being too expensive. But we need to be clear about this. The cost of SERPS was simply a consequence of the benefits that it provided. Any pension system that provides comparable benefits will cost the same. So the issue is not whether SERPS is or is not too expensive; the issue is are we prepared to provide adequate pensions for those in retirement?

My answer is that I would like to see a return to a decent revised SERPS scheme — I think it might even be possible to create a SERPS option within the system of personal accounts. Why should not people be able to choose to pay their contributions to the state in return for a SERPS-style pension? It could be done. History, and this book, says to me that this would be the best and the most effective way of achieving decent incomes for everyone in retirement.

Mr T. J. Llanwarne, F.I.A.: I am the new Government Actuary. On behalf of the Government Actuary's Department, I should like to compliment the authors on a truly worthy and eminently readable study.

As is pointed out, the underpinning of payment of the state pension comes from the National Insurance Fund. My many illustrious predecessors have reported regularly over decades on the adequacy of this fund. So it is with great relish that I can learn from the past, as the book tells me, when I come to my first such report, which should be sometime later this year.

In 1919, when the Government Actuary's Department started out as a fully-fledged department the state pension was means-tested, with income from home-grown vegetables counting towards a person's means. Unfortunately, the book does not state whether my predecessor at that time had to prepare tables to value the longevity of home-grown vegetables. Perhaps the authors can advise whether their research unearthed this. Even if that was done, I fear the tables have been lost. My advice to government, therefore, is that while I may be able to do many things, longevity of vegetables remains beyond me — at least until someone finds the tables.

Let me give some data from the book of interest to me and the department. I do not know if you realised it but there are 40 references in the book to the Government Actuary in general or to named individuals. So all of these references lead me to make a request to the authors, having done such a good job here and with a large amount of data on the Government Actuary's Department, how would you like to help us write a book to celebrate our centenary in a few years' time?

More seriously, I think this book does two things on social policy. Not only does it "learn from the past" exceedingly well, but it also contains the message, in my view, "prepare for the future". I refer to two crucial lessons and preparations. First, over all the years, and this continues to be the case, the interplay between government, social policy, economists and actuaries has led to a state pension where affordability is always monitored on the basis of long-term projections. This gives us confidence as a country of sustainability whether or not benefit changes are made. This is unlike the position in some countries without such interplay and advice. On all sides here in the UK we must work to ensure the continuation of this interplay, which is very beneficial. We, as actuaries, need to prepare for new ways of doing this.

Second, there is a need for clarity of communication, exemplified by the Old Age Pensions Act 1908 being only eight pages long and written in clear English. Of course, whether we like it or not, we are in a different world now, which does have its pluses and minuses. We have to have complex legislation for reasons I will not go into here. But in the electronic age it is not the legislation that matters, it is the impact. I think we all have to prepare more for better impact communications. To quote an analogy, it does not matter how complex the engine is under a car's bonnet, what matters is how easy it is to drive, how fast it goes and how confident we are that it works. So for state pensions, and other work more generally, we need to prepare better ways of communicating and demonstrating impact. Any help that we, as actuaries, can give here will be very well appreciated.

Back to writing books: if the authors are up to the challenge of helping us to write a book for the Government Actuary Department centenary, I think we would again benefit from the two messages of learning from the past and preparing for the future. In fact, this would benefit actuaries in general, I would suggest. In today's turbulent times I believe this would be of significant value. Perhaps we should start now.

Dr S. F. Whelan, F.F.A.: In the Foreword of the book, the authors cite four objectives in publishing the book: to record the history; to identify the key policymakers; to understand their motives; and to draw lessons from the past for the future. They wholly succeeded in three of the four tasks they set themselves; the last — to help inform future policy — begins this evening.

Using the past to help inform the future is always problematic. The past can easily be dismissed — after all there is only one past and a sample of size one is statistically insignificant. It would be so much more helpful to policymakers if we could experiment with the past to see what the consequences of alternative policy actions would have been. In this instance, we can, in fact, do just that.

The authors record (pp11-12) that both sides of the House of Commons criticised the original 5 shilling per week maximum pension as being inadequate — because it was so low, inadequate because it was paid only to those of 70 years and over subject to a test of means and character. The Act was passed because it was the most generous pension that was deemed affordable — and even that was never agreed by the House of Lords or by some influential actuaries (e.g., Hendriks, 1892). What would have been the consequences if the pension was higher, paid from an earlier age than 70 years, and made universal? I think I can answer those questions, because there is another 100 year history from that great social experiment. Ireland was part of the United Kingdom until 1921 and so the same weekly 5 shilling pension, increasing to 10 shillings weekly at the time the Irish Free State was established, was paid to the aged in Ireland. Five shillings went a great deal further in poorer Ireland, being about half of an unskilled Irish labourer's wage. Overnight the pension turned the old person in a household in Ireland from a financial liability into a financial asset.

Unlike England where births were registered since 1837, official birth records in Ireland were only maintained since 1864. That means that there was no formal way to verify ages of anyone over 45 years old in Ireland in 1909 (see, for instance, Wood, 1908). So inevitably age misrepresentations were made. But the extent shocked London — as O.T. Falk pointed out in the discussion of the Old Age scheme in this hall (Marr, 1909, p271) one hundred years ago next month — successful claims for pensions in Ireland amounted to "117 per-cent of the number of seventy and over, less paupers; and this assumes that not a single person of seventy and over in Ireland has an income of £31 per annum" which was the means test. It not only surprised the actuaries in this Hall but also the accountants in the Treasury: the excess cost of pensions in Ireland was one of the main reasons for Lloyd George's budget of 1909 that led to the constitutional crisis alluded to by the authors in Chapter 2. The cultural ambivalence about age exaggeration — which persisted well into the 1930s — is well captured in the notice of thanks published in an Irish provincial newspaper: "Grateful thanks to the Sacred Heart of Jesus for obtaining my Old Age Pension five years before it was due". Ó Gráda (2002, p134).

So, in Ireland, the pension was near-universal, set at a relative high level and started to be paid earlier, on average, than age 70. In fact, it is not possible to be precise about Irish mortality at the higher ages in the few decades after the pension was introduced. Brown (1930) put it most tactfully when he reviewed the graduated Irish mortality experience of the mid-1920s. Noting the exceptionally light mortality for both sexes at advanced ages, he suggested that this might be because "as the pension age approaches the temptation to misstatement of age has still proved irresistible to a considerable section of the community".

So what were the consequences of such a relatively generous universal pension? Socially, it empowered the elderly in families (Guinnane, 1996). Geographically, by subsidising rural Ireland, it lessened the rural exodus over the following century (Ó Gráda, 2002). Politically, it empowered local politics and favoured the party that less scrupulously helped claimants. It shaped politics at a national level, too. In the early years of the Irish Free State, the burden of maintaining a first-world pension system was keenly felt by the governing party. In 1924, the maximum rate of the pension was cut by 10% and the means test made stricter. This proved disastrous, politically. The pension was restored in all respects three years later, but after doing considerable damage to the long term popularity of that party (Ó Gráda, 2002; Carney, 1985). Until his death a few years ago, a great uncle of mine in Donegal was still warning of the risks to the elderly if Fine Gael won power.

So, introduction of a near-universal pension of higher amount from a lower age would, the Irish case study suggests, have proved widely popular, politically impossible to cut back on (at least in nominal amount), and — and this is key — affordable. It would have created a more stable system over a longer time period. If the experience in Ireland is any example, such a giant initial step would have delayed the subsequent development of contributory pensions and the reduction in pension age. After the 1908 Act, the next major pension policy initiative in Ireland had to wait until the Social Welfare Act 1960. This Act introduced the Old Age Contributory Pension in 1961. Further reforms in the early to mid-1970s included the lowering of the pension age from age 70 to 66 for both the Contributory and Non-Contributory Old Age Pension and the introduction of a contributory Retirement Pension from age 65. There has been no significant development of pension policy in Ireland since then (see, for instance, Whelan, 2006). The current system in Ireland is very similar to the system in the UK back in 1925, but with the state pension set at a much higher relative amount.

In short, the original old age pension would have been affordable, even if it were made universal and set at a more generous level,. The near universal flat-rate pension (which in Ireland has remained at about one-third of the average industrial wage over the last few decades), when coupled with tax concessions for voluntary private and occupational provision, would have been enough to last 100 years. It was in Ireland. There are, though, significant problems appearing with the voluntary top-up arrangements. The defined-benefit scheme outside the public sector is being retired; there is limited and patchy private voluntary coverage and what there is places too much reliance on the rewards from investment risk with too little thought on its possible consequences.

Looking from Ireland to the UK at the present time, we clearly face very similar challenges. All-in-all, there has been no significant development in pension provision in Great Britain since 1925, following the Widows', Orphans' and Old Age Contributory Act of that year. Beveridge's proposals, always modest in quantum of benefit, were reduced further on implementation so that they ended up, as the authors concurring with Macnicol expressed it, "the cheapest combination of the 1925 and 1908 principles" (p. 36). The rest has been confused and damaging tinkering. The state flat-rate pension has always been set at a very modest level in Great Britain so the failing adequacy of voluntary top-up arrangements is creating greater urgency for action.

I am very heartened to hear this evening, and read in the book, the underlying belief of many actuaries that there really is no option other than for the state to play a greater role in pension provision in the future. I have argued for this in Ireland (e.g., Whelan, 2007; Moloney & Whelan, 2009). Remember that there are three quite separate issues to be decided when it comes to pension policy: (1) the mechanism to deliver pensions, (2) the split of the cost burden between individual, employer and general taxation, and (3) the level of the pension and its terms of payment. It seems straightforward from the 100 year experiment in the UK and Ireland, and from similar long term experiments in other countries, that we can now answer (1). It is time to move the debate to the more interesting cultural issues raised by (2) and (3).

There needs to be another giant step in pension policy on these islands. So let us hope that the authors' fourth and final objective, influencing future policy, will be realised.

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Mr P. J. Turvey, F.I.A.: I should like to turn the debate on its head by looking at what society thinks it can afford to pay to support the old, and then work out the best way of using the available budget. The way policy is currently decided is that we decide what the level of pension should be, or the retirement age, or whatever. There are always people with arguments as to why those arrangements should be improved, why we should increase the pensions, why we should not put up the retirement age, etc.

Projections are, of course, made by the Government Actuary's Department, and these are available to policymakers, but they are not part of the public debate. The public debate is about whether or not we should increase the retirement age and by how much and when, without any serious consideration of affordability.

So let us turn it the other way round. The first public debate should be: what proportion of GNP (or GDP) can we afford to spend on pensions? If we can achieve a consensus that that is the best way to look at it, we can then have a debate about whether that number is 10%, 20% or 30% of GDP, or whatever.

One way in which we might go forward, would be to establish that pension costs should be (say) 10% of the gross national product. Having set that, we can establish the appropriate state pension age by solving backwards. If we have settled the level of basic pension, we can work back and deduce that the state pension age should be 68, or 69.27, or whatever. This would be a public calculation by the Government Actuary's Department. People would learn to accept that retirement age gradually drifted upwards. That would reflect longevity, and it would reflect changes in the demographic mix of the population. But this debate cannot take place until we have a consensus that the place to start is with affordability rather than with what the old people need.

There is one other calculation that should inform the debate. We all know about the unfunded costs of pay-as-you-go public sector schemes such as the civil service scheme. Estimates are made of the huge numbers involved. But there is also a huge accruals cost of the old age pension scheme which, on the back of an envelope I surmise is about the same sort of order of magnitude. A further huge liability is the unfunded cost of the NHS, i.e. future care costs for those who are no longer actively at work. You can add those accrued entitlements to other pay-as-you-go benefits.

These should all be calculated consistently and put together at the national level. They are all competing for the same set of resources. The numbers would be huge, but they would help to inform the debate about affordability.

Dr S. Lawlor (visitor): I'm director of Politeia, a think tank for social and economic policy. We publish specialist studies on areas central to the policy debate. We often invite actuaries to write so they too can bring their learning to the wider audience of politicians and journalists. Chris Daykin has published a number of very good comparative Politeia studies for us on pensions and Paul Thornton too on means-testing, enriching the policy debate at Westminster.

May I pick up a few themes from some of the ideas that you have raised? As the authors were speaking, the themes to which they referred today and in their book have remained of central importance throughout the past 100 years and are still central to the policy debate today. I should like to pick just three of them: funding, structure and purpose.

How should we fund retirement? How should we fund old age? This debate, at least before 1945, was put in the context of redistribution versus contribution. Should there be a tax-funded universalist system or a contributory system? That remained at the heart of a cross-party debate from the 1920s — e.g. characterising the 1940s discussions leading up to the 1946 National Insurance Act — until the 1980s. (The initial tax funded pension in 1911 was seen as an exception — for the very old and the very poor.) I know that the Conservatives have sometimes, especially in the 1950s, been associated with the demand for means testing when seeking greater economic stringency in the public finances. However, Conservatives, both in the 'old liberal' and the 'Beveridge' sides of the party, shared with many in the labour movement the view that a contributory system was best. Without a three-way contribution from employer, employee and taxpayer, a means tested, tax-funded system was inevitable. Tax alone, it was thought, could never pay enough towards the cost of retirement. There would be other competing demands on the public purse.

Beveridge himself summed up the issue for generations. The contributory system could be universal because it linked benefit to contribution whereas a tax-funded system would lead to means testing — particularly hated by working men and women who objected to the intrusive state and who saw means testing as a penalty on saving and thrift. Indeed, that sort of debate goes on to this day.

Means testing remains controversial within the political parties. Old Labour is often against; 'new' is divided; and the Frank Field/Gordon Brown rift owes much to these divisions where Field opposes means testing (as he did the higher income tax rates for low earners which led to the rebellion over the 10p tax rate last year). Meanwhile, in the last Parliament the Conservatives and Liberal Democrats joined forces to oppose means testing; with popular support, they forced Gordon Brown to declare his 'intention' to phase it out over time in respect of retirement benefits. For the future the question of means testing will be central not just to policy on pensions but on a range of benefits.

Funding and means testing are linked to structure, my second theme. Since the 1940s there has been continuous debate on whether the state pension scheme or National Insurance should be in a framework solely run by the government operating the scheme, doing the paperwork and awarding the state pension, or whether other bodies should be involved. Before the 1946 National Insurance Act, friendly societies and the industrial insurance bodies had operated the schemes: much of the bitterness during the Parliamentary debates over the 1946 National Insurance Act arose from the failure of the Labour Government to honour its pre-election pledge to involve the friendly societies as Beveridge intended. Many Conservatives and Labour backbenchers wanted the societies included and pointed to the advantages. They were seen as efficient; they kept costs down; they were 'human' as distinct from the anonymous official of the state bureaucracy (and could deal with difficult cases, e.g. in the case of sickness benefit and malingering, which the state could not do). It was also pointed out that the industrial societies, because they were profit making, were better at keeping costs under control than alternative systems. So reasons such as efficiency, or the prospects of a more humanely administered system were given to support the case for involving other bodies in addition to the state.

Finally, the third theme; the underlying question of purpose. Is the role of the state pension to provide subsistence which is then topped up by other schemes? Purpose is linked to structure and funding. If the structure allows other bodies to operate a basic scheme, additional schemes can be offered. One danger envisaged in 1946 was that the new National Insurance Act could damage the incentive to save. Hostility to dropping the friendly societies was partly because they were seen as necessary for additional savings for which there was personal and national need. Beveridge's initial 1942 blueprint looked to voluntary savings as a necessary condition for success of his National Insurance scheme.

These three issues, funding and means testing, structure and the purpose of the state pension, have always been central, interlinked and unresolved. So the authors are to be congratulated for re-introducing them with the important actuarial perspective.

Pensions policy is decided in a wider context and against the demographic changes with which western governments are coping. The costs of a larger proportion of people living longer bring additional claims to the public purse for health funding as well as pensions; and they compete with other claims from, and priorities for, younger generations. At the same time the need to compete globally and to maintain economic prosperity is central to meeting such challenges. Whereas our economy is already spending 44% or 46% of GDP, of the nation's earnings, on government and public services — and the figure is set to rise — other western countries, e.g. Switzerland and Ireland, have been spending about 36% of GDP. So their production costs are lower and their goods more competitive, although all are subject now to the economic downturn. And these are western economies with the same social spending expectations as the UK, not the emerging Asian or eastern European economies, whose labour, tax and production costs, and expectations of government, are lower. As a result, future global economic competition will, whether we like it or not, put a downward spiral on public spending.

Today's global economic climate and the changing population trends suggest that the UK policy framework must be much more open to a mixed system, with mixed provision and funding in addition to basic tax income. For pension schemes a mixture of providers and additional schemes to top up basic state pension will be needed, with means testing which acts as a disincentive to save phased out. There is only one certainty: the state will never be in a position to fund retirement from tax to the level western societies want, particularly given rising expectation and changing longevity trends. In the coming decades it will be increasingly apparent that we should revisit the principles on which the flagship pension system in this country was built and shaped — one which involved personal as well as taxpayer contribution, which linked benefit to contribution, and which, above all kept as its priority the need to encourage (not penalise) voluntary saving.

I am very grateful for the opportunity to hear the authors tonight and to know that even where politicians may be swamped by the economic downturn, the actuarial profession is preparing for some of the difficult decisions which must be taken for future prosperity in retirement.

Mr R. B. Colbran, F.I.A.: I rise as one of the beneficiaries of SERPS that Bryn Davies was talking about. I must say that I am very grateful to all those people who are still working for their largesse in this matter. I would not want the message to go out from this hall that SERPS was as wonderful as we have been told. First of all, as regards consensus, my recollection is that the opposition were browbeaten into submission by Barbara Castle on the basis that if that did not happen, nothing would happen. Then, it has always been a puzzle to me why Barbara Castle, or anyone else, thought it was part of the state's job to perpetuate by redistribution the differences in earnings that occurred in working lifetime. I could never see that this was what state provision should be about.

Of course, it was expected to be expensive but Barbara Castle told us that economic growth would pay for it. It was also highly complex. I doubt whether many men or women in the street actually understood it. I think you can illustrate that because when the Conservatives changed the scheme, they were able to do so without an outcry. The point I want to make there is that the early maturity, the 20 year accrual, was actually for everybody. Everybody was earning one 80th per year. The only difference you got by working more than 20 years was that your base for your revalued earnings might improve. Yet the Conservative government were able conveniently to forget that one 80th rate and just look at it as though it had been spread over the whole working lifetime. They got away with that without any protest.

I have no magic solutions. I think Beveridge was probably the nearest we have seen to getting it right. When we talk about universal provision, we should remember that for the higher earners, it is taxed so it may not cost quite as much as it appears. Retirement age clearly needs sorting. I think governments of both parties have not been brave enough about this. That needs to be addressed seriously.

Ms S. West (visitor): I am from Age Concern. One of the things that I quite often have to do is to try to explain the state pension scheme to people, not only how it works, but the reasoning behind it. When people say, "Why does it work like that?" I always try to say, "You should not look for too much logic within the state pension and benefits system."

Knowing the history does not really explain the logic of it, but least you can see how things came to where they are. One of the things I was struck by is how much has not changed in 100 years. The state basic pension started off at a third lower than Beveridge proposed: if you added a third on to the basic pension now, you would get very much a similar level to the basic pension credit rate, £90 up to just over £120. So, it looks like we are still about a third below what we should be.

I'd like to put Age Concern's perspective to the question about what we think the state pension should be. We have argued that the basic pension should provide the very basic needs and that the state's role is to supply a flat rate pension which is very much the pension credit rate, £120 or so. We also see the state's role as giving everybody the opportunity to build up a second pension. For some people that will have to be a state pension maybe because of very low earnings, maybe they are caring and they cannot build up private pensions; but, for other people it is the opportunity to have decent, secure, private pensions as the means to top up the basic pension.

We see the current pension as a long way lower than where we would like it to be. On a slightly more positive note, the Pensions Commission, as was said at the very beginning, said you cannot look at just private pensions. I think that the government and many people thought at that time that private pensions were the solution, and there was one time, looking back in history, where the Conservatives were actually proposing that people could opt out of the basic pension into a private pension. Fortunately from our perspective, that did not happen. But I think the Pensions Commission did emphasise that there is not one solution. Just raising retirement age, or just relying on private provision will not be sufficient; state pensions have to play a part.

Although we feel the level is still inadequate, at least we are getting changes coming forward so for future pensioners it will mean that many more women will get a full pension and, it is hoped, at some point we will get the state pension linked again to earnings. I think that is something which is perhaps under threat. We need to make sure going forward that the value of state pensions do not fall.

My final point is consensus. As previous speakers said, SERPS was introduced by consensus, but that consensus broke down very quickly and there were major cuts to SERPS very soon afterwards. I think it is very difficult to keep consensus. No political party can commit future governments to any particular policy change. The most important thing going forward is to try to ensure that individuals value their pensions; both their state pensions and their private pensions. Too few people, when they are younger, worry about their future pension. It is important to ensure that everybody values and cares about what happens to both state and private pensions.

Mr P. M. Greenwood, F.I.A.: I should first like to follow on from something that was said by Mr Colbran on SERPS. Unfortunately, every time I have tried to go into the Department for Work and Pensions system to get an estimate of what my SERPS top-up would be, all I have managed to get back so far have been error messages.

I should like to pick up Mr Turvey's point on affordability and tie it to comments from the last two speakers. I always understood that one driver behind Adair Turner's conclusions, which led him to recommend money purchase pension pots, was with a concern about affordability and sustainability for the future. At the time of the Pensions Commission, I was one of the unfortunate people on the pensions technical side of the Profession who had to try to explain to Adair that, in the overall Profession, and over time, we had underestimated longevity projections. I think one of Adair's concerns was if we do not really know what economic growth is going to be, if we do not really know at what rate longevity is changing, and we cannot predict it accurately, how do we establish what is affordable?

I thought he judged the money purchase pension pot the best system of actually managing to control affordability. If the pots did not produce enough then, in the end, the level of pension provided was controlled through changing the retirement age — i.e. through postponement, and you get a natural control on affordability tied both to the economic output of the pension pots and what had actually happened to longevity and the estimate of longevity by the private sector insurance side at the time those people came to retire.

Mr M. A. Pomery, F.I.A.: I had the good fortune to be asked by the authors to read the book before it was published. I thought that I would have to wade through all the history of the state pension and wondered what I had let myself in for. But, as I read about the debates raging in the House of Commons and the machinations of the civil servants behind the scenes, I found myself eagerly turning the page to see what happened next!

I want to concentrate on one small area, which is very important at the present time. It is the issue of means testing. Question six, at the beginning of Chapter 12, asks us about the choice between a universal benefit sufficient to live on or a means-tested system such as we have at the moment. That question is related to question five, which asks whether there should be different treatment for prudent and reckless people.

The argument in favour of a means-tested system is that scarce resources are concentrated on the area of greatest need. That is a very powerful argument. But if you start trying to weigh the pros and cons of these two approaches, then you have to think about the drawbacks of means-tested systems. These are well-known: a low take-up rate; very expensive to administer; and a huge disincentive to save for those people at the margin. For most people sitting in this hall it is probably not an issue; but for a lot of people out there, particularly those at whom personal accounts are aimed, it is a very pertinent issue.

It is not just a financial issue. Those people are not only looking at what money they might lose through a means-tested system. There are social, cultural and peer-pressure issues. If you live in a neighbourhood of people who are in the relatively low income groups at which personal accounts are targeted, and if you see your neighbour buying a new car while you drive around in your old car, or if you see him taking his family off for an exotic foreign holiday while you take the wife and kids to Alton Towers in the rain, these are serious choices. If, at the same time, your neighbours are all telling you that you are being stupid and you really should not be saving for your retirement because you are not going to get any more money at the end, there are huge peer-pressure issues.

The authorities can mitigate means testing to a certain extent by using tapering, as is the case with the pension credit. If there is a steep taper, then the powerful disincentive effects are retained. If instead there is a shallow taper, what happens is more and more people are pulled into the means-testing net. The means testing goes higher and higher up the income scale, and millions more people have to apply for means-tested benefit.

I could design a theoretical alternative for means testing people in retirement, by testing them on the basis of their earnings during each year of their working life; a system whereby if you had low or zero earnings in a year then you got points towards an extra basic state pension top up when you retired. A system like that would need 40 years of stability to work. As we have all heard, we do not have that sort of continuity and stability. There would be a lot of practical problems to overcome. So, this alternative is nice in theory, but impractical.

We are forced by this logic to look again at the universal benefit. I think a trick was missed here. I think the concept of a universal benefit of, say, £120 per week for every man and woman who reaches a certain age in this country, has a simplicity which is really attractive. It removes a major barrier to savings. What it does is it sends a very clear message to the working population. The state will provide a subsistence level of benefit in retirement, but for everything else you are "on your own". You have to do it yourself.

It sweeps away much of the complexity of the state system; it sweeps away "I am not sure what to do because I do not know what I'm going to get from the state"; and it gives a very clear message to people about the need to save. So I am sorry that that opportunity was missed last time round. I do not believe it would have cost too much if a way could have been found of absorbing part or all of SERPS and S2P, and maybe adjusting the retirement age, which, by the way, I think should have been raised higher than 68 in 2046. I think an opportunity was missed, but I am reassured because our state pension system gets tinkered with every ten years, so by 2015 we will be able to have another bite at the cherry.

Dr C. S. S. Lyon, F.I.A.: I have not yet had the opportunity to read the book. I started in the pensions field in the 1950s and was involved in discussions on state pensions from the time of Boyd-Carpenter, right through to Barbara Castle.

It is worth stating how we were thinking in those days and what the objectives were. In 1959 we just had a flat rate scheme, but contributions were becoming more and more of a burden for lower paid contributors as a result of demographic changes. The government of the day concluded that the scheme could no longer operate solely on the basis of a flat rate contribution for a flat rate pension but required an earnings-related supplement in order better to spread the load. Its view was that it could not introduce earnings-related contributions without providing some element of earnings-related benefit. This was quite limited in the Boyd-Carpenter scheme. But ambitions continued to grow, as did concerns about affordability — a subject rigorously examined in some of our presidential addresses — accompanied by projections right through to the present time and even beyond.

To see a case for an earnings-related state pension one only had to look sideways at the generous earnings-related or final salary pensions in the public sector, which are still an issue today. How could the rest of the working population be assured of the chance of a benefit in retirement which was not totally out of line with what the public sector was getting? That led, eventually, to the development of SERPS. I happen to have approved of SERPS at the time and I am sorry that some of us here did not. SERPS seemed to be a sensible solution and those of us who were involved in designing its contracting-out elements thought that it was a system that might last. It did not, of course; it was gradually whittled away.

We still have to think of the relationship between employees in the private sector and those in the public sector and how to achieve a degree of fairness between them. Final salary occupational schemes looked as though they would do that. But final salary schemes for very tiny groups of employees do not work well, as we have seen in recent years. An underpinning of a state benefit from which people could be contracted out seemed a sensible solution.

Looking at the situation now, there are other aspects of old age that must be considered besides a pension. I am now an octogenarian, so I could come face to face with some of them and their choices not too many years hence. Therefore one thinks about healthcare and so forth, and who is going to pay for it. The argument about this will go on, especially who pays for social healthcare, if I can put it that way, and it is relevant to what we have been considering on pensions. If we make state pensions too burdensome, the government is able to say that it cannot afford to pay for such care in a residential home, so you will have to sell your house to finance it. That is one of the issues to be borne in mind. We cannot look just at income in retirement and whether it is flat rate or earnings-related.

We have to look sideways, as I said, at the public sector. We need to look also at other issues. Does it make sense to give every pensioner a free bus pass, for instance? That is using resources. There are many other considerations.

I had better stop before I get carried away by some of these issues, but I lived pensions; I met Ministers who were involved in trying to create a better pension system. They believed in what they were doing. We believed, on our side, in building a partnership involving occupational schemes. I am just very sad to look back at the last 20 years or so since I retired to see what has happened to the pension system in this country.

Mr M. Hewitt (replying): What I want to do is pull thoughts together that came out of the exercise of writing a history of 100 years of the state pension. We started by asking the question, as we were reminded at the beginning of this presentation: what is the state pension for? Over 100 years you will find that about 20 different aims have been ascribed to the state pension. This is clearly a highly complex, highly involved, intellectual activity involving many different currents of political thought, social policy thought, many different politicians, state experts, actuaries, and so on, all contributing ideas about what the state pension is for.

Our thoughts were that if we could itemise these different objectives, we might begin to have a better sense from the past of how they are going to move forward. It is a kind of rational belief that you can move forward on the basis of studying history. The study of history is clearly important. It is because we forget history that we make mistakes. I say "we" — our politicians, in particular, make mistakes.

It is worth making the point that politicians do like to take possession of history. They like to write their own history. We have had the concept of modernisation from New Labour, which is an attempt to rewrite history.

This analysis of the different objectives of the state pension provides us with a way of cutting through the complexity, to make sense of the last 100 years, and to begin to discern certain continuities in the ups and downs of state pension policy; the fact that, as we have heard tonight, state pensions are always changing because the objectives are changing. Sometimes the state pension is in favour. But for most of the past 60 years it has been rather out of favour. It has suffered from an over-reliance on means testing and the hope that more and more people would rely on occupational pensions and private pensions savings. That has not always been the best way forward.

Clearly, it is not for us, as historians, to try to come up with solutions to the future. We cannot do that. But what we can do is contribute to the debate. That is what I hope we have done. Reviewing the history is good from the point of getting actuaries to talk to other people. It has been very important to break down the so-called insularity of this Profession, which I do not think is entirely true. Indeed, this project shows us that it is not true. Actuaries have spoken to many people outside the Profession in doing this work. It is very important that we should continue to do this. We should continue to make links with historians and with other people from outside the Profession. Those of us who hope to be around in 2019 have already had an offer to do a history, a collaboration between actuaries and other people, on the Government Actuary's Department. There could also be other examples of that kind of project which I think, and hope, this profession will embrace.

To conclude, I hope that what we have done is provide some clarity on the way forward for pensions and for the state pension. I hope also we have provided a sense of commitment for people who read this book and take away messages from the book that we need to work more towards making sense of this future. Clearly we are moving into a period of uncertain times and therefore if there is any sort of certainty that we can find from the past, we should take forward lessons learned into the future.

Mr B. P. Ridsdale, F.F.A. (closing the discussion): In company with many of the contributors this evening, I would like to congratulate the authors on the timely production of this book, which adds particular value not just to understanding 100 years of state pension but to understanding the background to the principles, the decisions and the compromises that have been made at each stage. The comprehensive list of references will make it an excellent resource for researchers, and for all those wishing to learn from the past so that they can "make financial sense of the future". I am delighted to see the Profession's Ageing Population Interest Group taking this initiative and note with admiration that one of the authors has drawn on more than 60 years of experience, having started work a year before Beveridge's proposals were implemented in 1948.

The authors raised the fundamental question: can a decent standard of living be ensured for those who no longer work? There were many discussions on benefits and costs, but I do not think anybody came back thoroughly to the underlying question that Mr Hewitt addressed to us at the end of the discussion, and the book addressed, which was: 'what is the state pension for, and what level of benefits should the state provide?' Mr Hewitt, for example, mentioned that there were 20 different definitions of what the state pension is for, and I do not think we got into many of those.

It was very interesting to hear of the different experience of Ireland, which was included in the original scheme, to hear that Ireland has had no substantial change in pensions legislation over the past 20 years and that even now the pension represents one-third of the industrial average wage.

Moving on to the issue of benefits, Ms West quite clearly put the point that she feels that the level of state pension is too low and must not be allowed to fall further. She was, I think, fairly confident about changes coming forward so, in future years, more women will get a full pension. She emphasised a need for communication, which also came out elsewhere, and the need to ensure that people understand what they are getting, so that they can plan round that. This point came up many times in discussions about whether people will continue to make contributions if the state pension is any higher.

Mr Davies spoke for the reintroduction of SERPS as a benefit within the state pension scheme. Mr Colbran differed. He felt that SERPS were highly complex and not easy for the general public to understand.

Mr Pomery talked of means testing as creating social problems that could be mitigated with the use of different types of tapering, but it becomes incredibly complex. He made a case that we should consider looking at a universal benefit, which is simple and set at an attractive level which would allow people to plan based on it.

Dr Lyon, who said he has not read the book, will find he has four mentions in it. He spoke very positively about SERPS when he was involved in the discussions at its introduction. I know he presented papers to the Faculty and the Institute in 1966 and 1968 which are still available and reflect the thinking at the time. But, thinking for today, he made a very good point that we should all bear in mind: that money allocated to pensions is only one of the services that we provide to older people. If you spend too much on pensions then you may find yourself taking money away from health, and that the health/transport/pensions mix has to be looked at in full to get a clear picture. Also, he confessed that he regretted what has happened to the state pension scheme over the past 20 years. I suspect from the discussions that he would not be the only person in this hall to feel that way. On the subject of costs, Dr Lawlor warned us of the big divisions in philosophy between the political parties on the role of means testing and spoke for considering mixed schemes of funding for state and private sector pensions.

In the early presentation, Mr Salter characterised the discussions in the history of British state pensions as falling into two main narratives: the 'demand side' (the account of social policy placing priority on meeting human need) and the 'supply side' (reconciling the meeting of human need with the efficiency of the economic market).

We heard, on the supply side, the case from Dr Cooper epitomising the presentation of the supply side as representing the Protestant work ethic, with concepts of the 'undeserving poor'. She went on to observe that poverty is not just a complaint of old age; and taking money away by tax, for example, from younger, poorly paid people with families to provide older people with pensions is a suspect concept and needs to be thought through.

Mr Turvey agreed that affordability was the primary issue. He suggested that we should come up with an idea of a percentage of GDP that we could afford, which might be agreed between political parties, and you could then say "we can allocate this amount". He went on to make the case that you could use the same concept on looking at the cost of the NHS, and the cost of public sector pensions. You could hold them up and you could ask, "Is this what we want to pay from our GDP?" That attracted me.

I was not sure about his concept, which was also raised by other speakers, that once we know what percentage of GDP we can afford, and the level of pensions we want to pay, we can change the state pension age to make the sums work. In fact, one or two speakers said that "we can change the retirement age." Age discrimination legislation notwithstanding, a proposal to change retirement age by a year needs a bit of thought. There may be something about the capacity of people to do the job or the willingness of employers to keep them on before you arbitrarily change retirement ages based on how much money you have in your pocket.

As a Faculty Fellow, I hope you will permit me a brief reference to January's other major anniversary — Burns — whose 250th birthday was yesterday. He never reached anywhere near retirement age but was still able to regret the absence of a regular income, and to regret that he had grown up as a poet and not a market leader or a banker:

"Had I to guid advice but harkit,
I might, by this, hae led a market,
Or strutted in a bank and clarkit
My cash-account;
While here, half-mad, half-fed, half-sarkit.
Is a' th' amount."

In view of recent events, perhaps nowadays he might have preferred not to be a banker, but to be an actuary. Or maybe when the subject of state pensions is discussed in 100 years' time, we will have completed our merger — with the bankers!

I would like to thank those actuaries and our distinguished guests who have contributed to the discussion this evening, which has been both illuminating and entertaining. I commend the book as a resource for those aiming to influence future strategy. Mr Llanwarne referred to the need for excellent communications, and I hope that the authors will take up the challenge to promote discussions with other interest groups.

On a different subject, I note that the Profession has a book by Chris Lewin on pensions and insurance before 1800, and we now have a history from 1909. I wonder whether there is a gap there and an actuary might be challenged to tackle the gap of 110 years.

In closing the discussion on Mr Marr's paper on "the Old Age Pension Scheme" in February 1909, the President thanked the speaker on the lines that: "He was sure that the subject selected was an important one, on which the author had submitted a very valuable paper, which had elicited an extremely interesting discussion." Replacing "author" with "authors", and "paper" with "book", I cannot think of a better way to conclude the discussion of a subject that, for our Ageing Population, and our present economy, is as strategically important now as it was 100 years ago.

The President (Mr N. B. Masters, F.I.A.): Thank you, Mr Ridsdale, for closing the discussion. It remains only for me to also thank all our speakers, particularly our visitors, for your contributions.

We have had an excellent discussion tonight. It has gone to the heart of some fundamental issues. I particularly liked Dr Cooper's allusion to Groundhog Day. Every politician that steps forward to yet again grapple with pensions should be asked to read this so that at least they will know they are treading familiar ground. Indeed, given the number of politicians who have been involved in this subject over the years, this book would have the makings of a best seller. With that, I should like to ask everybody here to join with me in congratulating the authors on an excellent piece of work.

WRITTEN CONTRIBUTION

Mr T. A. Sibbett, F.I.A.: In the discussion there were references to the moral reasons for paying state old age pensions. One of the reasons was that the pensioners had paid taxes to support earlier generations of pensioners and those not in employment.

There is an additional point, however. While they were working, today's pensioners not only contributed enough for their own current consumption but also invested for the future. As examples, all motorways and all computer systems in this country were created in the lifetimes of the present pensioners, and today's workers will benefit from them. We should try to disentangle the numbers to estimate, as each cohort of workers retires, how much of the country's increase in wealth is attributable to these workers over their lifetimes. If we compare this with the estimated value of future social benefits, pensions, medical services etc., we can then get an idea of how much of the costs associated with pensioners compare with their contribution from past employment and how much, if any, is a contribution for moral reasons from the community.