

“Taking office, I would have killed for these reforms...”

Major reforms of the State pension have either been made by the Coalition Government or are waiting in the wings. But have they gone far enough, fast enough? Just how fair are these changes – and have older pensioners in particular lost out? Tony Watts meets Pensions Minister Steve Webb and asks him to put the record straight.

Interviewing Steve Webb this time round in his constituency office is a refreshing change from the previous occasion. The last time, we talked in the bowels of Parliament, very shortly after the last election and his appointment to office; aides were on hand to ensure that everything was recorded and any stray remark corrected. This time is a far more relaxed affair; he is patently someone confident in the brief he holds.

But then, few ministers gets to keep the same office for as long as four years, and even fewer Pensions Ministers - probably explained by the widely held opinion that he is probably the only person in Parliament who actually understands our excessively complicated pensions system.

He regularly wins plaudits from all sides for his conviction as well as his comprehension... but not everyone is equally delighted with what he has achieved.

The National Pensioners Convention, in particular, continues to campaign for what it calls a “decent state pension for all generations”, maintaining that the projected level of the single tier state pension is still well below the official poverty level (their figure is £178 per week). Moreover, those currently receiving a pension will not actually benefit from this, while those born after 1986 – the NPC insists - are likely to be worse off under the new system. Indeed, they continue to call for root and branch reform which goes well beyond the changes made under this Government.

Other pressure groups and campaigners have complained about the way those with small pensions seem to lose out on benefits, the speed at which the State pension age has risen for women – and will continue to rise – and that those who contracted out in the past are being penalised.

So are the new reforms fair to all, and will they give current and future pensioners a decent quality of life? Or have the changes simply been as much as could be realistically hoped for in the current climate? Here is the interview, pretty much in full, for readers to make their own minds up; followed by my analysis of what has been achieved – and what might happen next.

Q: Since taking office, you've introduced the triple lock, auto-enrolment, better pensions for women and the new single tier pension, as well as opening up the options for those retiring on where they put their pension funds. When you came into office was this a large part of what you wanted to achieve... or just a part of it?

Webb: Certainly doing something for women was what I've banged on about for a long time and therefore the idea of moving to a flat rate pension rather than an earnings-related one clearly was going to benefit women – especially those who had spent time bringing up families.

So when I arrived at the department and there was a whole set of issues that the department was interested in pursuing – and one of them was flat rate state pension reform – I was knocking at an open door.

Q: Was there an appetite amongst the other parties for what you've done?

Webb: I had to persuade my Conservative colleagues of the case. They weren't hostile but they weren't warmed up either. Sometimes you need language that perhaps prioritises the things that matter most to them

For me it was about the position of women, fairness and so on. For my Conservative colleagues the savings incentive issue was particularly important – and I'm comfortable with that. Labour didn't vote against the single tier pension – most of their comments were on the other parts of the Bill - which is really encouraging.

Q: So are today's pensioners disadvantaged compared to tomorrow's?

Webb: It's easy to see why people might think that – especially if you're 70 odd and drawing a pension of £105 or £112 or whatever. The bit of the jigsaw that people miss is that - even if I had fallen under a bus on Day One – many newly retired pensioners in 2016 were going to get pensions of £150 a week anyway because of the maturing of SERPS.

So we haven't introduced a big step up or an unfairness. There is no extra money. What we are doing is crystallising what was already there. But there is a difference between new pensioners and much older pensioners, simply because SERPS has been maturing.

Certainly I don't think any current pensioners have lost out – and, again, single tier pensioners on average have higher pension ages than current pensioners. The only thing I have changed about the pension entitlement of any current pensioner is the triple lock.

Q: And what happens to that in the next Parliament?

Webb: The Lib Dems take it seriously and want to pass legislation to make it permanent – so far the only party to do so, but the Conservatives have said they will include the Triple Lock in the next parliament, which is good.

Q: And how about the thorny question of State pension age? Is it really fair that this is moving up so quickly – especially for women?

People have written to me saying: “You’ve put my pension age up six years,” and you go back and say, “Well four and a half of that was decided 20 years ago.”

Of course I’m still blamed for their pension age going up – but this was brought in back in 1995. But I haven’t changed the pension age of anybody who retires before the single tier comes in – so if you retire under the current pension system, Steve Webb hasn’t touched your pension.

Q: Was changing the pension age always going to be messy?

Webb: Yes it was, and it took us a little while to get to the point: “How are we going to be systematic about this in the future?”

Making it 66 was brought forward pretty aggressively, I recognise that, but what we’ve said is: “Beyond that, 10 years’ notice, proper process, independent commission, and a sense of where it’s going in terms of how much of their life someone spends working.

Some Scandinavian countries are taking a year for a year... every extra year you live is an extra year of working life – and that’s pretty brutal.

Q: If you have contracted out with your pension, you do seem to be losing out.

Webb: Well you're not losing out. In a perfect world, we'd have said: "Year zero, 2016, we're just to pay everyone the flat figure. And then we'd have had rioting on the streets from people who had contracted in, saying: "I've worked in the same job as my neighbour, paid more in for my entire life and you're going to give him the same state pension as me." That wouldn't have been fair.

It's currently the case that if you are contracted out, the scheme replaces part of the State pension, so we've said that we will make a one-off adjustment in 2016 for past contracting out, and that's then done and dusted. All future years are valued at the same rate.

Paradoxically the contracted out are the main gainers from the reform because, hitherto, if you'd been contracted out for your lifetime, you could never have got more than the basic pension. Now, if you work post 2016, you can get more than the basic pension through additional years of work.

The contracted out generally won't get the full rate from the State initially, but their schemes will mean they get better outcomes than they would have done under the current system in many cases.

Q: One impact of the reforms is that these people won't be claiming pension credit, and of course there's a track record of many not claiming all their entitlements. Does this surprise you?

Webb: The savings credit is probably the most complex creature known to man. The take up rate is like tossing a coin - 50-50 – and you can't base an anti poverty strategy on the toss of a coin. So clearly if we can get the pension to a decent level then the amount of unclaimed means tested benefits will fall.

Q: The fact that new pensioners have more choice in where they invest their pension pots has opened up the market. So where are private pensions going now? Are new products coming onto the market in the shape and form you expected.

Webb: The consultation process has closed, but the industry is already talking about new products. But of course it's chicken and egg – they want to see what the law is going to say – the framework in which they'll be operating. Tim Jones, CEO of Nest, uses the phrase “democratisation of draw down”. Why shouldn't people be able to take a bit, invest a bit? It shouldn't be the prerogative of the rich.

Q: You are expecting people to act responsibly. Is there any evidence that they will?

Webb: There are incentives to act sensibly – the tax system being the obvious one. We will tax people in full in the year in which they draw the money... so draw it all in one go and potentially you are in the higher rate of tax band – a big disincentive. Spread it out thinly and may pay no tax at all.

The other reason we expect people to be careful is personality. Frugal savers don't turn into spendthrifts overnight.

Q: The NPC says that anyone born put after 1986 will be losing out, and that of the 1.94 million who retire in the first five years after the reforms come in, a million will have their pensions reduced.

Webb: What they are saying is that, in the long run, if we had done nothing, SERPS would have matured and matured, and ballooned and ballooned. I don't believe that would have happened.

So if you believe that a future Government would just have let the cost of SERPS shoot up, unfunded, just pay more and more National Insurance every year to pay these vast SERPS, yes it's true what we are doing is cheaper than that. The thing about unfunded pensions is that you're making thwinking great promises and hoping that your kids will pay for them.

Q: With all the changes being made, are we moving towards a situation where all the money being saved by today's workers isn't being used to fund today's pensioners?

Webb: The costs of the State national pension will still rocket - but at a slower rate. We will still be paying vastly more than we are now, but we have reined in the rate of growth. But complementing that, more people over time will be putting more of their own money in up front through auto-enrolment. And if we can get that to a reasonable level, then hopefully people will have a decent floor funded by tomorrow's taxpayers and a pot of their own.

Q: Despite what you've done, is all this still sustainable with the numbers going through?

Webb: I think that, clearly, the pension age is the valve that we're using. We've already talked about a pension age of 69, and who knows what future longevity will bring. A flat rate pension rather than the ballooning of SERPS helps. And all the longer working life stuff in general – with more people being productive up to pension age - will make a huge difference to the finances.

So I think we've set a modest pension level – but a sustainable one.

Q: Would you hope that future governments would ratchet this up slightly?

A: This is where the triple lock comes in. And the reason it is so important, and not just as a sop to the grey vote, is this: if the other half of your income is private pension and overwhelmingly that's frozen, through indexed annuities etcetera, then if the State bit of your pension isn't really fully indexed, then every pensioner, every year of their retirement, will have a real cut in living standards.

Q: What many pensioners get in small increases in pensions they seem to lose in council tax rises and so on, loss of housing benefit and so on. And those with small savings do seem to get unfairly penalised.

Webb: And that's a central part of what the single tier is trying to achieve. Because, say, you own your own home (it is more difficult if you are renting) because the single tier is above the guarantee credit, if you get another pound of private pension, you may lose 20p in council tax but you do keep 80p.

One of the reasons we had to do this is that – in the early years - auto enrolment will produce lots of small pensions. And if the papers are right, when they say that it will simply be means tested away, it would have failed.

Q: So measures are in place to stop it being a pound for a pound?

Webb: Absolutely! It's more difficult with rents being as they are – if you are still renting in retirement, and paying council tax and on a low income, then you will still see a significant clawback... but less than you would have done.

Q: So – finally - if you had foreseen where you are now four years ago, would you have taken this?

Webb: I'd have killed, frankly. For instance, to get the legislation through and started in 2016... it was put to me that it could only be done from 2020 when we would have equalised State pension age. Of course we got flak for doing it before we reached that point, but waiting another four years just seemed ridiculous.

A personal analysis

There's no question that we now have a completely different (and in several key instances, preferable) pensions landscape than in 2010. The Coalition has addressed several 'elephants in the room' that previous Governments had signally failed to – not least the need for more of us to put more money away into pension schemes.

The reforms also leave us with a much simpler scenario, reducing (as the years go on) the proportion of people dependent on means-tested benefits.

And the slavery of annuities has been addressed too – opening up the options for those entering retirement and making it (hopefully) a far more competitive marketplace.

But of course, all this has had to be achieved with “no new money”. So while the flat rate pension has gone through far more quickly than even Steve Webb had hoped, it has been possible only because it is broadly cost neutral – today's pensioners won't be able to benefit from this because it would have added to the State Pension bill.

So it will feel very much like a two-speed system for many years to come, and while the points will be made that the single tier is being paid for by SERPS, and that today's workers are having to stay in work for longer, it will continue to rankle with some. Equally, it will mean that several million people will remain dependent on means-tested benefits – and still alarming amounts go unclaimed. Just how can this conundrum be addressed?

The future sustainability of the State Pension is also heavily reliant on people staying in work for longer, as well as a growing economy. In Steve Webb's own words: The costs of the State national pension will still rocket - but at a slower rate. We will still be paying vastly more than we are now, but we have reined in the rate of growth."

Allied with the predicted rising cost of care in the decades to come, this still has to be an area of concern for us all.

So could the present Government have done more to help today's pensioners? They will argue that pensioners have been one group that have had their benefits ring-fenced – aided by the triple lock. Even the bedroom tax/spare room subsidy does not apply. To have done more within the total current spending would have meant even deeper cuts elsewhere – with major political ramifications.

What next? In an election year, each of the parties will be sharpening their pencils to try and win over the grey vote. Each will be promising the triple lock for (at the very least) the next term. Going beyond that seems unlikely in the current climate, so where the gritty discussions may take place could be around universal benefits.

What would irk many poorer pensioners would be seeing a country where they are locked out from the benefits of future economic growth and prosperity. So while jam tomorrow if conditions allow is never the most appealing political offer, it might be the one bit of wriggle room available...

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