Funding the Future

Tackling the boomer pension crisis - by putting people ...

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Phillip Inman at the Guardian argued yesterday that:

We need to address the question of how we can make a fairer society, and part of that is identifying who the rich are. The leftist finger pointing at the aristocrat and the company boss misses the boomer.

The BT engineer on £60,000, the marketing manager on £80,000 and the teacher on £35,000 will all be in the millionaire bracket when they retire after paying only a fraction of the cost.

A teacher on £35,000 will qualify for a £17,000 a year pension with top-ups that can add another £3,000-£4,000 a year. A £20,000-a-year final salary pension with all the bells and whistles would cost between £700,000 and £800,000 to provide. Add a £300,000 house and bingo, you have a millionaire. The BT engineer and marketing manager will easily fit the millionaire bracket and, like the teacher, will have paid a fraction of the cost of purchasing these bountiful assets.

Whereas the super-rich once numbered in the tens of thousands, depending on where the line was drawn, they will soon number in the millions. Certainly every street in the south-east has a rich boomer, if not 10. The suburbs of all our major cities are no different, with bloomers who jet off on four or five holidays a year and drive gas-guzzling 4x4s.

He's right. This is a problem.

And as he notes, it's one I have addressed:

Richard Murphy, the anti-poverty tax campaigner, has suggested allowing the tax break to be maintained, but directing the savings into home-grown investment projects that would upgrade Britain's infrastructure. This, he argues, would provide the biggest benefit to the young.

I have, of course, argued this. As I have said in or about Making Pensions Work, the key issues that it raises are:

1. The private pension sector has received a subsidy of £300bn a year over a decade and has appeared to lose it;

2. The private pension industry pays out less in pensions each year than the state subsidy it receives;

3. The assets in which the pension industry chooses to invest do not reflect the fundamental pension contract.

4. Many of the assets in which it has invested have persistently generated negative rates of return, despite which its investment behaviour has not changed.

5. The choice of investment it has made has resulted in speculative saving activity as the core focus of pension fund management when the economy has required investment to stimulate new economic activity, employment and innovation to tackle the real issues we face as a society.

These are vital issues regarding pensions.

We cannot meet our obligations to those already receiving pensions let alone those due to retire unless:

1) We get Britain to work

2) We invest in making things here

3) We ensure that the tax relief given for pension saving is used to direct pension savings into productive investment whether in the state or private sectors.

I suggets we can do this. If just one quarter of all pension contributions had to be put to productive use that would be £20 billion a year for investment in the UK. That would transform our prospects and those of young and old alike.

So why won't we change the law to require this?