

The way to solve the private pension crisis

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The focus on state pensions yesterday, and the successful strikes on this issue, had the additional benefit of highlighting the real pension crisis in this country, which is that it is the private pension sector that is really failing.

There are good reasons for that, and all intensely logical.

First, employers have removed provision to increase profits. It's not that they can't afford it. Over the last 15 years or so about 5% of GDP has been shifted from payments to labour to payments to capital in the form of profits in the economy - that's near enough explained by the refusal of employers to fund pensions. This is a minority taking income and wealth now to deny it to those in old age. The unaffordability argument simply does not stack.

Second, the rate of return on pensions has been abysmal. with it still being the case that up to two thirds of pension fund money is invested in the stock market, that has paid not net return over the last decade and dividends rarely sufficient to cover fund manager costs, people have rationally concluded that they are better off putting money in ISAs and other cash based arrangements instead of investing them with fund managers of pension funds.

Third, instinctively people know that this low return is inevitable: there is little real innovation going on in the stock market but there is massive rent seeking behaviour by all who manage it. So fund managers take excessive fees, stocks are churned wholly unnecessarily by funds, excess commissions are paid as a result, and all to align returns with those working for banks. Paying money into a pension has simply been a way to support City bonuses.

And again, instinctively, people know that pension funds are a giant Ponzi scheme - with the markets only remaining as high as they are because month in and month out a wall of money comes in from pension funds for fund managers to play with, loot and fritter away. Of course people have no desire to be a part of that.

It's not that private sector pensions are bad: the whole private sector pension system is based on a fallacy that saving in the stock market can provide a long term future for all when that is plainly not so in any situation, but is impossible when that system is looted for current private gain.

This is the situation that has to be remedied.

And that's why I proposed [People's Pensions](#), with Colin Hines and Alan Simpson, then an MP, back in 2003.

I'd change some of that proposal made then: I'd certainly focus less on ownership of assets and more on bond issues to finance their development now. Colin Hines and I have done that consistently since. So as I said in '[Making Pensions Work](#)':

We recommend that if enforced saving is to be required by the government then that government has a duty to ensure that the funds so saved are invested for the common good.

Pension fund performance over the last decade has a been a history of almost perpetual loss making despite the enormous subsidies that pension fund tax relief has provided to the City of London and stock markets, all of which they have frittered away.

Investment in local authority bonds for local regeneration, or in bonds or shares issued by a new Green Investment Bank and in hypothecated bonds e.g. to provide alternative funding to replace the inefficiently expensive Private Finance Initiative for funding public sector infrastructure projects would have prevented those losses —because all of these would have paid positive returns to pension fund investors. It is for exactly this reason that we recommend that such assets be the basis for any new state pension fund in the future.

The impact of our proposals would be significant. At least £20 billion a year would be released into the UK economy for new investment.

By coincidence this is the total sum Osborne is looking for now from pension funds for infrastructure investment: I suggest it would be available annually.

And I suggest, very strongly, that if any confidence is to be restored in private pensions - especially in the light of the plan to make pension saving much more widespread from 2013 - then funds of the sort I suggest have to be the way forward.

They are simple: they would hold bonds in funds invested in the region in which a person lives.

They would be transparent: a person could see what was being done with their money. The current rate of return would be obvious. The basis on which a future return would be paid would be equally clear.

They are risk free - because they're state backed.

The charges would be tiny - the structure guarantees it.

As a result unlike existing pension funds they would pay a real rate of return.

And that return would be now in the communities in which people live, now in work for those communities and in the future when the next generation pays the retired generation for the capital they had bequeathed to them in exchange for which they give up part of their current income to look after those in retirement. This reflects the fundamental pension contract which almost all private schemes ignore right now. As I say in the [Courageous State](#):

The fundamental inter-generational pension contract that should exist within any society is that one generation, the older one, will through their own efforts create capital assets and infrastructure in both the state and private sectors which the following younger generation can use in the course of their work. In exchange for the subsequent use of these assets for their own benefit that succeeding younger generation will, in effect, meet the income needs of the older generation when they are in retirement. Unless this fundamental compact that underpins all pensions is honoured, any pension system will fail.

The pension scheme I suggest reflects this.

But more than that it creates work, it funds what society needs, it's guaranteed and it's attractive and it cuts the exploitation of the City out of the pension loop.

That's why we need it now.

Not compulsorily - but for all who want it.

A Courageous government would offer it. Now.