

## **Pension Reform and the Role of the State**

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In the old Soviet Union, centralised State planning was much in vogue to ensure that the means of production met the needs of the military and consumers. In modern Britain we are not at all sure that the State should play such a pivotal role, especially when it comes to directing or influencing consumer behaviour in deferring current consumption for future retirement savings.

The comment from the head of the National Association of Pension Funds (NAPF) that the UK Pensions Commission's recommendation for a National Pensions Savings Scheme was 'Stalinist' goes to the heart of a fundamental argument: should people be compelled or persuaded to save for retirement and what role should the Government play? In the UK's case, a half way house is suggested: automatic enrolment coupled with prescribed compulsory contributions (employers, employees and government) to a low cost pension. The State is directing debate on pension reform.

In Sweden the role of the State has been to guide policy direction on the development of a Notional Defined Contribution system along with encouraging individuals to save more effectively on a fully-funded basis. The infrastructure for this is largely State-run, and today Sweden still grapples with the refinements necessary to make the system efficient in respect of determining the ideal number of investment participants.

The United States, by contrast, firmly aligns itself with the notion that generous taxation incentives are necessary to encourage individuals to save for their retirement, largely through 401(k) plans and Individual Retirement Accounts (IRAs). In effect the role of State in the US is largely confined to regulation and giving general guidance to industry and employers about the way pension infrastructure should be established and maintained.

Germany and France have turned their backs on the 'Anglo Saxon' approach the State is firmly embedded in directing how an individual saves for their retirement. High social insurance contributions based on a Pay-As-You-Go structure sees high replacement rates in the first pillar, with subsequent retirement savings being 'crowded out' through the high levels of taxation needed to support the first pillar.

Finally Australia and New Zealand seem to be diverging in how the State should play a role in encouraging retirement savings. Australia has had for the last twenty years some form of compulsory contributions by the employer, on behalf of the employee into retirement accounts. Such a stance has been modified in recent times with the current Government pushing through legislative measures to allow the individual choice of fund over their retirement savings. New Zealand still remains heavily reliant on its first pillar, citizenship based, PAYG pension through New Zealand Superannuation. To address poor second pillar retirement savings, the Government intends to develop Kiwisaver that will see automatic enrolment promoted in the work place, with contributions collected and co-ordinated via the taxation system. Such contributions will be pooled and invested via a government agency's direction.

So we see across the globe many countries experience a tension in how the State interacts with the encouragement and development of pension savings. The calls of Stalinism may increasingly occur where stakeholders and vested interests deem that the State has overstepped the public policy line in directing pension savings.

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