Pension Reforms in the UK: 1997 to 2015
Acknowledgements

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Authored by

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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ABI</td>
<td>Association of British Insurers</td>
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<td>BSP</td>
<td>Basic State Pension</td>
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<td>CBI</td>
<td>Confederation of British Industry</td>
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<td>CPI</td>
<td>Consumer Price Index</td>
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<td>DB</td>
<td>Defined Benefit</td>
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<td>DC</td>
<td>Defined Contribution</td>
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<td>DWP</td>
<td>Department for Work and Pensions</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IFS</td>
<td>Institute for Fiscal Studies</td>
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<td>NPSS</td>
<td>National Pension Savings Scheme</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PADA</td>
<td>Personal Accounts Delivery Authority</td>
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<td>PBR</td>
<td>Pre-Budget Report</td>
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<td>PLSA</td>
<td>Pensions and Lifetime Savings Association (formerly the National Association of Pension Funds)</td>
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<td>PP</td>
<td>Personal Pension</td>
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<td>PPI</td>
<td>Pensions Policy Institute</td>
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<td>RPI</td>
<td>Retail Price Index</td>
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<td>S2P</td>
<td>State Second Pension</td>
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<td>STP</td>
<td>Single-tier Pension</td>
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<td>TUC</td>
<td>Trades Union Congress</td>
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This political consensus was matched across major stakeholder groups including the trade union movement, the pensions industry and the broader business community. It meant the reforms were left largely untouched when, having been conceived during the longest uninterrupted period of economic growth in a generation, their roll out was immediately preceded by the global financial crisis which re-wrote the rule book in so many other areas of social policy.

The faith shown in the policy has been well rewarded. While the UK’s pension system is by no means perfect and like many systems faces challenges in an era of low interest rates, the fundamental goal of near-universal take-up of private pension saving has been met, with participation increasing from less than 50 per cent of workers prior to 2012 to more than 80 per cent now. Millions of people will be materially better off in retirement as a result of the reforms.

At Nest Insight, we frequently experience the global interest in this success story through the approaches and questions we get from academics, policy makers and others. So we were delighted to be able to support and work on this project, bringing together a comprehensive analysis of the underlying drivers and context that enabled the reforms to take shape - and told in the words of those most involved in making them happen. It’s another mark of the success of the policy that 15 years on from the Pensions Commission’s first report, so many of the people crucial to bringing the changes about were happy to be spoken to for this project.

We are grateful to Nick Pearce and his team at the Institute for Policy Research (IPR), in particular Thamos Massala, the co-author of the report, who conducted many of the interviews on which it is based and compiled the archive of the videos conducted during the research, and Marsha Wood, who helped design and deliver the project. Hannah Durrant, who left the IPR before the project came to fruition, was also critical to its early development.

I’d also like to thank Paul Cox, a colleague both of ours at Nest and, in his academic role at the University of Bath, of Nick and the team. Paul has been working for some time to ensure that the history of the reforms is fully preserved through the creation of a public research archive – a project we’ve been supporting him in and to which we hope this report and the associated interview content will ultimately contribute.

Finally, I’d like to thank all those who participated in the project by agreeing to be interviewed and, in many cases, filmed discussing the reforms. We hope that this report will play a role in preserving the knowledge and understanding of the reforms that have led to such a radical shift in savings behaviour among UK workers, and as an enjoyable read for anyone involved, or just with a passing interest, in how such a change came to pass.
Chapter 1
Introduction

1.1 Introduction
This report provides a comprehensive analysis of the reforms to state and private pensions in the UK that were introduced in the early 2000s with the creation of the Pensions Commission, also known as the Turner Commission. These reforms represent a milestone in the history of UK pension provision because they involved the development of a coherent framework of policy change, covering both the state pension system and work-based private pensions, rather than a series of ad-hoc measures. They were developed and implemented across more than a decade of reform, spanning governments of varying political compositions.

The report explores both the policies and politics of the pension reform process, examining the wider political, institutional and historical context. It draws five key lessons about how, and under what conditions, the reforms were successfully implemented. The mid-2000s pension reforms took place within a distinct set of national welfare state and political institutions in the UK that both constrained and enabled particular kinds of policy change. They may nonetheless offer wider lessons to policymakers working within the field of pensions as well as other areas of public policy, in the UK and internationally.

The report draws on qualitative semi-structured interviews with high-ranking individuals involved in the reform process, and on key policy documents and statements issued by relevant government departments and expert bodies. The qualitative research and literature reviews were conducted by the Institute for Policy Research at the University of Bath on behalf of Nest Insight.

1.2 About the research
In order to get detailed insights into the mid-2000s pension reforms in the UK - their features, politics, and the complexities underlying them - the primary method used for this research was semi-structured interviews supplemented by document analysis. The interviews provided access to the views, accounts, and interpretations of the relevant groups of actors, including political actors, political advisers, civil servants, pension policy stakeholders and experts. Document analysis provided supplementary data, helping to frame the analysis of the interviews.

The research involved 30 face-to-face, telephone or Skype interviews of 45 to 60 minute duration with key groups of actors who had been directly involved in the reform process or were experts in the field. These groups of actors included:

- two former Prime Ministers, Tony Blair and Gordon Brown
- the members of the Pensions Commission itself – Adair Turner, Jeannie Drake and John Hills
- a number of Secretaries of State for Work and Pensions, pensions ministers, and opposition pension spokespersons
- senior civil servants and special advisers
- key pension policy stakeholders, including individuals working in the pensions industry, trade unions, and pension policy organisations, such as the Pensions Policy Institute (PPI) and Pensions and Lifetime Savings Association (PLSA)
- academic experts and journalists who specialise in pension policy.

A list of those who participated in this research study is in Annex A.

As noted above, the interviews aim to shed light on the reform process from the perspective of each group of actors involved in it. The generic topic guide used to unfold the reform process included open-ended questions grouped into four broad topics. Open-ended questions allowed the research participants to express their views, and expand on their thoughts. The four topics were selected as the most relevant ones for exploring these particular pension reforms. Table 1 summarises them.

Broadly speaking, the analysis of the interviews was based on time periods and policy stages, policy drivers and motivations, and the roles of the relevant actors, their options as well as the decisions they took related to the reform process. The next sections present and discuss the findings from the research.

Table 1 Summary of the Interview Topic Guide

<table>
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<th>Topic</th>
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<td><strong>Topic 1: Consensus building</strong></td>
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- to explore how and why consensus was reached on the recommendations made by the Pensions Commission and their implementation 
- to understand how that consensus was maintained, as well as challenged, in the reform process |
| **Topic 2: The policy making process** | 
- to capture actors’ ideas, priorities, objectives and intended outcomes during the whole reform process 
- to examine the key sites of policymaking in central government and their relationship with the private sector |
| **Topic 3: Individual pension reforms** | 
- to examine each pension reform, such as auto enrolment, the creation of Nest, the re-indexing of the Basic State Pension (BSP) to average earnings, in more detail as well as the interplay between them |
| **Topic 4: The historical, institutional and political context of reform** | 
- to examine the effects of existing UK socio-economic and political institutions on pension reforms 
- to identify the effects of different conjunctures and exogenous shocks on the course of reform 
- to examine the political economy of reform, particularly the relationship between policymakers, organised interests and electoral constituencies |
Chapter 2

Pensions before the mid-2000s reforms (1997-2002)

The mid-2000s pension reforms can be best understood in their broader institutional and policy context. Three important aspects will be examined here:

1) The socio-economic and historical institutional context for pensions reform in the UK
2) The architecture of the UK pensions system in the early 2000s
3) The political context of the 1997-2001 Labour government’s reforms to pensions policy.

2.1 The institutional context

The socio-economic and historical institutional context for pensions reform in the UK consists of specific institutional configurations characterising the economy, politics and the welfare state. These institutional features shape actors’ range of options, channel their preferences, and help determine policy solutions.

A common starting point for understanding these institutional features is the famous welfare state regimes classification provided by Esping-Andersen, in combination with the political economy or ‘varieties of capitalism’ approach pioneered by Hall and Soskice. Esping-Andersen characterised the UK welfare state as a liberal welfare regime, where a primary role is assigned for welfare production to the market. Universal welfare benefits are modest and relatively limited in scope, and there is a significant role for means-testing and other targeted programmes to address basic needs. Private provision of insurance functions is widespread.

The UK’s pensions system consequently limits the role and scope of the state in the share of retirement income. The level of private pension provision is much higher than that in many other European countries. In 2015, the UK spent 6.1 per cent of gross domestic product (GDP) on state pensions, below the Organisation for Economic Co-operation and Development (OECD) average of 8.2 per cent, while private pension expenditure was 4.4 per cent of GDP, far above the OECD average of 1.5 per cent. These features of the UK liberal pension system have their origins in the Beveridge report and its antecedents, which limited the role of the state to relatively low, flat rate benefits, based on employment contributions (see 2.2 for a more detailed description of the UK pensions system architecture).

The liberal welfare state and pensions system coexist with, and adapt to complement, the UK’s liberal market economy. Liberal market economies rely primarily on market mechanisms, such as price competition, rather than coordination between firms. They typically have flexible labour markets with high employee turnover and a limited role for collective agreements between firms and trade unions. Vocational training is weak and manufacturing is less important than the financial sector. Consumption is more important than business investment and exports in driving demand. Several studies have demonstrated the interrelationship between a country’s welfare state and its political economy, and in the UK, welfare and pensions system arrangements correspond to these liberal market features. For example, extended private provision channels funds into the financial markets, pension income through private providers creates and expands pension markets, and reliance on the market promotes high employment rates while not disturbing flexible employment. Personal pension schemes are also consistent with individual employment contracts and high staff turnover.

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The earnings-related element of the UK pensions system provided by the state consisted of the State Earnings Related Pension (SERPS) and its successor, the State Second Pension (S2P). It went through many reforms after it was introduced in 1975 and came into effect in 1978, reaching replacement rates that were close to those in continental state pension systems in the mid-1980s. It gradually decreased after that, on the grounds that it was turning out to be a major fiscal burden for future generations in light of increased longevity. Moreover, many people were contracted out from SERPS as a result of the mis-selling of personal pensions. In 2002, the Labour government introduced a mandatory S2P to replace SERPS while continuing to provide an earnings-related state pension in addition to the BSP to low and moderate income earners who weren’t able to join a private pension scheme.

The second part of the earnings-related element was - and still is - provided by the private sector, via employers and the pensions industry. It consists of two broad types of work-based pension schemes, namely occupational pension schemes or workplace personal pension schemes. Occupational defined benefit (DB) schemes are a collective arrangement between the employer and the employees that provide a predefined income in retirement. They were the cornerstone for most work-based private pensions savings in the post-war period. They have nevertheless been in long-term decline, a process that accelerated in the 1990s and early 2000s. These schemes have been gradually replaced with occupational defined contribution (DC) schemes or workplace personal pension schemes (also defined contribution) that do not guarantee a predefined income in retirement. They rely instead on the amount of contributions, the investment performance on accumulated funds at the time the individual retires, minus the scheme charges, and on the rate at which the individual can use their accumulated fund to purchase an income. Occupational DC schemes are set up by the employer, but they are legally separated from the employer and managed by a board of trustees. Workplace personal pension schemes are selected by the employer, but they are provided and managed by an insurance company under an individual contract between the insurer and the employee.

Personal pension (PP) schemes were first introduced in 1966. This expansion of private personal pensions constituted a major change in the British pension system. These schemes proved to be highly problematic for low and moderate earners, and culminated in the mis-selling scandal of the 1990s. As already mentioned, low and middle income earners were wrongly encouraged to transfer out of their occupational pension scheme into a personal pension while also contracting out of SERPS. This meant that they would no longer enjoy benefit guarantees and would pay higher charges.

The Labour government elected in 1997 introduced a private stakeholder pension in addition to the S2P, continuing this type of provision for low to middle earners (between £9,000 – £20,000). The stakeholder pension had common features with the personal pension, but it also offered some additional features that aimed to do better in terms of coverage and security. For example, the stakeholder legislation required employers with more than five employees to designate access to a stakeholder pension. It provided a charge cap at 1 per cent and a simple tax relief regime, allowing up to £3,600 to be paid into schemes each year.

By the early 2000s, the UK pensions system already had the main forms of both state and private pension provision in place, and had established a two-tiered and multi-pillar architecture. Figure 1 illustrates the architecture of the UK pensions system in the early 2000s.

13 In the late 1980s, it became notorious as the personal pension mis-selling scandal. For detailed account, see Waine, B., 1995. A Disaster Foretold? The Case of the Personal Pension, Social Policy & Administration, Vol. 29 (4), pp. 317-334.
15 ibid
2.3 The policy context of the 1997-2001 Labour government

The initiation of mid-2000s pension reforms was the product of a political priority given to a long-term view of the pensions system in the second term of the Labour government. When it was first elected in 1997, Labour advocated ‘social investment state’ strategies that gave priority to paid employment, investment in education and skills, working family tax credits and childcare provision, in achieving welfare objectives. Despite this focus on a modernised welfare state, pensions policy was at the core of Labour’s welfare reform project, and reform was promised in both the 1997 and 2001 election manifestos.

There were three main socio-political reasons for reform:

— Retirement income was deemed to affect everyone, and was by extension important both as a social issue and an electoral concern.

— Pensioner poverty had increased substantially in the 1980s and 1990s, becoming a pressing issue for social policy. Many pensioners were not benefiting from the UK’s rising living standards. For instance, in 1996-97, 42 per cent of single female pensioners were in poverty and single male pensioner poverty was 37 per cent.

— Pensions constituted the largest part of the UK welfare state in terms of public spending, and therefore had to be part of an agenda for modernising the welfare state.

Pensioner poverty had increased substantially in the 1980s and 1990s, becoming a pressing issue for social policy.

During the first Labour term, priority was placed upon reducing pensioner poverty. This was to be paid for by increased public expenditure and raising levels of participation in private pension provision. A new means-tested minimum income guarantee and the introduction of Pension Credit were intended to lift mostly single female as well as male pensioners out of poverty. Pension Credit was successful in reducing the number of pensioners living in poverty by two million. As Gordon Brown recalls ‘we wanted to target help through the Pension Credit to that group of pensioners who were in poverty, and to my satisfaction in a way, we managed to reduce pension poverty from something in the order of 35 per cent to around 10, 11 or 12 per cent.’

However, it was arguably not ‘a long-term gain.’ Because poverty was measured relative to median incomes, the level of the Pension Credit needed to rise in line with earnings. But as the BSP was indexed to prices, more and more pensioners were becoming eligible for the Pension Credit top-up, and in the process becoming subject to high marginal withdrawal rates on their private pension income. This received considerable criticism for discouraging voluntary pension saving, driving up the numbers of pensioners reliant on income top-ups, and even stigmatizing the poor. Demands rose for the restoration of earnings indexation for the BSP, particularly within the wider Labour movement.

With respect to voluntary private savings, the new stakeholder pension was primarily aimed at giving low and medium income earners access to a private pension scheme. In doing so, it was intended to expand the role of private provision in retirement income. More specifically, the total proportion of retirement income coming from private pensions would be raised from 40 per cent to 60 per cent while that from state pension income would decrease from 60 per cent to 40 per cent. However, the stakeholder pension mainly attracted higher income earners rather than the low to medium ones it was aimed at.

Even the pension pots designated by employers tended to have either small or no contributions at all. As a result, the stakeholder pension failed to meet the 40:60 target set in the December 1998 Green Paper despite having some better features than its predecessors. Further scandals regarding occupational and personal pension schemes erupted in the late 1980s, such as the mis-selling of personal pensions, and in the 1990s, such as the Maxwell scandal, adding to a general lack of public confidence in pension income security from private provision.

At the same time, occupational DB schemes, which have more favourable features for employees than any other work-based scheme, had increasingly gone bust or been closed to new or all members. Their closure was often attributed to the abolition of dividend tax relief in 1997, a measure for which the government was fiercely attacked by the press and opposition parties. However, DB schemes were arguably also in long-term decline as a result of demographic change, and had traditionally only covered a small part of the working age population. Rescuing DB schemes could not ensure universal second tier pensions coverage.

In sum, the 1997-term reforms aimed to resolve immediate problems in the pensions system, in particular ensuring pension adequacy through reducing pensioner poverty and encouraging private pension provision. Despite the substantial reduction of pensioner poverty these measures achieved, they were insufficient to meet the long-term challenges facing the pensions system. Central to these challenges was the failure of private provision to ensure adequate retirement incomes. Previous measures had not only failed to increase private pension savings, but ‘at the same time, there were signs of a decline in pension provision by some employers.’ Despite private provision being well developed in the UK, the decline of DB schemes, low rates of DC savings, and the challenges ahead, such as increased longevity, meant there was ‘no room for complacency.’

The issue of pension adequacy went together with that of rising state expenditure in the long run. A 1998 Green Paper on pensions stated that ‘over the first half of the next century the number of people over State Pension age in the UK is forecast to increase by over a third and... by 2040 there are likely to be two people of working age for every pensioner, compared with over three now.’ It argued that these projections were not a cause for alarm as long as an increasing role for private provision was achieved and sustained in the future. But the failure to increase private pension savings as well as the rising proportion of pensioners reliant on state means-testing to lift them out of poverty heightened the pressure for reform. Facing up to the long-term challenges of ensuring pension adequacy and keeping public pension expenditure under control paved the way for the formation of a commission on pensions and a more radical approach to pensions policy, as we will see in the next section.

23 Ibid
25 The Maxwell case refers to the misappropriation of £440 million assets from the occupational DB pension schemes of his companies by the late Robert Maxwell. It led to the setting up of a Pension Law Review Committee also known as the ‘Sooder’ committee to revise the regulatory framework for occupational DB pension schemes, and the enactment of amendments to the Pensions Act 1995. One of the most important reforms was the employer-related investment restrictions, see details The Pensions Regulator, 2010. Employer-related Investments, Brighton: The Pensions Regulator.
27 Ibid
Chapter 3

This section turns to explore the role of the Pensions Commission in the reform process. It explains how the Commission was established, its membership and terms of reference. It examines the approach of the Commission to policy reform, from its key attributes to the practices it used to develop and communicate its recommendations.

3.1 Inception, remit and composition

Inception with a restricted remit and an extended timeframe

The Pensions Commission was established in December 2002 by the then Secretary of State for Work and Pensions, the Rt. Hon. Andrew Smith MP. It fulfilled one of the commitments made in the 2002 Pensions Green Paper, Simplicity, Security and Choice: Working and Saving for Retirement.

Prior to the Pensions Commission, the Pensions Simplification Review Team, led by Alan Pickering, had been set up to ‘carry out a comprehensive review of DWP private pensions legislation to identify a package of options for simplification and the reduction of compliance costs.’ The Pickering Review addressed concerns about the decline in defined benefit (DB) pension schemes and occupational schemes more generally. It was intended to take place in parallel with another two reviews that aimed to simplify the taxation of pensions and to examine the investment strategies offered by the financial services industry. Each of these three reviews fed into the publication of the 2002 Pensions Green Paper.

The Green Paper affirmed that something needed to be done “for the long term” about the levels of pensions saving and participation, mainly through monitoring the effectiveness of the then voluntary system of private saving for retirement. It was on this basis that the Pensions Commission was established.

Within the government, the Treasury was opposed to the need for an independent commission, despite common agreement across Whitehall on the pressing issues facing pensions policy. It argued that a separate review outside the Treasury would intrude on fiscal policy and possibly disrupt existing rules on private pension schemes.

However, the Prime Minister, Tony Blair, had become more interested in pensions and wanted to raise the issue up the political agenda. His reasons were both fiscal and political. As Blair recalls today, “It was obvious that the numbers of people who were relying on the state pension was rising, your traditional defined benefit pensions were declining, people were living longer, more healthily and the younger generation was going to have to start paying more and more for the older generation, so there were obvious challenges in pensions around cost and sustainability.” He continues in a political vein, that

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31 Interview. Government official
32 Interview. Tony Blair. 24.04.2019
The Pensions Commission (2002-2006) would be restricted to private pensions. The Commission would have a long timeframe within which to make its final recommendations, and its remit would be restricted to private pensions.

The conflict was temporarily resolved and Treasury gave its consent on the basis of two conditions, that large-scale taxation commitments would not lead to large-scale welfare commitments that ended up with the Labour Party in government. The government considered the combination of skills, experience and different backgrounds of the commissioners should be, with the Department for Work and Pensions on whether there is a case for making recommendations to the Secretary of State for Work and Pensions on whether there is a need for the current voluntarist approach is developing over time, to make recommendations to the Secretary of State for Work and Pensions on whether there is a need for the current voluntarist approach.

A small independent collegiate body for bolder as well as consensual solutions

The selection of the members of the Pensions Commission was less controversial than its creation, remit and timeframe. There were conversations between Number 10 and the Treasury about who the commissioners should be, with the Department for Work and Pensions (DWP) holding the ring. Three names ended up being acceptable to Number 10, the Treasury and the DWP. The Pensions Commission was thus chaired by Lord Adair Turner and included two other members, Baroness Jeannie Drake, and Professor Sir John Hills.

Adair Turner was then the Vice Chairman of Merrill Lynch Holdings. He had worked previously for McKinsey and headed up the Confederation of British Industry (CBI), and had also been Chairman of the Low Pay Commission. Jeanne Drake was a senior trade union official with considerable expertise and experience in pensions. Professor John Hills was a leading social policy academic at the London School of Economics.

Cary Oppenheim, a special adviser in Number 10 for social policy during 2000-2005 explains this membership saying that, I had a conversation with Ed Balls about who to include, negotiating about having those commissioners [...] and Adair Turner obviously [...] felt like a very sensible choice because he'd also had a run at the Low Pay Commission and had the authority and credibility, not only with the business role because of the CBI but with a kind of a wider, better audiences and constituency. Then Jeanne Drake was from the JWT trade union side. And [...] I thought that John Hills had an excellent sort of analytical mind.

The Commission could have taken the form of a Royal Commission, composed of many members from different sectors and fields. This had been the form of commission chosen in Labour’s first term to examine the funding of social care. But, partly as a result of this experience, Royal Commissions had become associated with disagreement and inaction, or consensual but timid policy solutions. Nicholas Timmins, former journalist at the Financial Times who covered the work of the Pensions Commission extensively reminds us that at the time, ‘there’s stories knocking around the papers whether there was going to be a Royal Commission or not.’ This route was rejected, because Royal Commissions “take a long time [...] there’s a tendency for them to be consensual where occasionally what you want is a slightly bolder solution, and they’ve just fallen out of favour [...] but there had been a number of similar much smaller enquiries that had actually looked quite effective, so we end up with that sort of model.” As Tony Blair later put it, ‘The trouble with Royal Commissions, they have this grand title and these quite large commissions, and then just ended up with lowest common denominator policy.” The choice of a small commission was therefore a ‘conscious decision.’

In fact, the small size of the Pensions Commission allowed cooperation with high levels of collegiality and consensus-building among its three members. It enabled commissioners to come up with consensual but also bolder and long-term decisions, from the expansion of their remit to an effective strategy for the adoption of controversial policy change, as we will see in the next section. John Hills reflected that, ‘being a small Commission, it meant that we worked very closely together on every piece of evidence and all the material we looked at, of which there was an enormous amount and agreed word-by-word and line-by-line with everything that was in the report. So it was a rather different process from a big committee where as an individual member you can bang away at one particular issue and then you know you have to accept the kind of judgement of others on things that you haven’t been quite so involved in.’

33 Ibid
36 34 Interview. Gareth Davies. 04.04.2019
37 Interview. Cary Oppenheim. 26.03.2019
38 Interview. Tony Blair. 24.04.2019
39 Interview. John Hills. 02.04.2019
40 Interview. Gareth Davies. 04.04.2019
41 Interview. Jeanne Segars. 13.04.2019
42 Interview. Nicholas Timmins. 23.04.2019
43 Interview. John Hills. 02.04.2019
44 Interview. Tony Blair. 24.04.2019
45 Interview. Cary Oppenheim. 26.03.2019
46 Interview. Carey Oppenheim. 26.03.2019


3.2 The Pensions Commission’s approach to reform

A systematic approach to the reform process characterised the core of the work of the Commission from 2002 to 2006 and was regarded by the interviewees in this study as a key ingredient of its success. Not only did the Commission assemble and carefully analyse evidence to define the problems it was addressing, it also successfully extended its terms of reference to embrace the state pensions system as well as private saving and drew up clear choices for policymakers.

3.2.1 Responding to internal institutional constraints: Remit and Timeframe

Early on in its work, the Commission managed to assert its independence and credibility by widening its initial remit and publishing an interim, problem-definition report.

The publication of an interim report not only helped to frame its reception. He focused on the long-term challenges facing retirement income or the ‘pensions crisis’. At the same time, the report was published in a period when there was already extensive coverage of pensions policy as a result of pensions scandals, the creation of the Pension Protection Fund in 2004, and the impending 2005 general election.

Even before the publication of the interim report, commissioners had started ‘talking to all relevant groups, the CBI, the TUC, Help the Aged, the different parties, about what was emerging in [their] analysis.’ These events were aimed at stimulating discussion and debate primarily on the issues facing pension provision in the UK, rather than solutions and Commission’s final conclusions. Moreover, these events received extensive media coverage.

As a result, the Commission’s final reports and recommendations were expected, both in terms of laying the ground for reform proposals and in terms of their broader content. All this helped to overcome the sense that the Commission had been created as a long-term, ‘long-grass’ policy exercise. The Commission’s lengthy timeframe provided space for gathering evidence and initiating consultation procedures.

The Commission decided that it needed to expand its initial remit within the first six months. This was mainly because the nature of the issues in question could not have been addressed by focusing on private pension saving alone. Adair Turner illustrates this saying that ‘it was frankly impossible to comment on the incentives for private savings without thinking about the impact of means-testing.’ Similarly, John Hills argues that ‘you can’t really separate the two and so to answer the main question we were asked, we had to understand the whole system.’ The Commission managed to secure an expanded remit because of concerns at the top levels of government about the Secretary of State for Work and Pensions, the Rt Hon Alan Johnson MP, who spoke to The Guardian newspaper two days before the publication of the first report to help frame its reception.

Specifically, Prime Minister Tony Blair said to the Commission, ‘Tell me what is needed to be done and leave the politics to me.’ At the day-to-day level of government, the extended remit, which was officially announced much later, was somewhat disorientating for civil servants at the beginning of the Commission’s activity.

3.2.2 Utilising the available resources

Another significant attribute of the Commission was its effective use of resources, especially the secretariat of the Commission, to access information, up-to-date knowledge and technical support. A good example of this was provided by one of our interviewees, Phil Wynn Owen, Director General of Pensions at the DWP, 2004-2009. He noted that the Commission used ‘the Pensim2 model that Trevor Huddleston and other analysts in DWP had built [and which] was first-rate analysis.’ This model was the main means by which projections were produced on the effects of policy changes on retirement income. In other words, the Commission managed to identify, use and build on existing and up-to-date knowledge as well as on the expertise of its secretariat, such as that of its head, Trevor Huddleston. In addition, the Commission did not hesitate to use this existing knowledge and experience of DWP officials who were not part of its secretariat. They initially talked to DWP private pensions policy officials, and subsequently with those working on state pensions policy, in order to get to know the most important issues and ideas, or to scrutinise already known ones. This approach also helped to build good relations between the secretariat and DWP officials.

Keeping independence while using resources effectively seems to have been achieved because the secretariat worked very closely with the Commission, and was established to work independently from DWP. John Hills says ‘we were really lucky in terms of people who were in that team, we and they worked very well together. In fact, I regarded us all as part of the same team, rather than there being a secretariat separate from us as commissioners.’

59 Interview. Tony Blair. 24.04.2019
60 Interview. Government official
55 Interview. John Hills. 02.04.2019
53 Interview. Adair Turner. 26.06.2019
54 Interview. Adair Turner. 26.06.2019
56 Interview. John Hills. 02.04.2019
55 Interview. John Hills. 02.04.2019
50 http://www.guardian.co.uk/voices/2004/oct/13/philwynn.owen philwynn.owen
52 Interview. John Hills. 02.04.2019
53 Interview. Adair Turner. 26.06.2019
55 Interview. John Hills. 02.04.2019
56 Interview. John Hills. 02.04.2019
57 Interview. Government official
Many of the people in the secretariat were seconded from DWP and were expected to return to the department after working for the Commission. Secondees were subject to the Commission’s direction and duties. They reported only to the commissioners with no reporting back off-line. As John Hills observed, treating them as part of the Commission helped to integrate the secretariat and encouraged them to act independently of their home institution.

3.2.3 The transfer of behavioural insights into pension policy

The idea of using insights from behavioural economics, otherwise known as behavioural insights, was one of the cornerstones of the Commission’s approach. Ultimately, it led to the policy of auto enrolment and contributions auto-escalators. It is therefore helpful to recount how behavioural insights came to the attention of the commissioners, by whom, and the criteria and circumstances by which behavioural insights were used in policy formation. Behavioural insights reached the Commission in its first years through DWP officials, analysts in Number 10 and the general diffusion in policy circles of the ‘libertarian paternalism’ paradigm that emerged around this time. Behavioural insights also appeared at a time when there was willingness on the part of the government to learn about public policy experiments at a time when there was willingness on the part of the government to learn about public policy experiments.62

From the start, the Commission actively engaged with emergent ideas from behavioural economics and pensions policy from various sources. The evidence largely came from research papers, presentations and brainstorming sessions, most indicating that individual choices about retirement saving do not operate in a ‘rational and well-informed fashion.’63 In particular, evidence from 401(k) pension plans in the United States and Kiwi Saver pension schemes in New Zealand was considered.64

In addition to this evidence about default options, Professor Shlomo Benartzi was invited by Helen Dean, the economist responsible for private pensions at DWP, to share his research insights with civil servants. Professor Shlomo Benartzi is known for his research on auto-escalators, which means automatic increases in contribution levels on set dates, also referred to as ‘phasing’ for auto enrolment and the ‘Save More Tomorrow’ approach to retirement savings.65 He visited the DWP intending to ‘brainstorm about how do we get ten or eleven million people who don’t have coverage to start saving’, including how much to contribute as well as increase contribution levels, on what dates and date intervals.66 After collecting sufficient information, Helen Dean remembers that ‘we talked to [...] Adair through what we’d found, Adair was very excited, he picked it up and it got incorporated into the Pensions Commission work from there. So that’s how that happened.’67

The Commission actively engaged with emergent ideas from behavioural economics and pensions policy from various sources. The evidence largely came from research papers, presentations and brainstorming sessions, most indicating that individual choices about retirement saving do not operate in a ‘rational and well-informed fashion.’ In particular, evidence from 401(k) pension plans in the United States and Kiwi Saver pension schemes in New Zealand was considered.

Compliance with the UK savings ratio was already a matter of concern. The UK savings ratio had been projected to fall from 22% in 1994 to 8% in 2030.68 This was due to a decline in retirement income, among other factors. Robert Laslett started work on pension policy around this time. Behavioural insights also appeared at a time when there was willingness on the part of the government to learn about public policy experiments. A key piece of evidence was the paper ‘One of the virtues of auto enrolment is that you’re at liberty to opt out.’ Compulsory savings could also be characterised as taxation, which Labour Ministers were acutely sensitive about, and which might have prejudiced public support for pensions reform.69 Perhaps coincidentally, behavioural insights also helped to ease tensions over the question of pensions savings between Treasury and Number 10, as well as DWP. On one hand, they offered a practical solution to those arguing that the UK had an under-savings problem, while on the other hand, they allowed those civil servants with a more sanguine view of the UK savings ratio to continue to reject compulsory obligations on employers and employees.

The use of what were then innovative forms of public policy evidence was therefore central to the Commission’s approach. The application of behavioural economics to policy-making ideas, and their subsequent successful implementation - in this particular policy area - could also be said to have opened the way for the wider take up of behavioural interventions in UK public policy.70

62 Ibid
63 Interview. Robert Laslett. 11.04.2019
65 Ibid
66 Ibid
67 Ibid
68 For detailed account, see Thaler, R. H. and Benartzi, S., 2004. Save more tomorrow™: Using behavioral economics to increase employee saving. Journal of Political Economy, 112(S1), pp. 164-S187
69 Interview. Shlomo Benartzi. 16.05.2019
70 Interview. Helen Dean. 03.04.2019
71 Interview. Helen Dean. 03.04.2019
74 There can be barriers to the transfer of scientific evidence into policy-making. The most common ones are that scientific evidence is not associated with the policy aims and is not appropriate for implementation or applicable. Parkhurst, J., 2017. The politics of evidence: from evidence-based policy to the good governance of evidence. UK. Routledge.
75 Interview. Adair Turner. 26.06.2019
76 Interview. David Laibson. 23.04.2019
77 In other areas, ‘behaviour change’ initiated by a Labour government was not as effective as the practice of a ‘nanny state’, see Halpern, D. 2015. Inside the nudge unit. How small changes can make a big difference. New York. Random House.
3.2.4 An evidence-based approach to the ‘problem’ and its possible solutions

The Pensions Commission produced three reports. The first report, Pensions: Challenges and Choices,79 was a framing document that described and evaluated data on the most pressing issues in pensions policy. The second report, A New Pension Settlement for the Twenty-First Century,80 was the Commission’s recommendations report, setting out policy proposals. The third and final report, Implementing an integrated package of pension reforms,81 was issued to respond to the main arguments about the policy proposals. This approach was described as a ‘two-stage process’ by the Commission. The premise was to present its findings on the problem first, followed by recommendations, so that both reached all interest groups.82 At 316 pages, the first report contained the evidence and facts to define the problem, as well as mapping out scenarios if pension policy remained unchanged, and the potential solutions emerging from that analysis.83

The process of accumulating and analysing the facts included drawing on multiple surveys and datasets from different government departments while ensuring an effective use of resources, as discussed in 3.2.2. After obtaining the data, the Commission had to also ‘dive into unbelievable detail’84 in order to check the assumptions underpinning projections and - most importantly - whether the figures they were using were right. National statistics on pension savings provide a good example of the latter. The amount of private savings in both occupational and workplace personal schemes included in the National Income and Accounts was overstated due to duplications in the total of private savings.85 David Willett MP voiced this concern, which brought it to the attention of the Commission. Once the Commission had the figures, it could scrutinise and find these errors,86 contributing to a rigorous analysis of the data.

Having gathered the facts, the commissioners felt that they were able to see what would happen if policy remained unchanged. For example, the first report argued that ‘given present trends many people will face “inadequate” pensions in retirement, unless they have large non-pension assets or are intending to retire much later than current retirees.’87 This was done in the spirit of using evidence to answer questions such as ‘what works’ and ‘what happens if we change these settings?’ that was prominent in 1997-2010 government, rather than responding to an impending pensions crisis.

The Commission then built up a wider and more complex definition of the problem of long-term pension inadequacy. That definition wasn’t limited to the level of voluntary savings, but defined the problem as the ‘combination of the present state pension system and the present voluntary system of private pension saving [which] is not fit for purpose.’88 This was done in the spirit of using evidence to answer questions such as ‘what works’ and ‘what happens if we change these settings?’ that was prominent in 1997-2010 government, rather than responding to an impending pensions crisis.

The first report was well received, especially outside government in pensions policy communities, and was appreciated for its breadth of evidence and the analysis presented. The Commission quickly became known for developing a rigorous approach to the pensions problem in the UK, drawing together rich evidence from which solutions could emerge. But it couldn’t take a receptive audience for granted. Our research participants told us that there was a general disquiet in the pension communities when it was announced that another commission on pensions would bring substantial changes in pension policy. Stakeholder engagement and the publication of the interim report quickly reversed these initial perceptions. As Otto Thoresen, Chief Executive Officer of Aegon, 2005-2011, recalls, ‘the Commission’s reports and the output were extremely well regarded by the industry, it was well founded, well built, the analysis was very strong.’89 Similarly, Chris Curry, Director of the Pensions Policy Institute, highlights that ‘the evidence base they put together in the first part really helped them to set out what the objectives should be for the system.’90 Nigel Stanley, the Trades Union Congress’ Head of Communications thought that ‘The Pensions Commission did its job, first by absolutely establishing the case for change, by a very long and very thorough evidence gathering exercise, which still probably remains as kind of peak knowledge of pensions in the UK, [published in its] initial volume.’91

While receiving widespread recognition, there was also some criticism of the Commission’s evidence within Whitehall. In particular, some officials questioned whether the Commission had fully accounted for the extent of wealth accumulated in housing and other forms of financial non-pension wealth, and how these assets might be drawn down upon in retirement. Arguably, labour supply in older age might also be more elastic than anticipated, helping to overcome savings gap projections.92


82 Interview. John Hills. 02.04.2019
85 Interview. Adair Turner. 26.06.2019
87 Interview. John Hills. 02.04.2019
89 Interview. Otto Thoresen. 23.03.19
90 Interview. Chris Curry. 03.05.19
91 Interview. Nigel Stanley. 24.05.19
92 Interview. Government official

The Commission’s first report proposed four potential solutions to the problem of long-term pensions inadequacy. These were:

1. pensioners will become poorer relative to the rest of society
2. taxes/National Insurance contributions devoted to pensions must rise
3. savings must rise
4. average retirement ages must rise.

There was a clear articulation that ‘there are no alternatives to these four choices’. The use of evidence for the setting of only four appropriate solutions was seen as crucial. While the evidence-based approach sought to depoliticise the definition of the policy problem and the case for reform, the same approach also served to present the available policy options as emerging out of the data - rather than from a political agenda. Robert Laslett points out that ‘Adair, Jeannie and John were particularly brilliant at starting from the analytical point of view, at setting out the analytical case, so that the result emerged as something intuitive and obvious […] they just let the answer emerge from the evidence’. He continues, ‘[that emergent answer] established the credibility in people’s minds.’ The release of the second report with the reform proposals therefore landed on fertile ground.

The Commission’s reports and the output were extremely well regarded by the industry, it was well founded, well built, the analysis was very strong.


94 Interview. Robert Laslett. 02.04.2019
95 Interview. Robert Laslett. 02.04.2019
### 3.2.5 A strategy for recommendations: ‘an integrated package of pension reforms’

The second and third report were dedicated to the recommendations made by the Commission, revealing the second part of the two-stage approach. The recommendations included a combination of three of the four options listed in the first report. The first option – to have poorer pensioners in UK society was unsurprisingly deemed ‘unattractive’. The selection of a single option was deemed insufficient to address long-term pensions adequacy. The central view of the commissioners was that ‘some mix of higher taxes or National Insurance contributions, higher savings and later average retirement is required’. They therefore proposed a package of reforms comprised of “four key dimensions of policy” throughout the whole system of pension provision in the UK. Table 2 shows these four dimensions of the reform package.

The solution lay not just in a set of policies but in an ‘integrated approach to reform’ where the four dimensions of policy are seen as forming an integrated whole with parallel progress on all four essential for success. In policy terms, individual solutions taken out of this package would not be effective or sustainable, and that’s why a coherent set of reforms was required.

#### Table 2

<table>
<thead>
<tr>
<th>Four key dimensions of the reform package</th>
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<tr>
<td>1. State system reform to deliver a more generous, more universal, less means-tested and simpler state pension. Over the long term this will require some increase in the percentage of Gross Domestic Product (GDP) devoted to state pensions and an increase in the State Pension age.</td>
</tr>
<tr>
<td>2. Strong encouragement to individuals to save for earnings-related pensions through the application of auto enrolment at a national level.</td>
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<tr>
<td>3. A modest minimum level of matching employer contributions to ensure that savings are clearly beneficial for all savers.</td>
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<tr>
<td>4. Where there is no good employer-sponsored pension provision, a role for the state as an organiser of pension savings and bulk buyer of fund management to ensure low costs and thus higher pensions and better incentives to save, namely the creation of a National Pension Savings Scheme (NPSS) or an equivalent.</td>
</tr>
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The decision to propose a ‘reform package’ wasn’t just a rational choice. It was also deployed as a strategy for political ends and seen as ‘both a nicely judged political and political package’. Despite its strategic perspective, it was not intended to legitimise specific interests but rather to cut through them. It did this by allocating pain and gain among the most relevant interest groups – including government departments.

The reform package also enabled the Commission to gain leverage among interest groups, as well as sustain its independence from any political party. Helen Dean explains that “… in some way that made it easier I think for people to reach consensus because somehow it didn’t seem quite as political as it would have, had it been the bright idea of one or other political party.” Adair Turner says that they managed to defend themselves against objections from Treasury by having a reform package. We said ‘this is the package and this is the package’ and in this way they could keep the backbone of the reform package, if not all the details of it.

### 3.2.6 The quest for consensus: three procedures of consensus-building

In addition to an evidence-based and integrated approach to reform, what made the approach of the Commission distinctive from that of a conventional small expert committee, was the systematic attempt to establish a reform consensus. Consensus-building became part of Commission’s modus operandi after the first report. The first report stated that ‘we need to develop an approach which can command consent across parties, and which can be sustained across parliaments and governments’. Views converged outside the Commission as well, ‘nobody thought that Adair’s [Turner] job was to simply be given a report by a bunch of civil servants and [put] his name on it’.

The motivation behind consensus building was to secure the long-term reform commitments that the Commission’s recommendations required. Consensus had to be reached in order for any recommendations to have an effect as they challenged the policy status quo and caused controversy both within and outside government. Furthermore, one of the challenges in the Westminster model or UK majoritarian democracy is that long-term policies extending beyond one electoral cycle can be easily reversed by future governments. The commissioners were aware that a lack of consensus has driven a lack of policy continuity which has helped create the bewildering complexity of the UK pension system. They also knew pension reform had to last for twenty, thirty years and therefore you were trying to buy a twenty to thirty year consensus as Jeanne Drake states. It is instructive to consider how consensus developed and the extent to which it was achieved across parties and interest groups. Consensus-building is usually designed via consultation procedures. In this case, the process was structured around three consensus-building procedures within the wider approach:

- a) evidence
- b) the reform package
- c) consultation.

104 Interview. Matthew Taylor. 22.03.2019
106 Interview. Matthew Taylor. 22.03.2019
109 Interview. Jeanne Drake. 13.06.2019

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Consensus through evidence
The first consensus-building procedure focused on the assembly and analysis of evidence primarily for defining the pension problem and then its possible solutions. As noted above, the evidence-based approach sought primarily to depoliticise the problem and the available options through presenting the facts.

In doing so, the Commission invited political parties and interest groups to agree on the facts delineating the problem at hand. As a result, its diagnosis emerged from these agreed facts. As Chris Curry, Pensions Policy Institute Director explains, ‘what the Commission did very well was it spent a long period of time, not just building up consensus about what the answer should be, but actually trying to build up consensus about what the question was.’

Consensus through a reform package
The second consensus-building procedure was the reform package strategy. In this case, the package of reforms outlined above entailed not just an integrated approach to reform, but also an allocation of costs and benefits across the most relevant parties. Each interest had to compromise to achieve its goals. A senior politician who was involved in the reform process summarised the situation, saying that ‘everyone got something - business would be less in the firing line on workplace pensions, but also knew the long-term tax cost would be managed.

The trade unions and pensions lobbies got the BSP linked to earnings and employer contributions. The Treasury got to raise the pension age. One government official described this arrangement as a ‘sort of generally British compromise’, for which the reform package ‘got a bit more buy-in’ in doing so, it helped to reach consensus on the recommendations, as well.

Consensus through consultation
The last consensus-building procedure relied on extensive consultation throughout the Commission’s term. Stakeholders, opposition parties and civil servants beyond the secretariat were consulted in order to comment on evidence and proposals. This took place through a sequence of different events (see Figure 3), such as a consultation call, seminars, meetings, speeches and deliberative consultation exercises that started before the first report and continued more extensively between the first and final reports.

In the first report in October 2004, the Commission called for a three and a half month period of consultation. Senior politician who was involved in the reform package strategy. In this case, the package of pensions reform. The final report of the Pensions Commission distinctive from that remaining opposition was overcome by the use of officials and Opposition spokespersons for pensions. One senior civil servant who attended some of these meetings explained that there was a ‘group of officials from DWP who were regularly attending the Commissions meetings […] and a number of meetings at the initiative of ministers […] with the key opposition spokespersons on pensions.’

In sum, getting the main parties to agree with the evidence, delivering a package deal through which some of their interests could be fulfilled, and building a relationship between them and the Commission, helped to set the basis for consensus on the proposals. There were nevertheless criticisms prior to translating these proposals into a White Paper and final legislation. In the next sections, we examine how this remaining opposition was overcome by the use made of the consensual platform that had been built up in the course of the Commission’s work.

Figure 2 Consensus-building on the reform package among key actors

Source: Authors’ compilation

State Pension age
Auto enrolment
Nest
Association of British Insurers
HM Treasury
Earnings indexation
Trade unions (+)
(+)
(+)
(+)
(+)
Consensus

HM Treasury

Nest Insight

110 Interview. Chris Curry. 03.05.2019
111 Interview. Government official.
112 Interview. Senior politician.

Figure 3 Timeline of example consultation activities between Pensions Commission reports

Source: Authors’ compilation
Chapter 4
Enactment and implementation (2006–2015)

This section examines the adoption of the Pensions Commission’s recommendations with regard to their enactment and actual implementation. Specifically, it explores whether and how they were adopted, the main issues and conflicts that arose at critical moments, and how these were overcome. It demonstrates the processes by which the reforms were successfully implemented.

4.1 Squaring the Pensions Commission’s proposals with the politicians: pension reform enactment (2006–2010)

The output from the Commission’s proposals was the publication of a 2006 White Paper and two pieces of legislation, the Pensions Act 2007 and the Pensions Act 2008. The White Paper Security in retirement: towards a new pension system118 provided an agenda for the implementation of the Commission’s proposals. The recommendations contained in the White Paper were then translated into the two pieces of legislation. There was an explicit link between the Commission’s reform package and the recommendations in the 2006 White Paper. Auto enrolment and the uprating of the basic State Pension (BSP) with average earnings stand out for their immediate transfer to the White Paper. The White Paper also took up the recommendations of the Commission on the increase in the State Pension age and the creation of a low-cost national pension scheme, but with some adjustments.

The enactment of reform proposals announced in the White Paper had nevertheless been highly contentious. The Treasury initially opposed the earnings indexation proposal. The pensions industry was also unenthusiastic about the creation of a state-run private pension scheme at a national level. Those two issues largely dominated the government response to the Commission’s proposals. In contrast, the increase in the State Pension age and auto enrolment were less contentious. The trade unions did not welcome the increase but at the same time, did not oppose it. Employers accepted auto enrolment subject to keeping contribution levels to those suggested by the Commission. The Transfer of the Commission’s proposals to the White Paper and legislation was the result of three instances of a ‘policy-politics’ interplay where policy shaped politics and vice versa, thus creating a policy window120 that allowed policy enactment.

These refer to:
1) A general mood of ‘something needed to be done’
2) All parties were to ‘gain something from it’, emerging from the development and design of the Commission’s policy proposals
3) Compromises made by the government to aggregate conflicting preferences.

In a similar way, a given interplay of policy-politics enabled the continuation and implementation of auto enrolment. Two years after the enactment of the proposals for pension reform and still under a Labour government, public spending for the implementation of auto enrolment could have been further delayed or blocked. All these are examined below.

Something needed to be done

What made the government take up reform despite strong opposition within and outside government, was the belief that ‘something needed to be done’. The Commission’s evidence gathering process and its reports offered compelling reasons for change. Moreover, the Pensions Commission was established precisely in order to advise on the already recognised pressures for pension reform (see section 2). As Nigel Stanley noted ‘we’d been campaigning for some years for something to be done about pensions [. . .] so we saw [the Commission] as a great step forward’.121 Challenges to the increase in means-tested provision further reinforced that. Means-tested benefits had attracted criticism from most of the opposition parties. The then Conservative spokesperson on pensions, David Willetts MP, had often criticised the government for the increase in means-tested benefits and proposed to make the state pension more generous.122 Government action was therefore anticipated by stakeholders after a three-year interaction with the Commission. Against that background, the White Paper stressed that there was a ‘case for further reform’ and the ‘need for early action’.123

In the context of taking action, the White Paper also offered the government a way out regarding a matter of long-standing controversy over increases to the State Pension age. The evidence presented in the Commission’s reports had skilfully illuminated that it was an essential element of any proposals. The Commission suggested that there is no need to raise the State Pension age rapidly to, say, 70 in 2030, as some submissions to the Pensions Commission argued, and as press reports have often suggested.124 Yet, they argued that State Pension age will need to rise further in subsequent years.125 Specifically, the Commission suggested that ‘State Pension age will have to rise to somewhere between 67 and 69 by 2050’.126 In addition, the consensus created throughout the Commission’s reports helped to water down criticisms from the trade unions against the increase. The Trades Union Congress (TUC) decided not to accept it, but to avoid opposing it in the light of an eagerly awaited reform package. In the words of Nigel Stanley, ‘TUC was brave not to attack the whole Pensions Commission report because it disagreed with the State Pension age, but it would not be fair to say that it welcomed it’.127 In sum, the design of policy proposals made an increase in the State Pension age politically feasible. The White Paper suggested increases in the State Pension age actually earlier than 2050, specifically, it stated that the ‘State Pension age will be increased by one year over a two-year period from 2024, and then again in 2034 and in 2044.’128

121 Interview. Nigel Stanley. 24.05.2019

125 Ibid
126 Ibid p. 406
127 Interview. Nigel Stanley. 24.05.2019
A quid pro quo policy design

This brings us to the second instance where the design of policy proposals in particular contributed to the government response, despite controversies embodied in it. The Commission’s reform package and the stakeholder consensus built around it locked the main stakeholders into a pattern of quid pro quo. From the allocation of pain and gain which underpinned the reform deal, all involved parties gained something in exchange for not seeing all their interests fulfilled – or, indeed, directly surrendering some priorities. That made them actively support the reform deal. For example, the Association of British Insurers, TUC, and Pension Lifetime Savings Association (PLSA) perceived auto enrolment and the reduction in means-testing as fundamental steps towards an increase in private provision that was also in line with their interests. They were urging the government to adopt reforms regardless of controversy within and between government departments, or disagreements they had had over other aspects of the reform deal, such as the creation of a low-cost national pension scheme.

In sum, the combination of ‘do something’ and ‘gain something’ which emerged from the development and design of the Commission’s proposals constituted an important influence on government to take action. These framed and verified the problem that the government amended its proposals to meet part of the pension industry’s concerns. The industry’s negative reaction to the creation of an NPSS was justified on the grounds that the latter would be a threat to competition. More informally, it would also exclude pension providers from auto enrolment. The 2006 White Paper proposed further consultation on the establishment of a low-cost national pension scheme. It stated that ‘the best delivery model for the personal accounts scheme is that proposed by the Pensions Commission, but the government will conduct further analysis of this, and industry alternatives, in order to strike the right balance between value for money for the taxpayer and value for money for the saver.’

From default to one option among others

Two issues proved particularly contentious – the restoration of the link between the BSP and earnings, and the creation of a national pensions saving scheme (NPSS). Three key factors unlocked the adoption of these reforms:

- further consultation on the design of an NPSS
- a key adjustment of the design of the NPSS originally proposed by the Commission
- a compromise within the Cabinet on the implementation date of the earnings indexation.

With regard to the issue of creating a low-cost national pension scheme, the government amended its proposals to meet part of the pension industry’s concerns. The industry’s negative reaction to the creation of an NPSS was justified on the grounds that the latter would be a threat to competition. More informally, it would also exclude pension providers from auto enrolment. The 2006 White Paper proposed further consultation on the establishment of a low-cost national pension scheme. It stated that ‘the best delivery model for the personal accounts scheme is that proposed by the Pensions Commission, but the government will conduct further analysis of this, and industry alternatives, in order to strike the right balance between value for money for the taxpayer and value for money for the saver.’

A second White Paper entitled Personal accounts: a new way to save followed in December 2006, explaining the outcomes of the evaluation between the NPPS and the industry alternative models. More importantly, it included a shift from the Commission’s proposals that represented a compromise between the government and pensions industry. The White Paper ensured the creation of an NPSS based on the Commission’s approach. But it was conditional on making an NPSS one of the available options for the employers rather than the default for those ones without an existing pension scheme. As Helen Dean explains to us: ‘where we did compromise, though, was on this default. So in the end, the government decided that they wouldn’t have a default scheme, that what they would say to employers is, you have to choose a scheme, it’s an active choice, but we will give Nest a public service obligation.’ The government thus decided to opt for a less radical reform than that proposed by the Commission. This change of policy was justified on market-based competition grounds and legal issues that might emerge and be used by the industry against the government.

The reason for deciding to establish an NPSS, even though legal concerns continued to exist after the compromise on the default option, was to ensure support for employers during the implementation of auto enrolment, in line with government’s declared reform. There were concerns that existing industry capacity was insufficient to deal with the large number of employers who would start introducing auto enrolment and especially in a profitable manner. That was explained as the ‘supply gap’ in the White Paper. As a result, the latter announced the establishment of an independent authority for personal accounts. It can be argued that the need to set up a national pension scheme was key to address external interests, such as the pensions industry, but also politically across governments.

Despite a gradual consensus on setting up an arrangement in the industry, there were concerns that a state-run pension scheme ‘would end up not just serving the part of the market the industry didn’t serve but actually taking over the entire market,’ as Chris Curry summarises it. However, these objections did not lead to powerful pressure on the government. Helen Dean points out that ‘the government had to make a case to the European Commission because we needed state aid, people could have objected at that point but didn’t. So the idea of having to have an NPSS I think gained acceptance.’ Moreover, Caroline Rookes, Director of Private Pensions at DWP, 2005–2013, believes that this was reinforced by the fact that the scheme would target the unprofitable business while it would be launched as a substantially differentiated supplement in the market, saying ‘I think as plans progressed, and it was clear that it wasn’t necessarily going to be competing for the profitable business [...] and also there was a lot of emphasis on not competing [...] there was a phrase that was used all the time, Nest would complement, not compete.’
Earnings indexation

Finally, the most contentious issue within the government on the reform package was the reindexation of the BSP to average earnings. The Treasury signalled strong opposition to this reform prior to the publication of the May 2006 White paper. It is worthwhile noting here that the Treasury is the most powerful government department in the UK, and could have certainly blocked the adoption of reform. The episode took place at a very high level and had been described by other authors as a source of deep disagreement between Tony Blair and Gordon Brown.

The main reasons for Treasury opposition was the question of the cost of reindexation, the politics of the transition between one Prime Minister and another, and a third, less remarked upon, the Treasury’s ideological framework for welfare reform. As regards the fiscal cost, the Pensions Commission suggested that the increases in the state pension age would balance the increases in public expenditure. However, the Treasury argued that the impact of the earnings indexation proposal was to push back its fiscal flexibility to Treasury around their spending reviews. At the same time, it would require a long-term commitment on pension expenditure that went beyond the annual budget process and the three-year cycle of spending reviews. The Treasury supported these arguments by questioning the evidence and assumptions used by the Pensions Commission, and how these had been interpreted to make relevant recommendations.

Earnings indexation also stood against the core welfare principles laid out by the Treasury under Gordon Brown, namely the idea of ‘progressive universality’. This meant ‘something for everyone, but more for the poor’ or, in the words of Gordon Brown, a ‘balance between universal and selective’ in the allocation of public resources. In contrast, the Commission’s proposal for earnings indexation was directed to a greater universalism in the sense of a more generous Basic State Pension (BSP) for all, both rich and poor, as a baseline. After that, everyone should eventually provide for themselves, including those on low incomes. Over time, the BSP would lift more and more pensioners above the poverty line, not the Pension Credit.

According to the interviews conducted for this study and the existing literature, the key concession made from Number 10 and DWP to the Treasury on the earnings indexation proposal was to push back its start date. This was in addition to the increase in the State Pension age to cover the higher expenditure on the BSP that the Commission had proposed. The Pensions Commission was looking at 2010 or 2011 as a start-date for indexing the BSP to average earnings, while the agreement eventually struck in government was for the reform to come into effect in 2012 or by the end of that Parliamentary cycle. John Hutton, Work and Pensions Secretary, 2005-2007, told us that ‘we delayed the start of the indexation as a concession to the Treasury.’

The May 2006 White Paper included 2012 as the effective date without justifying its selection. Instead, it clarified that the earnings linked BSP would be ‘subject to affordability and the fiscal position [...] but in any event by the end of the Parliament at the latest. We will make a statement on the precise date at the beginning of the next Parliament’ for Gareth Davies, the compromise on timing allowed the government for the legislature, while giving fiscal flexibility to Treasury around their implementation. At the same time, the change in the start date ‘clearly wasn’t a fatal sort of adjustment [...] the delay will have had some impact for sure, but a modest one in the overall architecture of the reforms’, as John Hutton explained.

The above shows that Treasury used the threat of its veto power but did not substantively amend the content of reform proposals or block the reform process. The interviewees for this study suggest at least four factors played out in the politics of average earnings indexation.

1. The Prime Minister’s commitment to reform

First, Prime Minister Tony Blair’s commitment to reform. As John Hutton points out ‘Tony Blair had set up the Pensions Commission [...] he was naturally invested in it, and very strongly. I would not have been able to overcome the Treasury objections to the state reform proposals [...] it had not been for the Prime Minister’s support.’

Tony Blair himself acknowledged that he was spending a lot of time on it, maybe five or six hours a week in the run-up to it. The second underlying reason was that he became convinced about the significance of the problem through the analysis made by the Commission. He recognised the long-term cost if policy remained unchanged but in the words of Gordon Brown, ‘what made it possible was an understanding that as the [State] pension age changed, and we had made the Pension Credit work, and actually because earnings and inflation were not rising in the same way that they did in the past, it was possible to afford this.’

On the other hand, the political gain from restoring the earnings-link was deemed to be higher than the cost involved. This in combination with a change in leadership in the upcoming electoral cycle made the Treasury change its mind.

2. Civil servants – Ministers – Commission triangle

Second, the DWP took ownership of the reform agenda. Its officials tried to get ‘rapidly changing ministers aligned’ with the agenda, ensure its continuity, and in turn, get steady ministerial support towards it. According to John Hutton ‘This was probably the first major reform that the department itself felt that it was doing.’ However, as Phil Wynn Owen explained to us, no matter how committed civil servants can be, they cannot initiate reform agendas. Instead they tried to ‘brief the [ministers] as they arrived very quickly on what the emerging policy agenda was, why it was as it was, and how best we could contribute in government to pursue it’, in order to ensure that the changes could continue within the same agenda. In turn, ministers such as David Blunkett and John Hutton who owned the reform agenda in DWP worked closely and constructively with their officials and the Pensions Commission to deal with Treasury objections.

3. Pensions Commission resilience

Third, the members of the Pensions Commission, and especially its chair, displayed a strong resilience to objections that allowed them to carry on and push ahead with their reform proposals. This was reinforced by the compromise on timing, as John Hutton explained, no matter how committed civil servants can be, they cannot initiate reform agendas. Instead they tried to ‘brief the [ministers] as they arrived very quickly on what the emerging policy agenda was, why it was as it was, and how best we could contribute in government to pursue it’, in order to ensure that the changes could continue within the same agenda. In turn, ministers such as David Blunkett and John Hutton who owned the reform agenda in DWP worked closely and constructively with their officials and the Pensions Commission to deal with Treasury objections.

4. Fiscal or political cost concerns?

Finally, there are two reasons which can explain why the Treasury accepted the restoration of the earnings-link. On one hand, the Treasury had recognised the long-term cost if policy remained unchanged but in the words of Gordon Brown, ‘what made it possible was an understanding that as the [State] pension age changed, and we had made the Pension Credit work, and actually because earnings and inflation were not rising in the same way that they did in the past, it was possible to afford this.’ On the other hand, the political gain from restoring the earnings-link was deemed to be higher than the cost involved. This in combination with a change in leadership in the upcoming electoral cycle made the Treasury change its mind.

144 Interview. John Hutton. 24.05.2019
146 Interview. Gordon Brown. 25.06.2019
150 Interview. John Hutton. 24.05.2019
152 Interview. John Hutton. 24.05.2019
153 Interview. Gareth Davies. 04.04.2019
154 Interview. John Hutton. 24.05.2019
155 Ibid
156 Interview. Tony Blair. 25.05.2019
157 Interview. Tony Blair. 25.05.2019
158 Interview. Phil Wynn Owen. 25.04.2019
159 Interview. John Hutton. 24.04.2019
160 Interview. Phil Wynn Owen. 25.04.2019
161 For example, Interview. Phil Wynn Owen. 25.04.2019
162 Interview. Tony Blair. 25.05.2019
163 Interview. Gordon Brown. 25.06.2019
Auto enrolment after enactment

In addition to the effects of earnings reindexation for the BSP, cost concerns arose regarding the implementation of auto enrolment during the 2009 Pre-Budget Report process and in the aftermath of the global economic crisis. The increased spending required to apply auto-enrolment at a national level could have put its full implementation at risk. The main fiscal pressures created were due to getting lower tax revenues from employers introducing auto enrolment and from the contributions qualifying for tax relief.\(^{166}\) Auto enrolment was planned to start in 2012 and take place slowly and incrementally, rather than in one go. That meant a progressive roll-out to employers, from larger to smaller ones (also called ‘staging’), and a gradual increase in contribution rates (also called ‘phasing’, as already mentioned). Despite its delayed and slower introduction, the application of such policy at a national level was deemed to have a significant effect on spending in the 2009 Pre-Budget Report (PBR).\(^{166}\) The PBR in December 2009 estimated that in the first year of implementation 2012-2013, the effect would be relatively small with a yield of £100 million.\(^{166}\) The effect on the budget was more dramatic over the next two years, when auto enrolment had to be extended to almost all workers and employers.\(^{166}\) In 2013-2014, the cost was estimated at £0.7 billion, and in 2014-15 at £1.6 billion.\(^{166}\) Differently put, as one member of the Treasury Select Committee at that time argued, £2.5 billion could be saved by rejecting the extension of auto enrolment to low and medium income workers.\(^{166}\)

According to one research participant, the then recently appointed Work and Pensions Secretary, Yvette Cooper MP, and the Minister for Pensions, Angela Eagle MP played a significant role in defending auto enrolment, and the implementation and continuation of the reform. This statement coincides with another study conducted on the implementation of auto enrolment by the Institute for Government who also found that “Yvette Cooper was very willing to stand up and defend the policy and firmly rejected any suggestion that the project be cancelled, despite having only recently taken up her post as Secretary of State for Work and Pensions.”\(^{167}\)

Both Cooper and Eagle, despite entering the area of pensions for the first time and in a period when major decisions had been already made, recognised the significance behind ‘universally’ applying auto enrolment.

### 4.2 Implementation in practice (2010–2015)

The implementation of the reforms spanned a change in government, when the new Conservative-Liberal Democrat coalition government was formed in 2010. There were contentious and critical moments which could have derailed the whole reform process, despite the passage of the enabling legislation under the outgoing Labour government. For example, there were fiscal as well as operational difficulties implementing auto enrolment and the NPSS, and political concerns related to small employers and red tape. These obstacles appear to have been overcome in the alignment of political and policy factors at particular moments.

#### Implementing auto enrolment

The staging and phasing of auto enrolment was critical to its successful implementation. For Chris Curry, Director of the Pensions Policy Institute, the changes in initial timescales played an important role. He believes that although they were not necessarily planned to ensure the success of the reform, but for other reasons, ‘they actually worked out pretty well’.\(^{167}\) Timetables may have changed, for example, to mediate the impact of tax relief on public spending, to give time to employers, and to avoid auto enrolment for small employers before an upcoming general election. Small employers were originally slated to join from 2014. This shifted to June 2015, after the general election in May 2015. In addition, no serious complaints were raised by large employers in the process of enrolment that could have reduced employers’ general willingness to comply.\(^{167}\)

#### The implementation of the reforms spanned a change in government, when the new Conservative-Liberal Democrat coalition government was formed in 2010.

In political terms, David Willetts encapsulates concerns about small employers in the Coalition government: ‘There were moments when it was up for discussion, the worries were, first of all small businesses […] the chippy became a sort of emblematic question, was this a fair burden to put on the local chippy.’\(^{170}\) The new Prime Minister, David Cameron, did not provide immediate support for auto enrolment because of these concerns about its impact on small employers. However, he had found the idea of behavioural economics in policy-making suited his own conservatism, and that’s why he expanded it to other areas of public policy and created the ‘Nudge Unit’. The Attitudes to Pensions Survey conducted for the DWP in 2012 found that 70 per cent said that they would stay in the scheme once enrolled\(^{170}\). Therefore, auto enrolment appeared quite popular among the working age population.

In an informal discussion with one of the research participants, the popularity of auto enrolment was held to have played a primary role in David Cameron’s decision to proceed, above and beyond his support for behavioural economics.

#### Delivering Nest

In addition to auto enrolment and the implementation of an NPSS, today’s National Employment Savings Trust (NEST), faced two critical moments. The first was the review of the Nest proposal commissioned from the Director of the Institute for Fiscal Studies, Paul Johnson, and requested by the Coalition government in 2010.\(^{171}\) The second was the transition from the Personal Accounts Delivery Authority (PADA) to the actual operation or launch of Nest. PADA was proposed in the 2006 White Paper on the creation of a national pension scheme.\(^{171}\) To design, deliver and run the pension scheme. According to the White Paper, there was a need for drawing on private sector expertise, meaning business, pension and financial services expertise, along with existing civil service expertise to build and deliver the pension scheme.

165 Interview Government official
167 Ibid. p.10
172 Interview. Chris Curry. 03.05.2019
173 Interview. Nicholas Timmins. 24.04.2019
164 Department for Work and Pensions, 2006. Personal Accounts: a national pension scheme to design, deliver and continue the reform. TSO. The review looked at the implementation of auto enrolment, including the scope and role of the Pensions Act 2007.
174 Interview. David Willetts. 03.06.2019
175 Ibid.
Regarding the review of the Nest proposal, Jeanie Drake, who was acting chair of PADA at the time, says that ‘there was a sort of wobbly moment [...] is this project going to come tumbling down’ despite two White Papers, relevant legislation, the establishment of an independent authority (PADA), the extension of its remit, and the commitment of a number of people to deliver an operational scheme. Johnson’s review considered the entrance of Nest a ‘major intervention into the market, with a Government loan.’ It was concluded that ‘we see no alternative if auto enrolment is to be introduced at anything like the currently envisaged scope on anything like the currently envisaged timescale.’180

The second crucial moment refers to administrative failings and serious time constraints in setting up Nest that could have affected the whole reform process— and indeed, discounted the very idea that governments are capable of bringing about and delivering major new delivery vehicles for pensions savings. For example, Tim Jones, Chief Executive Officer of PADA 2007-2010, explains that both the pension industry and the press ‘were going to undermine us.’ ‘Nest has fallen over in a big heap because it’s another Government IT fiasco’... so I thought then the quality needed to be slightly better than a private sector similar way, John Hutton points out that one of the barriers to reform could have been an insuperable design for Nest, comparing the potential for a delivery failure to the political fallout from something like the ‘child maintenance fiasco’.182 Moreover, during the review mentioned above some of the PADA activities had been postponed for at least three months, which added to the problem of meeting tight deadlines. What prevented this was the infrastructure put in place, as a result of the establishment of PADA.

Specifically, three things played a role:

a) the human factor
b) the managerial factor
c) available financial resources.

As regards the human factor, Jeanie Drake emphasizes that the talent and commitment of people in PADA working under temporary employment contracts and secondments, played a significant role in building Nest. She recalls today that ‘you had a lot of people who were committed to this succeeding [...] there was a real sense of commitment and a high sense of integrity that they were building something that had to be right, had to be full of integrity.’183 In addition, the recruitment of people from the private sector with the necessary expertise and cooperation between civil servants and private sector workers created the desired skill set for such an endeavour.

The managerial factor, namely an action-oriented PADA senior management with a shared vision and commercial familiarity, increased the capacity to overcome fragmented procurement and address challenges. For example, following the procurement procedure for the administration of Nest, there was only one supplier left. The fact that a ‘last person standing’ was allowed instead of cancelling the competition, caused some raising of eyebrows. But Tim Jones explains that ‘the reason we allowed that to happen with them was, we knew they were ethical and that they would not abuse their position of being the last person standing.’184

Finally, the Treasury provided sufficient funding. As Tim Jones highlights ‘money was not an issue’185 He continues by saying that he decided to spend therefore ‘whatever it takes’ - although less than the available budget - to achieve quality and cope with tight and interrupted time-frames of delivering Nest.186

Red tape and the one-in one-out rule

An important issue centered around whether the Coalition government would support auto enrolment given the consequent increase in red tape. Caroline Rookes, DWP Private Pensions, says that ‘there were times when the future of the programme looked quite shaky [...] auto enrolment was going to add to red tape, so there were attempts to look at whether it really should go ahead.’187 Steve Webb, Pensions Minister, 2010-2015, confirms that auto enrolment constituted one of the ‘biggest regulatory burdens,’188 and in order to proceed, a one-in-one-out rule would apply.

One-in-one-out refers to a method of regulatory policymaking used in the Coalition government in order to discourage regulatory burdens. According to Webb, auto enrolment passed through this test as follows: ‘every pound of regulatory burden I put on business, I had to find a pound to take off... so as a department we were able to say, actually we are net deregulators, because although auto enrolment is a big regulatory burden, CPI [replacing RPI] is a big piece of deregulation.’189 All occupational and public sector pension schemes are required to revalue or index pension payments in line with inflation. This indexation was historically based on Retail Prices Index (RPI). The latter constitutes a broader measure of price changes as it includes goods and services, such as rent and mortgage. That is why it tends to be higher than the Consumer Prices Index (CPI), which comprises a typical set of goods and services, but not mortgage payments or rent. Respectively, a CPI-based indexation of pension payments implies lower pensions. Replacing the RPI with the CPI contributes to deregulation through reducing employers’ red tape concerning pension obligations. This is because it allows pension schemes to switch to CPI, overriding the scheme rules and trust deeds that may require for a RPI-based indexation; and therefore for higher pension payments.

Steve Webb and state pension reform

The role of Steve Webb as Pensions Minister has been recognized as crucial in putting auto enrolment into effect as well as sustaining the whole reform package, not least because of his advancement of the earnings link indexation proposal. The Chair of the Pensions Commission, Adair Turner, commented that ‘Steve Webb played a major role in that [reform]... and even better than we thought, when he was in the Coalition government.’190 A ‘triple lock’ on the BSP was introduced in 2011 and came into effect in 2012. This increased the value of the BSP by the value of inflation, average earnings or 2.5%, whichever was higher.191 A Single Tier Pension was introduced in 2016/7 to replace the BSP and the State Second Pension (S2P) – rather than phasing out the latter slowly, as the Pensions Commission had proposed. Based on the interviews for this study, including that with Steve Webb himself, Steve Webb’s commitment to reform can be attributed to four things, first, his involvement in the early stages of the reform in the early 2000s as a Liberal Democrat Spokesperson on Pensions allowed him to understand and continue the agenda inherited from previous ministers. Second, his liberalism was reflected in the nature of state reform, which provided a simple, basic, flat-rate pension from the state upon which individuals were free to build. There was also a fiscal incentive for the Treasury to proceed with the creation of an STP earlier than planned. Integrating the BSP and the S2P into a single tier would release savings from National Insurance rebates, with Steve Webb commenting, ‘the Treasury came along and said, basically we want the National Insurance rebates. Can you do it in 2016?’ Finally, the STP has been seen as a ‘fairness to women’ measure that would help address gender inequality in retirement income through providing credits for carers and being more redistributive.192 Women are primary gainers behind the introduction of the single-tier state pension.

Looking briefly at the trajectory of the reforms, we find an alignment of political factors along with policy and technical factors that contributed at critical moments to their implementation:

- the constant receptiveness to the reform agenda by Secretaries of State for Work and Pensions and pensions ministers for over a decade
- the determination of ministers to implement particular reforms
- the acceptance of auto enrolment by successive Prime Ministers throughout the reform process
- the support of Treasury with regards to cost.

Moreover, policy reform such as auto enrolment was matched with deregulatory measures to meet regulatory commitments; the necessity behind reform proposals, such as the need to have a pension scheme like Nest, flexible planning, such as the changing timetabling of auto-enrolment, and technical support; all emerged as equally important factors that if non-existent, could have obstructed this stage of the reform process.

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183 Interview. Jeanie Drake. 13.04.2019
184 Interview. Tim Jones. 11.04.2019
185 Ibid
186 Ibid
187 Interview. Caroline Rookes. 27.06.2019
188 Interview. Steve Webb. 02.04.2019
189 Ibid
190 Interview. Adair Turner. 26.04.2019
192 Interview. Steve Webb. 02.04.2019

nestinsight.org.uk Nest Insight

42 Nest Insight

nestinsight.org.uk Nest Insight

43 Nest Insight
Chapter 5
Lessons for policy change

In this final section, we examine what key lessons can be learned for public policymaking from the experience of the Pensions Commission and the implementation of its recommendations. We draw out five key lessons from our account. We conclude with a section on what remains unfinished — what the reform agenda did not cover and new challenges that have arisen for pensions policy.

5.1. Five key lessons

1. The Pensions Commission succeeded in large part because of its membership and their skills. It was small, independent, politically astute and well-connected. It engaged in widespread consultation and its media strategy was highly effective.

2. Continuity of commitment from ministers and civil servants to the Pensions Commission reform agenda enabled it to survive crisis events and political change, notably the financial crisis and its aftermath.

3. Innovative use of evidence and the narrative framing of the facts assembled in data-gathering and analytical work were central to the persuasiveness of the Pension Commission’s reform agenda. But delivery mattered critically too — the reforms were successfully operationalised through auto enrolment and the creation of Nest.

4. The Pensions Commission showed that majoritarian policy-making can coexist with consensus reform. Strong central direction was combined with consensus building amongst key stakeholders. No sectional interest or key electoral demographic had a veto power over the reforms.

5. The reforms succeeded because they built on an existing political economy and the historical institutions of the UK welfare state. The reforms were comprehensive and extensive, but they did not transform the liberal welfare architecture of pensions provision in the UK, nor embed a new social coalition of interests in a reform package.

Lesson 1: The Pensions Commission succeeded in large part because of its membership and their skills. It was small, independent, politically astute and well-connected. It engaged in widespread consultation and its media strategy was highly effective.

The mid-2000s pension reforms are inconceivable without the creation of the Pensions Commission. It was hugely influential. Even when its recommendations were implemented over a longer time frame than it anticipated, for example the restoration of the earnings link for the Basic State Pension (BSP), or its proposals failed to come entirely into fruition, such as setting the national pension scheme as a default option, its work generated a comprehensive reform agenda.

We attribute the Commission’s distinctive role and influence in large part to its membership and their skills. The government rejected the model of a Royal Commission and chose a small, expert and well-connected group of people to undertake the review tasks it had set. The Commission represented an independent body of advice right from the start, an independence it asserted and cultivated throughout its life. It broadened the remit it had been given, adopted an evidence-based approach in order to depoliticise the framing of the pensions problem, and worked closely with the Department for Work and Pensions (DWP) without becoming an extension of it, or of the government itself.

Another important factor that made the Commission an active agent of change was that its chair and members were highly networked with stakeholders and the main opposition parties, and with the government at the highest level. The Commission didn’t just convey a set of proposals based on evidence and analysis. Instead, its members positioned themselves within existing social relations, and engaged with the politics of the reform through all the stages, from problem definition to policy formulation and decision-making. The Commission and its chair also engaged in a highly effective media strategy, briefing the press, giving timely newsworthy speeches, and offering interviews to the most informed public policy journalists. This helped to secure public legitimacy for its work, and to cement a consensus behind its problem definition and policy proposals.

Lesson 2: Continuity of commitment from ministers and civil servants to the Pensions Commission reform agenda enabled it to survive crisis events and political change, notably the financial crisis and its aftermath.

The Pensions Commission, despite its central role, was not the only agent of change at work. There was a continuity of commitment to the reform agenda from civil servants, ministers and wider stakeholders over many years. This became more apparent during the implementation phase, when either the impact of austerity or the challenges of a major delivery project could have derailed the reform agenda. Civil servants and ministers from different political parties supported the reform proposals through the publication of white papers and legislation, and continued to provide support during implementation.

At the same time, political leadership from the top of government, including the personal commitment of Tony Blair, the legislation passed by Gordon Brown, and the continuation of the reforms by David Cameron, helped to sustain the ownership thread. All these elements generated cohesion in support of reform that stood the test of time.

Several studies on policy reform suggest that crises can trigger significant change. The 2008 global financial crisis had enormous political and fiscal consequences, in the UK and around the world. Yet the pensions reform agenda survived the crisis and its aftermath largely intact. An agenda developed in the long boom that preceded the crisis was sustained through the decade that followed it. In contrast, other parts of the welfare state experienced significant cuts.

There are perhaps three reasons for this. First, the long-term nature of the reform involved controlling the cost of pensions, and by extension, protecting the government’s long-term fiscal position. Except for the short-term costs of auto enrolment, the reform agenda did not conflict with austerity measures enacted by the coalition government. This helped insulate it from reversal. Second, the existence of a wide consensus underpinning the reforms appears to have prevented policymakers from blocking their implementation or changing their direction because of exogenous shocks. Finally, the retired population represents an important electoral demographic in the UK, and stood to benefit from the triple lock on the BSP. Its interests were directly related to the implementation of the pensions reform agenda.
Lessons for policy change

Lesson 3:
Innovative use of evidence and the narrative framing of the facts assembled in data-gathering and analytical work were central to the persuasiveness of the Pension Commission’s reform agenda. But delivery mattered critically too – the reforms were successfully operationalised through auto enrolment and the creation of Nest.

The approach to reform in the work of the Pensions Commission was to uncover the facts relating to long-term pension adequacy in the light of demographic change and budgetary constraints, in order to settle the contested area of pension policy and establish the case for change. Furthermore, it aimed to let the choices and solutions emerge from these facts, suggesting a specific set of inescapable choices. This invokes a factual, rational model of policymaking where a vast body of evidence is used to inform what is rational as opposed to what is politically debatable. This rational model aimed to depoliticise the policy inquiry and as such, its outcomes or outputs. As we’ve already seen, an evidence-based, rational method to reform reinforced the authority of the Commission and its proposals, and helped to persuade the key actors involved. But it had another important function that contributed substantially to the persuasiveness of the reform proposals. It created a figurative structure and a clear frame with which actors would make sense of the reform proposals and justify their actions.

On the other hand, the successful operational implementation of auto enrolment and the creation of a national pension scheme was critical to the reform process. The techno-infrastructural implementation of these major policy reforms could easily have failed, as many large scale IT projects had done before. As we argue in 4.2, an alignment of political factors along with policy, managerial and technical factors facilitated the successful implementation of reform.

Lesson 4:
The Pensions Commission showed that majoritarian policy-making can coexist with consensus reform. Strong central direction was combined with consensus building amongst key stakeholders. No sectional interest or key electoral demographic had a veto power over the reforms.

Consensus building efforts took place in all the stages of the reform process. The Pensions Commission sought the support of key stakeholders and the public for the solutions it proposed, using evidence that demonstrated the need for reform. As we saw in Section 3, systematic communication strategies and consultation procedures targeted real engagement of stakeholders in order to improve the quality and acceptability of reform proposals. Moreover, the early involvement of key stakeholders enhanced their position in the next phases of reform, allowing them to raise concerns and demand the adoption and – in some cases - modification of proposals. The government also maintained that spirit, for example through consultation over the creation of a national pension scheme. In short, it paid off to engage stakeholders.

Other authors have argued that consensus building constituted one of the key success factors in the Pensions Commission. A consensual approach might appear to contradict core features of the British policy making system which is associated with the ‘Westminster model’ of majoritarian government. This involves a top-down, centrally concentrated mode of policy making, often seen as the opposite of the consensual or coordinated decision-making which is more typical of coordinated market economies with proportional voting systems. In the case of pensions reform, consensus-building practices appear to have operated in combination with a centralised, top-down approach.

Only more recently has the consensus experienced its first major challenge, with the introduction in 2015 of the ‘freedom and choice’ reforms. There was no consultation prior to the announcement of these reforms, which were incubated in the Treasury and announced to a surprised world. For some interviewed in this study, both this process and the substance of the reforms were seen as antithetical to the earlier Commission reforms which are the focus of this report. For instance, Chris Curry highlights that ‘freedom and choice’ reforms ‘carry a fundamental challenge to the way we think about the [pension] system’. That is principally premised on achieving security in old age through providing an income on a monthly basis. In addition, the Labour Party has recently opposed increasing the State Pension age beyond 66, which represents a further challenge to pensions reform consensus. In spite of this, the structure of the Commission reforms and the consensus around them have remained intact.

Lesson 5:
The reforms succeeded because they built on an existing political economy and the historical institutions of the UK welfare state. The reforms were comprehensive and extensive, but they didn’t transform the liberal welfare architecture of pensions provision in the UK, nor embed a new social coalition of interests in a reform package.

The Pensions Commission’s reforms were reasonable in the context of a liberal political economy and welfare state. Auto enrolment is consistent with a primary role for the market in pension provision, as contributions are automatically channelled to private pension schemes, while the choice to opt out maintains a core organising idea of liberal political economies. All of our research participants pointed out that an alternative solution of mandatory enrolment or hard compulsion would have been deemed a step too far in the case of the British pension system. Nor was any attempt made to create new forms of state-earnings related pensions, or to revive final salary schemes. As Professor Hugh Pemberton highlighted, the reforms ‘reflected a strain of liberal thought, which we find pretty consistently in British pensions and going right back to Beveridge… a flat-rate state pension, at a fairly minimal rate, thus leaving a very significant space for individual initiative, thrift, voluntary provision.’ Overall, the mid-2000s pension reforms supported rather than dismantled or disrupted the broader institutional structure of the UK welfare state and political economy.
5.2 Unfinished business?
The success of the mid-2000s pension reforms can be seen in much of the empirical data on pension participation, contribution and savings rates, and pensioners’ living standards. After the introduction of auto enrolment, the proportion of UK workers with workplace pension participation rates has increased significantly. A recent study by Cribb and Emmerson finds that the largest increase in pension participation rates has come from those groups with the lowest participation rates prior to the introduction of auto enrolment, such as low-paid employees, those who have joined their employer more recently, and those employed in industries with low pre-reform rates of pension participation. Moreover, the implementation of auto enrolment has led to increases in contribution rates, mainly because a large proportion of employers in the UK make higher than minimum contributions. The increase in participation and contribution rates has increased savings into workplace pensions.

The national pension scheme, Nest, has also expanded rapidly to secure a well-established position in the UK private pensions provision. Nest started with 80,000 members in 2013-14, and within five years it had reached 7.9 million. Nest has also become an important player in the pensions market with £5.7 billion of assets under management. Overall, pensioner incomes have risen relative to the rest of the population. As the Resolution Foundation’s annual audit of living standards shows, the typical pensioner income grew by 25% between 2003-04 and 2017-18, averaging 19% a year, compared to 7% for non-pensioners, averaging at 5.2% a year. In absolute terms, the results of this is that typical pensioner and non-pensioner incomes are now essentially identical at around £23,000. Nonetheless, there is lots of unfinished business in the UK pensions system. First, annual rates are at their lowest levels since the early 1990s. That means that a pension pot of £100,000 today will fund a much lower level of retirement income than in the relatively recent past. Specifically it will give about £4,000 retirement income a year, as opposed to £30,000 in the 1990s. In other words, funding a decent level of income in retirement will require building a large pot of pension savings alongside the state pension. Yet despite the increase in private pensions savings, most workers on low and moderate incomes will still only build up small pension pots. Second, building up savings for retirement has become more difficult because of low interest rates. As the Director of the Institute for Fiscal Studies, Paul Johnson, recently noted, ‘It is not so much that private pensions will be lower in the future than they are today, it is that they will barely exist at all.’

There are also issues of concern in the state pension and social security system. Pensioner poverty is now rising again. The rate of pensioner poverty rose from 15 per cent in 2012-13 to 16 per cent in 2017-18, despite the introduction of the triple lock, in large part because of cuts to housing benefit.19 Against this background, we should note two main criticisms of the Pensions Commission recommendations and their implementation. The first is that the Commission should have sought ways to retain an earnings-related state pension by increasing the basic State Pension while keeping an earnings-related element in the state pension system. The recommendations of the Pensions Commission included the continuation of the State Second Pension (S2P), but at a flat-rate. The uprating of the BSP in 2012 to ‘triple lock’ and its simplification through the creation of a single-tier state pension in 2016 involved the termination of the earnings-related element. The single-tier state pension uprated by the triple lock, is an important intervention in terms of poverty or adequacy levels. But even with the triple lock, the single-tier state pension is ‘set at much lower level than many future pensioners can expect to have received in combined Basic State Pension and S2P awards.’ The Organisation for Economic Co-operation and Development (OECD) estimates in their recent Pensions at a Glance report that all else remaining, the UK will have one of the lowest state pension entitlements relative to average wage earnings in the OECD. The net replacement rate from the State Pension will be equal to 29 per cent for an average earner who starts work in 2017 (State Pension age 68), and 52.1 per cent for a low earner, well below the OECD average of 63 per cent and 75.2 per cent, respectively.

Second, it has been argued that the Pensions Commission should have sought to arrest the decline of occupational defined benefit (DB) schemes, given their superiorly to defined contribution schemes. This did not happen for at least three main reasons. First, rising longevity and employers’ changing approach towards benefits such as pensions meant that they were simply not prepared to invest in maintaining DB schemes or set up new ones, regardless of their tax treatment. In this context, a universal approach to increase participation in private pensions through the expansion of DB schemes was less feasible. Second, and related to the first point, there was no straightforward, consensual way to formulate a set of new rules that would have enabled the rescue of DB schemes. Third, DB schemes are not well suited to the changing structure of the labour market and the rise of temporary jobs, the self-employed and what is called today the ‘gig economy.’ In sum, reform to rescue occupational DB pensions was considered both too complex and costly, and inadequate to solving the problems of those who couldn’t be covered by them.

It falls therefore to the current generation of pensions policymakers to address the unfinished business in ensuring security in retirement in the UK. Arguably, contemporary circumstances – an era of low interest rates, weak economic growth, mounting fiscal pressures and intergenerational political conflict - are more challenging that those faced by the Pensions Commission in the early 2000s. Much has changed in the aftermath of the financial crisis. But the lessons of the success of that Commission, and the implementation of its recommendations, that this report has documented may help guide policymakers in tackling the challenges they face today.

199 Cribb, J. and Emmerson, C., 2019. What happens to workplace contributions has increased savings into workplace pensions. The increase in participation and employers in the UK make higher than minimum contributions.200 The increase in participation and employers in the UK make higher than minimum contributions.200 The increase in participation and employers in the UK make higher than minimum contributions.200 The increase in participation and employers in the UK make higher than minimum contributions.200 The increase in participation and employers in the UK make higher than minimum contributions.

## Annex A

### List of interview participants

<table>
<thead>
<tr>
<th>Interviewee Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>1. Tony Blair</td>
<td>UK Prime Minister (1997-2007)</td>
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<tr>
<td>3. Lord Turner of Ecchinswell</td>
<td>Chairman of the Pensions Commission (2002-06)</td>
</tr>
<tr>
<td>4. Baroness Jeannie Drake</td>
<td>Member of the Pensions Commission (2002-06)</td>
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<tr>
<td>5. Professor Sir John Hills</td>
<td>Member of the Pensions Commission (2002-06)</td>
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<tr>
<td>10. Gareth Davies</td>
<td>Deputy Director of the Prime Minister’s Strategy Unit (2002-2003); Private Secretary at Number 10 (2003-2007)</td>
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<tr>
<td>11. David Halipern</td>
<td>Chief Analyst at the Prime Minister’s Strategy Unit (2001-2007); current Chief Executive Officer Behavioural Insight team</td>
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<tr>
<td>12. Carey Oppenheim</td>
<td>Special Adviser to the Prime Minister at Number 10 (2000-2005)</td>
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<tr>
<td>13. Matthew Taylor, CBE FAcSS</td>
<td>Chief Adviser on Political Strategy to the Prime Minister, (2005-2007); current Chief Executive Officer of the RSA</td>
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<tr>
<td>14. Helen Dean</td>
<td>Director of Product and Policy Development at PADA (2009-2010); current Chief Executive Officer of Nest Corporation</td>
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<tr>
<td>15. Tim Jones, CBE</td>
<td>Chief Executive Officer of PADA (2007-2010); Chief Executive Officer of Nest Corporation (2010-2015)</td>
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<tr>
<td>18. Caroline Rookes</td>
<td>Director of Private Pensions at the DWP (2005-2013)</td>
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<td>19. Chris Curry</td>
<td>Director of the Pensions Policy Institute</td>
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<tr>
<td>22. Otto Thoresen</td>
<td>Chief Executive Officer of Aegon UK (2005-2011); Director General at the ABI (2011-2015); current Chair of Nest Corporation; Chairman of BT Pension Scheme</td>
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<tr>
<td>23. Nicholas Timmins</td>
<td>Public Policy Editor and Commentator at the Financial Times (1996-2012)</td>
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<tr>
<td>24. Professor Shlomo Benartzi</td>
<td>Professor of the Behavioral Decision-Making Group, UCLA Anderson School of Management</td>
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<td>25. Professor David Laibson</td>
<td>Professor of Economics, Harvard University</td>
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<tr>
<td>26. Professor Hugh Pemberton</td>
<td>Professor of Contemporary British History, University of Bristol</td>
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<tr>
<td>27. Anonymous</td>
<td>Senior politician</td>
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<td>28. Anonymous</td>
<td>Senior Adviser</td>
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<td>29. Anonymous</td>
<td>Senior government official</td>
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<tr>
<td>30. Anonymous</td>
<td>Senior government official</td>
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</table>
References

Berry, C., 2017. The long-term impact of the state pension triple-lock. Sheffield Political Economy Research Institute brief No. 27.


References


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estinsight.org.uk