THE ANGRY CLAIMANT

BENEFITS AND POVERTY IN LEWES AND BRIGHTON

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web site http://hbhelp.co.uk/theangryclaimant/

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WHO STOLE YOUR PENSION?

We've all heard the stories- "We can't afford to pay pensions at the current level". People are living longer." "We would have to pay huge sums of money to afford decent pensions." Whatever happened to all those stories of a comfortable retirement for everyone?

No one seems to know how it all works. So it would be easy if the government wanted to pull a fast one. Here is some basic information.

National Insurance Contributions

Well hang on a minute- we ARE paying huge sums of money already. Have a look at your next pay slip. You will find a large sum deducted for national insurance.

In the year from April 2011- April 2012 any employed worker will normally pay 12% of their earnings between £139 and £817 per week and 2% on earnings above this. In addition the employer normally pays additional national insurance for you at the rate of 13.8% of your earnings above £136. You might not notice this extra payment, but you can be darn sure that your employer takes it into account when deciding what to pay you. So on at least some of your income national insurance is greater than income tax.

If you are earning £20k a year this means that nearly £3.3k per year was being paid in national insurance by or for you. Over a working life of perhaps 47 years this suggests that something in the region of £155k is paid over at today's prices (This is a very crude approximation, but it gives you some idea of the sums involved.)

The percentage of your income taken in national insurance contributions has increased over time. And, of course, wages have increased in the past, so you are also paying more because of this.

Work Pensions

On your pay slip there might also be a deduction for a company pension.

This could be a "money purchase" scheme. A money purchase scheme is like a private pension. You contribute some money and the employer pays some money. The money is invested in with a pension company and, at your retirement, you can buy a pension with whatever is in the pension pot as a result of what the pension company has done.

Or it might be a final salary scheme. Typically these give you a portion of your final salary for each year you have worked for the company. 1/80th a year is common. So someone who had worked for 40 years might hope to retire on half their final salary. Some good schemes pay 1/60th.

If an employer sets up a final salary pension scheme which offers at least 1/80th of your final salary for each year worked then they can contract you out of the state second pension. This means that you and they pay less national insurance. (You pay 10.4% of your salary instead of 12% and the employer pays 10.1% instead of 13.8%) But you get less national insurance pension.- See below.

(It has been possible to contract out if you have a private pension or a money purchase work pension, but this stops from April 2012.)

There is tax relief on work and private pension contributions but not on national insurance.

In the 1950's and 60s employers found it hard to recruit staff unless they had a final salary pension scheme. Many people had seen the desperation of poverty in old age and they were determined it was not going to happen to them. When assessing wage offers they took account of the pension on offer. My father took a substantial pay cut when he started in the civil service because he wanted the security of a pension.

But later on people got complacent. Hadn't the problem of poverty in old age been solved? But even now a smart job applicant will value a good final salary pension scheme as the equivalent of a 20% increase of salary for men (more for women) compared with a job offering the same wages but no pension.

So what do you get for your national insurance money?

A lot of people think that national insurance funds the national health service. In 2002 the labour government introduced an increase in national insurance for both workers and employers specifically to fund the NHS. This was 1% of all income above the lower limit. But otherwise the NHS is mainly funded from general taxation.

Instead your money largely goes on national insurance benefits. When the scheme started in 1948 these benefits were designed to cover every situation that might stop you working. But now the only main benefits apart from retirement pension are that you get up to six months job seeker's allowance if you are unemployed and up to a year's sickness benefits if you are unable to work. National insurance does not pay for benefits that are dependent on your income, like Income Support, or for child benefit. These are paid for out of taxation.

So most of what has been put in should go for retirement pensions. What do you get? The basic state retirement pension for 2011-2012 is just over £102 a week (roughly £5,000 per year) for each person who has paid enough national insurance contributions. Originally this figure rose each year in line with increases in wages. But the Thatcher government changed this so that it only increased in line with prices, even though contributions continued to rise with wages. The labour government elected in 1997 continued to do this for most of its life, but for now the benefit is increased in line with the higher of prices and wages.

But if you have ever worked in a job where you were not "contracted out" you will also get a state second pension. This is related to your income and the contributions that you have made. This second pension often gets overlooked. It is largely the making of labour governments in the 1970s, and in particular the politician Barbara Castle. Its aim was originally to ensure that everyone ended up with a pension of at least 1/3 of their final wages, increased by inflation. It has been hacked at by various governments but payments of £100 per week or even more are not uncommon. You can get a forecast of what you will get(including your basic pension) at https://secure.thepensionservice.gov.uk/statepensionforecast/ . You might find it a bit odd that a labour government was prepared to reward those who earned more, but you can also see the introduction of the second pension as a recognition that private pension providers cannot be relied on –which is why later governments have tried hard to abolish it. The Blair/Brown governments wanted to turn it into a flat rate pension. The current government wants to abolish both basic retirement pension and state second pension and replace it with a flat rate benefit of £140 per week in today's terms, which would be a huge cut for many people.

Who stole your state retirement pension and how did they do it?

Despite the claims that "we can't afford pensions" the national insurance fund that pays them is running a massive surplus. According to Wikipedia the Government Actuary predicts that the surplus will top £114 BILLION by 2012. This is because we are paying more and more and getting less and less. The surplus would be even more if governments hadn't stolen from the fund. As the pensions expert Tony Lynes has pointed out, some of the ways they have done this include:

- Using the fund to subsidise "green taxes"
- Making the fund pay for the credits given to carers etc to qualify them for benefits rather than paying for these out of general taxation,
- Abandoning the policy of investing surpluses in gilt edged securities for a policy of using them to fund soft loans for other government expenditure.
- Using the complexities of the system to make major cuts without anyone noticing. For example, David Cameron is able to pass off the proposal of a flat rate pension of £140 as a gain, when in fact huge numbers of people would lose a large amount and the poorest single people would only gain about £5 per week if that.

Some people complain that national insurance benefits largely depend on current contributions funding current expenditure(although no one seems to know what happened to all the contributions made in the period 1948-1968, when everyone was paying but few were getting any benefit). But this is how life and the economy work. We don't say to our children that we won't pay for their clothes or their education until they have some money. We pay for these when they need it. Other things we pay for out of general taxation at the time include health care, the armed forces, social care.

Who stole your company pension and how did they do it?

If we go back just 12 years or so we find that no-one was worried very much about company pension schemes. This was true even though life expectancy had been rising for decades.

Lots of companies had final salary pension schemes and many were so confident that they could continue to meet their liabilities to pay pensions that they made few contributions into their pension funds. The stock market was growing and everything would be fine.

Then suddenly, in the first decade of the 21st century, the stock market did not perform so well and – surprise, surprise, big deficits. But that's the way business always works. In the good times you put money into your scheme and in the bad times you put in less. As anyone will tell you, pensions are a long game.

But the problem is that business is no longer a long game. Instead it's about short term gain, so instead of investing in meeting their pension commitments in the long term, companies preferred to pay short term dividends to shareholders.

Worse, instead of being organisations that do things or make things, companies are now commodities to be bought and sold. So the deficit or surplus in its pension fund becomes something to factor into the price. When a company expected to be around in some form or another when the pension of a worker was due to be paid out then there was scope for flexibility. This is not so now.

Of course, when a scheme is closed there is no possibility of using current contributions to fund current payments, so the possibility of default grows.

We have seen the ending of more and more private sector final salary pension schemes. How did they get away with it even though a good pension is worth about 20% or more of your salary?

- Generations growing up without the memory of extreme poverty in old age became complacent. They thought it was "all sorted" now.
- There is tendency amongst people under 55 to avoid thinking about retirement. They think that if they ignore it they will never get old. Significantly most cuts to pensions affect only those with less more than ten years to retirement.
- The collapse of unions in the private sector took away the only organisations with a direct interest in fighting for all workers. Unions have to represent their members who are at all stages in their working lives. By contrast individual workers may not be so concerned with what happens to others in different situations. They are certainly less interested in what happens to new entrants.
- Because no one wants to talk about pensions, no one understands them.
- The more you are struggling now the less energy you have for fighting about the future. As more and more of the workforce feels it is "under the cosh" surviving today takes precedence over planning for the future.

Who stole your private pension?

The private pensions industry is big business. That doesn't make it efficient.

If you take out a private pension you will pay money to an insurance or some other type of company. This money is invested. In a traditional insurance company you get a share of the profits of the company. Equitable Life was an example of a company that operated this sort of scheme. The profits may well not be enough for you to retire on. So more recently investments in the stock market have become more common. This may generate more money, but it is high risk. The stock market may go up or down. If it goes down between the period that you pay your money and the time you want to use it you will get back less than what you paid in. After the crash of the 1920s stock market values did not recover for 30 years.

Payments into a private pension scheme are tax deductable

When you come to retire you can take 25% of the sum your investment has built up in tax free cash. But for most people the only option for the rest of the money is to buy an annuity. The company takes all your money and pays you a regular sum for the rest of your life. Increasingly, employers are also operating this sort of scheme instead of final salary schemes. They pay a miserable 5 or 6% of salary into the scheme, instead of the sort of money needed to ensure a decent pension.

This sort of scheme has been heavily promoted by all recent governments but people tend not to believe in it. This is because:

- Annuity rates are rubbish and are getting worse. At the end of June 2011, according to the Annuity Bureau, a man of 65 who wanted to buy himself a pension of £10k a year, increasing in line with inflation, would have to pay £232,000. A woman in the same position would have to pay £256,000. Most people are unable to build up this sort of money in their pension pots.
- The amount you get is random. Someone retiring in 1999, when the market had had ten good years, would do far better than someone retiring in 2009, when there had been a number of bad years. So there is no security or certainty- two of the things that most of us look for in a pension. Private and company money purchase schemes transfer all the risk from the employer to the worker. Employers are in a much better position to take this risk because they will have employees retiring at various different date, evening out the gains and the losses.
- Since hardly any of us understand stock markets well enough to make our own investments we have to pay someone to manage our pension pot. Companies typically take 1.5% or more of your pot every year. So someone who invested £1,000 at age 20 would find that two thirds of this money was paid over in fees by the time they came to retire. They have to hope the investments pay off to compensate for this. On top of this there is usually also a set up charge of about 3% of the money you pay at the time you pay it. This is grossly inefficient. If a larger employer invests money then they will pay about half of these fees, because of the economies of scale and their bargaining power.
- The fact that the private pensions industry survives at all is arguably because it gets a number of tax breaks. These breaks cost the taxpayer money.

Faced with the closing of company pension schemes and the inefficiencies of private pensions some people have turned to buying houses larger than they need, or buying houses to rent out in order to try to get enough money to retire. This has made housing more unaffordable. People running businesses have hoped that they could sell the business on retirement as a going concern. But this is getting harder and harder to do.

MEANS TESTING

When the current national insurance system started in 1948 no one had paid any contributions. So there had to be a safety net. This took the form of a means tested benefit funded out of taxation. A means tested benefit is not dependent on how much you have paid. Instead it sets a minimum level of income that everyone should have. The income and needs of couples are usually taken together.

The current means tested benefit for pensioners is pension guarantee credit. The minimum level set for a single pensioner is currently £137.35 per week. The level for a couple is £209.70. An allowance for housing costs may be made on top of this. If you have other income this will normally be taken off the amount that you are paid. There are complicated rules about savings.

The Thatcher era conservative government cut the amount of national insurance benefit that you get for your contributions. This made more people dependent on means testing. The labour government that followed it did the same but also increased the amount of means tested benefit for pensioners. This had a number of effects:

- There are more pensioners on means tested benefits. Some estimates say that shortly half of all pensioners will be entitled to the guarantee credit. Means tested benefit are intrusive and expensive to administer.
- The government saves more money by holding down national insurance benefits than it pays out in means tested benefits because means tested benefits are only paid to the poorest.
- There is less incentive to pay contributions or to try to build up pensions, especially if you are low paid. There are extremely complicated rules about how other pensions are treated, but these have only marginal effects.
- If employers pull out of providing pensions then the taxpayer has to pick up quite a lot of the losses.

ISN'T THERE A POPULATION TIME BOMB?

Life expectancy is rising, but it has been rising at a steady rate for a very long time (Some people think current trends in diet and obesity etc will lead to a reversal of this trend in future) The proportion of older people to working age people is also rising, but this is largely steady too. Between 1985 and 2010 the percentage of over 65s as a proportion of the population increased by 2%. But in the same period the proportion of the population under working age decreased by 2%, so the proportion of working age people to the rest remained the same. There will be a spike as baby boomers retire.

We have known who was likely to retire in the next 25 years since about 1975. Why do we only hear about a retirement boom now?

If you think about it, it is more significant what those who are working earn. We have assumed that the general trend will be for average people to get more well off. If working people are well paid then they will be generating more national insurance and tax payments to help support those who are not working, even if the proportion of workers in the population were to increase. You only need to panic if you fear or plan that the majority of working people will have their incomes considerably reduced. Is this what the government plans?

Although some people are living longer there are huge variations. Poor people live far shorter lives than those more affluent. Many people doing demanding manual work become unfit to work well before 65. So raising pension ages is a way of stealing from the poor to save the better off.

WHAT DOES THE GOVERNMENT WANT TO DO?

David Cameron's big idea is to introduce a pension of £140 for each pensioner per week at current prices. This is all you would get for your national insurance contributions. (At the moment the government does not plan to take away the state second pension that you have already earned.)

This looks attractive until you realise that it is more or less the amount single people are getting on pension guarantee credit now. The winners would probably be those in couples where neither are currently building up much state second pension and those with a large amount of savings which prevent them from getting pension guarantee credit. We don't know how the government will deal with housing costs, which are currently paid for on top of the pension guarantee credit amount.

The losers would be all of us who are making contributions to the state second pension. We will see nothing for our money.

The government is also setting up a system where it will be easy to cut retirement benefits. Where the amount paid is not clearly linked to the contributions made it will be easy to argue that we "cannot afford" increases in line with inflation.

We also have to ask how long it will be before the government starts arguing that it is unreasonable to pay £140 per week to "well off" pensioners and starts deciding to means test the pension, as it is trying to do with child benefit.

Governments have a history of demonising claimants as a way of softening them up for cuts. We have already seen the demonization of unemployed and sick people and we are beginning to see the demonization of those with final salary pension schemes. The next stage is the demonization of pensioners as a whole by promoting resentment against them amongst working age people.

WHAT OUGHT TO BE DONE?

- We need to defend those final salary schemes that still exist, pointing out that very often it will be the taxpayer who has to pick up the tab in pension guarantee credit if they are closed.
- There should be an increase in national insurance contributions by employers- and possibly by employees, where there is no pension scheme good enough to opt employees out of the state second pension scheme. When the state second pension scheme started in the 1970s employers who did not provide a scheme good enough to opt out paid about a third more in national insurance payments than those who were opted out. Employees paid about a third more too. Now employers normally pay only about 25% more and employees pay less than that.
- Up to now the state second pension has been increased in line with average wages. Now it will only increase in line with prices. This change should be reversed.
- The theft of money by the government from the national insurance fund should be stopped.
- Tax subsidies to schemes that do not guarantee a pension better than the state scheme should be abolished.
- Employees national insurance should be payable at the full rate on all income above the lower limit. At the moment that fact that payments at the full rate stop at £817 per week means that the rich pay a smaller percentage of their income in national insurance than the more modestly paid.

HELP AND ADVICE

Regrettably the angry claimant doesn't have the resources to give advice about individual cases. But you can get advice here:

Lewes Citizens Advice, 3 North Court, Lewes East SussexBN7 2AR phone 01273 473082 web www.lewesadvice.org.uk
Newhaven Advice Hub, Summerhayes Centre, Newhaven, 01273 612360
East Sussex Disability Association (ESDA) – advice for people with disabilities- web http://www.esda.org.uk/benefitsadvice/71 phone 01323 514500
Age UK, benefits advice for older people, Lewes and Wealden 01273 476704 Ext 235
For a list of advice centres in Brighton see http://www.brighton-hove.gov.uk/downloads/bhcc/socialjustice/Where_To_Get_Advice.pdf
Always phone before visiting if you can to check opening hours and if they can help you.

Private solicitors may be able to offer advice under the legal advice scheme, but the government plans to close this.

If you have a disability or illness the organisation set up to cater for the condition may offer help with benefits.

There are a number of written guides to benefits. The Disability Rights Handbook is good if you have a disability. The Child Poverty Action Group sells a wide range of guides.

WHAT'S THIS ABOUT?

I've been involved in social security for over 40 years and I've been constantly amazed at how little people know about it. We are nearly all claimants, contributing to the national insurance system and claiming child benefit, retirement pension and other benefits. But most people understand very little about what they are paying for, how much they are paying, and what they are paying for.

This was brought home to me when I was engaging in debate with a an experienced Lewes district councillor, who didn't appear to know that the council was about to be made completely responsible for devising a new system of council tax benefits, with 10% less money than the government currently spends on the benefit!

It seems to me that there is a real danger of the government getting away with its cuts in benefit because people do not understand what is going on and how it will affect our neck of the woods. So I've started this newsletter. It doesn't aim to give benefits advice. There are lots of sources of that. (See below). It does try to explain what the system is and how the government's changes will affect Lewes and Brighton. Its aim is to improve knowledge, so you are welcome to forward it on to other people and to use the material in the newsletter, providing that you give me a credit and run any changes past me

Chris Smith.