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The Fowler Inquiry into Provision for Retirement and the Pension Reforms of 1986

A witness seminar held at
The Institute and Faculty of Actuaries
High Holborn, London

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Transcript edited by
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Witness Seminar

The Fowler Inquiry into Provision for Retirement and the Pension Reforms of 1986

Transcript of a witness seminar held at The Institute and Faculty of Actuaries, High Holborn, London, 6 December 2017

Panel: Nicholas Montagu, Christopher Daykin, Adam Ridley, Marshall Field.

Introduced by Colin Wilson.

Introductory paper by Hugh Pemberton, University of Bristol.

Chaired by Gregg McClymont.

Colin Wilson: Good evening. I'm Colin Wilson, and I'm the immediate past president of the Institute and Faculty of Actuaries [IFoA], and it's great to see two other past presidents of the Institute on tonight's panel. It's my pleasure to welcome you to this witness seminar on the Fowler Inquiry into provision for retirement and the pension reforms of 1986. It forms part of a four-year project on the Thatcher government's pension reforms funded by the Arts and Humanities Research Council, and I'm grateful to the University of Bristol for organising tonight's event here at Staple Inn, the historic home of actuaries in the UK. It's an honour to be joined tonight in addition to our members by invited guests and of course some of the key players of the time. 30 years have passed since the events we'll be examining this evening, yet the subject of pensions policy could not be more relevant today. Indeed, the government will shortly be releasing a white paper addressing this issue, so I look forward to seeing you all here in 2047 for our witness seminar examining the new Bill and the decisions that fed into that. As president, I've focused on the importance of thought leadership, and the contribution actuaries can make to the big issues affecting society today, such as the one we're discussing tonight, and as part of our commitment to developing thought leadership, the IFoA is dedicated to delivering high quality events such as this, to advancing actuary science, and to raising the profile of the profession. Much of our work is about identifying and meeting the challenges of the future, and I strongly believe that dealing with these challenges is made easier and innovation is enhanced by sharing our ideas and working with others. Collaboration is critical. So it's been our pleasure to work with the University of Bristol and the Arts and Humanities Research Council on this seminar, and I'd particularly like to thank Professor Pemberton and the rest of the University of Bristol team for all their hard work in organising tonight's discussion. Finally, I'd just like to introduce tonight's chair, Gregg McClymont. Gregg is currently the head of retirement savings at Aberdeen Asset Management. He was Member of Parliament for Cumbernauld, Kilsyth and Kirkintilloch East from 2010 to 2015, and he served as Shadow Pensions Minister under Ed Miliband from 2011. Before becoming an MP, he gained a PhD in modern British history, and was then Fellow in History at St Hugh's College, Oxford, so he's ideally placed to lead tonight's debate. Over to you, Gregg.

Gregg McClymont: Thank you very much, Colin. Good evening and welcome to what I think promises to be a fascinating evening, something I've been looking forward to personally and greatly. So without further ado, let me hand over to Professor Hugh Pemberton, who is the key person in the whole Thatcher pensions reform project, who's going to give a summary of the pre-circulated paper as it would have been sent out in your accompanying notes, and then we will go onto the panel. So, over to Hugh.

Hugh Pemberton: Thanks, Gregg. So thank you all very much for coming tonight. My task in the next quarter of an hour is just briefly to describe the landmark reforms which reshaped our pensions system in 1986, and to map out the process that lead up to them. So until 1986 for most employees pension provision above the minimal basic state pension was through one of two routes. Half the workforce was making contributions to an occupational scheme, the other half was in the state earnings related state pension scheme, or SERPS, the unfunded, pay-as-you-go state scheme that had been inaugurated in 1978 by Barbara Castle, with the tacit support of the Conservative opposition. Now, after three decades of hand wringing about the two nations in retirement that had been created by the growth of occupational pensions post-war, there had been a widespread sigh of relief in 1978 that a consensus had been forged around a partnership between employers and the state in providing earnings related pension top-ups to the BSP [basic state pension] for all employees. [Sorry, I realise I haven't done my clicking].

But that consensus that was forged was pretty brief. Not least because of the Thatcher government's fears, which were clearly voiced by the then chancellor Geoffrey Howe to the National Association of Pension Funds [NAPF] in 1981 about the burden of pensions. Not least the sustainability of public spending promises on SERPS in a world of lower economic growth, the cost of protecting both the BSP and contracted out guaranteed minimum pensions that were part of SERPS against relatively high inflation. Then there was the danger of rebellion by those of working age against the burden placed on them as the ratio of productive workers to pensioners declined, which was eminently predictable, and the worries that the cost of occupational pensions might ultimately prove too heavy a burden for employers. Finally, there were worries about the potentially distorting economic effects of large pension funds' lack of risk appetite.

Now, those interlinked fears underpinned much rethinking about pensions in the ensuing five years, and in 1986, the Financial Services Act, in conjunction with that year's Social Security Act, a really major reform of the overall social security system piloted onto the statute book by Norman Fowler, set up a new system of mass personal pensions with the ability to contract out of SERPS, as occupational pensions could do. It provided those taking out a personal pension with a financial incentive to do so, colloquially known in the industry as 'the bribe'. Now, in parallel, the '86 Social Security Act made very significant cuts to the future generosity of SERPS. Large, long-term savings would be delivered through adjustments, including for example basing pension rights on average lifetime earnings, rather than on the best twenty years, and reducing the accrual rate.

A new system of personal pensions and large, long-term cuts to SERPS were I think significant changes by any standard, but in fact, the government had planned to be considerably more ambitious than this. In its green paper in 1985, it had proposed abolishing SERPS, moving its members into compulsory personal pensions with a minimum contribution of at least 4% of earnings, and with SERPS gone of course, occupational schemes would be compromised, because contracting out would disappear, and because younger members would almost certainly be tempted out of them into personal pensions.

The green paper's proposals were opposed from virtually all quarters. Not just from large employers, from trade unions and the so-called poverty lobby, which had been expected by the government, but from the actuary profession, and from insurers. Firms that the government was relying on to make personal pensions work, which it had assumed would welcome compulsion, but which bluntly didn't see a profit in selling expensive to service personal pensions to millions of British workers on pretty low wages. Consequently, the government fell back on a compromise solution. Implement personal pensions as an addition to SERPS and occupational schemes, provide a financial incentive through the National Insurance system to people taking out a personal pension while implementing reforms to SERPS that would radically cut its long-term generosity, and it was assumed thereby create a further incentive for people to contract out into a personal pension.
Now, the puzzle is that the government was taken aback by the strength of opposition that greeted the publication of its '85 green paper. It's a puzzle because Norman Fowler had been careful to hold a public inquiry, the Inquiry into Provision for Retirement, to build support for reform. The inquiry consisted of Mark Weinberg, founder and director of

Hambro Life, the economist Alan Peacock, Marshall Field, with us tonight, then general manager and chief actuary of Phoenix Assurance, Stewart Lyon, general manager of Legal & General and president of the Institute of Actuaries, and Barney Hayhoe, a junior Treasury minister. The inquiry's secretary was the DHSS civil servant Nick Montagu, who is also with us tonight. Announced at the end of '83, the inquiry spent much of '84 taking evidence. In the process, it revealed significant worries in the actuarial profession, and more generally, both about the idea of personal pensions, and the end of the partnership in pensions consensus. So the principle concerns were that personal pensions would destabilise occupational pensions, that most individuals lacked the expertise to manage their retirement savings, certainly to directly invest those savings. That defined contribution pensions would be unacceptably volatile and risky. That personal pensions managed by large insurance companies would further institutionalise savings and investment, potentially reducing dynamism and entrepreneurialism in the economy, and anyway, there seemed to be little or no public demand for personal pensions.

Now, shortly, our panel is going to explore amongst other things this disconnect between evidence given to the inquiry and the government's perception of political possibilities in the green paper. But before that, I'd like briefly to explore the roots of the '85 green paper's proposals. In July 1984, Nick Montagu, the Fowler Inquiry's secretary, wrote to the businessman, Nigel Vinson, to thank him for his input, and acknowledge his key role in shaping proposals on personal pensions that had just been set out in the Inquiry's consultative document. That proposed that every employee had the right to take out a personal pension, but employers would no longer be able to force staff to join a company scheme. That personal pensions would be able to contract out of SERPS, and that employers would have to contribute to them. Nick described Nigel Vinson, and his colleague at the right-wing think tank, the Centre for Policy Studies, Philip Chappell, as the only begetters of the personal pension idea, which they'd set out in a 1983 pamphlet entitled *Personal and Portable Pensions - For All*. Now, essentially, Vinson and Chappell had used the technical problem of early leavers from occupational pension schemes, in which preserved rights were eroded by inflation, as a hook on which to hang a proposal to enable all employees to have their own self-invested, defined contribution personal pension into which they and their employer would contribute and which would follow them around from job to job. Most importantly, their proposal had a clear, ideological agenda that appealed to the Prime Minister. The promotion of individual responsibility and the inculcation of capitalist virtues. For Vinson and Chappell envisaged that those taking out a self-invested personal pension would gain a direct, unambiguous, and most importantly personal stake in British capitalism. They would invest directly in British firms. Welcome side effects would be that the power of pension funds and insurers, which the Centre for Policy Studies [CPS] saw as reservoirs of institutional power at odds with individual freedom, would be radically reduced. At the same time, a handy target for socialist takeover would be removed, and investment would be allocated more efficiently, they argued, because it would be done by individuals, not institutions. Consequently, Mrs Thatcher came to support the idea of an inquiry into how personal pensions might be implemented. We should also, though, note her appointment of John Redwood as the head of her Policy Unit in January of '84. Tasked by her with overseeing the adoption of personal pensions, he became a vocal advocate within government of making that change as part of a more radical reform that would see SERPS abolished, and its members moved into personal pensions compulsorily. An advocate not least in MISC 111, a small ad-hoc cabinet sub-committee that was set up to handle reform. In September of '84, for example, Redwood warned Mrs Thatcher ‘when SERPS matures early in the next century, it will pose a major threat to the public finances of this country’. 'Its complicated calculations, linking pensions to earnings, is a classic example of the public sector trying to ape what the private sector should do and can do better, so SERPS has to go,' wrote Redwood.

Redwood and his Policy Unit colleague David Willetts assured Mrs Thatcher that SERPS abolition would receive strong support from the ‘baying hoards’ of the pensions industry, advisers, intermediaries, investors, and others, because its replacement by personal pensions would result in ‘a bonanza of business opportunities’. The Prime Minister ultimately agreed, despite having indicated in the '83 election campaign that there were no plans to make changes to SERPS. In October of 1984, the government secretly committed itself to abolishing SERPS, even as the Fowler Inquiry continued to consider alternative options. Abolition of course ran the risk of leaving many employees without pension rights other than the basic state pension, and thus creating a [future] public spending burden. To avoid that, it was decided to compel those without occupational cover to take out a personal pension. A rather paradoxical policy, given the underlying agenda of individual freedom, but one which would ensure the success of personal pensions, it was felt. The Treasury, including Howe and Lawson's advisor, Adam Ridley, also with us tonight, had been generally quite sceptical about personal pensions and about the Redwood vision. In April of '85, as the government geared up to issue its green paper, there was an almighty row when Nigel Lawson, who was later to describe SERPS as a long-term doomsday machine, woke up to just how much its abolition was going to cost the Treasury over the short to medium-term through tax relief on personal pension contributions. That forced a compromise in the June green paper. Abolition would be phased in over three years between '87 and '90, but not for those within fifteen years of retirement, though there weren't that many of those.

Nevertheless, despite that compromise, the reaction to the green paper was explosive. For example, the head of the NAPF's parliamentary committee privately described the proposals as undesirable, unworkable, and destroying pension stability. The NAPF flirted with the idea of refusing to cooperate with the government on the technical detail of implementation. The CBI declared itself implacably opposed to SERPS abolition, and most employers' organisations thought likewise. A survey of firms found only 2% of them in favour of abolition of SERPS. The TUC was also adamantly opposed, and strong doubts were also evident among actuaries, including the Association of Consulting Actuaries, the Institute of Actuaries, and the Faculty of Actuaries. Insurers, not least Legal & General and Save & Prosper, who had supported personal pensions in evidence to the Fowler Inquiry were also highly unenthusiastic about compulsion. That left Norman Fowler extremely exposed. In October of 1985, he told MISC 111, the cabinet committee in which the radical reform had been forged, that 'these reactions from bodies who would normally be firm supporters, and on whom we will depend heavily on getting new arrangements in place, lead me to think again about the path we've chosen.' The Policy Unit complained to Mrs Thatcher that Fowler was 'trying to escape' from the deal on pensions that had been struck in MISC 111, but escape he did. In the December white paper on reform of social security, abolition of SERPS had given way to reductions in its benefits. Personal pensions would still be implemented, alongside SERPS and occupational schemes, and it would be possible for their members to take out a personal pension if they wished, but the success of personal pensions would now depend on the attraction of the National Insurance ‘bribe’. That failure to abolish SERPS and replace it with compulsory personal pensions represented a major blow to those who had pushed that strategy, most notably the Policy Unit and the CPS but, though SERPS remained, the '86 compromise effectively subjected it to death by slow strangulation, as Eric Short, former actuary, and then pensions correspondent at the *Financial Times* presciently noted, 'People retiring in the next century who relied on SERPS for their pension were going to be in for a shock.' Now, we'll be exploring that story in a future seminar on the legacy of these reforms, but tonight, we explore the Fowler Inquiry, and its relationship to the reforms of 1986. So without more ado, I'm going to hand over to Gregg, to take us into that. Thank you very much.

Gregg McClymont: Thank you very much, Hugh. I think the scene is set for a fascinating discussion. We will have an hour where our distinguished panel will try and tease out some of the complexities, the politics, the technical aspects and the context, really, I think, of trying to understand the genesis of the 1986 reform. Then we will have half an hour for questions from our audience. So let me just briefly introduce the panel before we move on to the discussion. From right to left we have Nick Montagu, well known figure I think to many here tonight, Secretary to the 1983 Fowler Inquiry into Povision for Retirement, [and] eighteen years an official in the Department of Social Security and Health. I don't think it changed its name in all those years, it changes its name very often these days. And I think [he] will give us the official view in some ways, the official's view of the genesis of the '86 Act. We have Chris Deakin, government actuary for many years. Before that, the directing actuary, I believe, and principal actuary in government, 35 years in total, Chris, inside the government's actuary department, will give us I think the actuarial view very clearly. Sir Adam Ridley, who I would describe as giving us the political view, the view of the governing party during that period, and also I think to some degree the Treasury view, Adam having served as a director of the Conservative Research Department and then Nigel Lawson's special advisor between '79 and '84. In my limited political experience, the political view and the Treasury view are often one and the same, so it might work well from that perspective. Last, but certainly not least, Marshall Field I think will provide the industry perspective, having been himself a member of the 1983 Inquiry in his capacity as a senior figure in the life and pensions industry. Sadly, Lord Fowler is unwell and can't be with us this evening, he sends his apologies, so we'll just have to crack on and have as interesting a discussion as we can, and I think it will be very interesting. How I suggest we proceed, panel, is we start really with some opening observations, particularly around the issue of the 1980 decision to end the link between the state pension up-rating and average earnings as a way into the broader debate, and the pensions field. So if I can ask you successively, I'll begin with Adam, put some context in the way in which government, industry, interested parties were thinking about the pensions policy space, in the context of the 1980 decision to remove that earnings link. Adam?

Adam Ridley: Thank you very much, Gregg. Let me just say there are quite easily the temptations to think of all of this as one integrated project. There were in fact several separate streams of activity which coalesce and can be called a single project, but it's several different bits. Let me start off then with what was going on in the earnings rule, links between earnings, prices, and pension levels. This caused a lot of concern in private in the Conservative Research Department and elsewhere, and amongst our advisers by the time people had fully absorbed Barbara Castle's initiatives of the middle 70's, because by pushing the double linkage of any Social Security benefit to move upwards in line on a ratchet basis with whichever was higher of price increases and wage increases, you created an extremely challenging instrument, and in fact, in macro economic terms, a pathological one. This was aggravated by the feeling that we had, post the oil crisis, and in the background the OECD and others very much wondering how the Western economies would recover. We had a picture of flat growth, or in fact, often long run growth figures that were almost certainly lower than they had been, combined with rising expectations, and a great deal of difficulty in giving the less well-off a fair crack of the whip in these challenging circumstances with very sharp increases in nationalised energy prices, oil prices, and I know not what. The Research Department analysis from '76 on, which I was largely responsible for, made us underline very quickly to the shadow cabinet, and particularly to the Treasury team, that there was no way in which it was sensible to stick with the wage link, and therefore we had to be prepared to stick to prices only, and that was agreed, and that you will find in the 1979 manifesto. It caused some fuss, but people understood more or less, I think. Subsequently, there was a little bit of moaning internally when this came to be put into legislation, but it was not a major problem, and I think that people began to switch their focus, because by then, we were beginning to look at the long run problem of public expenditure growth in a much more systematic way, which I can revert to later. Now, I'd just like to do a bit on the portal pensions bit now.

Gregg McClymont: Yes, if you can just say briefly about how you think the portability issue has been reported.

Adam Ridley: The portability issue is an interesting one because actually, it goes back a very long way. Arguably it goes back to Beveridge and his concept of having some basic uniform benefits for one and for all, and then individual citizens improving on that in various ways as best they could. Geoffrey Howe made an important contribution to the debate a long way back. I haven't actually got the precise date here but I think it was 1975. He was a Bow Grouper, and he said it's extremely important to look at the danger of having too much automatic linkage, and he also started arguing the case for moving towards transferability and a bigger private sector role, and a more defined benefits role rather than defined contribution. Then by 1976, by the time that the debate was growing-,

Gregg McClymont: Can I just clarify there, Adam, when you say, 'More interested in defined benefits than defined contribution,' do we mean actually a move towards defined contribution?

Adam Ridley: I'm sorry, I mean defined contribution, yes, I just was getting my words mixed up.

Gregg McClymont: Of course. It happens to us all regularly, especially me.

Adam Ridley: It's an important subject to get right. Anyway, in the middle 70's, there was quite a strong group of individuals in the Research Department, including particularly a colleague of mine called Peter Cropper, and to a lesser extent one or two others who were thinking extremely hard about a whole complex of issues, including portability, including how we straightened out other aspects of the pension system. That then got picked up further in internal work after the '79 election. My cousin, Nick Ridley, who was Financial Secretary [to the Treasury] at the time, he and I and a few others used to talk in the run up to '83 about something which we called a personal moneybox, or jokingly a 'rat', a 'Ridley accumulating trust'. Essentially, the proposition was that you put your money separately from any normal collective scheme, and that it might live under a trust structure, and you would have a measure of control over its use. So that idea was already live and kicking. It was encouraged independently of that in the preparatory work for the '83 election, which involved a number of policy groups, and we talked very closely to the CPS at the time, whose work was often very much a matter of give and take between the internal ones and the external ones.

Gregg McClymont: Can I ask, Adam, at this stage, how far was that interest in portability? So is portability a proxy for a view of creating a closer linkage between the individual and the their retirement assets?

Adam Ridley: It was independent of that. I can say a bit more about that in a moment, but it was an attraction, more important to some than others. For many of us, it was just a way of making sure that individuals had proper control over the amount, and in broad terms, simply that they could influence the decision about the character of their investments, and choose their own risk.

Gregg McClymont: What was the perspective on the institutions who were currently undertaking that role - insurance companies and defined benefit pension funds?

Adam Ridley: I will be candid that institutions were viewed as conservative, slow moving, with notable exceptions, likely to oppose almost anything. To be candid. I mean, there's no point in disguising them, and there was a lot of evidence to support that.

Gregg McClymont: When you say likely to oppose almost anything, do you mean coercive?

Adam Ridley: They didn't want to change, I think is the word that I would use.

Gregg McClymont: Great, thank you.

Adam Ridley: Now, the Institute of Directors also piled into this game with an important reinforcement of the work that Vinson and Chappell were doing. The timing of the '83 election was such that we weren't able to fully absorb this debate, and frame something for the manifesto proper. There were a string of unusual policy groups set up in opposition, and they just reported in time to get some of their ideas on the table for the '83 manifesto, but in this case not.

Gregg McClymont: So can I just stop you there, because we'll come onto '83. Can I just stop you for a moment, thank you very much. Marshall.

Marshall Field: Yes.

Gregg McClymont: You're part of the world's small ‘c’ conservatives, slow moving, you're not open to change.

Marshall Field: That's not how I saw it.

Gregg McClymont: As a starting point, were you aware that that sort of view was gaining traction inside the Conservatives?

Marshall Field: Well, I take the point made a little while ago that there were several issues going on at the same time. The principle issue that the pensions industry knew was that of the early leaver. It was recognised that people who changed jobs were not being treated as well as they should be, but it was quite difficult to change that in that occupational pensions were always voluntary, and there was not much use in making it more expensive to have occupational pension schemes when those who didn't have anything at all were let off scot-free. There was a real fear that improving the benefit of the early leaver at the expense of the old employee would cause employers to give up pension schemes altogether, and that was a major fear. There was another background in that following the Boyd Carpenter scheme of '59, there was tinkering with pensions going on, and we had a decade of different schemes coming up, from Dick Crossman's, to Keith Joseph, to Barbara Castle. We'd had ten years of great discussions which led eventually to the Barbara Castle scheme, but during that ten-year period, employers were reluctant to do anything at all because they wanted to know what the background was going to be. So when we got round to '83, there was great support for doing something about the early leaver, and Norman Fowler was invited to the National Association of Pension Funds conference in the summer of '83, and he made the closing address, and he spoke to it. I wasn't there, but he came back fired with the need to do something for the early leaver, and he had a one-day conference in September of '83, and I went then as Chairman of the Life Offices trade association. Numbers of people spoke to it, and as a result of that, he set up, or there was set up the inquiry into pension provision. I was on that as well, but not representing any institution at all, I was there privately. We had a number of meetings, papers were submitted by fourteen bodies at public meetings, but that was wholly in the context of helping the early leaver. There was no question at that time of reducing SERPS or making investment changes of any kind. It was wholly in the context of the early leaver, and I do remember the comment that we made in the Life Offices about the Centre for Policy Studies report, which was amongst those papers - an interesting comment, but totally irrelevant to the point under discussion, and that was our starting point.

Gregg McClymont: Was this the Chappell and Vinson paper?

Marshall Field: Yes, it was. Well, it was a paper produced by them. Whether it was the same paper, I don't know.

Gregg McClymont: Yes.

Marshall Field: That personal pension sub-group reported in July. No, no, earlier than that. July '84, and I don't think there was much in the way of consultation with other bodies after that. I was still on the inquiry and there was a great deal of discussion on the inquiry about SERPS and the index linking, and portability and all the rest of it. But to express surprise that the industry didn't take the opportunity that they had expressed earlier in personal pensions is not entirely fair, because this aspect of it was never brought to them.

Gregg McClymont: So the industry was focused on and trying to find a solution to the early leaver problem?

Marshall Field: At that time, yes.

Gregg McClymont: How far was the industry aware that there were very powerful forces within the government who wanted to do something?

Marshall Field: Well, they'd read the Centre of Policy Studies report, but that was about it, I think, from my view. Others here were around at the time dealing with pensions as well.

Gregg McClymont: So industry wasn't feeling that there was something imminent which was going to be very …

Marshall Field: No, it came up later on, and Alan Peacock was very keen to abolish SERPS. I remember talking quite a bit about that then, but this was all of a bit of a surprise from where it had started originally. I remember commenting at the time that the Fowler Inquiry had changed its terms of reference twice during its sittings.

Gregg McClymont: We'll come back to the final inquiry in detail, because clearly that's a central element. So, so far, we're building up a picture of … inside the government there are influential individuals and institutions, whether in the Treasury or in the Conservative Research Department and in the Policy Unit who are looking at something much more radical, to abolish SERPS. The industry is focused on the early leaver problem, and isn't so much aware of this thrust which has really been in play for a decade or so, from a …

Marshall Field: It all came much more to a head with the issue of the green papers, but that was in '85.

Gregg McClymont: The green papers. That's really useful, we'll come to that. Can I come to the other side of the table, and ask …, I think I'll go to Chris first, and then Nick, you can give a considered departmental view. Chris, the Government Actuary's Department, the indexation decision, was that something which had been much thought of, the implications of it?

Chris Deakin: Well, I can't really vouch for that in the sense that I wasn't at the Government Actuary's Department in 1980, I was at the Treasury.

Gregg McClymont: Even better. That's where the decision was made.

Chris Deakin: I was responsible for the health service, not for the Social Security system, but I was involved in the creation of SERPS back in the mid- '70s, and that was very much designed by people at GAD, and then around 1975 when we had the Social Security Pensions Act, I was engaged in determining how we should deal with the rebate, the contracted out rebate. How much you should pay people to stay out of SERPS, but I think at that time, 1973, Better Pensions from Barbara Castle was based on some projections, which the Government Actuary obviously was involved in. The [Better Pensions] paper only presented projections going forward about 30 years from the mid-'7 0s. So only going up just into the turn of the millennium, and it assumed on government instructions, 3% real earnings growth, which then subsequently became considered to be much too aggressive. So when the Thatcher government came in, in 1979, there were already concerns within the Treasury I think about the longer term cost of SERPS, although it had been cross-party consensus in the mid-'70s. And so the Treasury were very concerned about the way in which the ratchet was operating, because the Labour government had introduced the higher of prices or earnings as the revaluation of the basic pension, which is fine so long as they, sort of, stay in the same order, but if they keep overtaking each other you then get a sort of double whammy in terms of the extent to which the basic pension is increased. So that decision to put the basic pension on a prices revaluation basis, which was still deemed to be consistent with the manifesto promise to maintain the value of the pension, was pretty quickly taken, but wasn't at that stage, I think, really attached to an idea of doing anything much to SERPS, which began to develop later, the way I saw it. Because I came really back into this field at the beginning of 1985 when I was Deputy Government Actuary with responsibility for Social Security and pensions policy, and one of the first things we were looking at were the very long-term costs of SERPS, and this proposal, which was, sort of, coming out from the Number 10 Policy Unit, to abolish SERPS altogether. The Treasury were sold on that initially, and the MISC 111 decision suggests the Treasury bought into it, but very soon I think Treasury and Nigel Lawson, who was the Chancellor then, became very concerned about the transitional costs, and although the Government Actuary's Department is supposed to be neutral and was advising both the Department for Work and Pensions and the Treasury, as this process went forward, Nigel Lawson said, 'Look here, Government Actuary's Department , I want you here in the Treasury, not advising those people over there'.

Gregg McClymont: Sounds very familiar.

Chris Deakin: So throughout the period leading up to the white paper and the Bill in early 1986, I was actually sitting most of the time in the Treasury, so that I was accessible to Mr Lawson whenever he needed advice. So I see this as being driven by a, sort of, conflict between a, if you like, a sort of philosophical view that we should move from having so much public provision towards having more private provision. Private provision should be personal because of these reasons that Adam's already mentioned, [it] wouldn't be so corporatist to have individual pensions rather than having occupational pensions which were driven by the big investment houses, and so on. I think there was influence also because of what was going on elsewhere in the world. 1981, Chile introduced a solely individual account system and completely threw away its traditional social security. The Chicago School of economists was really, sort of, pushing this idea of personal identification with wealth, and how that was, sort of, important in terms of the country's growth to have people identifying with their own wealth, rather than being part of an insurance company or pension fund contractual arrangement. That then came together to lead to the initial proposal to get rid of SERPS, and then the kickback from that, because it was so costly to do it, in terms of the transition, and also the opposition from the industry because they were not that enthused about the idea of having to offer personal pensions to all these small low-level earnings people who moved jobs, and so on. They preferred to concentrate on selling personal pensions to high net worth individuals. That was where they made their money. If you once went for a compulsory system where they had to provide them to everybody, it would be extremely administratively complicated, and potentially costly. The profit margins would be very low, and therefore there was not the interest from the insurance industry and the pensions industry were of course fighting for their life for the continuation of the occupational pension schemes, which they saw being undermined by the proposal for personal pensions.

Gregg McClymont: Absolutely fascinating. There's a number of things I want to come back to there. Chile I'm very interested in, and the potential influence or not that that might have had, and of course, the industry view is of course [inaudible] around how far the industry can serve the well-paid. I want to come now to Nick. Nick, your reflections on anything you've heard so far, and where you think we should be starting from?

Nick Montagu: Well, I think we're probably starting from the right sort of position. I confess to being less old in sin than any of my three colleagues because I was actually parachuted in to be Secretary of the pensions inquiry in 1983, not having worked in pensions in the DHSS before. Indeed, in 1973, I was still enjoying the pristine purity of an academic philosopher's existence, and in 1980, doing a erroneous scrutiny on the arcane world of National Insurance contributions. So coming in, I came in and I think the context is very much as the others have described it. There were essentially the two strands. Apart from the political worries about the cost of pensions, and the worsening support ratio, there had been a couple of pieces of what one might call routine work by officials in the DHSS, known by characteristically dreadful civil service acronyms as QWERP and BOPWIG, and QWERP chaired by the official responsible for state pensions essentially laid the ground for the official view, obviously with Government Actuary involvement, of just how difficult things were likely to get with the state earnings related pension scheme, and the worsening support ratio. This was reflected as Chris will no doubt want to say when we come actually to talk about Norman's inquiry and the papers submitted to it, in the background note, which Edward Johnson the then Government Actuary, who was actually a member of the inquiry, produced very early on to the inquiry. The other strand, again, as Adam particularly has mentioned, was what one might call the high-Tory 'every man his own capitalist' background to the kind of thing that Nigel Vinson and Philip Chappell were writing about, and this conveniently linked up with what was widely seen, although Marshall's explained the commercial background, the position of the early leaver was widely seen as something of a scandal. That people leaving a pension scheme were seen as unacceptably disadvantaged without any rights so far as transfer values were concerned, and again, when we come onto the inquiry, we can talk about how the right to a transfer value emerged very early on as a major theme in Norman's thinking. I think it's important to pick up on just two more points that have come up. First, I hope Hugh will forgive me for correcting him in saying that Mark Weinberg was not a member of the pensions inquiry initially, and that is actually quite significant. As the inquiry progressed, Norman set up a separate sub-group on personal pensions, and Mark was a member of that. He subsequently became a member of the full inquiry, and extrmeely influential. We'll come on to that. The other point to mention, again, a sort of foreshadowing point, picks up on what Chris said about overseas experience. I went with Norman to the United States very early in 1984, so it was still in the early days of the inquiry, and he was extremely impressed by what he saw there. In a way, this links up with what one might call Vinson Chappell ideology, but I think it did lead him to become determined to achieve what he saw as a kind of cultural shift to bring about the kind of interest in individual retirement savings that we saw in the States. I think, Gregg, I'll leave it at that for the moment.

Gregg McClymont: Absolutely fascinating. Of course, our view about everyone a capitalist is very different from John Maynard Keynes'. Keynes' view about the US stock market is not to be followed because every man is in it, and doesn't know what they're doing. I think actually at this stage, I want to ask about Chile in that international context, but I think this leads us very nicely into 1983, and the inquiry. Because what I'm picking up already is you have the 1983 creation of that inquiry, you have the separate sub-group which Marshall mentioned already on personal pensions, which to an outsider might seem to be doing the same things, and then we have this huge serious presentation by the end of '84, the government coming to a view anyway about pre-judging, I suppose, the inquiry around the abolition of SERPS in that context. So can we just crack straight into the '83 inquiry? With my former politician's hat on, often government sets up these kinds of enquiries either because it wants cover for doing something, or because it wants to kick it into the long grass. That doesn't seem to be the case, certainly the latter, as far as I can see, but I'll have to be corrected in this context. The membership, who made the decisions, Nick, about the membership of this?

Nick Montagu: Norman made the decisions. Again, a lot had been pre-discussed before I was appointed Secretary, but I think in discussion with the key officials at the top of the DHSS, and the key people there were the first permanent secretary, Ken Stowe, more so actually than Geoffrey Otton, who was the second permanent secretary in charge of Social Security, but Norman looked more to Ken, and also the guy I was working to was a guy called Strachan Heppell, who was the deputy secretary in the old jargon for Social Security policy. And I think that probably having consulted around the profession, and thought about the kind of representation that was needed to make the inquiry respectable in the literal sense of the word, Marshall and Stewart Lyon were heavyweight leaders of the profession. Marshall, although he said he was on it in a personal capacity, was head of the Life Offices Association, Stewart as president of this Institute, and Alan Peacock as a prominent right-wing economist. What was lacking was, it became apparent that it was lacking, and forgive me if I seem to be making a value judgement, of course, as a former official I couldn't possibly do that, was a pensions salesman red in tooth and claw. Who better than Mark Weinberg, who had set up Hambro Life to understand the marketing and the dynamics of the market, and that was why when I think Norman realised, if you like, that there were two strands to the inquiry, one, the continuing state pension debate, and the other which he saw as needing a very particular push, which was the personal pensions agenda. That was why he set up the sub-group within the inquiry and conscripted Mark onto that. The sub-group reported formally to the main inquiry, but I think Marshall will agree that it was quite largely a formality, that. It acquired very much a life and a dynamic of its own, and indeed, Mark acquired a very strong personal relationship with and influence on Norman as secretary of state.

Gregg McClymont: So Mark Weinberg was in that context of the sub-group, was basically somebody who understood what would go on on the ground, and to come up with something practical that would work.

Nick Montagu: Yes, yes.

Gregg McClymont: With the condescension of posterity, when I look at the makeup of it, what's missing is anyone representing pension funds, or the occupational space in a broader sense. Is that fair? Or is that inaccurate, Marshall?

Marshall Field: I've no idea what the Occupational Pensions Board and the National Association for Pension Funds was doing at that time. This is after the green papers had happened, but I was interested in the comment made a little while ago that government was surprised that eminent insurers such as Legal & General, and Save & Prosper turned away from the idea. Now, Legal & General is a very fine company and still exists, and is doing a great job, but it is not a company that is in touch with the millions of people dealing with small products. The companies to have asked were the Prudential and the Pearl, and the Friendly societies. Presumably the government didn't ask them, but they were in touch with the small business, and knew that it couldn't be done effectively.

Gregg McClymont: Very interesting, and that's clearly very important.

Marshall Field: A personal pension makes sense if it's plausible. One man carrying a pension through successive employments makes sense. One man being in a job for three months and then moving somewhere else with a tiddly bit of pension does not make sense.

Gregg McClymont: Of course. 1983, and we'll come on, again, further on to the green paper, the 1983 inquiry had a political slash to it, so there's a Treasury minister on the …

Adam Ridley: Barney Hayhoe.

Gregg McClymont: Yes, Barney Hayhoe. I remember as a child thinking that was a very funny name.

Adam Ridley: It is.

Gregg McClymont: That tells you what a sad childhood I had that I actually knew who Barney Hayhoe was. Treasury view of this inquiry/your view, and remembering the genesis of the 1983 inquiry and its proceedings, your sense of its importance?

Adam Ridley: Can I say there were two things immediately preceeding the creation of the enquiries. The first thing is many who were alive at the time or at least following public affairs will recall 1982 saw a rather scandalous leak from teh Central Policy Review staff of a study of long-term public spending. Now, this really did flutter. It caused a great deal of anxiety and what it did was to show for the first time that you had to plan expenditure over much, much longer time periods, not just in the areas of pension and Social Security, but much else. If you lowered your expectations of growth, you had to be much more modest in what you took out, whatever it might be [inaudible] secondary choices. In the aftermath of that, there was then quite a major internal strategic debate informally, which culminated in 1983 after the election in the use of one of the newly introduced strategic economic Cabinets that I think took place in the summer of '83. The essence of that was the Treasury saying, 'Look here, this expenditure problem, which has been coming up time, and time, and time again, and links in with a lot of the other things,' for example, what Chris was saying about the long-term analysis that he'd been involved with, 'We've got to do something. We must make maintaining our tax cutting policy the highest priority, and subordinate expenditure to that for the time being.' In the light of that, you then did an analysis of the composition of public spending, and you saw the enormous role of Social Security, and then within that, the large and growing role of pensions. So it's pretty clear where you went, and therefore that led to a kind of presumptive debate that you had to be prepared to hit at SERPS. Then of course we have all sorts of different degrees of taste being expressed as to what you do, but it's crucial to recognise that that was the framework. Now, Norman, who had been I think two years already Social Security secretary was well aware of the importance of the argument, and the analysis, and he did what I think is admirable for a minister, which is to really constitute some serious groups with expertise, and give them what seemed to us to be an admirable degree of latitude. Not very common, unheard of today, one may say. Perhaps a 20th century practice which we've forgotten about. So it was much welcomed.

Marshall Field: I'd like to come in on that one, actually, because I had a great respect for Norman Fowler. He was the one person in government at that level who really understood what was being said to him. Took the trouble to work it all out, get it clear in his own mind. He really knew about it.

Gregg McClymont: Very unusual in any period, I imagine.

Marshall Field: Indeed.

Gregg McClymont: Of course, it's worth noting I've observed that to spend that number of years in a department is so unusual now that actually even two years counts. I know that would make you a veteran now, '81 to '83, never mind the fact that he went on for another four years.

Marshall Field: One other interesting aspect of those early discussions, bearing on the Treasury, Barney Hayhoe said right at the beginning that, 'I must forbid all discussions of anything to do with tax. If you ever get on to tax, I will halt the discussion immediately,' and he did, several times. There were occasions when Edward, and Stewart and I talked about tax for quite a long time, and Norman was lapping it up, and then Barney Hayhoe recognised what was going on, and said, 'I must stop it here. You're talking about tax, I think.' But it is not a good idea to discuss the pensions regime without discussing the tax implications.

Gregg McClymont: Of course.

Marshall Field: But we were forbidden to do that.

Gregg McClymont: Can I ask the panel at this stage, would it be right, and this is obviously an oversimplification, but you had two driving forces in the genesis of the 1983 inquiry. You had the fiscal dimension, and the desire to control public expenditure, and you had the ideological dimension - portability, individual greater connection to their pension assets. Is that a fair way to describe the genesis of the '83 inquiry? That those two forces are working together to encourage the department and the government to look seriously at these issues?

Adam Ridley: It was broader than that. That’s certainly correct as far as it goes, but if you look at the four enquiries, and what they were supposed to deal with, and what the did deal with, it was picking up a very large number of Social Security issues, and there was associated subterranean work going on elsewhere feeding in or coming out from it.

Nick Montagu: I think that's right. Thoug there's the time element. Adam is right on the way things turned out. Initially, it was just the pensions inquiry. I suspect that Norman may have had, in the back of his mind, the need to look at the other three big areas - supplementary benefit, housing benefit and children, essentially. But to some extent, the inquiry, the pensions inquiry was an experiment, and it had that feel about it from the start. Seeing it from the secretariat point of view, I was very conscious that we needed to make it work, and from talking to Norman, and I agree with Marshall's description of him, that it needed to be a bit showy and something new. It needed to be very public, in one sense very transparent. And the idea of a government inquiry of that particular sort, taking evidence in public, a bit like a select committee, was something pretty new, and something that we invented and, frankly, kept our fingers crossed that the model worked. Then as Adam says, it broadened out into the wider review of Social Security, because Norman felt that that model had worked, and so he then set up the other three enquiries essentially on the same model.

Gregg McClymont: Was that decision to widen it made before all the politics kicked in around the backlash, if you want to call it that, to the government's proposals?

Nick Montagu: Oh, yes, because again, I forget the exact timing, i would have said that the other three, Adam probably remembers, followed in, what, spring of 1984? All four enquiries were busy working and taking evidence separately, and the results of the four enquiries were brought together in the green paper, and then the subsequent white paper, and of course the Social Security Act.

Gregg McClymont: I think it's very important, Adam's raised it and it's been brought out by other panellists, that of course pensions always exist within a spectrum of other political issues. How much attention was the government giving to pensions per se, and probably just as importantly related, was pensions a big public issue? A bit public political issue in this period?

Adam Ridley: Certainly in my experience, in areas where they mattered, people got very worried. Pensions were very much a nervy subject, if you'll excuse my saying, and people were very myopic about it, and idiotically so, but where it became something that's impinged on them, they got worried, so early leavers, or the provisions for widows, or whatever it might be would suddenly surge up like a volcano in a very deep ocean.

Gregg McClymont: Sorry to interrupt, can I ask you the politics of early leavers? Crudely, who did these people tend to vote for?

Adam Ridley: Well, probably, I mean, they would have been professional, more professional-ish or energetic executives, whether in public or private activities, and that's why I suspect there would have been slightly fewer Labour voters, but I couldn't be …, I didn't have a view about the politics of them.

Gregg McClymont: Do you think other people had a view about the politics of it? Were these 'our people', to use Mrs Thatcher's phrase?

Adam Ridley: No, I don't think-, I mean, I think she thought it was wanted by 'our people', but I don't think that she thought it was uniquely going to benefit them. I think she saw it as something that would have a very wide impact.

Marshall Field: I think we were very pleased to have come through the '70s where pensions were thrown around by the various governments which came into power at that time, and we wanted a bit of relative peace. Before that, the Institute of Actuaries and the Faculty of Actuaries had issued a paper called 'An Appeal to Statesmanship, let us discuss pensions out of politics', it's a very good paper.

Gregg McClymont: It sounds very relevant.

Marshall Field: I'm not sure when that was. It was probably the late '60s.

Adam Ridley: Because I had this one other thing about the way in which the pressures were building up to widen the agenda. If you talk to Norman, he will repeat what I remember at the time, which was actually ministers generally were very worried about children and child welfare, and there was a long, long history of discussion about Child Benefit and what was and wasn't working. And there was a growing awareness that you had to do more about the people who were falling through the holes in the safety net, and don't forget it was after several years of high and rising unemployment, so this was perfectly proper and admirable. So I think all of that was creating extra pressure for the widening of the agenda.

Nick Montagu: I think that's right. The other thing which again Adam will remember was rightly worrying the Treasury, was the whole situation with supplementary benefit. In particular, the so-called single payments in supplementary benefit which were demand-led, had spiralled hopelessly out of control.

Gregg McClymont: Can you explain what are they or what were they?

Nick Montagu: Yes, basically, supplementary benefit had two elements to it. There was the underlying supplementary benefit, the rate of benefit that you got if you satisfied the relevant income test, but then there were single payments, which were based on need. If you were on a supplementary benefit, and you could show that your oven was broken, you could get a payment, a special payment called a single payment, to replace the oven. If a member of the household was incontinent, you could get a single payment for whatever was needed there. When single payments were introduced, I'm not sure when that was, I never worked in supplementary benefit, I don't have a detailed knowledge of it, they were fairly modest. By the time we went down to Wilton Park, which we may talk about perhaps, to frame the green paper, therefore in 1985, they totalled I think from memory £380m a year, and that was an awful lot of money. It was proverbial in the old DHSS that you wouldn't believe how many incontinent gardeners, because you could get gardening implements too, there were on the eighth floor of Glasgow tenements.

Gregg McClymont: No comment. So the debate around the cost of the pension budget gets collapsed into that broader debate about the cost of Social Security?

Nick Montagu: Of course, it's also important I think for the purposes of our, if you like, longer discussion tonight to bear in mind that supplementary benefit is relevant to pensions. There's always the background worry, not least in the mind of the Treasury, that if you give people too many freedoms and they misuse them, are they going to end up on supplementary pension coming out not of the National Insurance fund, but out of the consolidated fund, and again, Adam will remember that well as a continuing worry.

Gregg McClymont: That sounds very contemporary in the context of the pension freedoms.

Nick Montagu: Isn't it? Isn't it just?

Gregg McClymont: Chris, and this is maybe an unfair question, perhaps you can't answer it. The Government Actuary's view of the cost of pensions in let's say '79 to '85, how much clear water, if any, would there be between the political view of the priorities of the government and an actuarial view of how sustainable pensions costs were in the SERPS?

Chris Deakin: Well, I think probably the Government Actuary was always fairly careful not to give a view on whether it was sustainable or not.

Gregg McClymont: Very wise.

Chris Deakin: The view of the Government Actuary’s Department would be a projection of the cost on the basis of the benefits which had been promised on certain economic and demographic assumptions, and demographic assumptions were very much the prerogative of the Government Actuary’s Department . The economic assumptions were always discussed with the Treasury because they were, if you like, there was an underlying belief that the Treasury would know better what the real earnings growth and so on was going to be in the future, or at least they wanted their assumptions to be used. So two things that had changed since the Barbara Castle era. One that it was no longer thought reasonable to allow for anything like that degree of growth in the economy that had been projected there, and the other thing was that the projections were now routinely made over 50, 60 years into the future, and there was a huge demographic shift expected in about the 2020s, 2030s, 2040s, and it would peak around 2030, 2035. Which hadn't been part of the projections that had been made in the mid '70s, but now very evidently came up, so all the projections that we were publishing in the 1980s showed this massive growth, and the cost of SERPS, which started off of course quite small, because it was only just beginning to accrue, by the 2020s, 2030s was going to be much more than the basic pension. So you could see how it was going to come to dominate the future cost, and that's why a little bit, sort of, later on from when Nick was talking there, we started thinking about how could we modify SERPS so as not to be too controversial from a political point of view, but to really reduce the cost. One of the things we did which substantially reduced the cost was to remove the best twenty year rule, which dramatically brought down the long-term cost, and didn't sound like doing anything, and we also changed the accrual rate from 20% to 25% over a career, and removed the widow's benefit of 100% of the spouse down to 50%. A combination of those halved the cost of SERPS in the long-term, so that was immediately really attractive to the Treasury, who saw here a way forward in terms of a structure that could be sold politically. A prudent thing to do, to reduce these ridiculously high, long-term costs of SERPS, but not as risky as going down the route of getting rid of SERPS altogether.

Gregg McClymont: Yes, so the Treasury have a 50% reduction in the long-term cost, and also avoid the issues around tax relief costs accruing from compulsory personal pensions. That takes us nicely into the backlash, if one wants to call it that, after the political machinations and the government proposal to move to the abolition of SERPS and compulsory personal pensions. I mentioned it a wee while ago, and I want to just ask it again to see if anyone on the panel has got a view. When I look at the makeup of the '83 inquiry, the absence of any pension fund, sort of, representation really strikes me. Is that just in hindsight, or would that have been seen at the time, that the NAPF, there's no employers represented on the inquiry. Which given its provision for retirement seems quite unusual. Does anyone have a view on that on the panel? If not, we can pick it up.

Nick Montagu: No, I don't remember any suggestion. Obviously we consulted the employers, who consulted the NAPF [National Association of Pension Funds]. I don't remember anybody commenting that we really needed a representative of employers or pension funds.

Marshall Field: To that extent, the Life Offices weren't represented, either.

Gregg McClymont: I think what's striking is if you think of the Turner Commission, it was very much built around, 'We need to think about the employer view,' so I just put that out there. Now, moving on, because no surprise …

Marshall Field: The TUC and the CBI and people all gave evidence to the sub-group.

Adam Ridley: They did indeed.

Gregg McClymont: Yes, they were evidence givers. So if we jump forward, because as I suspected, time is getting ahead of us. In the context where the proposal emerges, and then the industry reacts unfavourably to the suggested way of proceeding from the government, Marshall, could you give us some context on that? So you said at the beginning that you were focused, the industry and the Life Offices were focused, on the early leaver, and then it turns out that the government is very keen on doing something much more radical, and having personal pensions for all sections of society. Was the Life Offices' view and criticism of that approach based on that anxiety about having to service an uneconomic part of the market?

Marshall Field: I think the Life Offices and the industry was quite happy to contemplate personal pensions and portable policies for those that couldn't reach themselves, but to make it a compulsory arrangement, and in the terms that it came up, was not a good idea. When it went on, of course, we …. Are you going to come to the personal pension crisis, and the overselling crisis, or is that next?

Gregg McClymont: Well, I think that's the subject of the next seminar.

Marshall Field: Of course, that was considered in the Fowler Inquiry, and was mentioned in the papers. 'There is a problem, a risk of overselling, and that will be looked after by the Financial Services Act which is currently going through parliament'.

Nick Montagu: That is an absolutely critical point, because going beyond the actual inquiry, if you forgive a bit of a personal thing because it's relevant, I was promoted from the inquiry to be the undersecretary in charge both of pensions and also of the whole Bill resulting from the review of Social Security. As such, I was very heavily involved in the discussions on consumer protection from overselling, from mis-selling, and we were categorically assured that the regulations to be made under what became the Financial Services Act would provide completely adequate protection to consumers. Maybe, and hindsight is a wonderful thing, maybe I should reproach myself with being over-credulous, but Marshall and I were chatting informally beforehand, and in fact, with that hindsight, the regulation and the safeguards against mis-selling should have rested firmly with the DHSS and the Occupational Pensions Board, and it might have been a very different story.

Chris Deakin: Can I just add on that, that the thing that really turned it was the decision by Norman Fowler to push for the employers not to be allowed to force people to remain members of their pension scheme, and I was deputy Government Actuary advising at that time, and very strongly said, 'Well, this is going to be a disaster. This is going to lead to huge mis-selling,' and then we have the other story which Marshall was alluding to, and compensation and mis-selling.

Nick Montagu: The scale was extraordinary. I mean, you can argue the pros and cons of the extra contracted out rebate over and above what was justified actuarially, but quite literally on the closing day for opting out and benefiting from the extra rebate, the entrance to the DHSS Newcastle Central Office was blocked by lorries with application forms, and that is quite literally true.

Gregg McClymont: I guess behavioural economics now would tell us not to be surprised by that sort of outcome. Adam, we're fast running out of time, which as I say doesn't surprise me because it's so fascinating we could go on forever. I want to put you in the Treasury bucket for a moment. In the end, did the Treasury get what it wanted out of it? I know you departed from being a SPAD [special political advisor] in '84, but did the Treasury get what it wanted out of the 1986 Act? There wasn't compulsion. It didn't have the issue of the extra tax relief accruing and personal pensions became an option rather than compulsory.

Adam Ridley: I mean, I think whether you talk to Nigel Lawson or to others involved, they would say having regard to all the ups and downs in lives it was not a bad compromise. There was a particular threat that was a nightmare, and that is well-described in Nigel Lawson's memoirs when it turned out no one had done their arithmetic on what the PSBR [public sector borrowing requirement] costs were doing, the full abolition of SERPS, and that would have been a catastrophe. Probably it would have been I think a community charge type mistake as well.

Gregg McClymont: Can you just expand on that a bit?

Adam Ridley: Well, there was an earlier move, not only pushed by the Treasury, to consider the total abolition of SERPS in a very short time. If you did that, you had to postulate that something would happen to pick up the demands and the pressures somewhere else, and that would be a PSBR cost. That had not been calculated, for very curious reasons that I don't understand. See Lawson's description of this. So once that was safeguarded by a compromise in which you had some continuation of SERPS, and there was a certain amount of extra PSBR cost involved in the measures that were taken to develop the new system, that was pretty reasonable. The interesting thing is that it then did not become-, it no longer was a high profile political issue such as it had been. Very quickly everybody went to sleep.

Nick Montagu: It had diffused it. The fundamental problem, and it's grandmothers and eggs talking to this particular audience, with moving from a pay-as-you-go scheme to a funded scheme is what in shorthand we simply called 'The funding gap'. That today's employers and employees would need simultaneously to be putting the money to fund the future pensions of the employees while paying out to fund on a pay-as-you-go basis today's pensioners, and that's not soluble.

Gregg McClymont: So we're moving into the Q&A session really imminently. Is there anything any of the panel would like to add that we haven't covered before we go into the Q&A session? Or shall we tackle these issues in the Q&A session? Is the panel happy with that?

Adam Ridley: I'd like to make one or two slightly general observations if I may, but Marshall, do you want to say something?

Marshall Field: No, you carry on.

Adam Ridley: I think one has to think quite seriously about the philosophy in which one looks back historically at this set of issues, and there are various aspects of the summary papers, the excellent summary papers which Hugh has provided, which provoke me. It's interesting that this is called 'The Thatcher Pension Reforms'. It wasn't the Thatcher pension reforms. It's interesting that much else that was done by the government between 1979 and 1990 or whenever she left was constantly being characterised as the Thatcher programme. It's also interesting that things that happened in the 1990s, many of my friends blame Mrs T for the denationalisation of the railways. I point out this happened under a different Prime Minister several years after she'd gone. It's not a facetious point. I think people want all the time to interpret things as being Thatcher,

Thatcher, Thatcher alone. Second point, they want to have a single driving cause. Now, what I've tried to say very briefly in my comments is that there were many, many different strands of thought with slightly different emphases, and there was a much more complex collective debate going on, and actually, the work that Nick was involved in with Fowler and others, and the rest of us, was an exemplary case for joined up government. Now, the third thing is how much was there anything involving what one might call a neoliberal agenda? Well, there was a bit, but I don't really know what the neoliberals were then, or who they were. What is abundantly clear is that the agenda that drove us all in our various ways were fairly classic issues. What was different was the ministers had the courage to put them down on paper and look 50 years ahead rather than five months ahead, and then to have a systematic approach, and I think that is a very important thing. I think one of the things one should look at is the role of the machinery of government when it does things well, and I thought it did then.

Gregg McClymont: Thank you. A very appropriate note on which to hand over to the floor for questions. If you can, as I said at the outset, please state who you are really clearly, and be aware that you're going to be recorded for posterity. The gentleman in the third row, the gentleman in the first row, the gentleman in the first row, and then the gentleman at the back, and the second back row. So I'll give you six questions to begin. Can you take the microphone, sir, sorry.

Bryn Davies: My name is Bryn Davis. I'm a consulting actuary, but most relevant for these purposes I'm acting more as a witness than a questioner, because at the beginning of this period I was the pensions officer of the TUC, and for most of the rest of the period, I advised Michael Meacher who for much of the time was the front bench Labour spokesman on pensions. So I am saying something from those angles. Firstly, I think the role of Stewart Lyon is crucially important here. I guess Marshall knew Stewart better than I did, but I did know him, and I spoke to him about the process of the inquiry. It must have been the summer of '86 when he spoke to me, and he's a very, sort of, urbane, not a demonstrative man, but he did not regard the process as a success. He felt that that the experts, we may characterise them, rather than the ideologues on the inquiry had been ignored. The second point I want to make is I don't think treatment of early leavers had anything to do with this process. It was mentioned early on, but that just doesn't make sense because the Occupational Pensions Board, of which I was a member, reported on the issue in '81, unanimously in effect, and the legislation, was it the '83 Act? It came into effect in '85, I think have got the years slightly wrong, but by the time of the inquiry the treatment of early leavers was a settled issue. There were plenty of other issues, but early leavers was not the issue. Thirdly, it's interesting to note, interesting in the great scope of things, not all that important, but interesting to note that the Labour party went into the '92 election committed to the restoration of SERPS and placing requirements on personal pensions, which honestly they would be unable to deliver. Of course, lots of people expected the Labour Party to win in '92, and it's interesting to speculate quite what would have happened to all these reforms if the Labour Party had won on that occasion.

Gregg McClymont: Thank you very much, very useful for the record. Could I take the gentleman in the front row?

Martin White: Thank you. The name's Martin White. I'm in actuary who escaped pensions in 1988. To what extent did the whole set of plans consider what the ultimate outcomes of personal pensions would be for individuals in terms of their ultimate living standards? Taking into account all the charges which we now appreciate they will have suffered.

Gregg McClymont: A very good question. I think we'll take three questions at a time. Can we go right to the back, to David at the back.

David Robbins: Hi, there. I'm David Robbins from Willis Towers Watson. I was just struck by the description of the 1985 green paper, how similar that proposal was - to get rid of SERPS, just to have a single basic state pension, and then have a fairly low level of compulsory defined contribution, private provision on top of it - to what we ended up with 30 years later. You've got a single tier state pension which is fairly similar as a proportion of average earnings to what the basic state pension was then, and you've got automatic enrolment into predominantly DC pensions at a fairly low contribution rate. I suppose you've also got …, you talked about the ideological elements of the work going on at the time, I wonder whether part of the Conservative government's reaction to how badly they did amongst young voters at the 2017 election, they're talking about people won't support capitalism if they don't have capital. I thought it was interesting the autumn budget did not delay, as previous budgets have done, the forthcoming rise in automatic enrolment minimum contributions, so perhaps that sort of thinking of trying to give people their own pot of capital is alive, may soon be alive and well today.

Gregg McClymont: Thanks, David. We'll try and get as much of that as we can. Can I just get a third question, and we'll take them together. I think we had Henry at the back, and then we'll come to [inaudible] after the next round.

Henry Tapper: Hi, Henry Tapper, First Actuarial. I was one of Thatcher's children. I worked for Mark Weinberg. I was at Hambro Life in '83/'84, and I stacked up those application forms outside of the Newcastle DSS in 1987, and my question is this. Did you in your consideration take into account that there were tens of thousands of young bucks like me trying to make an honest living selling financial advice, or more likely personal pensions, and that we actually believed in what we were doing because we were almost evangelically market driven. We thought the market could do anything, so Mr White's comments were really good, you know, the charges were there but we just didn't think they were important, and now, all of these things which we felt we could do, we felt we were completely and utterly untouchable, yes? Regulation, forget it. We were doing some kind of capitalist God's will, and I can honestly say from my situation now, I understand how a lot of young IFAs, you know, are setting out in the same direction, so I don't feel so totally opposed to what's happening today, because I was there 30 years ago.

Gregg McClymont: Henry, I thought you were going to say you were just in it for the money back then.

Henry Tapper: Yes, I was. That as well. You could make £50,000 a year pretty easily.

Gregg McClymont: Yes, exactly. I think these questions start to bring out some of the issues in my mind. The first question I would describe as how far did policy makers at this stage consider the frictional costs of the private pensions market, which we would now consider in lots of context to be pretty significant, given the information asymmetries that exist between the individual and the provider. Secondly, I took, David, not all of your points, but the one I took I thought was very important : have we essentially ended up now with the flat rate state pension described as a foundation amount in a place where the government wanted to get to in this period - which was a state pension, which kept one out of abject poverty, and then you have to put on top your own provision, either occupational or personal ? And, well, I don't know how to put Henry's question. I'll put my own gloss on it, which I think relates to the first question. I mean, just looking at having Mr Weinberg on [the inquiry] as the advisor, someone who's company was going to be doing this sort of activity and presumably making a lot of money out of it, was that ever considered at the time that that sort of individual might be *parti pris*? That you needed a more objective view of the personal pensions market as it would develop rather than having a salesman who was likely to benefit from it being very important in the policy making?

Nick Montagu: I'll pick up that last one, Gregg. The answer is yes, it was considered, and Norman and Mark talked a good deal about this, and Mark very much distanced himself from what one might call the actual marketing side. It was extraordinarily useful having him on the inquiry because he did have what one might call the direct commercial selling experience, and it's also interesting for the personal dynamics and the influence. The point that was made about Stewart Lyon feeling miffed about the inquiry and feeling ignored, I knew that Stewart, who's as you all know a deeply honourable man, felt very strongly that the, if you like, the pure actuarial arguments weren't being adequately considered. I don't think that's quite fair, not least because we did have Edward and behind him Chris, very much available to assess the actuarial arguments to give dispassionate advice, but I think, and again, this is going perhaps to sound a bit unkind, that Norman felt that the advice that he was getting from Stewart and from elsewhere in the profession was purist at the expense of politics. Obviously, it was very important to get the best understanding that we could within the parameters of the government's imperatives and aspirations of what the actuarial facts of life were. That ties up with questions about was consideration given to what life was going to be like for somebody taking out a personal pension, and the answer to that is very much yes. I hark back to the point I touched on earlier about supplementary pension. Obviously we took advice on what was the minimum contribution that at that time on reasonable assumptions seemed likely to provide an adequate retirement income. But I do think that a certain amount of the advice that Norman got was too pure. It wasn't, 'Given that this is what your'e wanting to do, one way to do it might be …,' it was more blinkered, it was more purist, and I'm afraid against that background it was inevitable that people like Stewart would end up cutting less ice than people like Mark, who became very influential in the development of the green paper proposals.

Gregg McClymont: Thank you. Can I take on to the, if the panel advocate, we've got a lot more questions, so I want to ask … the second question with the third, which I think could be collapsed. I mean, I think we've a Conservative led government after 2010 that introduced a charge cap on institutional defined contribution pensions, in recognition of how difficult it was for individuals to gain value for money in that institutional space, and we had a move into more retail pensions after '86. Was there a feeling that basically in the same way that wealthy people had a stockbroker, who did the share dealing for them, that individuals *en masse* would operate on that basis? Because that's kind of what it feels like looking at it from the outside. How much understanding was there of all the frictional costs that tend to accrue in the investment and pensions space? That markets, I think it might be widely shared, markets worked very well in lots of areas, but in pensions not necessarily so well. Was there any sense of that? Chris?

Chris Deakin: I'm not sure that I know the answer, but I think it was new territory, so we didn't really know exactly how it could work in practice and the regulation of this type of selling was in the hands I think at the time of the Securities Investment Board and LAUTRO [Life Assurance and Unit Trust Regulatory Authority] before the FSA [Financial Services Authority] was invented, but we thought we had enough, sort of, margin. Because of this going for the, what's always called, 'the bribe', but it wasn't just the 2% addition, it was the fact that it was a flat rate rebate, which applied to everybody regardless of age or gender, which meant that for the younger population to whom it was believed that the personal pensions would be sold, there was a pretty big margin of flexibility to be able to say that you can get a good value personal pension with that money, even if the charges were significant, and the charges were significant on personal pensions. We certainly had to estimate them, and became more critical when we were doing the contracting out rebate for DC pensions later when we didn't have the 2% bribe, because it became part of the assumptions for the contracting out rebate.

Gregg McClymont: Any views on the content of the two questions?

Marshall Field: We did press, on the bribe and all that, we did press on the inquiry for the contracting out rebate to be age related, and said there would be a major problem if you didn't. Well, they didn't, and there were.

Gregg McClymont: Which maybe speaks to the point made about the view of one of the members of the inquiry, retrospectively thinking about it. Can I take more questions please? Adam, sorry.

Adam Ridley: Can I answer three or four points from what came out first?

Gregg McClymont: Yes, you can.

Adam Ridley: Or do you want me to wait for the rest, because I shall then have seven or eight comments to make, not three or four.

Gregg McClymont: Yes, and then you can make some. Thank you, Adam, that's very helpful. Front row, second row, front row.

Michael Klimes: Thanks a lot. I'm Michael Klimes from Professional Pensions. I'm a journalist, I'm going to go to Money Marketing soon. I just have a sense of *déjà vu*, and I'm a little bit confused, and I was wondering if anyone on the panel could clear up the fog for me, because everything that you're describing is, sort of, what I've been writing about for the last three and a bit years. So in the 1970s there's a lot of tinkering, and then I think it was you, Mr Ridley, who said that one of the things about the Fowler Inquiry was that we wanted to have some type of, you know, consensus or some type of long-term thinking, not just constant tinkering. Then, despite the warnings of the inquiry, and the scepticism of the industry as Marshall Field pointed out, the government goes ahead and does it anyway.

Adam Ridley: Does what anyway?

Michael Klimes: Sorry?

Adam Ridley: Does what?

Michael Klimes: The, well, the personal, sort of, pensions, and then Mr Montagu, you said with the 1986 Financial Services Act that the belief was that it would protect people, but then later on retrospectively it doesn't, and then we then had the Turner people say we need-,

Gregg McClymont: I'm going to need to speed you up, sorry, we're going to run out of time.

Michael Klimes: Where are we going with pensions, because we seem to be stuck on a bit of a merry go round.

Gregg McClymont: Thank you. I might leave that until last with the time, because we're trying to stick to '86. I mean, I take your point very well, history repeats itself first as tragedy, then as farce. The gentleman in the front row.

Roy Colbran: Thank you, my name is Roy Colbran. I noticed that Hugh and Chris both used the word consensus. I always think that's a bit strong, that the Conservatives really, sort of, gave up and said, 'Well, there's got to be a scheme, we'll have to live with this one,' but consensus is really a gross exaggeration. Also I noticed that Chris claims that SERPS was designed by GAD, a dubious honour to claim, I would suggest, but it always struck me that what they really did was to get Crossman out of the drawer when the government changed, and decide that they could just put some new clothes on it, and present it as something totally fresh. Of course, it's interesting to speculate what would have happened 30 years on if Keith Joseph's [1973] scheme had come to fruition. Is NEST [the National Employment Savings Trust] a latter day version of Keith Joseph, may I ask? Now, I was part of the small team that represented the actuarial profession in front of the inquiry, and looking back at our evidence, one or two things emerge. In particular, post-retirement mortality was clearly not an issue when we were talking about projections of personal pensions and their uncertainty, mortality didn't come into it. When we were talking about the age at which state pension age might be equalised, we didn't talk about improvements, but Professor Bernard Benjamin did say, 'There is likely to be some increase in the ratio of persons of pensionable age to the available working population between 1981 and 2021.' So perhaps Chris can tell us when post-retirement mortality really took off? But we were saying that we still thought that defined benefits were a growing trend, although we did say that the complexities that then were close to the limit, and we certainly, Nick, we did warn about mis-selling and the difficulty of obtaining independent advice. Thank you.

Gregg McClymont: Thank you, sir. Third question quickly from the gentleman in the second row. As brief as possible, please.

Roy Brimblecombe: My name is Roy Brimblecombe. I was deputy chairman of the Life Insurance Council of the ABI, which was the successor of the LOA [Life Offices' Association], and then became chairman two years later. I was heavily involved in giving evidence on behalf of the ABI to the Fowler Inquiry. There were just two points I wanted to make. I agree with Bryn behind that the question of revaluation of early benefit had all died down by then, and wasn't an issue. I think people are a bit hard on members of the committee, particularly Stewart Lyon, because I've known him for donkey's years. It may be that, you know, on that panel, you needed some sort of practical thesis as well as the pure actuarial thesis, but the other point I wanted to make, I know Marshall said you weren't allowed to talk about tax, but it's ironical that the Treasury were so worried about the tax reliefs for occupational pensions that the budget of 1986 brought in a cap of the total amount of surplus that an occupational scheme could have, and it had to reduce its contributions to take that basis [inaudible]. So from that point of view, it's not relevant to this, but it does seem to imply that the Treasury were worried about the cost of the tax relief on occupational schemes at the same time.

Gregg McClymont: Thank you, so we've got tax issue, always important to the Treasury, longevity projections, how far they were part of the thinking. Then the warnings about potential mis-selling. You know, how seriously were they taken? Adam, do you want to do that, and make the broader observations you wanted to make?

Adam Ridley: Well, if I can just pick up where we began. The ‘experts ignored Lyons' complaint. I think that people who provide expert input into a large number of processes and debates tends to get too depressed if they're not followed lock, stock, and barrel, and I think that probably, I have no knowledge about what happened, I think probably Mr Lyons had much more influence than he reckoned at the time, or reckons today. The intellectual point about early leavers being largely dealt with, the problem of early leavers by the '81 and '83 Act, and recommendations from the OPB [Occupational Pensions Board], yes, it's fascinating how the benefit of that fuss continued to mobilise and stimulate people, even though they hadn't really asked themselves whether there was still an objective need for doing anything about it. So I think it was a very good influence, because I felt that we could go further and farther on that. Restoration of SERPS in the Labour manifesto of 1992, I will merely say it would have been as mad then as it was earlier, and I can recall when I was building socialism in the Department of Economic Affairs in 1968 with the economists and the actuaries saying, 'For Heaven's sake, we've got a completely mad plan to introduce a state based, earnings related supplementary pension system. We must not put it in any of our models.' They were already desperately worried about it, so that's my comment on that.

Gregg McClymont: Was there any, either at that time or later on, I was going to ask this of Chris, actually, based off of the actuarial projections, of what was going on internationally? Because of course, depending on where you placed Britain in the spectrum of left to right, other countries had much larger, and dealt with much larger state based systems, so when the government actuaries gave the projections, does it pay any attention to what's going on in the rest of the world?

Chris Deakin: Well, it probably does much more now than it did then, because, I mean, I think the UK was ahead of the game in the extent to which we had actuarial projections if government pension systems. A lot of other European countries were doing very short-term projections and not looking at the long-term consequences. The US was different. The US did have an equivalent of the Government Actuary who did long-term projections But we were aware of changes taking place worldwide. We were aware of the Chile experiment. Everybody in the Social Security world thought that this was a crazy idea and would never work.

Gregg McClymont: And they were right, more or less.

Chris Deakin: Yes, but I think coming back to the mortality issue, we always made some projection of mortality improvement, going way back, but not nearly enough probably, and then over the years, the actual experience proved to be much more favourable to the old people, unfavourable to the pension system, because people lived longer, until the last few years. I mean, since the 2008 population projections the estimates of expectation of life at 65 have been falling in the national population projection. So there's been a bit of a reversal there.

Gregg McClymont: Was there any awareness of the Chilean crisis as intimated, or was of the Chilean approach? I ask that in particular because, you know, I've got a bee in my bonnet about the absence of pension fund representation on the '83 inquiry, and the central thing about the Chilean approach is that the employers got involved. The employer makes no contribution. Was that in the Conservative circles or in the inquiry's proceedings? Do you remember references to the Chileans?

Nick Montagu: No, I don't. As I say, we did a number of overseas visits with Norman. He was I mentioned very struck by America. He looked at a number of things. I remember a hilarious visit to the Netherlands, which wasn't influential. Switzerland of course had pioneered a universal mandatory occupational scheme, albeit on a rather different scale. At one point, and Marshall will remember this, he was very interested in the possibility of industry-wide schemes, and there was a visit to France to look at the arrangements there, but again, this didn't command any huge support, and didn't emerge in any of the final deliberations.

Marshall Field: Yes, that's right. We were ahead, then. Now I'm told we look abroad all the time for pensions advice, but things were different.

Gregg McClymont: Yes, yes, that's probably fair to say.

Nick Montagu: If I can just make the point, Gregg, it’s no part of my job to vindicate or not to vindicate what the inquiry did, but in one way I think you can see Norman as having being ahead of his time. And it's in this way. I just want, if I may, and I realise we're up against the time, to go back to that American experience. He was hugely influenced by our going there right up against the time limit for tax filing, and for the way that IRAs, Individual Retirement Accounts, were advertised in virtually every window, and were in everybody's consciousness. But also one of the things that surprised me, and my subsequent life hasn't been a pensions life mainly, has been how long it took for the flight from defined benefit schemes that one saw in the United States in the wake of ERISA, the Employment Retirement Income Securities Act, which was already a fact of life when we went to the States in 1984, to come here. In one way, you can see what Norman was seeking to achieve from the inquiry as being ahead of its time in anticipating that.

Gregg McClymont: I think that's fascinating on a couple of levels. The first is the way in which policy can be influenced by impressions and anecdotal experience, because we know about the US system, that half of all employees have no pension provision whatsoever. Secondly, I think in terms of that, the linkages through history, it's said, although I don't know whether it's true or not, that the Chancellor who brought in pensions freedoms [in

2014] was extremely influenced by what he saw to be the success of [US] 401(k)s. Again, some people would argue against at least some of the evidence and that very, very different approach to the European style approach, which is based on sector-wide schemes, of course. I think that's really interesting in bringing things together. Of course, politicians from all persuasions are influenced by these impressions and experiences. Tony Crosland was very influenced by his time in America for sure. I'm using the chair's prerogative. A couple of the final statements and questions from the floor were excellent, but I think relate more to what will happen in the next seminar, which is looking back at the success or failure of the '86 Act, and I think they will be logged for the record and then we can come back and look in detail at the successes and failures of the Act. I want to finish by asking the panel if there's anything they want to say briefly in summing up. You don't have to if you feel that all the points have been covered that you wished to make, but please if you do, any final comments?

Adam Ridley: Just one on the issue of how much research was done on the individual impact of various aspects of the proposals under consideration, and indeed of the impacts on the industry, the energetic salesman, and all the rest of it. The Treasury had a good modelling process for the impact on the individual of a variety of Social Security and tax changes. If they weren't using that, then I'm a Dutchman. I'm sure they were, and I don't know whether the DHSS were sharing the information with the Treasury or had their own system, but it would be very odd if they weren't. Now, what was then done with it when it went up from the official and the statistical level to the various bodies is another matter, but the capacity is there, and the motivation is there, and I may say a great deal of external pressure nowadays from the BBC and the newspapers as they prepare their supplements. The only other comment I would make is this business about consensus. I go back to what I said, I don't feel in any way that it's reasonable to think that the exercise that Lord Fowler launched didn't end up by reflecting any consensus or help shape one. One of the great things is to try and get somewhere and what that exercise represented was an *ex ante* desire to try and create a consensus. Now, it may have failed, and it may be that politics took over, and we could have said more about that, but I think people underestimate the importance of the effort that went on, and the revolution that it involved internally within government.

Gregg McClymont: Thank you very much. Are we content?

Chris Deakin: Could I just make one comment in relation to Roy's mention of the Finance Act, 1986, which was of course at the same time as all this was happening, but that was the Treasury and that was tax, but that move to tax surplus in pensions schemes was driven by a belief in the Treasury that the occupational pension schemes were just stashing away money free of tax, and therefore they had to clamp down on that by imposing this limit on funding. Which led to all the contribution holidays, which led to a whole sequence of other things, which is one of the major factors in why the occupational pension scheme system has disintegrated. So possibly that decision in the Finance Act was much more influential in terms of the future of pensions in the UK than all of the stuff we talked about in the Social Security Act.

Gregg McClymont: Thank you, Chris. I think a wonderful point to finish on, and reflect on. Even the Treasury isn't fallible, or perhaps especially the Treasury. Can I just take this opportunity to ask you please to fill out your feedback forms if you are so desiring, and also the project at the University of Bristol, led by Professor Pemberton, would be delighted to have your thoughts in writing about the issues we've discussed tonight. Beyond that, it's just left to me to thank with real gratitude what I think have been outstanding panellists. Thank you very much for your time this evening, your reflections and your thoughtfulness. Thank you very much.

END

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