Public Consultation Response:
"Defined benefit pension schemes: security and sustainability"

To: Department for Work and Pensions

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction:
The Intergenerational Foundation (IF) welcomes the opportunity to comment on government policy towards defined benefit pensions. Last year IF published a report into private sector defined benefit pension schemes called *DB Pensions: Choking Hazard* by IF Researcher Matt Hitchens in which we argued that they now represent a significant source of intergenerational unfairness. Although the green paper makes many significant points about the need to ensure a fair balance between the interests of sponsoring employers and pension scheme members, IF argues that there is another group whose interests also need to be considered: younger private sector employees who no longer have access to defined benefit schemes because the vast majority of them have been closed in the private sector, but who still effectively have to pay for the cost of their older colleagues' more generous benefits through slow pay growth and lower business investment. The key points raised by the report were:

- Private sector employers are currently spending £42 billion a year on DB pension contributions which benefit the oldest third of the private sector workforce, but only £1.8 billion per year on defined contribution (DC) pension contributions which benefit the younger two-thirds of their workers;

- This equates to the average private sector DB member receiving £23,600 per year in pension contributions, compared to just £1,200 for the average younger worker in a DC scheme;

- The sums of money which private sector employers are diverting into their pension schemes in the form of deficit reduction contributions are vast. The report estimated that they amount to £35 billion per year, which if they ceased could be diverted towards increasing the typical private sector employee's pay by £1,600, doubling the private sector's R&D budget or adding 25% to total UK business investment.

- The report strongly advocated lowering the burden of private sector DB pensions in several ways:
    - Introducing a statutory override to convert all DB schemes to CPI uprating (which we are pleased to see is one of the possible solutions suggested in the green paper);
    - Replacing the "marked-to-market" accountancy standard for measuring pension deficits, which currently overstates them, with a more accurate system that could be based upon the sponsoring employer's historic rate of return (the paper estimated this would shrink the value of today's liabilities from £2.1 trillion to £1.3 trillion);
    - Addressing the problem once the pensioner begins drawing down their pension by equalizing the tax treatment of DB and DC pensions with regard to the lifetime allowance limit and the tax-free lump sum.

- The report also made the recommendation that every board of pension trustees should include representation of younger scheme members in order to include a wider range of generational interests.

If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise further, please contact:

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