



# Thatcher's Pension Reforms

## Project Briefing 2, April 2015

Since our initial report in October the Project Research Assistant and PhD student have finished preparatory familiarisation and begun research which has focused on the early development of policy ideas by the Conservatives, and the reaction of the actuarial profession to their proposals.

### The idea of personal portable pensions

Research has been conducted by Aled Davies on a range of sources including the Conservative Party Archive and the papers of Sir Alfred Sherman (co-founder of the *Centre for Policy Studies*).

Concerns about the long-term viability of the State Earnings Related Pension were a significant factor in the rhetoric of pension reform in the 1980s but the 'early leaver problem' looms large in our initial analysis (the lack of inflation proofed

pension benefits for those leaving an occupational pension scheme before retirement becoming a particular issue in the inflationary 1970s).

This pressing problem was the proximate cause of the decision by Nigel Vinson, Philip Chappell, and Philip Darwin at the *Centre for Policy Studies* to propose in 1983 the creation of 'personal and portable pensions.' Rather than relying on employers to provide pensions as 'an optional gift' – which primarily served as way of retaining and rewarding employees for long service – they proposed that pensions should be personalised and attached to individual workers. Each person's pension savings would then accompany them whenever they changed employment.<sup>1</sup>

It has also become clear from our research so far that the wider economic and political crisis facing Britain during the 1970s played an important role in the genesis of the 'personal pensions' idea. Following Edward Heath's election in 1970 the ascendant left-wing of the Labour Party campaigned substantially to increase the role of trade unions and the state in the economy. Occupational pensions were a key site in this battle to advance socialism as the left sought trade union representation on the boards of occupational funds, but also demanded that private pension funds be forced to invest in Britain's ailing industrial base.

In the mid-1970s Sir Keith Joseph and Alfred Sherman attempted to mobilise political resistance against this socialist threat. Joseph tried to encourage the reticent pensions and insurance industry to educate the British public about how their pension savings were invested.<sup>2</sup> Meanwhile, Sherman pressed Margaret Thatcher to resist demands for public ownership by rallying 'the millions of people who are indirect shareholders ... a majority of voters, wage and salary earners, and probably trade unionists too.'<sup>3</sup>

In this light it becomes clear that the pension reforms of the Thatcher government were embedded in a broader ideological conflict between left and right which had been provoked by the specific experience of economic crisis in the 1970s.

### Preliminary findings

- Portable personal pensions provided the Conservatives with a solution to the problem of early leavers from occupational schemes left with inadequate pensions.
- But the 1980s pension revolution was also bound up with the ideological polarisation of the 1970s.
- Occupational pensions were seen by the Left as a potential source of investment in Britain's ailing industrial base.
- Portable personal pensions therefore met a practical need whilst also fulfilling an ideological function in both promoting individual initiative and providing a defence against state control of occupational funds.
- The actuarial profession was profoundly concerned about the resulting transfer of risk to individuals, potential mis-selling, and the introduction of more complexity into the overall system. It was ignored.
- The actuarial profession opposed the abolition of SERPS, which it saw as a vital component of a state/private partnership.

## The Actuarial Profession

Initial research has been conducted by Thomas Gould in the archives and library of the Institute and Faculty of Actuaries. His provisional findings are that the actuarial profession in the early-1980s firmly believed that the consensus reached in the 1970s on pensions was to be welcomed, that the subject was ‘too important and too long-term in nature to undergo a change in direction with every change in Government’, and that the overriding priority must be the control of inflation and a return to corporate profitability.<sup>4</sup>

In 1982 the President of the Institute of Actuaries reemphasised the need for ‘a strong enduring partnership between occupational schemes and the state scheme’, the latter seen as playing a vital role in providing secure pensions for those outside the reach of occupational pensions or market based provision.<sup>5</sup>

Actuaries recognised problems with future liabilities in SERPS but felt a ‘temporarily favourable phase in the demographic trend’ offered scope for gradual change. The rhetoric espoused by Thatcher and Lawson about its future cost was seen as a politically expedient justification for compulsory personal pensions.

Looking back, from the perspective of 1986 actuaries could take some comfort from the government’s decision to keep SERPS – the ‘absolutely horrifying’ prospect of private pension providers being expected to service millions of personal pensions for lower-paid workers in small and very small firms having been avoided.<sup>6</sup>

But the actuarial profession deprecated the government’s introduction of portable personal pensions. Fears were expressed about existing occupational pension schemes being destabilised; about the impact of high administrative costs on the value of personal pensions; and about the additional complexity in the overall system. Discussions in both the Faculty and Institute of Actuaries reveal worries that (direct contribution) personal pensions were inappropriate, even immoral, in that they shifted the burden of risk onto many individuals who were ill-prepared to cope.<sup>7</sup>

As Marshall Field, president of the Institute of Actuaries prophetically stated:

“Much as one might wish to bring into being a Nation of mini-capitalists, each able to stand on his own financial feet, it had to be recognised that many under such a regime would come to grief.”<sup>8</sup>

Notwithstanding, its contribution to the policy debate, and despite its many reservations about

## ABOUT THE PROJECT

This 3-year AHRC-funded project began work in September 2015. It is exploring reforms to Britain’s pension system implemented by the Conservatives in the 1980s and assessing their longer-term consequences.

## FOR MORE INFORMATION

Details of the project team, the project blog and publications can be found online at [www.thatchers-pension-reforms.uk](http://www.thatchers-pension-reforms.uk)

The project’s Principal Investigator, Dr [Hugh Pemberton](http://www.bristol.ac.uk/hugh.pemberton), can provide further information. Email: [h.pemberton@bristol.ac.uk](mailto:h.pemberton@bristol.ac.uk)

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the government’s proposals and the coordination of responses by the two main organisations, the profession often found its advice ignored. In part this seems to have been because they were invited to contribute without being privy to the overall policy conception (for example, tax and national insurance aspects of the proposals were considered separately). However, the precise mechanics of this process remain to be explored, as does the role of the Government Actuary.

<sup>1</sup> Alfred Sherman Papers, Royal Holloway, University of London [henceforth ‘AS’]: AC 969-72, N. Vinson, P. Darwin, and P. Chappell, ‘Personal Pensions and Portable Pensions – For All’, 30 Mar. 1983.

<sup>2</sup> AS: AC 967, K. Joseph to G. Howe, 20 Jan. 1976.

<sup>3</sup> Ibid., A. Sherman to M. Thatcher, ‘Insurance and Pension Funds – Our Reserve Army’, 24 Jan. 1976.

<sup>4</sup> HC-26x, House of Commons Social Service Committee, 10 Feb. 1982, memorandum by the IFoA.

<sup>5</sup> Institute of Actuaries, President’s Address 1982.

<sup>6</sup> A.J. Low in TFA 40 (1985-87) 151-69, discussion of the Government’s White Paper, 17 Feb. 1986.

<sup>7</sup> JIA 113 (1986) 257-72, discussion, 24 Feb. 1986.

<sup>8</sup> Institute of Actuaries, President’s address, Sept 1987.

## FUTURE WORK

During the coming months we will continue to explore the papers of the Institute and Faculty of Actuaries and commence work in the National Archive, focusing our research on the development of government policy after 1979.