nest insight

Pension Reforms in the UK: 1997 to 2015

IPR Institute for Policy Research | University of Bath | Vanguard | Invesco

Authored by

Professor Nick Pearce and Dr. Thomais Massala (2020) Nest Insight, London.

The authors would like to thank Hannah Durrant and Marsha Wood at the Institute for Policy Research for their contributions to the research on which this report is based, and to Nicholas Timmins for his comments on a first draft. They would also like to thank all those who participated in the research, and to gratefully acknowledge the support of Will Sandbrook, Matthew Blakstad, Rachel Dowdie and Clare Hodgkinson at Nest Insight throughout the project, from its initial conception onwards.

About our research and delivery partner, the Institute for Policy Research

The Institute for Policy Research (IPR) conducts and enables policy-relevant research. In particular, it does this through building links with the worlds of policy and practice as well as by increasing public understanding of policy research through a public lecture and publications series. For more information, visit bath.ac.uk/research-institutes/institute-for-policy-research.

About Nest Insight

Nest Insight is a collaborative research unit set up by Nest Corporation to help understand and address the challenges facing Nest members and other defined contribution savers. For more information, visit nestinsight.org.uk.

About Nest Insight's strategic partners

Invesco

Invesco is an independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. Invesco became a major strategic partner in July 2019 to help shape Nest Insight's programme of work through sponsorship, the contribution of its deep industry expertise and insights, and by helping the programme to reach a wider audience. For more information, visit invesco.co.uk.

Vanguard

Vanguard was founded with the purpose of taking a stand for all investors. In pursuit of this principle, Vanguard is proud to have been the first strategic partner of Nest Insight. Together, we aim to help the UK public achieve the best chance of investment success and a comfortable retirement. For more information, visit vanguard.co.uk.

Contents

List of abbreviations

ABI	Association of British Insurers
BSP	Basic State Pension
CBI	Confederation of British Industry
CPI	Consumer Price Index
DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
GDP	Gross Domestic Product
IFS	Institute for Fiscal Studies
NPSS	National Pension Savings Scheme
OECD	Organisation for Economic Co-operation and Development
PADA	Personal Accounts Delivery Authority
PBR	Pre-Budget Report
PLSA	Pensions and Lifetime Savings Association (formerly the National Association of Pension Funds)
PP	Personal Pension
PPI	Pensions Policy Institute
RPI	Retail Price Index
S2P	State Second Pension
STP	Single-tier Pension
TUC	Trades Union Congress

Foreword

The Turner Commission reforms to the UK pension system, enacted through legislation in 2007 and 2008 and rolled out from 2012 onwards, are regarded globally as a case study in how policy should be made. The reforms were recommended to, and legislated for, by a Labour government. Their roll out commenced under a Conservative-Liberal Democrat coalition. They finally concluded under a Conservative administration.

Will Sandbrook
Executive Director of
Nest Insight

This political consensus was matched across major stakeholder groups including the trade union movement, the pensions industry and the broader business community. It meant the reforms were left largely untouched when, having been conceived during the longest uninterrupted period of economic growth in a generation, their roll out was immediately preceded by the global financial crisis which re-wrote the rule book in so many other areas of social policy.

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

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

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

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

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

Chapter 1

Introduction

1.1
Introduction

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

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

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

1.2
About the research

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

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

These groups of actors included:

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

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

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

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

30 interviews

The research involved 30 face-to-face, telephone or Skype interviews that lasted between 45-60 minutes.

Table 1 Summary of the Interview Topic Guide

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

Chapter 2

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

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

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

2.1 The institutional context

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

A common starting point for understanding these institutional features is the famous welfare state regimes classification provided by Esping-Andersen[1], in combination with the political economy or 'varieties of capitalism' approach pioneered by Hall and Soskice.[2] Esping-Andersen characterised the UK welfare state as a liberal welfare regime, where a primary role is assigned for welfare production to the market.[3] Universal welfare benefits are modest and relatively limited in scope, and there is a significant role for means-testing and other targeted programmes to address basic needs. Private provision of insurance functions is widespread.

1 Esping-Andersen, G., 1990. The three worlds of welfare capitalism. Cambridge. Polity Press
2 Hall, P.A. and Soskice, D., 2001. *Varieties of capitalism: The institutional foundations of comparative advantage.* Oxford. Oxford University Press.
3 Esping-Andersen, G., 1990. *The three worlds of welfare capitalism.* Cambridge. Polity Press

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

The UK's pensions system consequently limits the role and scope of the state in the share of retirement income. The level of private pension provision is much higher than that in many other European countries. In 2013, the UK spent 6.1 per cent of gross domestic product (GDP) on state pensions, below the Organisation for Economic Co-operation and Development (OECD) average of 8.2 per cent, while private pension expenditure was 4.4 per cent of GDP, far above the OECD average of 1.5 per cent.[4] These features of the UK liberal pension system have their origins in the Beveridge report and its antecedents, which limited the role of the state to relatively low, flat rate benefits, based on employment contributions (see 2.2 for a more detailed description of the UK pensions system architecture).

The liberal welfare state and pensions system coexist with, and adapt to complement, the UK's liberal market economy.[5] Liberal market economies rely primarily on market mechanisms, such as price competition, rather than coordination between firms. They typically have flexible labour markets with high employee turnover and a limited role for collective agreements between firms and trade unions. Vocational training is weak and manufacturing is less important than the financial sector. Consumption is more important than business investment and exports in driving demand. Several studies have demonstrated the interrelationship between a country's welfare state and its political economy, and in the UK, welfare and pensions system arrangements correspond to these liberal market features.[6] For example, extended private provision channels funds into the financial markets; pension income through private providers creates and expands pension markets; and reliance on the market promotes high employment rates while not disturbing flexible employment. Personal pension schemes are also consistent with individual employment contracts and high staff turnover.

4 OECD, 2017. Pensions at glance 2017: *OECD and G20 Indicators.* Paris. OECD
5 Hall, P.A. and Soskice, D., 2001. *Varieties of capitalism: The institutional foundations of comparative advantage.* Oxford. Oxford University Press
6 Ebbinghaus, B. and Manow, P. eds., 2004. Comparing welfare capitalism: Social policy and political economy in Europe, Japan and the USA. Routledge.

2.2 The UK pensions system in the early 2000s

The UK pensions system consists of two tiers of retirement income. The first tier includes the Basic State Pension (BSP), which provides a universal flat-rate contributory benefit, and means-tested top ups for pensioners in poverty. The second tier comprises the earnings-related pension, dependent on the amount contributed and the earnings levels of an individual when he or she was economically active, that tops up the BSP. In the early 2000s, earnings-related pensions were provided by both the state and the private sector.

The BSP took full shape after World War II, based on the Beveridge report. One of the main proposals of the report was to provide elderly people with a level of income that guaranteed a minimum subsistence level. It argued against the practice of means-testing as a source of income to reach the minimum subsistence level.[7] The pension had to be flat-rate so as to encourage further private pension saving.[8] In 1948, the BSP amounted to £1.30[9], which is equivalent to about £44.93 in 2017 prices. From 1973 to 1980, the value of the BSP was indexed to prices and average earnings. The latter is also referred to as 'earnings link' for the BSP.[10]

In 1980, this indexing was reformed so that the BSP only rose in line with prices, which was maintained until 2003, when an increase by 'at least 2.5% regardless of the level of inflation'[11] was introduced. However, during this period the consequence of indexing its value to prices meant that it declined relative to the average earnings and became a less generous benefit, insufficient to alleviate relative poverty across all pensioner groups. Poverty alleviation required means-tested top ups through supplementary benefits. After 1997, this means-tested support became a minimum income guarantee and from 2003, the Pension Credit.

7 George, V. and Page, R.M., 1995. *Modern Thinkers on Welfare,* Hemel Hempstead
8 Ibid
9 Bozio, A., Crawford, R. and Tetlow, G., 2010. *The history of state pensions in the UK: 1948 to 2010.* Institute for Fiscal Studies. p. 13
10 Ibid
11 Ibid

The earnings-related element of the UK pensions system provided by the state consisted of the State Earnings Related Pension (SERPS) and its successor, the State Second Pension (S2P). It went through many reforms after it was introduced in 1975 and came into effect in 1978, reaching replacement rates that were close to those in continental state pension systems in the mid-1980s. It gradually decreased after that, on the grounds that it was turning out to be a major fiscal burden for future generations in light of increased longevity.[12] Moreover, many people were contracted out from SERPS as a result of the mis-selling of personal pensions.[13] In 2002, the Labour government introduced a mandatory S2P to replace SERPS while continuing to provide an earnings-related state pension in addition to the BSP to low and moderate income earners who weren't able to join a private pension scheme.

The second part of the earnings-related element was - and still is - provided by the private sector, via employers and the pensions industry. It consists of two broad types of work-based pension schemes, namely occupational pension schemes or workplace personal pension schemes. Occupational defined benefit (DB) schemes are a collective arrangement between the employer and the employees that provide a predefined income in retirement. They were the cornerstone for most work-based private pensions savings in the post-war period. They have nevertheless been in long-term decline, a process that accelerated in the 1990s and early 2000s.

These schemes have been gradually replaced with occupational defined contribution (DC) schemes or workplace personal pension schemes (also defined contribution) that do not guarantee a predefined income in retirement. They rely instead on the amount of contributions, the investment performance on accumulated funds at the time the individual retires, minus the scheme charges, and on the rate at which the individual can use their accumulated fund to purchase an income. Occupational DC schemes are set up by the employer, but they are legally separated from the employer and managed by a board of trustees. Workplace personal pension schemes are selected by the employer, but they are provided and managed by an insurance company under an individual contract between the insurer and the employee.

Personal pension (PP) schemes were first introduced in 1986. This expansion of private personal pensions constituted a major change in the British pension system. These schemes proved to be highly problematic for low and moderate earners, and culminated in the mis-selling scandal of the 1990s. As already mentioned, low and middle income earners were wrongly encouraged to transfer out of their occupational pension scheme into a personal pension while also contracting out of SERPS. This meant that they would no longer enjoy benefit guarantees and would pay higher charges.

The Labour government elected in 1997 introduced a private stakeholder pension in addition to the S2P, continuing this type of provision for low to middle earners (between £9,000 – £20,000).[14] The stakeholder pension had common features with the personal pension, but it also offered some additional features that aimed to do better in terms of coverage and security. For example, the stakeholder legislation required employers with more than five employees to designate access to a stakeholder pension. It provided a charge cap at 1 per cent and a simple tax relief regime, 'allowing up to £3,600 to be paid into schemes each year.'[15]

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

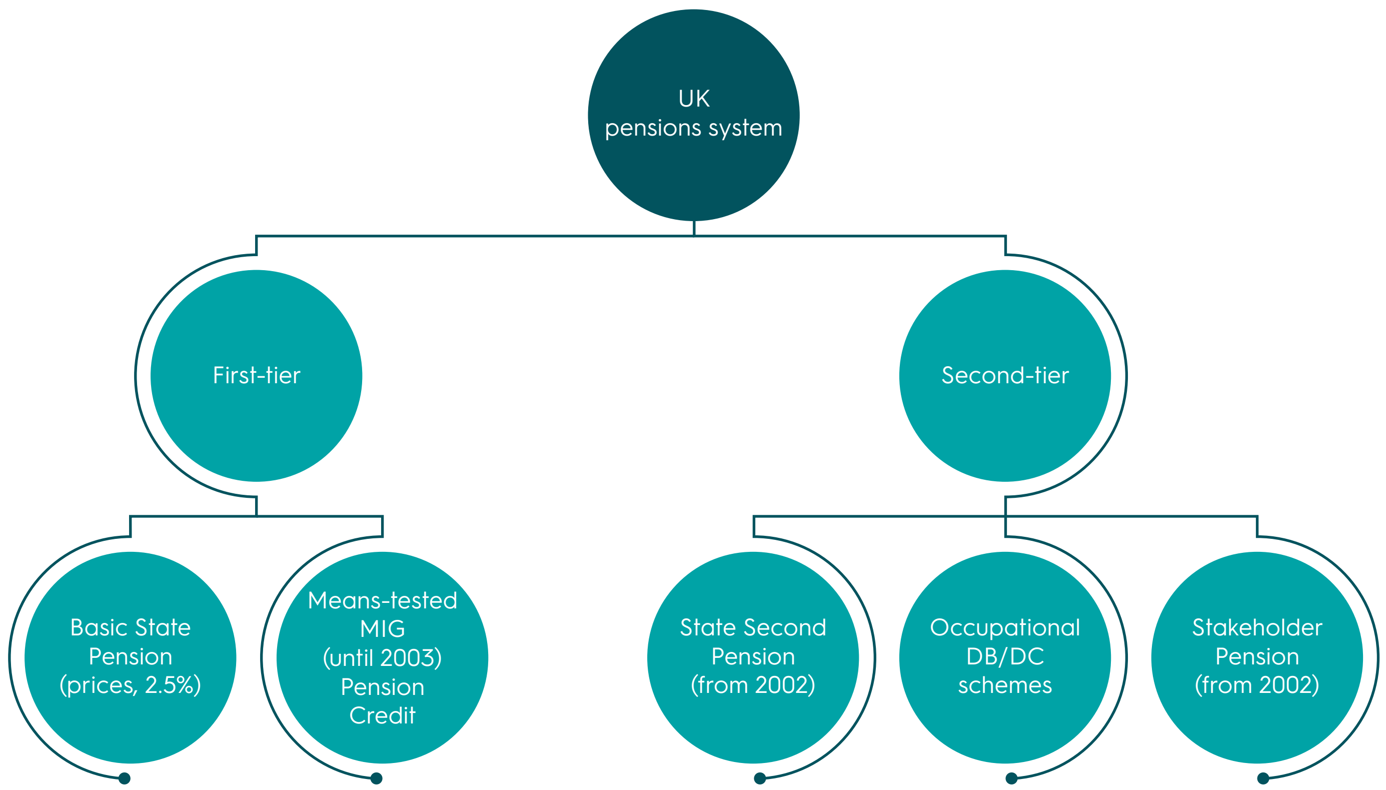
12 Department of Health and Social Security, 1985, *Reform of Social Security: Programme for Action*, Cmnd 9691, London: HMSO

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

14 *Welfare Reform and Pensions Act 1999*, c. 30. Available at https://www.legislation.gov.uk/ukpga/1999/30/contents

15 Ibid

Figure 1 The architecture of the UK pensions system in the early 2000s



2.3 The policy context of the 1997-2001 Labour government

The initiation of mid-2000s pension reforms was the product of a political priority given to a long-term view of the pensions system in the second term of the Labour government. When it was first elected in 1997, Labour advocated 'social investment state' strategies that gave primacy to paid employment, investment in education and skills, working family tax credits and childcare provision, in achieving welfare objectives.[16] Despite this focus on a modernised welfare state, pensions policy was at the core of Labour's welfare reform project, and reform was promised in both the 1997 and 2001 election manifestos.

There were three main socio-political reasons for reform:

- Retirement income was deemed to affect everyone, and was by extension important both as a social issue and an electoral concern.[17]
- Pensioner poverty had increased substantially in the 1980s and 1990s, becoming a pressing issue for social policy. Many pensioners were not benefiting from the UK's rising living standards. For instance, 'in 1996-97, 42 per cent of single female pensioners were in poverty and single male pensioner poverty was 37 per cent.'[18]
- Pensions constituted the largest part of the UK welfare state in terms of public spending, and therefore had to be part of an agenda for modernising the welfare state.

16 Deacon, A., 2002. *Perspectives on Welfare: Ideas, Ideologies, and Policy Debates.* UK: McGraw-Hill Education
17 Interview. David Blunkett. 12.06.2019
18 Joseph Rowntree Foundation, 2019. Pensioner Poverty. Available at https://www.jrf.org.uk/data/pensioner-poverty

During the first Labour term, priority was placed upon reducing pensioner poverty. This was to be paid for by increased public expenditure and raising levels of participation in private pension provision. A new means-tested minimum income guarantee and the introduction of Pension Credit were intended to lift mostly single female as well as male pensioners out of poverty. Pension Credit was successful in reducing the number of pensioners living in poverty by two million. As Gordon Brown recalls 'we wanted to target help through the Pension Credit to that group of pensioners who were in poverty, and to my satisfaction in a way, we managed to reduce pension poverty from something in the order of 35 per cent to around 10, 11 or 12 per cent.'[19]

However, it was arguably not 'a long-term gain.'[20] Because poverty was measured relative to median incomes, the level of the Pension Credit needed to rise in line with earnings. But as the BSP was indexed to prices, more and more pensioners were becoming eligible for the Pension Credit top-up, and in the process becoming subject to high marginal withdrawal rates on their private pension income. This received considerable criticism for discouraging voluntary pension saving, driving up the numbers of pensioners reliant on income top-ups, and even stigmatizing the poor. Demands rose for the restoration of earnings indexation for the BSP, particularly within the wider Labour movement.

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

19 Interview. Gordon Brown. 25.06.2019
20 Interview. David Blunkett. 12.06.2019

With respect to voluntary private savings, the new stakeholder pension was primarily aimed at giving low and medium income earners access to a private pension scheme. In doing so, it was intended to expand the role of private provision in retirement income. More specifically, the total proportion of retirement income coming from private pensions would be raised from 40 per cent to 60 per cent while that from state pension income would decrease from 60 per cent to 40 per cent.[21] However, the stakeholder pension mainly attracted higher income earners rather than the low to medium ones it was aimed at.[22] Even the pension pots designated by employers tended to have either small or no contributions at all.[23] As a result, the stakeholder pension failed to meet the 40:60 target set in the December 1998 Green Paper despite having some better features than its predecessors.[24] Further scandals regarding occupational and personal pension schemes erupted in the late 1980s, such as the mis-selling of personal pensions, and in the 1990s, such as the Maxwell scandal[25], adding to a general lack of public confidence in pension income security from private provision.

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

21 House of Commons, 1998/99. *Welfare Reform and Pensions Bill 44.*
22 Bolger, A. and Timmins, N., 2001. Darling drives home stakeholder message, *The Financial Times*, 14 March 2001.
23 Ibid
24 Department of Social Security, 1998. *A New Contract for Welfare: Partnership in Pensions.* Cm 5677. London: TSO
25 The Maxwell case refers to the misappropriation of £440 million assets from the occupational DB pension schemes of his companies by the late Robert Maxwell. It led to the setting up of a Pension Law Review Committee (also known as the 'Goode' committee) to revise the regulatory framework for occupational DB pension schemes, and subsequently to amendments in the Pensions Act 1995. One of the most important reforms was the employer-related investment restrictions, see details The Pensions Regulator, 2010. *Employer related Investments*, Brighton: The Pensions Regulator.

In sum, the 1997-term reforms aimed to resolve immediate problems in the pensions system, in particular ensuring pension adequacy through reducing pensioner poverty and encouraging private pension provision. Despite the substantial reduction of pensioner poverty these measures achieved, they were insufficient to meet the long-term challenges facing the pensions system. Central to these challenges was the failure of private provision to ensure adequate retirement incomes. Previous measures had not only failed to increase private pension savings, but 'at the same time, there were signs of a decline in pension provision by some employers.'[26] Despite private provision being well developed in the UK, the decline of DB schemes, low rates of DC savings, and the challenges ahead, such as increased longevity, meant there was 'no room for complacency.'[27]

The issue of pension adequacy went together with that of rising state expenditure in the long run. A 1998 Green Paper on pensions stated that 'over the first half of the next century the number of people over State Pension age in the UK is forecast to increase by over a third and…by 2040 there are likely to be two people of working age for every pensioner, compared with over three now.'[28] It argued that these projections were not a cause for alarm as long as an increasing role for private provision was achieved and sustained in the future. But the failure to increase private pension savings as well as the rising proportion of pensioners reliant on state means-testing to lift them out of poverty heightened the pressure for reform. Facing up to the long-term challenges of ensuring pension adequacy and keeping public pension expenditure under control paved the way for the formation of a commission on pensions and a more radical approach to pensions policy, as we will see in the next section.

26 Department for Work and Pensions, 2002. *Simplicity, Security and Choice: Working and Saving for Retirement,* London: DWP, p. 2-3
27 Ibid
28 House of Commons, 1998/99. *Welfare Reform and Pensions Bill 44.*

Chapter 3

The Pensions Commission (2002-2006)

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

3.1
Inception, remit and composition

Inception with a restricted remit and an extended timeframe

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

Prior to the Pensions Commission, the Pensions Simplification Review Team, led by Alan Pickering, had been set up to 'carry out a comprehensive review of DWP private pensions legislation to identify a package of options for simplification and the reduction of compliance costs.'[29] The Pickering Review addressed concerns about the decline in defined benefit (DB) pension schemes and occupational schemes more generally. It was intended to take place in parallel with another two reviews that aimed to simplify the taxation of pensions and to examine the investment strategies offered by the financial services industry. Each of these three reviews fed into the publication of the 2002 Pensions Green Paper.

The Green Paper affirmed that something needed to be done 'for the long term'[30] about the levels of pensions saving and participation, mainly through monitoring the effectiveness of the then voluntary system of private saving for retirement. It was on this basis that the Pensions Commission was established.

Within the government, the Treasury was opposed to the need for an independent commission, despite common agreement across Whitehall on the pressing issues facing pensions policy. It argued that a separate review outside the Treasury would intrude on fiscal policy and possibly disrupt existing rules on private pension schemes.[31]

However, the Prime Minister, Tony Blair, had become more interested in pensions and wanted to raise the issue up the political agenda. His reasons were both fiscal and political. As Blair recalls today, 'It was obvious that the numbers of people who were relying on the state pension was rising, your traditional defined benefit pensions were declining, people were living longer, more healthily and the younger generation was going to have to start paying more and more for the older generation, so there were obvious challenges in pensions around cost and sustainability'.[32] He continues in a political vein, that

29 Select Committee on Work and Pensions, 2nd April 2003, Work and Pensions Third Report, Annex B. London. House of Commons. https://publications.parliament.uk/pa/cm200203/cmselect/cmworpen/92/9214.htm#note307

30 Department for Work and Pensions, 2002. *Simplicity, Security and Choice: Working and Saving for Retirement*, London: DWP, p. 9

31 Interview. Government official

32 Interview. Tony Blair. 24.04.2019

'the Labour Party in history had been seen as a high tax party [so] I was determined not to end up with large-scale welfare commitments that ended up with large-scale taxation commitments.'[33]

The role of Number 10 staff was crucial in getting the Pensions Commission established. The 2002 Green Paper was wide-ranging but open-ended and inconclusive. Gareth Davies, Deputy Director of the Prime Minister's Strategy Unit from 2002-2003 and a key player in the creation of the Pensions Commission, reflects on this. 'It was one of those classic Green Papers where no one agreed on actually doing it, let alone what the problem was, and it became […] I call it a sort of classic Frankenstein Green Paper, everyone sort of stapled together old favourite bits of text about demographics and how we're all living longer. Had a couple of interesting things in there […] but there's a general sense of unfinished business, [so] how do we get some form of process in place that we can actually really address some of the fundamental issues here? The one thing we managed to get into the Green Paper was the Commission […] this was sort of the last minute brokering and it really was while we were at the printers'.[34]

The conflict was temporarily resolved and Treasury gave its consent on the basis of two conditions, that the Commission would have a long timeframe within which to make its final recommendations, and its remit would be restricted to private pensions[35].

The timeframe for the Commission to produce its final report was after the 2005 general election, namely after an expected change of prime minister. This long timeframe meant it would be viewed as a standing commission and of less potential importance to the media and stakeholders. The Commission's initial terms of reference were restricted to assessing voluntary private pension savings and not the state pension system, either separately or in combination with the former.

It aimed to keep under review the regime for UK private pensions and long-term savings, taking into account the proposals in the Green Paper, assessing the information needed to monitor progress and looking in particular at current and projected trends in:

— the level of occupational pension provision
  - trends in employer and employee contributions
  - trends in coverage of occupational pensions
— the level of personal pension savings, including
  - take-up of stakeholder and personal pensions
  - contributions to stakeholder and personal pensions
— the level of other saving
  - financial assets, for example Individual Savings Accounts, housing, businesses, savings, and other assets of partners.

On the basis of this assessment of how effectively the current voluntarist approach is developing over time, to make recommendations to the Secretary of State for Work and Pensions on whether there is a case for moving beyond the current voluntarist approach.'[36]

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

The selection of the members of the Pensions Commission was less controversial than its creation, remit and timeframe. There were conversations between Number 10 and the Treasury[37] about who the commissioners should be, with the Department for Work and Pensions (DWP) 'holding the ring.'[38] Three names ended up being acceptable to Number 10, the Treasury and the DWP. The Pensions Commission was thus chaired by Lord Adair Turner and included two other members, Baroness Jeannie Drake, and Professor Sir John Hills.

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

33 Ibid
34 Interview. Gareth Davies. 04.04.2019
35 Institute for Government, 2007. *Pensions reform: The Pensions Commission (2002-6).* London: Institute for Government; Seldon, A., 2008. Blair unbound. UK. Simon and Schuster.
36 Department for Work and Pensions, 2002. *Simplicity, Security and Choice: Working and Saving for Retirement,* Cm 5677, London. TSO. p. 31
37 Interview. Carey Oppenheim. 26.03.201
38 Interview. Nicholas Timmins. 23.04.2019

Carey Oppenheim, a special adviser in Number 10 for social policy during 2000-2005 explains this membership saying that, 'I had a conversation with Ed Balls about who to include, negotiating about having those commissioners […] and Adair Turner obviously […] felt like a very sensible choice because he'd also had a run at the Low Pay Commission and had the authority and credibility, not only with the business role because of the CBI but with a kind of a wider, better audiences and constituency. Then Jeannie Drake who was from the […] trade union side. And […] I thought that John Hills had an excellent sort of analytical mind.'[39]

The government considered the combination of skills, experience and different backgrounds of the Commission to be an effective way of ensuring independent and credible advice. In interviews for this study, the 'independence' of the Commission was perceived principally in three ways:

1. **Independence from political leaders in government**, that is, no one was considered as too 'Blairite' or too 'Brownite'.
2. **Independence from any political party**, that is, they were not drawn from politically partisan backgrounds.
3. **Independence from sectoral interests**, that despite their experience in particular sectors, they did not represent business, relevant industry or union interests, but rather were distanced from these and provided a balance of perspectives through the combination of their backgrounds.

The Commission also enjoyed a largely positive reputation with the opposition parties for being independent from the government of the day, as well as with pension policy communities[40]. Joanne Segars, Chief Executive Officer of Pensions and Lifetime Savings Association (PLSA), 2006-2017, points out that 'establishing [it] as a small commission with just Adair Turner, Jeannie Drake, John Hills, was the right way forward because it meant that even though they came from different backgrounds […] those debates could happen in a non-political but also non-partisan way.'[41]

The Commission could have taken the form of a Royal Commission, composed of many members from different sectors and fields. This had been the form of commission chosen in Labour's first term to examine the funding of social care. But, partly as a result of this experience, Royal Commissions had become associated with disagreement and inaction, or consensual but timid policy solutions. Nicholas Timmins, former journalist at the Financial Times who covered the work of the Pensions Commission extensively reminds us that at the time, 'there's stories knocking around the papers whether there was going to be a Royal Commission or not.'[42] This route was rejected because Royal Commissions 'take a long time […] there's a tendency for them to be consensual where occasionally what you want is a slightly bolder solution, and they've just fallen out of favour […] but there had been a number of similar much smaller enquiries that had actually looked quite effective, so we end up with that sort of model.'[43] As Tony Blair later put it, 'the trouble with Royal Commissions, they have this grand title and these quite large commissions, and then just ended up with lowest common denominator policy.'[44] The choice of a small commission was therefore a 'conscious decision.'[45]

In fact, the small size of the Pensions Commission allowed cooperation with high levels of collegiality and consensus-building among its three members. It enabled commissioners to come up with consensual but also bolder and long-term decisions, from the expansion of their remit to an effective strategy for the adoption of controversial policy change, as we will see in the next section. John Hills reflected that, 'being a small Commission, it meant that we worked very closely together on every piece of evidence and all the material we looked at, of which there was an enormous amount and agreed word-by-word and line-by-line with everything that was in the report. So it was a rather different process from a big committee where as an individual member you can bang away at one particular issue and then you know you have to accept the kind of judgement of others on things that you haven't been quite so involved in.'[46]

39 Interview. Carey Oppenheim. 26.03.2019
40 For example, David Willetts. Shadow Secretary of State for Work & Pensions 1999-2005, Interview. 03.06.2019
41 Interview. Joanne Segars. 13.06.2019
42 Interview. Nicholas Timmins. 23.04.2019
43 Interview. Nicholas Timmins. 23.04.2019
44 Interview. Tony Blair. 24.04.2019
45 Interview. Gareth Davies. 04.04.2019
46 Interview. John Hills. 02.04.2019

3.2
The Pensions Commission's approach to reform

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

3.2.1
Responding to internal institutional constraints: Remit and Timeframe

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

The publication of an interim report not only helped set expectations, it also increased media and stakeholder interest in both its work and its ways of working. This point was highlighted by Matthew Taylor, Chief Adviser to the Prime Minister on Political Strategy 2005-07 and now Chief Executive Officer of the Royal Society of Arts, Manufactures and Commerce (RSA), who emphasised that one of its major positive features was extensive media and stakeholder engagement. This contributed to its public legitimacy as an expert body making recommendations to government.

The Commission's first report, published on 12th October 2004, stated its purpose was 'to stimulate debate' and 'to ensure that the debate is fact-based and well-structured'[47], presenting the facts around pensions as generating 'undoubted problems.'[48] The report received significant media coverage. In the week after its publication there were numerous articles in the newspapers on the 'pension crisis' and the first report of the Commission.[49] BBC Breakfast News showed Australian pensioners enjoying blue skies due to compulsory pension savings.[50] Whole broadcast slots were dedicated to the 'pensions crisis'. Widespread media attention was reinforced by the then Secretary of State for Work and Pensions, the Rt Hon Alan Johnson MP, who spoke to The Guardian newspaper two days before the publication of the first report to help frame its reception. He focused on the long-term challenges facing retirement income or the 'pensions crisis'. At the same time, the report was published in a period when there was already extensive coverage of pensions policy as a result of pensions scandals, the creation of the Pension Protection Fund in 2004, and the impending 2005 general election.

Even before the publication of the interim report, commissioners had started 'talking to all relevant groups, the CBI, the TUC, Help the Aged, the different parties, about what was emerging in [their] analysis.'[51] These events were aimed at stimulating discussion and debate primarily on the issues facing pension provision in the UK, rather than solutions and Commission's final conclusions. Moreover, these events received extensive media coverage.[52] As a result, the Commission's final reports and recommendations were expected, both in terms of laying the ground for reform proposals and in terms of their broader content. All this helped to overcome the sense that the Commission had been created as a long-term, 'long-grass' political exercise. The Commission's lengthy timeframe provided space for gathering evidence and initiating consultation procedures.

47 Pensions Commission, 2004. *Pensions: Challenges and Choices. The First Report of the Pensions Commission.* London. TSO. p. v.
48 Ibid
49 The Independent. 2004. *Now we know the scale of the pensions crisis, Mr Blair must set out a policy to tackle it.* The Independent newspaper. 13 October 2004. https://www.independent.co.uk/voices/editorials/now-we-know-the-scale-of-the-pensions-crisis-mr-blair-must-set-out-a-policy-to-tackle-it-543581.html
50 Street-Porter, J. (2004). *Why do we treat old people so badly.* The Independent newspaper. 14th October 2004 https://www.independent.co.uk/voices/columnists/janet-street-porter/why-do-we-treat-old-people-so-badly-543666.html
51 Interview. Adair Turner. 26.06.2019
52 Interview. Nicholas Timmins. 23.04.2019

The Commission decided that it needed to expand its initial remit within the first six months.[53] This was mainly because the nature of the issues in question could not have been addressed by focusing on private pension saving alone. Adair Turner illustrates this saying that 'it was frankly impossible to comment on the incentives for private savings without thinking about the impact of means-testing.'[54] Similarly, John Hills argues that 'you can't really separate the two and so to answer the main question we were asked, we had to understand the whole system.'[55] The Commission managed to secure an expanded remit because of concerns at the top levels of government about the politics of a restricted one. Specifically, Prime Minister Tony Blair said to the Commission, 'Tell me what is needed to be done and leave the politics to me.'[56] At the day-to-day level of government, the extended remit, which was officially announced much later, was somewhat disorientating for civil servants at the beginning of the Commission's activity.[57]

"Specifically, Prime Minister Tony Blair said to the Commission, 'Tell me what is needed to be done and leave the politics to me.'"

53 Interview. Adair Turner. 26.06.2019
54 Interview. Adair Turner. 26.06.2019
55 Interview. John Hills. 02.04.2019
56 Interview. Tony Blair. 24.04.2019
57 Interview. Government official

3.2.2
Utilising the available resources

Another significant attribute of the Commission was its effective use of resources, especially the secretariat of the Commission[58], to access information, up-to-date knowledge and technical support. A good example of this was provided by one of our interviewees, Phil Wynn Owen, Director General for Pensions at the DWP, 2004-2009. He noted that the Commission used 'the Pensim2 model that Trevor Huddleston and other analysts in DWP had built [and which] was first-rate analysis.'[59] This model was the main means by which projections were produced on the effects of policy changes on retirement income. In other words, the Commission managed to identify, use and build on existing and up-to-date knowledge as well as on the expertise of its secretariat, such as that of its head, Trevor Huddleston. In addition, the Commission did not hesitate to use the existing knowledge and experience of DWP officials who were not part of its secretariat. They initially talked to DWP private pensions policy officials, and subsequently with those working on state pensions policy, in order to get to know the most important issues and ideas, or to scrutinise already known ones.[60] This approach also helped to build good relations between the secretariat and DWP officials.

Keeping independence while using resources effectively seems to have been achieved because the secretariat worked very closely with the Commission, and was established to work independently from DWP. John Hills says 'we were really lucky in terms of people who were in that team, we and they worked very well together. In fact, I regarded us all as part of the same team, rather than there being a secretariat separate from us as commissioners.'[61]

58 The Secretariat comprised 15 people in total: Jenny Afflick, Jennifer Bradley, Chris Dobson, Andrea Garman, Ralph Gonsalves, Genevieve Goulden, Louise Goulding, Sam Hainsworth, Trevor Huddleston, Joanna Littlechild, Ellie Lusty, Sarah Meagher, Maria Meyer-Kelly, Andrew Statham, Clare Tempest-Hay, Pensions Commission, 2005. *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission.* London. TSO.
59 Interview. Phil Wynn Owen. 25.04.2019
60 Interview. Government official
61 Interview. John Hills. 02.04.2019

Many of the people in the secretariat were seconded from DWP and were expected to return to the department after working for the Commission. Secondees were subject to the Commission's direction and duties. They reported only to the commissioners with 'no reporting back off-line.'[62] As John Hills observed, treating them as part of the Commission helped to integrate the secretariat and encouraged them to act independently of their home institution.

3.2.3 The transfer of behavioural insights into pension policy

The idea of using insights from behavioural economics, otherwise known as behavioural insights, was one of the cornerstones of the Commission's approach. Ultimately, it led to the policy of auto enrolment and contributions auto-escalators. It is therefore helpful to recount how behavioural insights came to the attention of the commissioners, by whom, and the criteria and circumstances by which behavioural insights were used in policy formation.

Behavioural insights reached the Commission in its first years through DWP officials, analysts in Number 10 and the general diffusion in policy circles of the 'libertarian paternalism' paradigm that emerged around this time. Behavioural insights also appeared at a time when there was willingness on the part of government to learn about public policy experiments from other countries, test new approaches, and put resources into analytical directorates.[63]

At the beginning of the 2000s, two key papers by Cass Sunstein and Richard Thaler helped establish the concept of libertarian paternalism.[64] Although it had not gained the relevance it did after 2010 in the UK, the first publications in behavioural economics, along with other relevant academic research, was received positively by senior civil servants and Westminster policy thinkers.

During that period, the Prime Minister's Strategy Unit was already undertaking work on the principles of welfare as well as pension reforms. David Halpern, former Chief Analyst at the Prime Minister's Strategy Unit at the time of its creation, recalls that he came across the work of Richard Thaler when writing one of the policy discussion papers[65] on behaviour change and personal responsibility.[66] He thought that the paper '[had] direct implications for the Turner Commission', and remembers 'taking a copy of the paper and [...] literally stuffed it in an envelope and scribbled a note on top of it for Adair and said, Adair, I think this might be the most important paper that you'll read on pensions reform in the whole commission.'[67]

In DWP, there was also work undertaken alongside the Pensions Commission, led by Robert Laslett, the first departmental Chief Economist to address the decline in private pension savings and as a result, the decline in retirement income[68]. Robert Laslett started to explore behavioural insights and initiated the process of approaching North American academics leading the field of behavioural economics. In particular, Professor David Laibson was invited to share information about the importance of setting default options for encouraging retirement savings and how auto enrolment into pension provision was working in the United States. For example, whether default options consisting of auto enrolment into a workplace pension scheme with the choice to opt out had resulted in higher participation rates, instead of standard enrolment where the employees have to decide to opt in. Another default option was to set a default contribution rate to ensure that a minimum amount of contribution was paid by the employees.

62 Ibid
63 Interview. Robert Laslett. 11.04.2019
64 Thaler, R. H., and Sunstein, C. R., 2003. Libertarian paternalism. *American economic review*, 93(2), 175-179; Sunstein, C. R., and Thaler, R. H., 2003. Libertarian paternalism is not an oxymoron. *The University of Chicago Law Review*, pp. 1159-1202

65 See more details in: Halpern, D., 2015. *Inside the nudge unit: How small changes can make a big difference.* New York. Random House.
66 Interview. David Halpern. 16.05.2019
67 Ibid
68 Ibid

In addition to this evidence about default options, Professor Shlomo Benartzi was invited by Helen Dean, then responsible for private pensions at DWP, to share his research insights with civil servants. Professor Shlomo Benartzi is known for his research on auto-escalators, which means automatic increases in contribution levels on set dates, also referred to as 'phasing' for auto enrolment and the 'Save More Tomorrow' approach to retirement savings[69]. He visited the DWP intending to 'brainstorm about how do we get the ten or eleven million people who don't have coverage to start saving', including how much to contribute as well as increase contribution levels, on what dates and date intervals.[70] After collecting sufficient information, Helen Dean remembers that 'we talked to [...] Adair through what we'd found, Adair was very excited, he picked it up and it got incorporated into the Pensions Commission work from there. So that's how that happened.'[71]

The Commission actively engaged with emergent ideas from behavioural economics and pensions policy from various sources. The evidence largely came from research papers, presentations and brainstorming sessions, most indicating that individual choices about retirement saving do not operate in a 'rational and well-informed fashion.'[72] In particular, evidence from 401k pension plans in the United States and Kiwi Saver pension schemes in New Zealand was considered.[73]

Although auto enrolment was still in its early stages, commissioners found it appropriate, relevant and applicable[74] to their policy-making aims, and they dedicated a whole section to behavioural insights in pensions in their first report. It is also not coincidental that much of this evidence was drawn from other liberal market economies that share key institutional features with the UK economy.

Transferring this evidence to the UK context was speculative. But the potential gains were sufficiently high that it was taken forward in the Pensions Commission's work. As Adair Turner recalls 'we ran figures that said if we switch to an auto enrolled basis where you have to opt out versus opt in, maybe we will take participation rates from 40 per cent to 70 per cent, and they have ended up at 90 per cent.'[75]

It is also important that the evidence base and its underpinning behavioural perspective helped address political concerns around compulsory pension savings. Auto enrolment offered high levels of pension savings participation without compulsion. It dealt with the limitations of rational choice theories of saving without compelling companies and their employees to save. In the words of Professor David Laibson 'one of the virtues of auto enrolment is that you're at liberty to opt out.'[76] Compulsory savings could also be characterised as taxation, something which Labour Ministers were acutely sensitive about, and which might have prejudiced public support for pensions reform.[77] Perhaps coincidently, behavioural insights also helped to ease tensions over the question of pensions savings between Treasury and Number 10, as well as DWP. On one hand, they offered a practical solution to those arguing that the UK had an under-savings problem, while on the other hand, they allowed those civil servants with a more sanguine view of the UK savings ratio to continue to reject compulsory obligations on employers and employees.

The use of what were then innovative forms of public policy evidence was therefore central to the Commission's approach. The application of behavioural economics to policy-making ideas, and their subsequent successful implementation - in this particular policy instance at least - could also be said to have opened the way for the wider take up of behavioural interventions in UK public policy.[78]

69 For detailed account, see Thaler, R.H. and Benartzi, S., 2004. Save more tomorrow™: Using behavioral economics to increase employee saving. *Journal of Political Economy*, 112(S1), pp. 164-S187.
70 Interview. Shlomo Benartzi. 16.05.2019
71 Interview. Helen Dean. 03.04.2019
72 Pensions Commission, 2004. *Pensions: Challenges and Choices. The First Report of the Pensions Commission.* London. TSO. p.206
73 Pensions Commission, 2004. *Pensions: Challenges and Choices. The First Report of the Pensions Commission.* London. TSO. p.208
74 There can be barriers to the transfer of scientific evidence into policy-making. The most common ones are that scientific evidence is not associated with the policy aims and is not appropriate for implementation or applicable. Parkhurst, J., 2017. *The politics of evidence: from evidence-based policy to the good governance of evidence.* UK. Routledge.

75 Interview. Adair Turner. 26.06.2019
76 Interview. David Laibson. 23.04.2019
77 In other areas, 'behaviour change' initiated by a Labour government was seen as the practice of a 'nanny state', see Halpern, D., 2015. *Inside the nudge unit: How small changes can make a big difference.* New York. Random House.
78 Interview. John Hills. 02.04.2019

3.2.4
An evidence-based approach to the 'problem' and its possible solutions

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

The facts gathered comprised of:

- demographic projections, for example life expectancy and dependency ratios
- retirement age trends
- the decline in private pension provision and reliance on state provision, and the relationship between the state pension and private pension savings
- barriers to voluntary savings, including people's weaknesses such as myopia and inertia
- workplace personal pension scheme charges
- gender differences in pensioner poverty
- non-pension assets like housing, personal savings, business savings
- pensions spending.

The Commission then built up a wider and more complex definition of the problem of long-term pension inadequacy. That definition wasn't limited to the level of voluntary savings, but defined the problem as the 'combination of the present state pension system and the present voluntary system of private pension saving [which] is not fit for purpose.'[84]

The process of accumulating and analysing the facts included drawing on multiple surveys and datasets from different government departments while ensuring an effective use of resources, as discussed in 3.2.2. After obtaining the data, the Commission had to also 'dive into unbelievable detail'[85] in order to check the assumptions underpinning projections and - most importantly - whether the figures they were using were right. National statistics on pension savings provide a good example of the latter. The amount of private savings in both occupational and workplace personal schemes included in the National Income and Accounts was overstated due to duplications in the total of private savings[86]. David Willetts MP voiced this concern, which brought it to the attention of the Commission. Once the Commission had the figures, it could scrutinise and find these errors,[87] contributing to a rigorous analysis of the data.

Having gathered the facts, the commissioners felt that they were able to see what would happen if policy remained unchanged. For example, the first report argued that 'given present trends many people will face "inadequate" pensions in retirement, unless they have large non-pension assets or are intending to retire much later than current retirees.'[88] This was done in the spirit of using evidence to answer questions such as 'what works' and 'what happens if we change these settings?' that was prominent in 1997-2010 government, rather than responding to an impending pensions crisis.

79 Pensions Commission, 2004. Pensions: *Challenges and Choices. The First Report of the Pensions Commission.* London. TSO.
80 Pensions Commission, 2005. *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission.* London. TSO.
81 Pensions Commission, 2006. *Implementing an integrated package of pensions reform. The final report of the Pensions Commission.* London. TSO.
82 Interview. John Hills. 02.04.2019
83 Pensions Commission, 2004. *Pensions: Challenges and Choices. The First Report of the Pensions Commission.* London. TSO.
84 Pensions Commission, 2005. *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission.* London. TSO. p. ix; Pensions Commission, 2006. *Implementing an integrated package of pensions reform. The final report of the Pensions Commission.* London. TSO. p. 10
85 Interview. Adair Turner. 26.06.2019
86 Pensions Commission, 2004. *Pensions: Challenges and Choices. The First Report of the Pensions Commission.* London. TSO.
87 Interview. David Willetts. 03.06.2019; Interview. Adair Turner. 26.06.2019
88 Pensions Commission, 2004. *Pensions: Challenges and Choices. The First Report of the Pensions Commission.* London. TSO. p. xi

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

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

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

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

There was a clear articulation that 'there are no alternatives to these four choices.'[93] The use of evidence for the setting of only four appropriate solutions was seen as crucial. While the evidence-based approach sought to depoliticise the definition of the policy problem and the case for reform, the same approach also served to present the available policy options as emerging out of the data – rather than from a political agenda. Robert Laslett points out that 'Adair, Jeannie and John were particularly brilliant at starting from the analytical point of view, at setting out the analytical case, so that the result emerged as something intuitive and obvious [...] they just let the answer emerge from the evidence'[94]. He continues, 'that [emergent answer] established the credibility in people's minds.'[95] The release of the second report with the reform proposals therefore landed on fertile ground.

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

89 Interview Otto Thoresen. 23.03.19
90 Interview. Chris Curry. 03.05.19
91 Interview. Nigel Stanley. 24.05.19
92 Interview. Government official

93 Pensions Commission, 2004. *Pensions: Challenges and Choices. The First Report of the Pensions Commission.* London. TSO. p.12
94 Interview. Robert Laslett. 02.04.2019
95 Interview. Robert Laslett. 02.04.2019

3.2.5
A strategy for recommendations: 'an integrated package of pension reforms'

The second and third report[96] were dedicated to the recommendations made by the Commission, revealing the second part of the two-stage approach. The recommendations included a combination of three of the four options listed in the first report. The first option – to have poorer pensioners in UK society - was unsurprisingly deemed 'unattractive.'[97] The selection of a single option was deemed insufficient to address long-term pensions adequacy. The central view of the commissioners was that 'some mix of higher taxes or National Insurance contributions, higher savings and later average retirement is required.'[98] They therefore proposed a package of reform comprised of 'four key dimensions of policy'[99] throughout the whole system of pension provision in the UK. Table 2 shows these four dimensions of the reform package.

Table 2

Four key dimensions of the reform package
1. State system reform to deliver a more generous, more universal, less means-tested and simpler state pension. Over the long term this will require some increase in the percentage of Gross Domestic Product (GDP) devoted to state pensions and an increase in the State Pension age.
2. Strong encouragement to individuals to save for earnings-related pensions through the application of auto enrolment at a national level.
3. A modest minimum level of matching employer contributions to ensure that savings are clearly beneficial for all savers.
4. Where there is no good employer-sponsored pension provision, a role for the state as an organiser of pension savings and bulk buyer of fund management to ensure low costs and thus higher pensions and better incentives to save, namely the creation of a National Pension Savings Scheme (NPSS) or an equivalent.

The solution lay not just in a set of policies but in an 'integrated approach to reform' where 'the four dimensions of policy are seen as forming an integrated whole with parallel progress on all four essential for success.'[100] In policy terms, individual solutions taken out of this package would not be effective or sustainable, and that's why a coherent set of reforms was required.

96 Pensions Commission, 2005. *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission.* London. TSO. and Pensions Commission, 2006. Implementing an integrated package of pensions reform. The final report of the Pensions Commission. London. TSO.
97 Pensions Commission, 2004. *Pensions: Challenges and Choices. The First Report of the Pensions Commission.* London. TSO. p. x
98 Ibid
99 Pensions Commission, 2006. *Implementing an integrated package of pensions reform. The final report of the Pensions Commission.* London. TSO. p. 10

100 Pensions Commission, 2006. *Implementing an integrated package of pensions reform. The final report of the Pensions Commission.* London. TSO. p. 12

The decision to propose a 'reform package' wasn't just a rational choice. It was also deployed as a strategy for political ends[101] and seen as 'both a nicely judged policy and political package.'[102] Despite its strategic perspective, it was not intended to legitimise specific interests but rather to cut through them. It did this by allocating pain and gain among the most relevant interest groups – including government departments.

The reform package also enabled the Commission to gain leverage among interest groups, as well as sustain its independence from any political party. Helen Dean explains that '… in some way that made it easier I think for people to reach consensus because somehow it didn't seem quite as political as it would have, had it been the bright idea of one or other political party.'[103] Adair Turner says that they managed to defend themselves against objections from Treasury by having a reform package. We said 'this is the package and this is the package',[104] and in this way they could keep the backbone of the reform package, if not all the details of it.

"The reform package also enabled the Commission to gain leverage among interest groups, as well as sustain its independence from any political party."

101 Sabatier, P. A., and Weible, C. M. (Eds.), 2014. *Theories of the policy process.* Boulder. Colorado. Westview Press.
102 Interview. Gareth Davies. 04.04.2019
103 Interview. Helen Dean. 03.04.2019
104 Interview. Adair Turner. 26.06.2019

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

In addition to an evidence-based and integrated approach to reform, what made the approach of the Commission distinctive from that of a conventional small expert committee, was the systematic attempt to establish a reform consensus. Consensus-building became part of Commission's modus operandi after the first report. The first report stated that 'we need to develop an approach which can command consensus across parties, and which can be sustained across parliaments and governments.'[105] Views converged outside the Commission as well, 'nobody thought that Adair's [Turner] job was to simply be given a report by a bunch of civil servants and [put] his name on it.'[106]

The motivation behind consensus building was to secure the long-term reform commitments that the Commission's recommendations required. Consensus had to be reached in order for any recommendations to have an effect as they challenged the policy status quo and caused controversy both within and outside government. Furthermore, one of the challenges in the Westminster model or UK majoritarian democracy is that long-term policies extending beyond one electoral cycle can be easily reversed by future governments.[107] The commissioners were aware that a 'lack of consensus has driven a lack of policy continuity which has helped create the bewildering complexity of the UK pension system.'[108] They also 'knew pension reform had to last for twenty, thirty years and therefore you were trying to buy a twenty to thirty year consensus',[109] as Jeannie Drake states.

It is instructive to consider how consensus developed and the extent to which it was achieved across parties and interest groups. Consensus-building is usually designed via consultation procedures. In this case, the process was structured around three consensus-building procedures within the wider approach:

a) evidence

b) the reform package

c) consultation.

105 Pensions Commission, 2004. *Pensions: Challenges and Choices. The First Report of the Pensions Commission.* London. TSO. p. vi
106 Interview. Matthew Taylor. 22.03.2019
107 Lijphart. A., 2012. *Patterns of Democracy: Government forms and performance in thirty-six countries.* Yale University Press, New Haven.
108 Pensions Commission, 2005. *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission.* London. TSO. p. 405
109 Interview. Jeannie Drake. 13.06.2019

Consensus through evidence

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

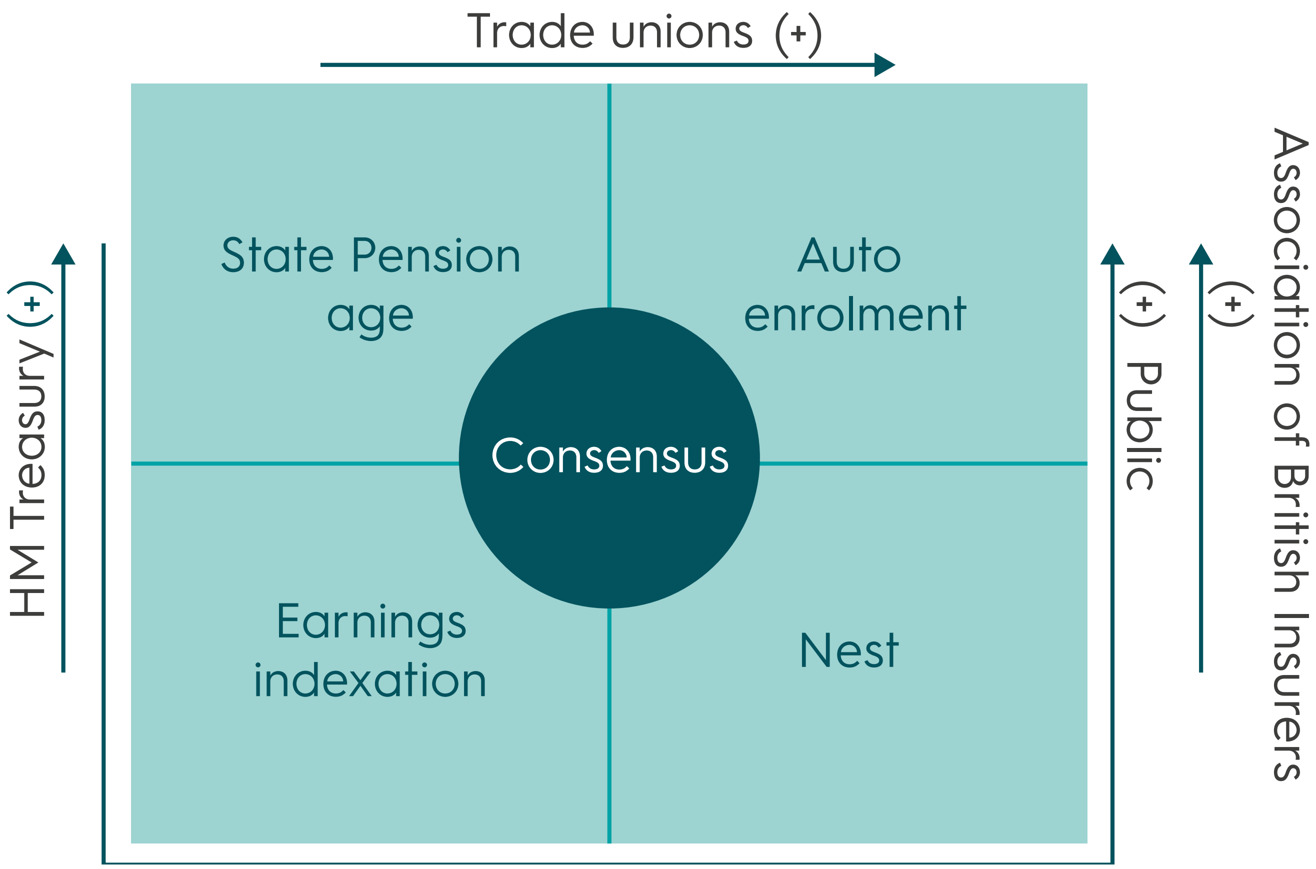
In doing so, the Commission invited political parties and interest groups to agree on the facts delineating the problem at hand. As a result, its diagnosis emerged from these agreed facts. As Chris Curry, Pensions Policy Institute Director explains, 'what the Commission did very well was it spent a long period of time, not just building up consensus about what the answer should be, but actually trying to build up consensus about what the question was.'[110]

Consensus through a reform package

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

The trade unions and pensions lobbies got the BSP linked to earnings and employer contributions. The Treasury got to raise the pension age.'[111] One government official described this arrangement as a 'sort of geniously British compromise', for which the reform package 'got a bit more buy-in.'[112] In doing so, it helped to reach consensus on the recommendations, as well.

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



Source: Authors' compilation

110 Interview. Chris Curry. 03.05.2019

111 Interview. Senior politician.
112 Interview. Government official.

Consensus through consultation

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

In the first report in October 2004, the Commission called for a three and a half month period of consultation to comment on the evidence provided and the mix of the four possible options. Between the first and second report in November 2005, the then Work and Pensions Secretary David Blunkett spoke at the National Association of Pension Funds (currently PLSA) conference and Pensions Commission seminars about how they should look at the forthcoming Commission's proposals. In the same period, he 'held National Pensions Debates [...] to raise awareness of the tough pensions choices [...] to allow the public to engage in the debate [and] to engage with regional stakeholders.'[113] At the same time the Chair of the Commission spoke, for example at the 2005 Trades Union Congress (TUC) annual conference, about the difficult choices that all involved parties had to make.

> **"...what made the approach of the Commission distinctive from that of a conventional small expert committee, was the systematic attempt to establish a reform consensus."**

With the publication of Commission's proposals in the second report, 'the focus of the National Pensions Debate switched to deliberative consultation, using the broad framework of the Pensions Commission's second report as a basis for discussion with both stakeholders and the general public.'[114] Between then and the publication of the third report in April 2006, 'detailed contributions from numerous pensions experts and from groups representing employers, employees and the financial services industry'[115] were submitted. There was extensive discussion of the topic in the media, and a National Pensions Day was held, one of the few deliberative polls to take place at such scale. It was held on 18 March 2006 with over 1,000 people from 16 to 92 years old across the UK brought together to facilitate and encourage discussion on the Commission's proposals with the public.[116]

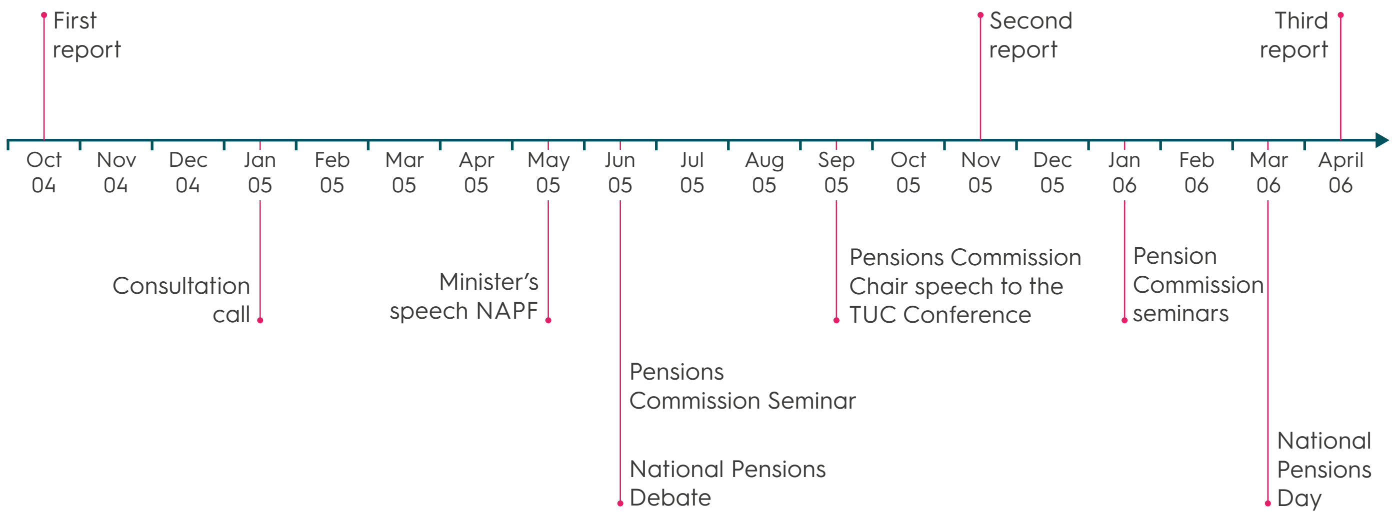
Finally, consultation was intended to build consensus not just among the stakeholders and the public, but to anchor the reform proposals at DWP and with the Opposition. This was through a number of meetings with DWP officials and Opposition spokespersons for pensions. One senior civil servant who attended some of these meetings explains that there was a 'group of officials from DWP who were regularly attending the Commissions meetings [...] and a number of meetings at the initiative of ministers [...] with the key opposition spokespeople on pensions.'[117]

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

113 Department for Work and Pensions, 2006. *Security in retirement: towards a new pensions system.* London. TSO.

114 Department for Work and Pensions, 2006. *Security in retirement: towards a new pensions system.* London. TSO.
115 Pensions Commission, 2006. *Implementing an integrated package of pensions reform. The final report of the Pensions Commission.* London. TSO. p.10
116 Pensions Commission, 2006. *Implementing an integrated package of pensions reform. The final report of the Pensions Commission.* London. TSO.
117 Interview. Government official.

Figure 3 Timeline of example consultation activities between Pensions Commission reports



Source: Authors' compilation

Chapter 4

Enactment and implementation (2006 – 2015)

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

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

The output from the Commission's proposals was the publication of a 2006 White Paper and two pieces of legislation, the Pensions Act 2007 and the Pensions Act 2008. The White Paper *Security in retirement: towards a new pension system*[118] provided an agenda for the implementation of the Commission's proposals. The recommendations contained in the White Paper were then translated into the two pieces of legislation. There was an explicit link between the Commission's reform package and the recommendations in the 2006 White Paper. Auto enrolment and the uprating of the basic State Pension (BSP) with average earnings stand out for their immediate transfer to the White Paper. The White Paper also took up the recommendations of the Commission on the increase in the State Pension age and the creation of a low-cost national pension scheme, but with some adjustments.

The enactment of reform proposals announced in the White Paper had nevertheless been highly contentious. The Treasury initially opposed the earnings indexation proposal. The pensions industry was also unenthusiastic about the creation of a state-run private pension scheme at a national level. Those two issues largely dominated the government response to the Commission's proposals. In contrast, the increase in the State Pension age and auto enrolment were less contentious. The trade unions did not welcome the increase but at the same time, did not oppose it. Employers accepted auto enrolment subject to keeping contribution levels to those suggested by the Commission. The transfer of the Commission's proposals to the White Paper and legislation was the result of three instances of a 'policy-politics'[119] interplay where policy shaped politics and vice versa, thus creating a policy window[120] that allowed policy enactment.

118 Department for Work and Pensions, 2006. *Security in Retirement: Towards a New Pension System.* London: TSO

119 Hill, M., and Varone, F., 2014. *The public policy process.* UK. Routledge.

120 Kingdon, J.W., 1984. *Agendas, alternatives, and public policies.* US. Boston Little.

These refer to:

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

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

Something needed to be done

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

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

121 Interview. Nigel Stanley. 24.05.2019

122 Thomson, A., 2004, Willetts takes 'two pensions' Blair to task. *The Telegraph.* 13 March 2004, https://www.telegraph.co.uk/news/uknews/1456725/Willetts-takes-two-pensions-Blair-to-task.html

123 Department for Work and Pensions, 2006. *Security in retirement: towards a new pensions system.* London. TSO. p. 6

124 Pensions Commission, 2005. *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission.* London. TSO. p. 330

125 Ibid

126 Ibid. p. 406

127 Interview. Nigel Stanley. 24.05.2019

128 Department for Work and Pensions, 2006. *Security in retirement: towards a new pensions system.* Cm 6841. London. TSO. p. 17

A quid pro quo policy design

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

In sum, the combination of 'do something' and 'gain something' which emerged from the development and design of the Commission's proposals constituted an important influence on government to take action. These framed and verified the problem that the Commission was originally set up to address, and they created opportunities for stakeholders to join forces and exercise some control over the adoption of policy proposals. This is notable because UK policy-making is commonly seen as largely dominated by central government.

From default to one option among others

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

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

With regard to the issue of creating a low-cost national pension scheme, the government amended its proposals to meet part of the pension industry's concerns. The industry's negative reaction to the creation of an NPSS was justified on the grounds that the latter would be a threat to competition. More informally, it would also exclude pension providers from auto enrolment. The 2006 White Paper proposed further consultation on the establishment of a low-cost national pension scheme. It stated that 'the best delivery model for the personal accounts scheme is that proposed by the Pensions Commission, but the Government will conduct further analysis of this, and industry alternatives, in order to strike the right balance between value for money for the taxpayer and value for money for the saver.'[129]

129 Department for Work and Pensions, 2006. *Security in Retirement: Towards a New Pension System.* London: TSO, p.17.

A second White Paper entitled *Personal accounts: a new way to save* followed in December 2006, explaining the outcomes of the evaluation between the NPPS and the industry alternative models.[130] More importantly, it included a shift from the Commission's proposals that represented a compromise between the government and pensions industry. The White Paper[131] ensured the creation of an NPSS based on the Commission's approach. But it was conditional on making an NPSS one of the available options for the employers rather than the default for those ones without an existing pension scheme.[132] As Helen Dean explains to us: 'where we did compromise, though, was on this default. So in the end, the government decided that they wouldn't have a default scheme, that what they would say to employers is, you have to choose a scheme, it's an active choice, but we will give Nest a public service obligation.'[133] The government thus decided to opt for a less radical reform than that proposed by the Commission. This change of policy was justified on market-based competition grounds and legal issues that might emerge and be used by the industry against the government.

The reason for deciding to establish an NPSS, even though legal concerns continued to exist after the compromise on the default option, was to ensure support for employers during the implementation of auto enrolment, in line with government's declared reform. There were concerns that existing industry capacity was insufficient to deal with the large number of employers who would start introducing auto enrolment,[134] and especially in a profitable manner. That was explained as the 'supply gap' in the White Paper.[135] As a result, the latter announced the establishment of an independent authority for personal accounts.[136] It can be argued that the need to set up a national pension scheme was key to address external interests, such as the pensions industry, but also politically across governments.

Despite a gradual consensus on setting up an arrangement in the industry, there were concerns that a state-run pension scheme 'would end up not just serving the part of the market the industry didn't serve but actually taking over the entire market,'[137] as Chris Curry summarises it. However, these objections did not lead to powerful pressure on the government. Helen Dean points out that 'the government had to make a case to the European Commission because we needed state aid, people could have objected at that point but didn't. So the idea of having to have an NPSS I think gained acceptance.'[138] Moreover, Caroline Rookes, Director of Private Pensions at DWP, 2005-2013, believes that this was reinforced by the fact that the scheme would target the unprofitable business while it would be launched as a substantially differentiated supplement in the market, saying 'I think as plans progressed, and it was clear that it wasn't necessarily going to be competing for the profitable business […] and also there was a lot of emphasis on not competing […] there was a phrase that was used all the time, Nest would complement, not compete.'[139]

"Despite a gradual consensus on setting up an arrangement in the industry, there were concerns that the setting up of a state-run pension scheme 'would end up not just serving the part of the market the industry didn't serve but actually taking over the entire market'[…]"

130 Department for Work and Pensions, 2006. Personal Accounts: a new way to save. London. TSO.
131 Bouchal, P., & Norris, E., 2014. *Implementing Auto enrolment into Pensions.* London. Institute for Government.
132 See also Work and Pension Committee, 2012. *Auto enrolment in workplace pensions and the Nest*, 8th Report of Session 2010-12. House of Commons. Oral evidence. https://publications.parliament.uk/pa/cm201012/cmselect/cmworpen/1494/149402.htm
133 Interview. Helen Dean. 03.04.2019
134 Interview. Chris Curry. 03.05.2019; Department for Work and Pensions, 2006. *Security in retirement: towards a new pensions system.* Cm 6841. London. TSO.
135 Department for Work and Pensions, 2006. *Personal accounts: a new way to save.* Cm 6975. London. TSO.
136 Pensions Act 2007 would create the Personal Accounts Delivery Authority

137 Interview. Chris Curry. 03.05.2019
138 Interview. Helen Dean. 03.04.2019
139 Interview. Caroline Rookes. 27.06.2019

Earnings indexation

Finally, the most contentious issue within the government on the reform package was the reindexation of the BSP to average earnings. The Treasury signalled strong opposition to this reform prior to the publication of the May 2006 White paper. It is worthwhile noting here that the Treasury is the most powerful government department in the UK, and could have certainly blocked the adoption of reform. The episode took place at a very high level and had been described by other authors[140] as a source of deep disagreement between Tony Blair and Gordon Brown.

The main reasons for Treasury opposition was the question of the cost of reindexation, the politics of the transition between one Prime Minister and another, and a third, less remarked upon, the Treasury's ideological framework for welfare reform. As regards the fiscal cost, the Pensions Commission suggested that the increases in the state pension age would balance the increases in public expenditure[141]. However, the Treasury argued that the impact of the earnings indexation on public expenditure would be substantial in the short run[142] and would reduce the government's flexibility in forthcoming spending reviews.[143] At the same time, it would require a long-term commitment on pension expenditure[144] that went beyond the annual budget process and the three-year cycle of spending reviews. The Treasury supported these arguments by questioning the evidence and assumptions used by the Pensions Commission, and how these had been interpreted to make relevant recommendations.

Earnings indexation also stood against the core welfare principles laid out by the Treasury under Gordon Brown, namely the idea of 'progressive universalism'.[145] This meant 'something for everyone, but more for the poor' or, in the words of Gordon Brown, a 'balance between universal and selective'[146] in the allocation of public resources. In contrast, the Commission's proposal for earnings indexation was directed to a greater universalism in the sense of a more generous Basic State Pension (BSP) for all, both rich and poor, as a baseline. After that, everyone should eventually provide for themselves, including those on low incomes. Over time, the BSP would lift more and more pensioners above the poverty line, not the Pension Credit.

According to the interviews conducted for this study and the existing literature[147], the key concession made from Number 10 and DWP to the Treasury on the earnings indexation proposal was to push back its start date. This was in addition to the increase in the State Pension age to cover the higher expenditure on the BSP that the Commission had proposed.[148] The Pensions Commission was looking at 2010 or 2011 as a start-date for indexing the BSP to average earnings,[149] while the agreement eventually struck in government was for the reform to come into effect in 2012 or by the end of that Parliamentary cycle. John Hutton, Work and Pensions Secretary, 2005-2007, told us that 'we delayed the start of the indexation as a concession to the Treasury.'[150]

140 Seldon, A., 2008. *Blair unbound.* UK. Simon and Schuster; Davis, J., & Rentoul, J. (2019). *Heroes Or Villains?: The Blair Government Reconsidered.* UK. Oxford University Press.
141 Pensions Commission, 2005. *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission.* London. TSO. p. 12
142 Interview. Government official.
143 Timmins, N. and Hall, B., 2006. Pensions reform in jeopardy after cabinet split. *The Financial Times.* 21 March 2006. https://www.ft.com/content/055e0ad6-b921-11da-b57d-0000779e2340.
144 Ibid.
145 Brown, G., 2017. *My life, our times.* Random House.
146 Interview. Gordon Brown. 25.06.2019
147 Seldon, A., 2008. *Blair unbound.* UK. Pocket Books; Davis, J., & Rentoul, J., 2019. *Heroes Or Villains?: The Blair Government Reconsidered.* UK. Oxford University Press.
148 Pensions Commission, 2006. *Implementing an integrated package of pensions reform. The final report of the Pensions Commission.* London. TSO. p. 15
149 Pensions Commission, 2005. *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission.* London. TSO. p. 21
150 Interview. John Hutton. 24.04.2019

The May 2006 White Paper[151] included 2012 as the effective date without justifying its selection. Instead, it clarified that the earnings linked BSP would be 'subject to affordability and the fiscal position [...] but in any event by the end of the Parliament at the latest. We will make a statement on the precise date at the beginning of the next Parliament.'[152] For Gareth Davies,[153] the compromise on timing allowed the government to legislate for the reforms, while giving fiscal flexibility to Treasury around their implementation. At the same time, the change in the start date 'clearly wasn't a fatal sort of adjustment [...] the delay will have had some impact for sure, but a modest one in the overall architecture of the reforms'[154], as John Hutton explained.

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

1. The Prime Minister's commitment to reform

First, Prime Minister Tony Blair's commitment to reform. As John Hutton points out 'Tony Blair had set up the Pensions Commission [...] he was naturally invested in it, and very strongly. I would not have been able to overcome the Treasury objections to the state reform proposals [...] had it not been for the Prime Minister's support.'[155] Tony Blair himself acknowledged that he 'was spending a lot of time on it, maybe five or six hours in a week in the run-up to it.[156]' The second underlying reason was that he became convinced about the significance of the problem through the analysis made by the Commission and the need for a long term solution. He continues saying that 'it was such an important thing [...] and this is when you're putting in place something like this, this is going to last a long time.'[157] Given his commitment and his position he was able to control the course of policy-making process and overcome political obstacles.

2. Civil servants – Ministers – Commission triangle

Second, the DWP took ownership of the reform agenda. Its officials tried to get 'rapidly changing ministers aligned'[158] with the agenda, ensure its continuity, and in turn, get steady ministerial support towards it. According to John Hutton 'this was probably the first major reform that the department itself felt that it was doing.'[159] However, as Phil Wynn Owen explained to us, no matter how committed civil servants can be, they cannot initiate reform agendas. Instead they tried to 'brief each of [the ministers] as they arrived very quickly on what the emerging policy agenda was, why it was as it was, and how best we could contribute in government to pursue it,'[160] in order to ensure that ministers continue within the same agenda. In turn, ministers such as David Blunkett and John Hutton who owned the reform agenda in DWP worked closely and constructively with their officials and the Pensions Commission[161] to deal with Treasury objections.

3. Pensions Commission resilience

Third, the members of the Pensions Commission, and especially its chair, displayed a strong resilience to objections that allowed them to carry on and push ahead with their reform proposals.[162] This was reinforced by the Commission's approach to reform, seen in Section 3. The reform package was a particularly important instrument for the commissioners to use in dealing with objections, according to the recollections of many interviewees.

4. Fiscal or political cost concerns?

Finally, there are two reasons which can explain why the Treasury accepted the restoration of the earnings-link. On one hand, the Treasury had recognised the long-term cost if policy remained unchanged but in the words of Gordon Brown, 'what made it possible was an understanding that as the [state] pension age changed, and we had made the Pension Credit work, and actually because earnings and inflation were not rising in the same way that they did in the past, it was possible to afford this.'[163] On the other hand, the political gain from restoring the earnings-link was deemed to be higher than the cost involved. This in combination with a change in leadership in the upcoming electoral cycle made the Treasury change its mind.[164]

151 Department for Work and Pensions, 2006. *Security in retirement: towards a new pensions system.* Cm 6841. London. TSO. p. 23
152 Ibid. p. 17
153 Interview. Gareth Davies. 04.04.2019
154 Interview. John Hutton. 24.04.2019
155 Ibid.
156 Interview. Tony Blair. 25.05.2019
157 Interview. Tony Blair. 25.05.2019
158 Interview. Phil Wynn Owen. 25.04.2019
159 Interview. John Hutton. 24.04.2019
160 Interview. Phil Wynn Owen. 25.04.2019
161 For example, Interview. Phil Wynn Owen. 25.04.2019
162 Interview. Jeannie Drake. 13.06.2019
163 Interview. Gordon Brown. 25.06.2019
164 Davis, J., & Rentoul, J., 2019. *Heroes Or Villains?: The Blair Government Reconsidered.* UK. Oxford University Press.

Auto enrolment after enactment

In addition to the effects of earnings reindexation for the BSP, cost concerns arose regarding the implementation of auto enrolment during the 2009 Pre-Budget Report process and in the aftermath of the global economic crisis. The increased spending required to apply auto-enrolment at a national level could have put its full implementation at risk. The main fiscal pressures created were due to getting lower tax revenues from employers introducing auto enrolment and from the contributions qualifying for tax relief.[165] Auto enrolment was planned to start in 2012 and take place slowly and incrementally, rather than in one go. That meant a progressive roll-out to employers, from larger to smaller ones (also called 'staging'), and a gradual increase in contribution rates (also called 'phasing', as already mentioned). Despite its delayed and slower introduction, the application of such policy at a national level was deemed to have a significant effect on spending in the 2009 Pre-Budget Report (PBR).[166] The PBR in December 2009 estimated that in the first year of implementation 2012-2013, the effect would be relatively small with a yield of £100 million.[167] The effect on the budget was more dramatic over the next two years, when auto enrolment had to be extended to almost all workers and employers.[168] In 2013-2014, the cost was estimated at £0.7 billion, and in 2014-15 at £1.6 billion.[169] Differently put, as one member of the Treasury Select Committee at that time argued, £2.5 billion could be saved by rejecting the extension of auto enrolment to low and medium income workers.[170]

According to one research participant, the then recently appointed Work and Pensions Secretary, Yvette Cooper MP, and the Minister for Pensions, Angela Eagle MP played a significant role in defending auto enrolment, and the implementation and continuation of the reform. This statement coincides with another study conducted on the implementation of auto enrolment by the Institute for Government who also found that 'Yvette Cooper was very willing to stand up and defend the policy and firmly rejected any suggestion that the project be cancelled, despite having only recently taken up her post as Secretary of State for Work and Pensions.'[171] Both Cooper and Eagle, despite entering the area of pensions for the first time and in a period when major decisions had been already made, recognised the significance behind 'universally' applying auto enrolment.

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

165 Interview. Government official.
166 HM Treasury, 2009. *Pre-Budget Report: Securing the recovery: growth and opportunity.* Cm 7747. London. TSO
167 Ibid, p. 10
168 Treasury Committee, 15 December 2009, Pre-Budget Report 2009, Fourth Report of Session 2009–10, Oral Evidence. London. House of Commons.
169 HM Treasury, 2009. *Pre-Budget Report: Securing the recovery: growth and opportunity.* Cm 7747. London. TSO. p. 10
170 Treasury Committee, 15 December 2009, Pre-Budget Report 2009, Fourth Report of Session 2009–10, Oral Evidence. London. House of Commons.

171 Bouchal, P. and Norris, E., 2014. Implementing Auto enrolment into Pensions. London: Institute for Government. p. 10

4.2 Implementation in practice (2010-2015)

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

Implementing auto enrolment

The staging and phasing of auto enrolment was critical to its successful implementation. For Chris Curry, Director of the Pensions Policy Institute, the changes in initial timescales played an important role. He believes that although they were not necessarily planned to ensure the success of the reform, but for other reasons, 'they actually worked out pretty well.'[172] Timetables may have changed, for example, to mediate the impact of tax relief on public spending, to give time to employers, and to avoid auto enrolment for small employers before an upcoming general election. Small employers were originally slated to join from 2014. This shifted to June 2015, after the general election in May 2015. In addition, no serious complaints were raised by large employers in the process of enrolment that could have reduced employers' general willingness to comply.[173]

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

In political terms, David Willetts encapsulates concerns about small employers in the Coalition government: 'there were moments when it was up for discussion, the worries were, first of all small businesses [...] the chippy became a sort of emblematic question, was this a fair burden to put on the local chippy.'[174] The new Prime Minister, David Cameron, did not provide immediate support for auto enrolment because of these concerns about its impact on small employers. However, he had found the idea of behavioural economics in policy-making suited his own conservatism, and that's why he expanded it to other areas of public policy and created the 'Nudge Unit'.[175] The Attitudes to Pensions Survey conducted for the DWP in 2012 found that 70 per cent said that they would stay in the scheme once enrolled[176]. Therefore, auto enrolment appeared quite popular among the working age population. In an informal discussion with one of the research participants, the popularity of auto enrolment was held to have played a primary role in David Cameron's decision to proceed, above and beyond his support for behavioural economics.

Delivering Nest

In addition to auto enrolment and the implementation of an NPSS, today's National Employment Savings Trust (Nest), faced two critical moments. The first was the review of the Nest proposal commissioned from the Director of the Institute for Fiscal Studies, Paul Johnson, and requested by the Coalition government in 2010.[177] The second was the transition from the Personal Accounts Delivery Authority (PADA) to the actual operation or launch of Nest. PADA was proposed in the 2006 White Paper on the creation of a national pension scheme[178] to design, deliver and run the pension scheme. According to the White Paper, there was a need for drawing on private sector expertise, meaning business, pension and financial services expertise, along with existing civil service expertise to build and deliver the pension scheme.

172 Interview. Chris Curry. 03.05.2019
173 Interview. Nicholas Timmins. 24.04.2019

174 Interview. David Willetts. 03.06.2019
175 Ibid.
176 MacLeod, P., Fitzpatrick, A., Hamlyn, B., Jones, A., Kinver, A. and Page, L., 2012. *Attitudes to pensions: The 2012 survey. Department of Work and Pension: Research Report*, 813. p. 2 and p. 40 https://www.gov.uk/government/publications/attitudes-to-pensions-the-2012-survey-rr813.
177 Johnson, P., Yeandle, D., Boulding, A., 2010. *Making auto enrolment work: A review for the Department for Work and Pensions.* London. TSO. The review looked at the implementation of auto enrolment, including the scope and role of Nest.
178 Department for Work and Pensions, 2006. *Personal Accounts: a new way to save.* Cm 6975. London. TSO. p.79. The set-up of PADA was later incorporated into the Pensions Act 2007.

Regarding the review of the Nest proposal, Jeannie Drake, who was acting chair of PADA at the time, says that 'there was a sort of wobbly moment […] is this project going to come tumbling down' despite two White Papers, relevant legislation, the establishment of an independent authority (PADA), the extension of its remit, and the commitment of a number of people to deliver an operational scheme. Johnson's review considered the entrance of Nest a 'major intervention into the market, with a Government loan.'[179] Yet, it concluded that 'we see no alternative if auto enrolment is to be introduced at anything like the currently envisaged scope on anything like the currently envisaged timescale.'[180]

The second crucial moment refers to administrative failings and serious time constraints in setting up Nest that could have affected the whole reform process – and indeed, discredited the very idea that governments are capable of bringing about and delivering major new delivery vehicles for pensions savings. For example, Tim Jones, Chief Executive Officer of PADA 2007-2010, explains that both the pension industry and the press 'were going to undermine us… "Nest has fallen over in a big heap because it's another Government IT fiasco"… so I thought then the quality needed to be slightly better than a private sector build.'[181] In a similar way, John Hutton points out that one of the barriers to reform could have been an inoperable design for Nest, comparing the potential for a delivery failure to the political fallout from something like the 'child maintenance fiasco'.[182] Moreover, during the review mentioned above some of the PADA activities had been postponed for at least three months, which added to the problem of meeting tight deadlines.

What prevented this was the infrastructure put in place, as a result of the establishment of PADA. Specifically, three things played a role:

a) the human factor

b) the managerial factor

c) available financial resources.

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

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

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

Red tape and the one-in one-out rule

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

179 Johnson, P., Yeandle, D., Boulding, A., 2010. *Making auto enrolment work: A review for the Department for Work and Pensions.* London. TSO. p.7
180 Johnson, P., Yeandle, D., Boulding, A., 2010. Making automatic enrolment work: *A review for the Department for Work and Pensions. London.* TSO. p.7
181 Interview. Tim Jones. 11.04.2019
182 Interview. John Hutton. 24.04.2019

183 Interview. Jeannie Drake. 13.06.2019
184 Interview. Tim Jones. 11.04.2019
185 Ibid
186 Ibid.
187 Interview. Caroline Rookes. 27.06.2019
188 Interview. Steve Webb. 02.04.2019

One-in one-out refers to a method of regulationary policymaking used in the Coalition government in order to discourage regulatory burdens. According to Webb, auto enrolment passed through this test as follows: 'every pound of regulatory burden I put on business, I had to find a pound to take off…so…as a department we were able to say, actually we are net deregulators, because although auto enrolment is a big regulatory burden, CPI [replacing RPI] is a big piece of deregulation.'[189]

All occupational and public sector pension schemes are required to revalue or index pension payments in line with inflation. This indexation was historically based on Retail Prices Index (RPI). The latter constitutes a broader measure of price changes as it includes housing costs, such as rent and mortgage. That is why it tends to be higher than the Consumer Prices Index (CPI), which comprises a typical set of goods and services, but not mortgage payments or rent. Respectively, a CPI-based indexation of pension payments implies lower pensions. Replacing the RPI with the CPI contributes to deregulation through reducing employers' red tape concerning pension obligations. This is because it allows pension schemes to switch to CPI, overriding the scheme rules and trust deeds that may require for a RPI-based indexation; and therefore for higher pension payments.

Steve Webb and state pension reform

The role of Steve Webb as Pensions Minister has been recognized as crucial in putting auto enrolment into effect as well as sustaining the whole reform package, not least because of his advancement of the earnings link indexation proposal. The Chair of the Pensions Commission, Adair Turner, commented that 'Steve Webb played a major role in that [reform]… and even better than we thought, when he was in the Coalition government.'[190] A 'triple lock' on the BSP was introduced in 2011 and came into effect in 2012. This increased the value of the BSP by the value of inflation, average earnings or 2.5%, whichever was higher.[191] A Single Tier Pension was introduced in 2016/7 to replace the BSP and the State Second Pension (S2P) – rather than phasing out the latter slowly, as the Pensions Commission had proposed.

Based on the interviews for this study, including that with Steve Webb himself, Steve Webb's commitment to reform can be attributed to four things. First, his involvement in the early stages of the reform in the early 2000s as a Liberal Democrat Spokesperson on Pensions allowed him to understand and continue the agenda inherited from previous ministers. Second, his liberalism was reflected in the nature of state reform, which provided a simple, basic, flat-rate pension from the state upon which individuals were free to build. There was also a fiscal incentive for the Treasury to proceed with the creation of an STP earlier than planned. Integrating the BSP and the S2P into a single tier would release savings from National Insurance rebates, with Steve Webb commenting, 'the Treasury came along and said, basically we want the National Insurance rebates. Can you do it in 2016?' Finally, the STP has been seen as a 'fairness to women' measure that would help address gender inequality in retirement income through providing credits for carers and being more redistributive.[192] Women are primary gainers behind the introduction of the single-tier state pension.

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

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

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

189 Ibid.
190 Interview. Adair Turner. 26.06.2019
191 Department for Work and Pensions, 2013. *The Single-tier Pension: A Simple Foundation for Saving.* Cm 8528. London. TSO.

192 Interview. Steve Webb. 02.04.2019

Chapter 5

Lessons for policy change

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

5.1.
Five key lessons

1. The Pensions Commission succeeded in large part because of its membership and their skills. It was small, independent, politically astute and well-connected. It engaged in widespread consultation and its media strategy was highly effective.
2. Continuity of commitment from ministers and civil servants to the Pensions Commission reform agenda enabled it to survive crisis events and political change, notably the financial crisis and its aftermath.
3. Innovative use of evidence and the narrative framing of the facts assembled in data-gathering and analytical work were central to the persuasiveness of the Pension Commission's reform agenda. But delivery mattered critically too - the reforms were successfully operationalised through auto enrolment and the creation of Nest.
4. The Pensions Commission showed that majoritarian policy-making can coexist with consensus reform. Strong central direction was combined with consensus building amongst key stakeholders. No sectional interest or key electoral demographic had a veto power over the reforms.
5. The reforms succeeded because they built on an existing political economy and the historical institutions of the UK welfare state. The reforms were comprehensive and extensive, but they did not transform the liberal welfare architecture of pensions provision in the UK, nor embed a new social coalition of interests in a reform package.

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

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

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

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

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

The Pensions Commission, despite its central role, was not the only agent of change at work. There was a continuity of commitment to the reform agenda from civil servants, ministers and wider stakeholders over many years. This became more apparent during the implementation phase, when either the impact of austerity or the challenges of a major delivery project could have derailed the reform agenda. Civil servants and ministers from different political parties supported the reform proposals through the publication of white papers and legislation, and continued to provide support during implementation. At the same time, political leadership from the top of government, including the personal commitment of Tony Blair, the legislation passed by Gordon Brown, and the continuation of the reforms by David Cameron, helped to sustain the ownership thread. All these elements generated cohesion in support of reform that stood the test of time.

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

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

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

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

On the other hand, the successful operational implementation of auto enrolment and the creation of a national pension scheme was critical to the reform process. The techno-infrastructural implementation of these major policy reforms could easily have failed, as many large scale IT projects had done before. As we argue in 4.2, an alignment of political factors along with policy, managerial and technical factors facilitated the successful implementation of reform. Delivery-level decisions made by both civil servants and private sector actors were important, not just the political factors at play. The implementation was informed and guided by flexible planning, substantial DWP and the Personal Accounts Delivery Authority (PADA) capacity, Treasury financial support, and infrastructural know-how.

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

Consensus building efforts took place in all the stages of the reform process. The Pensions Commission sought the support of key stakeholders and the public for the solutions it proposed, using evidence that demonstrated the need for reform. As we saw in Section 3, systematic communication strategies and consultation procedures targeted real engagement of stakeholders in order to improve the quality and acceptability of reform proposals. Moreover, the early involvement of key stakeholders enhanced their position in the next phases of reform, allowing them to raise concerns and demand the adoption and – in some cases – modification of proposals. The government also maintained that spirit, for example through consultation over the creation of a national pension scheme. In short, it paid off to engage stakeholders. Other authors have argued that consensus building constituted one of the key success factors in the Pensions Commission.[193]

A consensual approach might appear to contradict core features of the British policy making system which is associated with the 'Westminster model' of majoritarian government.[194] This involves a top-down, centrally concentrated mode of policy making, often seen as the opposite of the consensual or coordinated decision-making which is more typical of coordinated market economies with proportional voting systems. In the case of pensions reform, consensus-building practices appear to have operated in combination with a centralised, top down approach.

193 Institute for Government, 2007. *Pensions reform: The Pensions Commission (2002-6)*. London. Institute for Government.
194 Jordan, G. and Cairney, P., 2013. What is the 'dominant model' of British policymaking? Comparing majoritarian and policy community ideas. *British Politics*, 8(3), pp.233-259.

Only more recently has the consensus experienced its first major challenge, with the introduction in 2015 of the 'freedom and choice' reforms. There was no consultation prior to the announcement of these reforms, which were incubated in the Treasury and announced to a surprised world. For some interviewed in this study, both this process and the substance of the reforms were seen as antithetical to the earlier Commission reforms which are the focus of this report. For instance, Chris Curry highlights that 'freedom and choice' reforms 'carry a fundamental challenge to the way we think about the [pension] system'.[195] That is principally premised on achieving security in old age through providing an income on a monthly basis. In addition, the Labour Party has recently opposed increasing the State Pension age beyond 66, which represents a further challenge to pensions reform consensus. In spite of this, the structure of the Commission reforms and the consensus around them have remained intact.

"

Overall, the mid-2000s pension reforms supported rather than dismantled or disrupted the broader institutional structure of the UK welfare state and political economy.

"

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

The Pensions Commission's reforms were reasonable in the context of a liberal political economy and welfare state. Auto enrolment is consistent with a primary role for the market in pension provision, as contributions are automatically channelled to private pension schemes, while the choice to opt out maintains a core organising idea of liberal political economies. All of our research participants pointed out that an alternative solution of mandatory enrolment or hard compulsion would have been deemed a step too far in the case of the British pension system. Nor was any attempt made to create new forms of state-earnings related pensions, or to revive final salary schemes. As Professor Hugh Pemberton highlighted, the reforms 'reflected a strain of liberal thought, which we find pretty consistently in British pensions and going right back to Beveridge… a flat-rate state pension, at a fairly minimal rate, thus leaving a very significant space for individual initiative, thrift, voluntary provision.'[196]

Overall, the mid-2000s pension reforms supported rather than dismantled or disrupted the broader institutional structure of the UK welfare state and political economy. No new social coalition was embedded in the reform agenda. Instead, the existing structure of social interests was reassembled. As the Chair of the Pensions Commission emphasised, 'we were in a sense building on an existing political economy, and I think you have to accept that.'[197]

195 Interview. Chris Curry. 03.05.2019

196 Interview. Hugh Pemberton. 16.04.2019
197 Interview. Adair Turner. 26.06.2019

5.2 Unfinished business?

The success of the mid-2000s pension reforms can be seen in much of the empirical data on pension participation, contribution and savings rates, and pensioners' living standards. After the introduction of auto enrolment, the proportion of UK workers enrolled in a private pension increased from 47 per cent in 2012 to 76 per cent in 2018.[198] A recent study by Cribb and Emmerson finds that the largest increase in pension participation rates has come from those groups with the lowest participation rates prior to the introduction of auto enrolment, so 'those in their 20s, lower-paid employees, those who have joined their employer more recently, and those employed in industries with low pre-reform rates of pension participation.'[199] Moreover, the implementation of auto enrolment has led to increases in contribution rates, mainly because a large proportion of employers in the UK make higher than minimum contributions.[200] The increase in participation and contribution rates has increased savings into workplace pensions.[201]

The national pension scheme, Nest, has also expanded rapidly to secure a well-established position in the UK private pensions provision. Nest started with 80,000 members in 2013-14, and within five years it had reached 7.9 million.[202] Nest has also become an important player in the pensions market with £5.7 billion of assets under management.

Overall, pensioner incomes have risen relative to the rest of the population. As the Resolution Foundation's annual audit of living standards shows, the typical pensioner income grew by 25% between 2003-04 and 2017-18, averaging 1.9% a year, compared to 7% for non-pensioners, averaging at 0.5% a year. In absolute terms, the result of this is that typical pensioner and non-pensioner incomes are now essentially identical at around £23,000.[203]

Nonetheless, there is lots of unfinished business in the UK pensions system. First, annuity rates are at their lowest levels since the early 1990s. That means that a pension pot of £100,000 today will fund a much lower level of retirement income than in the relatively recent past. Specifically it will give about £4,000 retirement income a year, as opposed to £10,000 in the 1990s.[204] In other words, funding a decent level of income in retirement will require building a large pot of pension savings alongside the state pension. Yet despite the increase in private pensions savings, most workers on low and moderate incomes will still only build up small pension pots. Second, building up savings for retirement has become more difficult because of low interest rates. As the Director of the Institute for Fiscal Studies, Paul Johnson, recently noted, 'It is not so much that private pensions will be lower in the future than they are today, it is that they will barely exist at all.'[205]

198 Office for National Statistics, 2019. *Employee workplace pensions in the UK: 2018 provisional and 2017 revised results.* https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2018provisionaland2017revisedresults
199 Cribb, J. and Emmerson, C., 2019. What happens to workplace pension saving when employers are obliged to enrol employees automatically?. *International Tax and Public Finance*, p.2.
200 Ibid.p. 21
201 Ibid
202 Nest, 2019. *Nest celebrates growth of pension scheme.* 11 July 2019. https://www.nestpensions.org.uk/schemeweb/nest/nestcorporation/news-press-and-policy/press-releases/Nest-celebrates-growth-of-pension-scheme.html

203 Corlett, A., Clarke, S., McCurdy, C., Rahman, F. and Whittaker, M., 2019. *The Living Standards Audit 2019*, London. Resolution Foundation, p.20.
204 Johnson, P., 2019. Low interest rates are killing chances of a decent income in retirement. *The Times.* 16 September 2019. https://www.thetimes.co.uk/article/low-interest-rates-are-killing-chances-of-a-decent-income-in-retirement-c8m59rxzt
205 Ibid, np.

There are also issues of concern in the state pension and social security system. Pensioner poverty is now rising again. The rate of pensioner poverty rose from 13 per cent in 2012-13 to 16 per cent in 2017-18, despite the introduction of the triple lock, in large part because of cuts to housing benefit[206]. Against this background, we should note two main criticisms of the Pensions Commission recommendations and their implementation. The first is that the Commission should have sought ways to retain an earnings-related state pension by increasing the basic State Pension while keeping an earnings-related element in the state pension system. The recommendations of the Pensions Commission included the continuation of the State Second Pension (S2P), but at a flat-rate. The uprating of the BSP in 2012 to 'triple lock' and its simplification through the creation of a single-tier state pension in 2016 involved the termination of the earnings-related element. The single-tier state pension uprated by the triple lock, is an important intervention in terms of poverty or adequacy levels. But even with the triple lock, the single-tier state pension is 'set at much lower level than many future pensioners can expect to have received in combined Basic State Pension and S2P awards.'[207] The Organisation for Economic Co-operation and Development (OECD) estimates in their recent *Pensions at a Glance* report that all else remaining equal, the UK will have one of the lowest state pension entitlements relative to average wage earnings in the OECD. The net replacement rate from the State Pension will be equal to 29 per cent for an average earner who starts work in 2017 (State Pension age 68), and 52.1 per cent for a low earner, well below the OECD average of 63 per cent and 73.2 per cent, respectively.[208]

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

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

206 Corlett, A., Clarke, S., McCurdy, C., Rahman, F. and Whittaker, M., 2019, *The Living Standards Audit 2019.* London: Resolution Foundation.
207 Berry, C., 2017. *The long-term impact of the state pension triple-lock.* Sheffield Political Economy Research Institute brief No. 27.
208 OECD, 2017. *Pensions at glance 2017: OECD and G20 Indicators.* Paris. OECD; OECD, 2017. *Pensions at a Glance 2017: How does the United Kingdom compare?.* Paris. OECD.

Annex A

List of interview participants

Interviewee	Name	Position
1	Tony Blair	UK Prime Minister (1997-2007)
2	Gordon Brown	UK Chancellor (1997-2007) UK Prime Minister (2007-2010)
3	Lord Turner of Ecchinswell	Chairman of the Pensions Commission (2002-06)
4	Baroness Jeannie Drake	Member of the Pensions Commission (2002-06)
5	Professor Sir John Hills	Member of the Pensions Commission (2002-06)
6	Lord Blunkett of Brightside	Secretary of State for Work & Pensions (2005)
7	Lord Hutton of Furness	Secretary of State for Work and Pensions (2005-2007)
8	Sir Steve Webb	Minister of State for Pensions (2010-2015)
9	Lord David Willetts	Shadow Secretary of State for Work & Pensions (1999-2005)
10	Gareth Davies	Deputy Director of the Prime Minister's Strategy Unit (2002-2003); Private Secretary at Number 10 (2003-2007)
11	David Halpern	Chief Analyst at the Prime Minister's Strategy Unit (2001-2007); current Chief Executive Officer Behavioural Insight team
12	Carey Oppenheim	Special Adviser to the Prime Minister at Number 10 (2000-2005)
13	Matthew Taylor, CBE FAcSS	Chief Adviser on Political Strategy to the Prime Minister, (2005-2007); current Chief Executive Officer of the RSA
14	Helen Dean	Director of Product and Policy Development at PADA (2009-2010); current Chief Executive Officer of Nest Corporation
15	Tim Jones, CBE	Chief Executive Officer of PADA (2007-2010); Chief Executive Officer of Nest Corporation (2010-2015)
16	Robert Laslett, CBE	Chief Economist Pensions and Director of Private Pensions at the DWP (2003-2010)
17	Phil Wynn Owen	Director-General for Strategy, Information & Pensions at the DWP (2004-2009)
18	Caroline Rookes	Director of Private Pensions at the DWP (2005-2013)
19	Chris Curry	Director of the Pensions Policy Institute
20	Joanne Segars, CBE	Head of Pensions and Savings at the ABI (2001-2005); Chief Executive Officer of the PLSA (2006-2017)
21	Nigel Stanley	Head of Communications at the TUC (1997-2015)
22	Otto Thoresen	Chief Executive Officer of Aegon UK (2005-2011); Director General at the ABI (2011-2015); current Chair of Nest Corporation; Chairman of BT Pension Scheme
23	Nicholas Timmins	Public Policy Editor and Commentator at the Financial Times (1996-2012)
24	Professor Shlomo Benartzi	Professor of the Behavioral Decision-Making Group, UCLA Anderson School of Management
25	Professor David Laibson	Professor of Economics, Harvard University
26	Professor Hugh Pemberton	Professor of Contemporary British History, University of Bristol
27	Anonymous	Senior politician
28	Anonymous	Senior Adviser
29	Anonymous	Senior government official
30	Anonymous	Senior government official

List of interview participants

References

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

Bolger, A. and Timmins, N., 2001. Darling drives home stakeholder message, *The Financial Times*, 14 March 2001.

Bouchal, P., and Norris, E., 2014. *Implementing Auto enrolment into Pensions*. London: Institute for Government.

Bourquin, P., Cribb, J., Waters, T. and Xu, X., 2019. *Living standards, poverty and inequality in the UK: 2019*. London: Institute for Fiscal Studies.

Bozio, A., Crawford, R. and Tetlow, G., 2010. *The history of state pensions in the UK: 1948 to 2010*. London: Institute for Fiscal Studies.

Brown, G., 2017. *My life, our times*. London. Bodley Head.

Corlett, A., Clarke, S., McCurdy, C., Rahman, F. and Whittaker, M., 2019, *The Living Standards Audit 2019*. London: Resolution Foundation.

Cribb, J. and Emmerson, C., 2019. What happens to workplace pension saving when employers are obliged to enrol employees automatically?. *International Tax and Public Finance*, pp. 1-30.

Davis, J. and Rentoul, J., 2019. *Heroes Or Villains?: The Blair Government Reconsidered*. USA: Oxford University Press.

Deacon, A., 2002. *Perspectives on Welfare: Ideas, Ideologies, and Policy Debates*. UK: McGraw-Hill Education.

Department of Health and Social Security, 1985. *Reform of Social Security: Programme for Action*, Cm 9691, London: HMSO

Department of Social Security, 1998. *A New Contract for Welfare: Partnership in Pensions*. Cm 5677. London: TSO.

Department for Work and Pensions, 2013. *The Single-tier Pension: A Simple Foundation for Saving*. Cm 8528. London: TSO.

Department for Work and Pensions, 2006. *Security in Retirement: Towards a New Pension System*. Cm 6841. London: TSO.

Department for Work and Pensions, 2006. *Personal accounts: a new way to save*. Cm 6975. London. TSO.

Department for Work and Pensions, 2002. *Simplicity, Security and Choice: Working and Saving for Retirement*, London: DWP.

Esping-Andersen, G., 1990. *The three worlds of welfare capitalism*. Cambridge: Polity Press.

Ebbinghaus, B. and Manow, P. eds., 2004. Comparing welfare capitalism: Social policy and political economy in Europe, Japan and the USA. Routledge.

George, V. and Page, R.M., 1995. *Modern Thinkers on Welfare*, Hemel Hempstead.

Hall, P.A. and Soskice, D., 2001. *Varieties of capitalism: The institutional foundations of comparative advantage*. Oxford: Oxford University Press.

Halpern, D., 2015. *Inside the nudge unit: How small changes can make a big difference*. London: WH Allen.

Hill, M. and Varone, F., 2017. *The public policy process*. Oxon: Routledge.

HM Treasury, 2009. *Pre-Budget Report: Securing the recovery: growth and opportunity*. Cm 7747. London: TSO.

House of Commons, 1998/99. *Welfare Reform and Pensions Bill* 44. https://researchbriefings.parliament.uk/ResearchBriefing/Summary/RP99-19#fullreport.

Institute for Government, 2007. *Pensions reform: The Pensions Commission (2002-6)*. London: Institute for Government.

Johnson, P., 2019. Low interest rates are killing chances of a decent income in retirement. *The Times*. 16 September 2019. https://www.thetimes.co.uk/article/low-interest-rates-are-killing-chances-of-a-decent-income-in-retirement-c8m59rxzt.

Johnson, P., Yeandle, D., Boulding, A., 2010. *Making auto enrolment work: A review for the Department for Work and Pensions*. London: TSO.

Jordan, G. and Cairney, P., 2013. What is the 'dominant model' of British policymaking? Comparing majoritarian and policy community ideas. *British Politics*, 8(3), pp.233-259.

Joseph Rowntree Foundation, 2019. *Pensioner Poverty*. https://www.jrf.org.uk/data/pensioner-poverty.

Kingdon, J.W., 1984. *Agendas, alternatives, and public policies*. Boston: Little, Brown.

Lijphart. A., 2012. *Patterns of Democracy: Government forms and performance in thirty-six countries*. New Haven: Yale University Press.

MacLeod, P., Fitzpatrick, A., Hamlyn, B., Jones, A., Kinver, A. and Page, L., 2012. *Attitudes to pensions: The 2012 survey*. Department of Work and Pension: Research Report, 813. https://www.gov.uk/government/publications/attitudes-to-pensions-the-2012-survey-rr813.

Nest, 2019. *Nest celebrates growth of pension scheme*. 11 July 2019. https://www.nestpensions.org.uk/schemeweb/nest/nestcorporation/news-press-and-policy/press-releases/Nest-celebrates-growth-of-pension-scheme.html.

OECD, 2017. *Pensions at glance 2017: OECD and G20 Indicators*. Paris: OECD.

OECD, 2017. *Pensions at a Glance 2017: How does the United Kingdom compare?*. Paris. OECD.

Office for National Statistics, 2019. *Employee workplace pensions in the UK: 2018 provisional and 2017 revised results*. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2018provisionaland2017revisedresults.

Parkhurst, J., 2017. *The politics of evidence: from evidence-based policy to the good governance of evidence*. Oxon: Routledge.

Pensions Commission, 2004. *Pensions: Challenges and Choices: The First Report of the Pensions Commission*. London: TSO.

Pensions Commission, 2005. *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission*. London: TSO.

Pensions Commission, 2006. *Implementing an integrated package of pensions reform. The final report of the Pensions Commission*. London: TSO.

Sabatier, P. A. and Weible, C. M. (Eds.), 2018. *Theories of the policy process*. Oxon: Routledge.

Seldon, A., 2008. *Blair unbound*. UK: Simon and Schuster.

Select Committee on Work and Pensions, 2nd April 2003, *Work and Pensions Third Report, Annex B. London: House of Commons*. https://publications.parliament.uk/pa/cm200203/cmselect/cmworpen/92/9214.htm#note307.

Street-Porter, J., 2004. Why do we treat old people so badly? *The Independent*. 14 October 2004. https://www.independent.co.uk/voices/columnists/janet-street-porter/why-do-we-treat-old-people-so-badly-543666.html.

Sunstein, C. R. and Thaler, R. H., 2003. Libertarian paternalism is not an oxymoron. *The University of Chicago Law Review*, pp. 1159-1202.

Thaler, R.H. and Benartzi, S., 2004. Save more tomorrow™: Using behavioral economics to increase employee saving. *Journal of Political Economy*, Vol. 112(S1), pp. 164-S187.

Thaler, R. H., and Sunstein, C. R., 2003. Libertarian paternalism. *American economic review*, 93(2), pp. 175-179.

The Independent. 2004. Now we know the scale of the pensions crisis, Mr Blair must set out a policy to tackle it. *The Independent*. 13 October 2004. https://www.independent.co.uk/voices/editorials/now-we-know-the-scale-of-the-pensions-crisis-mr-blair-must-set-out-a-policy-to-tackle-it-543581.html.

The Pensions Regulator, 2010. *Employer related Investments*, Brighton: The Pensions Regulator. https://www.tpr.gov.uk/-/media/thepensionsregulator/files/import/pdf/employer-related-investments-statement-nov-2010.ashx

Thomson, A., 2004. Willetts takes 'two pensions' Blair to task. *The Telegraph*. https://www.telegraph.co.uk/news/uknews/1456725/Willetts-takes-two-pensions-Blair-to-task.html.

Timmins, N. and Hall, B., 2006. Pensions reform in jeopardy after cabinet split. *The Financial Times*. 21 March 2006. https://www.ft.com/content/055e0ad6-b921-11da-b57d-0000779e2340.

Treasury Committee, 15 December 2009, *Pre-Budget Report 2009*, Fourth Report of Session 2009–10, Oral Evidence. London: House of Commons.

Waine, B., 1995. A Disaster Foretold? The Case of the Personal Pension, *Social Policy & Administration*, Vol.29 (4), pp. 317-334

Welfare Reform and Pensions Act 1999, c. 30. https://www.legislation.gov.uk/ukpga/1999/30/contents

Work and Pension Committee, 2012. *Auto enrolment in workplace pensions and the Nes t*, 8th Report of Session 2010-12. House of Commons. Oral evidence. https://publications.parliament.uk/pa/cm201012/cmselect/cmworpen/1494/149402.htm.

Contact us:
insight@nestcorporation.org.uk

To find out more, visit our website:
nestinsight.org.uk

p48655 47352 02/20