Brunel University London

Department of
Economics and Finance

Working Paper No. 16-06

Economics and Finance Working Paper Series

E Philip Davis and Rosa M. Lastra

Pension Provision, Care and Dignity in Old Age: Legal and Economic Issues

March 2016

http://www.brunel.ac.uk/economics

PENSION PROVISION, CARE AND DIGNITY IN OLD AGE. LEGAL AND ECONOMIC ISSUES

E Philip Davis and Rosa M. Lastra[1]

Abstract: The legal, policy and economic issues associated with pension provision, care and dignity in old age are fundamental challenges for the future of our society. Pension provision is in crisis and this paper highlights the policy choices and regulatory challenges that this entails. The analysis also highlights the importance of the 'nuclear family' and the 'extended family' in the provision of care, from child care to old age care and the consideration that the home is the natural environment in which such provision ought to take place. In this context, an adequate legal and regulatory framework for pensions needs to balance a number of competing interests, given the implications in terms of intergenerational debt of the financing of care and income in old age and the broader social justice considerations that are at stake in the design of schemes that provide adequate care and income in old age in a market economy. The starting point should be the dignity of human beings, which today finds general acceptance via the United Nations Universal Declaration of Human Rights. In this context, we highlight inter alia major issues of generational fairness arising in the UK, linked partly but not solely to pension issues. Possible political consequences are a "battle of generations" in the future.

Keywords: Pensions, pension regulation, demographic change, risk bearing.

JEL Classification: G23, H55, J32

[1] Professor E Philip Davis, Professor of Banking and Finance, Brunel University; Visiting Fellow, National Institute of Economic and Social Research, email e_philip_davis@msn.com. Professor Rosa M. Lastra, Chair in International Financial and Monetary Law, Centre for Commercial Law Studies, Queen Mary University of London, email r.lastra@qmuk.ac.uk. This paper was presented at the conference, 'The Home: A Complex Field' organised by the Home Renaissance Foundation at the Centre for Commercial Law Studies, Queen Mary University of London, on November 2nd-3rd 2015. The proceedings of the conference will be published.

1 Introduction

The legal, policy and economic issues associated with pension provision, care and dignity in old age are fundamental challenges for the future of our society. Many of these issues are intrinsically related to the theme of the conference, 'The Home: A Complex Field' organised by the Home Renaissance Foundation, given the social dimension of human beings. Though this paper focuses mostly on pension provision and pension regulation, its analysis benefits from the multi-polar approach that is embedded in the work of the Home Renaissance Foundation, in particular the importance of the 'nuclear family' and the 'extended family'[2] in the provision of care, from child care to old age care and the consideration that the home is the natural environment in which such provision ought to take place.

An adequate legal framework needs to balance a number of competing interests, given the implications in terms of intergenerational debt of the financing of care and income in old age and the broader social justice considerations that are at stake in the design of schemes that provide adequate care and income in old age in a market economy. The starting point should be the dignity of human beings. Such dignity, embedded in the recognition and protection of human rights, is both a constitutive part of the rule of law and a key principle of international law whose doctrinal foundations were laid down by Francisco de Vitoria[3] and which today finds general acceptance via the United Nations Universal Declaration of Human Rights.[4]

2 A primer on pensions

A pension provides a guaranteed income stream from retirement age until death (insurance against living for a long time). Pensions affect all of us at nearly all stages in life; in working life we pay taxes to finance current pensions and make contributions for our own pensions, then in retirement we draw benefits. In order to provide for a secure old age, we can save part of our salary and draw on

[2] "The family is like a factory of hope (…). Take special care of children and grandparents. Children are the future, the strength that moves us forward. Grandparents are the living memory of the family. To look after grandparents, to look after children is the expression of love". Pope Francis, Address in Philadelphia, 26 September 2015.

[3] See e.g. Pekka Niemeläm, A Cosmopolitan World Order? Perspectives on Francisco de Vitoria and the United Nations A. von Bogdandy and R. Wolfrum, (eds.), Max Planck Yearbook of United Nations Law, Vol. 12, 2008, p. 301-344, Koninklijke Brill N.V., The Netherlands http://www.mpil.de/files/pdf3/mpunyb_08_niemelae_12.pdf

[4] http://www.un.org/en/universal-declaration-human-rights/
Preamble: "*Whereas* recognition of the inherent **dignity** and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice, and peace in the world; *Whereas* disregard and contempt for human rights have resulted in barbarous acts which have outraged the conscience of mankind, and the advent of a world in which human beings shall enjoy freedom of speech and belief and freedom from fear and want has been proclaimed as the highest aspiration of the common people…."
Now, therefore, the General Assembly proclaims this Universal Declaration of Human Rights…

Article 1

All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.

accumulated funds after we retire or we can obtain a promise (from the government or from our children) that after we retire we will receive some income.

Pension schemes are typically divided into defined benefits pensions and defined contribution pensions. In the former, as the name indicates, what is defined is the benefit: a set portion of working income on retirement with no link with what people have actually contributed.

In defined contribution pensions there is no promise of any particular level of benefits. In a defined contribution pension scheme, only contributions are fixed, and benefits therefore depend solely on the returns on the assets of the fund. The link between what people contribute and what they will actually get out is made explicit.

It is also useful to distinguish pay-as-you-go and funded pensions. In pay-as-you-go pensions (PAYG), which are usually defined benefit[5], today's pensions are paid from contributions made by today's workers, who in turn hope that their pensions will be paid by tomorrow's workers. In pay-as-you-go systems the working population pays for the pensions of the retired generation. In funded pensions assets are accumulated to pay the pension of the worker in retirement.

There are state (public) pensions and private pensions. The former are usually pay-as-you-go and the latter are usually funded. Private pensions are often divided into occupational (company) and personal. In developed countries, publicly provided pensions have long been considered a key achievement of the welfare state. Pension schemes were established (as a safety net) when the pyramid of the population included a large youth base and few older people, with shorter life expectancy.[6] However, with the ageing of the population this has become a 'time bomb' in many developed countries and some developing countries, because the expected payments imply a large and perhaps unsustainable increase in contribution rates.[7]

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[5] In countries such as Sweden there are elements of defined contribution in state pensions.

[6] Financial Times, 5 December 2013: "When contributory state pensions were introduced in 1926 to alleviate the hardship of old age, only a minority of Britons were expected to live long enough to receive payments… Though politicians are right to reduce the cost of pensions…they should not forget the compassionate aims that led to the creation of the current system".

[7] http://www.worldbank.org/en/topic/pensions

"Worldwide, the most dramatic aging is projected to take place in low and middle-income countries. Traditional family-based care for the elderly has broken down in many developing countries without adequate formal mechanisms to take its place. For the elderly, inadequate transfers from either formal pension systems or from informal family and community transfers can severely reduce their ability to cope with illness or poor nutrition. In low-income countries, only one in nine workers contribute to a pension program. This proportion has remained stagnant for decades, affecting their ability to receive adequate pension benefits.

Public spending on pensions also tends to be regressive, being concentrated on a very small proportion of workers. Too often, the cost of paying for pensions crowds out spending on other deserving programs--- such as health or education programs-- and when payments exceed contribution revenues, cross-subsidies are required from broadly based taxes, such as a value-added tax. In middle-income countries, large gaps in pension coverage exist among lower-income, informal sector workers. This is compounded by demographic pressures straining the ability of pension systems to finance benefits. This is particularly true in transition economies in Eastern Europe and the former Soviet Union, where pension spending is frequently the largest government expenditure, as well as a major source of fiscal deficits, and accelerated aging has reduced the number of younger workers supporting older workers that need pension coverage.

Occupational pension schemes are pension schemes established by companies for the purposes of providing benefits in the form of pensions either on the basis of defined benefit or defined contributions. Many firms are switching from defined benefits to defined contributions. Personal pension schemes are individual defined contribution pension contracts, often arranged with a life insurance company. Personal savings that have been invested in pension funds or in privately held individual retirement accounts are a major and growing component of household wealth.

One may distinguish a pension plan and a pension fund. A pension plan is a contract setting out the rights and obligations of members and sponsor of a pension scheme. A pension fund is comprised of the assets accumulated to pay retirement obligations. For defined contribution, it is the same as the plan, for defined benefits, it is the means to back up or collateralize the employer's promises set out in the plan. Hence there can be underfunded or overfunded defined benefit schemes. Pension provision can be mandatory or voluntary. In the UK the latter route has been preferred, with growth of pensions depending on self-interest on the part of employers and workers (Davis, 2001).

The financing of pensions, the need to shift from unfunded to funded and the need to shift from public to private are fundamental challenges for governments around the world. Governments have an interest both in the relief of old age poverty and in ensuring that most pensioners can provide for themselves in retirement. This in many cases entails a form of guarantee. As noted, there are no guarantees for defined contribution, although as discussed below there are important issues raised requiring regulation. Pension guarantees fall into two categories: (1) guarantees of defined benefit private pension schemes, which require firm regulation, as discussed below; and (2) direct promises to pay pensions to individuals (whereby the government guarantees a pension – a defined benefit financed through taxation). As noted, it is these 'unfunded promises' to pay defined benefits pension that contribute to the Government's 'implicit pension debt' (IPD), governments can reduce this IPD by: (a) raising the retirement age; (b) moving from a PAYG to a funded system or to a system that combines public and private funds. Meanwhile, governments must also create a suitable legal framework for the regulation of private pensions (personal and occupational) as we discuss below, with the pensions mis-selling scandal in the UK being a clear example of inadequate consumer protection regulation.[8]

The World Bank called for a multi-pillar system of pension provision in a 1995 report to allow national pension schemes to better diversify their risks, including the following:

- A mandated, unfunded and publicly managed defined-benefit system (tax financed 'pillar' to alleviate old age poverty)

The World Bank is in a unique position to take intellectual leadership and collaborate with various development partners in building strong pension systems in developing countries. The Bank has been involved in pension reform in more than 90 countries and provided financial support for reform to more than 70 countries."

[8] S. Foley, Financial Times, 25 February 2014: "Unlike many investors whose aim is to maximise returns, the managers of defined benefit plans have a different priority. Theirs is to make enough money to meet the promises they have made to employees and then to sleep at night…".

- A mandated, funded and privately managed defined contribution 'pillar' based on personal saving accounts or occupational plans
- A voluntary third 'pillar' for those wishing additional protection (retirement savings: individual, employer-sponsored etc.)

• In 2005 two additional pillars were added to the World Bank multi-pillar system:

- A basic non-contributory "zero pillar" to deal more explicitly with the poverty objective and
- A fourth pillar to include the broader context of intra-family support, access to healthcare and housing, etc. The extended family can be an important pillar particularly in developing countries. It is this last pillar that deserves further consideration both from a policy/legal perspective and from an academic perspective, acknowledging – via policies cemented in rigorous research – the benefits that intra family support provides (with implications for the tax system, too) and to facilitate – where appropriate – the transition from the informal to the formal sector.[9]

3 Adequate and sustainable pensions

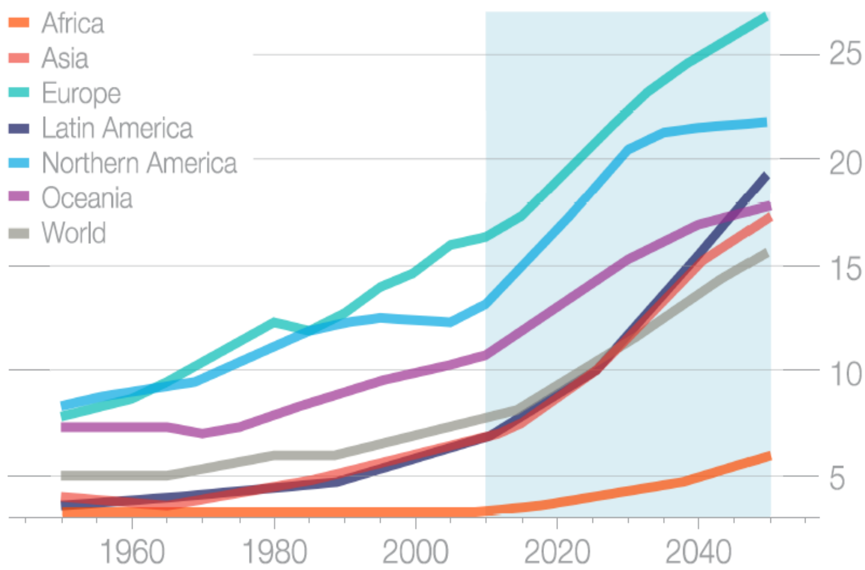
The debate about the adequacy and sustainability of pensions touches upon a number of financial and non-financial issues, which complicate the debate.

[9] "The most important policy options for improvement of long-term care include supported self-care and home-based services that enable older people to remain in their own homes or a home-like environment." Bernd Rechel et alii, 'Aging in the European Union' (2013). Interestingly, Cash-for-childcare schemes (benefits used to support maternal childcare at home) have become popular in Nordic countries. In a recent book edited by Jormal Sipila, Katja Repo and Tapio Risanen ("Cash for Childcare. The consequences for caring mothers") they point out that cash for care schemes (whether for the old or for small children) can be 'depicted as an institution of the informal regime', which 'offers an alternative to work done in the labour market' (p. 31). They further suggest tax relied and changes in the 'hidden work regime' (family-based childcare, family based eldercare, informal employment and voluntary work).

Amongst the non-financial issues we must consider,

- Demographic trends (aging population and life expectancy improvements, inversion of the population pyramid).[10]

Percentage aged 65 or over, major world regions, 1950-2050



Source: UN 2012 revision

Amongst the financial issues the following are noteworthy:

- Savings and economic and financial stability issues affecting pensions
- Fiscal sustainability, given the increases in public debt and budgetary deficits that may accompany a large IPD.
- Inter-generational debt and redistribution; transfer of money from young to old
- Capital market development (the example of Chile which set up private Administradoras de Fondos de Pensiones, AFPs has served as a model for many other developing countries)
- Appropriate regulation of private pension funds, to which we now turn.

4 Why regulate pensions?

As discussed in Davis (2014), abstracting from issues of redistribution, a case for public intervention in the operation of markets arises when there is a market failure, i.e. when a set of market prices

[10] As regards demographics, Professor Emily Grund of the LSE is conducting research that considers inter alia the impact of changes upon various types of family support. The graph above is from Grundy (2013).

fails to reach a Pareto optimal outcome. There are three key types of market failure in finance, namely those relating to information asymmetry, externality, and monopoly. These apply in differing degrees to the various types of financial institution; in particular, there are quite distinctive problems associated with banks (Davis 2012) as opposed to pension funds (McCarthy and Neuberger 2009). But we can certainly discern examples of each in the pensions arena.

Regarding information asymmetry, if it is difficult or costly for the purchaser of a financial service to obtain sufficient information on the quality of the service in question, he may be vulnerable to exploitation. This could entail fraudulent, negligent, incompetent, or unfair treatment, as well as failure of the relevant institution per se. Such phenomena are of particular importance for retail users of financial services such as those provided by pension funds, because clients seek investment of a sizeable proportion of their wealth, contracts are one-off, and they involve a commitment over time. Moreover, such consumers are unlikely to find it economic to make a full assessment of the risks to which pension funds are exposed - including for DB funds, the sponsor's solvency and the level of funding backing pension claims in case of sponsor bankruptcy. Participants may not even be aware of costs, returns, volatility, and the range of outcomes for prospective pensions. Hence the need for "consumer protection" style regulation for pension funds – and consumer education, as discussed further below.

Externalities arise when the actions of certain agents have non-priced consequences on others. The most obvious type of potential externality in financial markets relates to the liquidity risk underlying contagious bank runs. But given the matching of long run liabilities and long run assets in pension funds, such externalities are less likely here. There are other possible externalities from failure of pension funds, notably to the state (Impavido and Tower 2009), and similar investments by pension funds may give rise to macroprudential risks to financial markets as well as to funds themselves (Bank of England 2014). Hence the provision for example of guarantee schemes for DB funds and counter cyclical regulations.

Market failure may also arise when there is a degree of market power. This may be of particular relevance for pension funds, notably when membership is compulsory. As argued by Altman (1992), employers in an unregulated environment offering a pension fund effectively on a monopoly basis may structure plans to take care of their own interests and concerns, so for example they can institute onerous vesting rules and better terms for management than workers. They may also want freedom to fund (or not) as they wish, and maintain pension assets for their own use, regardless of the risk of bankruptcy. They may not take care of retirement needs of some groups in society such as frequent job changers, young workers or women with broken careers due to childbearing.

Some would argue that pension funds should be regulated independently of these standard justifications, for example to ensure tax benefits are not misused, and that the goals of equity, adequacy and security of retirement income are achieved - in effect correcting the market failures in annuities markets that necessitate pension funds and social security (Laboul and Yermo 2006). Regulation may also be based on the desire for economic efficiency, for example removing barriers to labour mobility, and indeed financial efficiency so firms' costs in running pension funds are minimized and pensions are affordable for members. Altman (1992) suggests that the term "private pension" is itself a misnomer, as the distinction between private and public programs is increasingly blurred. Terms and conditions are often prescribed by the government; they are publicly supported by tax subsidies; there is compulsory provision in several countries; and in some countries (such as the UK), private funds take over part of the earnings related social security provision function.

5 Who bears the risk?

A pension gives rise to various risks – notably of inflation, longevity and market risk of asset price volatility, as well as political risks and risk of inadequate saving and liquidity, credit and interest rate risks. A key issue then is who bears those risks? Are they the individuals or institutions that are best placed to bear those risks?

Looking first at the risks one by one, liquidity risk applies to pension funds in that assets may be illiquid and hence difficult to convert into cash when payments to pensioners are due, at a time when income falls short of expenditure; this applies both to defined benefit and defined contribution funds. It applies especially to mature funds with mainly pensioner members. Also there is a need to be aware of market liquidity risk can vary.

Market risk applies to pension funds as they usually hold capital uncertain assets such as equities and long term bonds as well as real estate and hedge funds to back their liabilities. It may be increased when diversification is inadequate. Market risk is more important for a mature pension fund, which needs to pay out directly to members; an immature fund can accept high volatility in return for high profitability and indeed it is imprudent for an immature fund to invest solely in bonds.

Inflation risk applies if pensions are not increased to allow for the cost of living, or if an individual has a level annuity.

Credit risk applies to both DB and DC funds similarly to market risk, in that insolvency of the firms issuing equities or corporate bonds as well as loans gives rise to such risk. There is a need to bear in mind governments are not risk free. Also the subprime crisis showed that securitised bonds can be high risk.

Solvency risk applies particularly to DB funds, since for them, assets can fall short of liabilities and then insolvency of the sponsor would threaten the provision of pensions. There is no insolvency risk in the case of pure DC schemes as risk is borne by members. Nevertheless, DC funds can be in solvency difficulty due to interest earned not matching interest credited, or expenses not paid by the sponsor but taken by the fund.

Related to these forms of risk is the issue of asset and liability mismatch. The issue is whether the assets held are too volatile for the time profile of payments, thus generating excessive risk especially for members about to retire (assuming pension payments have priority), or alternatively the fund may have shorter maturity assets than liabilities, giving rise to reinvestment risk. Fair value accounting has made for greater volatility of balance sheets as a result of mismatch (Schembri 2014). Deficits might give rise to a search for excessive yield to make up losses due to mismatch, leading to credit risk also (DNB 2015, OECD 2015).

Longer term risks for pension funds include longevity risk, namely that the population covered lives much longer than expected and so the assets accumulated are inadequate for the guaranteed pension (for DB) or the expected pension (for DC). OECD (2014) show that a one-year error in longevity can boost liabilities by as much as 5%. Hence it is essential to use up to date mortality tables suitable for the population which allow for rising life expectancy. Since liabilities are discounted by a market rate, the surplus may also be affected by market risk.

Actuarial risks may also arise when long term asset returns fall short of those expected when setting contribution rates. Such risks may be accentuated when management costs are high, thus reducing the net return that benefits the members (note: to calculate return properly there is a need for data on income flows, rise in overall assets values and net investment or capital gain). Other actuarial risks of a similar nature may arise when contributions that are mandated are not actually made. Actuarial assumptions out of line with local practice are also a cause for concern. The possible influence of a prolonged period of low rates should also be noted (OECD 2014).

Governance risks arise when the fund is vulnerable to conflicts of interest or even fraud due to inadequate governance structures. (Indicators; employer versus employee, or independent trustees, contracting out of pension administration or asset management giving rise to principal-agent problems, status as a mutual or for-profit which impacts on the quality of management, operational risk etc.)

Political or regulatory risk may also apply in that the government or regulators may change the parameters of pension funds in a way that is difficult for the funds to resolve.

Considering these risks for the different types of pension, in social security the government bears most risks, leaving political risks to the participants that the system will be reformed with lesser benefits for given contributions. However political risk applies to a lesser degree for all pensions, for example the current proposal in the UK to change taxation from that of benefits to that of contributions, which can be seen as a “tax raid” on pensions (Armstrong et al 2015).

For defined benefit the sponsor bears most risks, leaving risks that pensions will not be paid due to deficits/corporate insolvency. These risks are now in the UK mostly covered by a Guarantee Fund. While this is beneficial to members, its institution also gives rise to moral hazard where provision of a guarantee gives pension funds an incentive to underfund in the belief that the government will pay the pensions. This is partly counteracted by risk based contributions to the guarantee fund.

For defined contribution, all risks are transferred to the individual - including longevity risk in UK now it is no longer required to buy an annuity with a defined contribution pension fund at retirement. There is in our view a high risk of inadequate saving especially as employers contribute much less than for DC than for DB, and even with a level annuity there is inflation risk. Also there is a recognised risk of inappropriate investment (too safe when young or too risky when approaching retirement) and excessive costs for individual DC plans which reduce returns markedly. (The NEST plan discussed below seeks to reduce this problem.)

And here the issue arises. Can individuals make the complex calculations necessary to optimise their DC pensions, given the risks that they bear? Should “life cycle” investment (risky when young and low risk approaching retirement) and high contribution rates be mandatory? In this context, we note that according to OECD work on retirement income security in DC schemes (OECD 2012), there are controllable and non-controllable factors in DC. Factors chosen and controllable are contribution rate, length of time paying in, time they retire, investment strategy, and the way assets are paid out after retirement). On the other hand, factors inherently uncertain are spells of unemployment (or childbearing) which restrict contributions, real wage growth, return on investments, inflation, interest rates and longevity). So the issue arises, can education and regulation help people cope, and focus on correctly calibrating their contributions, retirement age, investment and annuitisation? We consider that knowledge of pensions is hugely inadequate and there is a need for much more education, in school and afterwards, while regulation needs to be perhaps more directive.

6 Why did Defined Benefit plans die?

Since DB is a less demanding form of pension in terms of risk for the beneficiary, it is important to note why this form of pension provision has declined in the UK (as in most other countries) in recent years (Davis 2004). A first aspect is regulation. Notably, in the UK regulations such as compulsory indexation to price inflation make provision of guarantees by sponsors costly. Then there are market risk factors, notably the asset-side problems from capital market volatility in 2002 and 2008 that led to marked deficits in DB funds, requiring considerable additional contributions by firms to return funds to balance (on the Netherlands in 2002, see Davis and De Haan (2012)). There has been an additional burden from low long rates that have boosted the cost of liabilities (i.e. pension provision from the DB fund).

Market discipline has become more severe, notably accounting standards requiring deficits to be measured at market (fair) value and put on balance sheets have meant firms have become highly sensitive to deficits and their potential impact on the share price, encouraging closure of DB funds. The market value focus of accounting as well as regulation (Davis 2014) has also put increased focus on interest rate risk. It may shorten time horizon and limit investment in illiquid assets (whose pricing is more difficult than marketable assets). Guarantees in DB have also been affected by increasing longevity in excess of what was anticipated, not least owing to advances in health care. Fees for guarantee fund may also have played a (small) part in the decline of DB funds.

It should be added that not all individuals are suited to DB funds, since they typically offer a lesser return to those who change jobs regularly. In other words they are fundamentally less suited to an economy with high labour mobility. Finally, it is worth noting that DB funds can have wider macroeconomic effects: Risk based regulation and fair value accounting may lead to procyclical behaviour (Bank of England 2014). The pattern is often an inadequate surplus build-up in upturn (surpluses are often limited by the tax authorities owing to funds' tax free status. Then there may be fire sales in the downturn; heavy funding needs after the downturn which put pressure on corporate finances. The question arises whether more macroprudential regulation is warranted to attenuate these patterns.

7 A "profligate cohort"

In considering pension provision in the UK, it is worth looking at overall household finances. Households have on average high debt in UK, while pension saving is low. We need to have in mind the theory that households rationally maximise lifetime consumption but also minimise its volatility (the life cycle hypothesis) – implying borrowing early in life cycle, then saving for pensions which are decumulated in old age. In this context, any constraints on borrowing are seen as undesirable – an insight which motivated financial deregulation, easing such constraints. The impact of securitisation was to ease constraints further. But debt has arguably risen beyond what is rational, partly driven by housing market frenzies when people overborrow to get a “foot on the ladder” (see Barrell and Weale (2009), Davis (2012)).

We also see in this context an impact of pure time preference especially for the “profligate cohort” born in 1950s-70s, willingness to forgo future consumption for more in the present. They may hope rising house prices will “bail them out” of poverty in old age, while making little or no contribution to pensions. This is irrational firstly due to the short term risks of default from high debt – which was poorly controlled by lenders till recently. But also in the longer term the individuals concerned take a risk of poverty. Rising house prices cannot be guaranteed especially as in future there will be less young people for the elderly to “trade down” to.

8 Recent UK developments

Recent reforms are seeking to limit the amount of tax relief given on pensions in the light of the fiscal crisis facing the UK. Accordingly, limits have been imposed on contributions so that employee contributions cannot exceed 100% of salary, which is only likely to possible for high earners.. Also there is a limit for each individual of £40,000 on tax free contributions per annum. Furthermore, there is a cap on total accumulation of £1.25 million. While it is true that pension tax relief goes largely to high earners this is also an incentive for managers to continue with workplace pensions, so there could be negative consequences. Now there is a consultation to possibly change pension taxation from having contributions tax free to pensions tax free, which could markedly depress pension saving. It would make pensions no more tax advantaged than houses or ISAs while being much less liquid (see Armstrong et al 2015). It is also not “time consistent” as there would be no guarantee that a future government would not tax pensions as well as contributions.

Meanwhile, there is a new social security pension, which unlike its predecessor will maintain its purchasing power but there will be some losers (especially some women). The government is introducing the “Nest” scheme for small employers to offer pensions at low fee levels. They will be obliged to offer such pensions to their employees in the future, this raising coverage (although contributions may not be sufficient to provide a decent pension). Finally it is worth noting the tendency in the UK and elsewhere to risk based regulation of pension funds (Davis 2014). Whom is it protecting? Ostensibly members but in the UK also the pension guarantee scheme. As noted above the consequence of risk based regulation is falling equity holdings, which could have an adverse effect on pensions since they offer the highest return among financial assets.

9 What does the Bible say?

Against the “profligate cohort” who borrow out of impatience to have a house and consumer goods the Bible rightly commends more “German” wisdom to accumulate funds first. “Put your outdoor work in order and get your fields ready; after that, build your house”. (Proverbs 24:27). We are called to help one another within families, including older people who have inadequate pensions as well as younger ones “But if anyone does not provide for his relatives, and especially for members of his household, he has denied the faith and is worse than an unbeliever.” (I Timothy 5:8) The old are to be honoured and not disparaged as is often the case in modern society “You shall stand up before the grey head and honour the face of an old man, and you shall fear your God: I am the Lord.” (Leviticus 19:32) Both these texts can also help motivate government mandating pension saving and/or a social security system (on the Bible and financial issues, see also Davis (2012)).

We are called to have wisdom in planning for retirement “For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it?” (Luke 14:28) As noted under DC the need for such planning is much greater than for DB. It is legitimate to give bequests if our circumstances allow “A good man leaves an inheritance to his children's children, but the sinner's wealth is laid up for the righteous.” (Proverbs 13:22)

10 Conclusion: Intergenerational issues

Concluding, it is important to note there are major issues of generational fairness arising in the UK linked partly but not solely to the pensions issues discussed above. The young are burdened with future taxes to pay off government debt and required to finance future pensions against a background of worsening demographics. They also face ever-heavier costs of a university education, and, especially in London and the South East, are priced out of residential property. We may add to this the impact of quantitative easing (QE) on asset prices which benefits the older people who hold financial assets. The pensions younger people will have are lower quality than the previous generation (defined contribution as opposed to defined benefit), while the grants offered to previous generations to go to university have become loans. A shift to taxation of pensions would further worsen the quality of pensions. Possible political consequences are a “battle of generations” in the future, see Goodhart et al (2015).[11]

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[11] God’s warning to Israel at the end of the Old Testament applies also to the UK and many other OECD countries in the light of patterns of pension provision “He will turn the hearts of the parents to their children, and the hearts of the children to their parents; or else I will come and strike the land with total destruction.” (Malachi 4:6).

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