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...that is the question!



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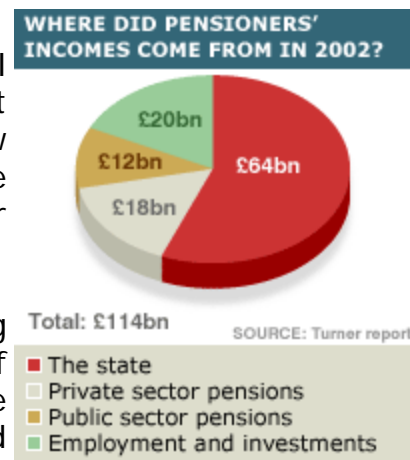
The 18th Century writer Thomas Paine believed that the best way to build a strong democracy was to tax the wealthy and give assistance to the poor. He proposed helping young families with the expense of raising children, a fund to provide housing and food for the poor, and a reliable and predictable pension for all workers in their old age.

Today we are still searching for that 'reliable and predictable' pension.

The Pensions commission first report has painted a bleak picture. What we know is that biggest provider of pensions is the state.

The source of that money is taxation, National Insurance contributions and government borrowing which also funds the top-up now called the Second State Pension (formerly the State Earnings Related Pension System or SERPS).

If we add in the additional cost of giving pensioners a minimum income regardless of their National Insurance Contributions (the Pension Credit) and housing, council tax and disability benefits, then government paid out in 2002 a grand total of nearly £64bn.



The Pensions Commission suggests the number of people over 65 will rise by 78% between now and the year 2050. Coupled with the fact that people are not making provisions for their retirement we are sitting on a time bomb.

The government announced that the state retirement age is to rise to 68 and the basic state pension will again be linked to earnings. The obvious downside to this link to earnings is that earnings rise much slower than prices still leaving a substantial gap to be filled. From 2012 if you are over 21 but not in a company pension plan you will be automatically enrolled into a new **National Pensions Savings Scheme (NPSS)**. You will have to contribute 4% of annual earnings between £5,000 and £33,000, the government will add 1% in tax relief and your employer will pay 3% making 8% in total.

The retirement age will be raised to 66 in 2066 and then to 68 by 2046. The previously mentioned link to earnings is according to the pension's minister Malcolm Wicks "subject to affordability and the fiscal situation": therefore even this is not guaranteed. An important element of the new announcement is that only 30 years of contribution rather than 39 is required in order to qualify for the state pension. This will undoubtedly

benefit women who have historically made sacrifices in order to care for minor children and other dependents

One of the downsides of the changes announced is that the lowest paid will be adversely affected for two reasons a), statistically they tend to die younger and are therefore more likely not to realise any benefit from their years of contribution and b), Given that there is no compulsion for one to work up to the new state pension age; the commonly held view is that people may choose to retire early and live off savings until the state pension kicks in; conversely the poorer members of society will be forced to work up to the state pension age because their incomes does not enable them to save in any meaningful way.

Further alarm bells should be sounded because most people aim to retire on two thirds of their final salary which requires an average contribution of 16%. Even the new NPSS falls short of this.

Current pensioners will receive no extra money until 2012 at the earliest. Someone aged 25 earning the median wage of £23,000 and retiring at 65 would get a state pension of £136 a week in today's money; under the new system they will work an extra 3 years for just £3 extra a week.

This is particularly alarming especially for the most deprived communities. For example in 1992 the unemployment rate of ethnic minority men was 15-20 percentage points higher than that of their white counterparts; by 2002 though the scale of this disparity had decreased there was still 10-15 percentage more unemployment of ethnic minorities (Cabinet Office 2003). In May 2005 the National Employment Panel reiterated that only 60 percent of ethnic minorities were employed against an overall employment level of 75 per cent (a 15 percent gap).

Given that the current pension system is inadequate and that even the new system falls short of the 16 per cent of income needed to provide for a decent standard of living it is evident that those unable to secure gainful and consistent work due to disability, discrimination, lack of education or sheer laziness will not only be penalised due to the clear disparities in the employment market but will experience heightened poverty if they reach retirement.

We need to save and save fast: build up assets through increased equity in home, invest in property start a business which can be managed by employees after your retirement, begin paying into a pension - but remember that you are not guaranteed to get your money on retirement especially if the fund is under funded or closes down. If all that fails I suggest you pray hard.

The government's aspiration of 80% employment will only really be worthwhile if the fund managers are held responsible and liable for the funds they have been entrusted with and that those 80% who find jobs will

realise a decent level of income to enable them to make provisions for their tomorrows.

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