Willetts' revenge [1]

Written by **Jan Boucek** [2] | Monday 17 October 2011

Just before he became a minister in the UK?s coalition government last year, David Willetts published the insightful The Pinch: How The Baby Boomers Took Their Children?s Future ? And Why They Should Give It Back [3]. As the title suggests, the book details how the baby boom generation has had it pretty much its own way ? free university education, unfunded but generous pensions, a supply-restricted housing bubble and lots of other goodies to glide its way through an easy and prosperous life. Much of the western world?s current financial woes are largely due to the baby boom generation living way beyond its means.

Well, it?s payback time! Around the world, revenue-hungry governments are casting about for cash and pension funds are a big target. Some time ago on these pages, Jan Iwanik [4] noted how various governments were blatantly helping themselves. In Hungary, the government gave citizens the choice of remitting their retirement savings to the state or losing the right to the basic state pension. France earmarked EUR33 billion from the national reserve pension fund to reduce the short-term pension scheme deficit, in effect taking money set aside for 2020-2040 and using it in 2011-2014. Argentina didn?t fool around ? in 2008, it simply nationalised the top 10 private pension funds.

We?re a little more subtle here in the UK but, make no mistake, beggaring pension-fund savings is well underway. Gordon Brown kicked things off back in 1997 by abolishing the Advanced Corporation Tax which may have cost pension schemes something around £150 billion. The current government has now capped at £50,000 the annual tax-free pension contributions and limited total pension savings to £1.5 million.

More surreptitiously, the old stand-by tool of inflation is doing its work to erode the real value of pension savings while the low interest-rate policy of recent years is severely limiting the growth prospects of safe saving instruments like term deposits and government bonds. Elsewhere, the increasingly vilified ?profits? of banks, utilities and large corporations are under attack even though the biggest shareholders of such companies are investment and pension funds ? ie. folks saving for their retirement.

Now the Bank of England?s latest round of quantitative easing is forecast to further batter pension savers. A number of analysts [5] have pointed out that the effect of the move will be to cut annuity rates even more. Accounting firm PwC reckons that a pension pot of £300,000 will now buy an income of just £18,500 a year compared with £22,500 three years ago.

None of this is Mr Willetts? actual doing and he remains one of the government?s most thoughtful brains (if not two). Whatever else he accomplishes while in government, we can thank him for the broader historical perspective provided by The Pinch on the current mess we?re in. We may not like it but at least we understand it.

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