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Two cheers for the new state pension rules [1]

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The new state pension arrangements announced this week follow the recommendations of a 2004 Adam Smith Institute report by the actuary Alan Pickering [3]. We had to wait eight years, but at last the bureaucracy has got there.

The current state pension system is absurdly complex and out of date. It has two different components, a basic pension and an earnings-related pension. You might think that the idea of the state pension is simply to keep retired people out of poverty and give them a decent income. But no. If you earn more, you pay in more and get a bigger pension. Nice for the higher earners. But even with that supplement, your pension still won't be enough to live on and you are forced to supplement it with welfare. If you save for yourself, you will of course lose that welfare supplement because of means-testing. It's a system that seems almost designed to trap people in poverty and make saving pointless.

Meanwhile the arrangements for women also reflect a postwar world in which women were expected to be dependent on their husbands. This has disadvantaged women who take time out to look after children or elderly relatives: without a full set of national insurance contributions, they get an even smaller pension.

Oh, and actually higher earners can contract out of the earnings-related bit and do their own thing instead. Simple, huh?

The new arrangement, starting in 2017, will provide a simple flat-rate pension that will be higher than the means-tested welfare floor. So if you save for yourself, you will get the reward for doing so. There are credits for those who cannot pay national insurance contributions because of their responsibilities as carers. It is a lot simpler, and it does what the state pension is there for: to make sure that people save enough during their working lives to allow them to live decently and not have to rely on the welfare support of taxpayers.

Generally the state should not force people into saving ? it should be their decision ? but when you have a welfare system, problems arise if you do not. If you are going to force people to save, you should do it in a simple way that does the job and no more. The new system will be very much simpler and will achieve the basic aim without trying to do more and getting everyone in a bureaucratic model.

So, from 2004 to 2017?by current standards, thirteen years is pretty short time for a good idea to actually come into effect in legislation. Bad ideas usually get through a lot quicker. A muted cheer.

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