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Conservative Central Office.
32 Smith Square,
London SW1P 3HH

RT HON NORMAN FOWLER MP

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Extract from a speech by the Rt Hon Norman Fowler MP (Sutton Coldfield), Secretary of State for Social Services, speaking at the Annual Conference of the National Association of Pension Funds, at the Metropole Hotel, Brighton, on Saturday, 7th May 1983

"HANDS OFF OUR PENSIONS" CAMPAIGN LAUNCHED

One of the great hopes expressed to politicians is that a particular subject should be kept out of politics. It has to be said that in many areas this is a rather pious hope. It is difficult to see how you can keep politics out of defence or indeed the running of the economy. But every so often it does come about that a consensus can be formed. And such a consensus was reached in 1975 on the second reading of the Pensions Bill when both parties took the view that we had to bring an end to the uncertainty that had dogged the previous decade.

You will remember the history. The Crossman scheme was defeated by the Election of 1970. The scheme of Keith Joseph was enacted in 1973 and was set to come into operation in 1975 but that was interrupted by the Election of 1974. Following that, the then Labour Government introduced their own proposals. The second reading of the Bill took place a few weeks after Margaret Thatcher had been elected leader of the Conservative Party. Geoffrey Howe, the previous Social Services spokesman, had moved to Shadow

Chancellor and I had been moved in from the Home Office to take Geoffrey Howe's place. We decided that the uncertainty had to come to an end. And therefore the Pensions Bill - a bill with which Brian O'Malley's name will be long remembered - was given an unopposed second reading. I was able to tell the House of Commons on that occasion:

> "We must ask the crucial question of what is best for the occupational schemes. We have sought to take as much advice as possible from those concerned with pensions. Their advice is overwhelmingly that we should proceed on the basis of the proposals contained in the Bill. We seek amendments to the Bill but we are endeavouring to provide a base for development."

I believe that we reached a sensible conclusion at that time. The bill introduced a state scheme which added to the flat rate benefit an earnings related benefit which by 1998 will mean that those retiring will be entitled to something like 25 per cent of their earnings in the lower earnings limit to the upper earnings limit band. It was a considerable step forward. But what was also a major advance was the way in which the role of the occupational pensions movement was recognised. There was both broad consensus in the political debate and partnership between public and private in the provision of pensions.

Tragically, that agreement is now under profound threat. That threat is presented by a series of proposals directed specifically at pensions funds, coming from the TUC and from the Labour Party. It is of fundamental importance that the public understand what is being proposed. The proposals are basically these:

<u>A new National Investment Bank</u>-would be established. The Bank would provide a channel through which - and I quote - "long term savings collected by the pensions and life assurance industry can be used for industrial investment". "Institutions would be expected to make a commitment to funding the NIB and therefore take up agreed volumes of NIB bonds". Pension funds would also be expected to provide "funds for public investment agencies including local Enterprise Boards".

At the same time - and again I quote - "Trade unions should have the right in consultation with the TUC to appoint 50 per cent of the membership of controlling bodies of pension schemes. Funds should be provided for training of member trustees organised by the trade union movement". Legislation would be passed to give trade unions this right.

These unequivocal policy commitments are drawn from the Conference Statement, "The Financial Institutions", published last September and declared in the Labour Party's official Campaign Document "New Hope for Britain" to be the full statement of Labour policy. In other words, what is envisaged is the direction of the funds of pension schemes into investments which they otherwise would not have made. It is of course dressed up as "industrial regeneration". But before that argument is remotely accepted the public should ask themselves three questions.

<u>First</u> to whom are the pension schemes answerable? My answer to that is that they are clearly answerable to their members. We should be in no doubt about the number of members that we are now talking about. Today there are 11½ million members of occupational pension schemes - not to mention 4½ million people receiving occupational pensions. Half the total workforce is now covered

by occupational pension schemes. As a point of comparison that is more than double the number of people in this country who have mortgages. Pensions policy, therefore, is of fundamental importance to millions of people in this country because of course pensions and other benefits are normally part of the terms of service of the occupation itself. An employer undertakes through his scheme to make payments on some deferred basis to the employee or his or her dependants. Although the benefits will be paid after the employee has retired, or died, or left service for some other reason, they effectively form part of his total remuneration. The scale of benefits and the division of cost between employer and employee are frequently a matter of negotiation and rightly so. But the assets of a pension fund represent the savings required to pay the benefits of some 11½ million members when they retire and the prospective benefits of their dependants when they die. The money is held in trust for the members and their dependants. It is not, repeat not, spare cash floating about looking for a home. The duty of the trustee is-and must be-to invest the money in his care to the best advantage of the beneficiaries. That is his clear duty. And a trustee must also act prudently so that he does not put the savings at too high a risk. I would have thought that the vast majority of the 11½ million people who are covered in this way would want trustees or fund managers to shy away from speculative investment. It is one thing for a private individual to speculate with his own money. It is quite another for a fund manager to take unreasonable chances with other people's money.

The second question that the public should ask is whether it is the lack of capital which is standing in the way of industrial recovery? Of course I recognise that there is a superficial attraction to an argument which says "you are not applying capital in the best way to revive the economy and generate new jobs". But it is only a superficial attraction. For there is no evidence to suggest that it is a lack of capital that has stood in the way of investment or has been responsible for industrial decline. It was the Review Committee under Sir Harold Wilson who in 1980 pointed out that "the combination of inflation and low profitability has made it very difficult for fund managers to achieve satisfactory returns".

It was the City Capital Markets Committee who argued last November that it would be quite wrong to blame poor industrial performance on a lack of funds. They considered it was not the lack of funds that was the crucial point: it was the demand by business for investment capital which had fallen short of what was desirable. So the evidence is that the proposal to direct pension funds to take action which they otherwise would not take is based upon a false diagnosis. It is based on a diagnosis that what has been wrong has been the lack of capital when what has been wrong has been the lack of profitable investment. Government most certainly can do something about that. It can seek to create the right climate in which profitable business can flourish. Above all, it can seek to reduce inflation to a level which makes it possible for companies not only to export but also to compete successfully in the home market. But the prospect of Government even in the guise of a National Investment Bank using private funds on essentially political judgements is a prospect which, when understood, will cause widespread public alarm. Millions will say quite simply "hands off our pensions".

<u>And the third question</u> that the public should ask is what advantages will accrue from a 50 per cent trade union representation on the controlling bodies of pension schemes? I certainly believe that members of pension funds should be very much involved in the running of them. But I also believe that it should be representatives of <u>all</u> the members representing their fellow workers irrespective of whether they are members of trade unions or not. And of course the purpose of the proposal which envisages legislation requiring 50 per cent trade union membership is a desire to control investment policy. And the clear outcome of that would be the direction of funds into the national investment bank and into local enterprise boards together with restrictions on overseas investment. Instead of the requirement to operate at all times in the interests of members, there would be substituted political judgements on where investments should be made. It should be pointed out that political decisions on investment have not always been the most successful over the last 40 years. Nor do all the so-called political factors run one way. Take, for example, the question of overseas investment.

As Maurice Oldfield has pointed out in his excellent book '<u>Understanding Pension Schemes</u>,' which I would dearly like to be read by all the 11½ million members of pension schemes, when controls were relaxed pension funds sought to take advantage of profitable situations abroad. Trustees do not invest more than a certain proportion overseas. They would not invest abroad at all unless they saw the prospect of a better return for their members than that obtainable in the United Kingdom. From the national viewpoint the outflow of capital will be matched with an inflow of income in the shape of interest and dividends. And those inflows form part of the invisible exports which contribute so much to Britain's balance of payments.

Foreign investment may be a convenient political slogan. But it is a mighty strange slogan for a country which has relied, and must rely, so heavily upon trade overseas.

A n d perhaps we should remember just one further point. Over the last ten years we have heard all too much of companies going into liquidation. We have heard cases of insurance companies crashing. There was the fringe banking crisis of the mid-1970s. There have been professional firms of lawyers or stockbrokers who have been required to cease practising or trading by their ruling bodies. It is perhaps instructive to remember that in the sixty years existence of the National Association of Pension Funds there has not been a single case of a failure of a pension fund through financial mismanagement. I would argue then that commonsense dictates the greatest caution in seeking to interfere and intervene in the affairs of pension funds. And I say that above all, not from the stand point of the representatives of the funds who are here today but from the standpoint of the members those funds cover. It is the interests of the members which are paramount and it is the interests of the members which determine what are the real issues in the pensions debate.

Pensions - the real debate

The whole purpose of pensions policy is to provide an adequate income in retirement. Perhaps we should be clear on what the position is here in respect of the size of the retired population. The facts are that from now until about 2010 the numbers of retired people will remain reasonably constant. What will, of course, happen is that the numbers of the very old - the over 80s - will increase very appreciably. But we should beware of forever describing the elderly as if they represent by definition a problem within our society. I think if anything we have been slow in this country to recognise the contribution that retired people can actually make and the amount of skill that could still be harnessed. But what is clear is that a basic aim of Government policy must be to try to ensure that the future income requirements of those who are retired are looked after as well as possible. And we do this in a number of ways. We have devised a pension arrangement - a partnership between public and private - which if commonsense can prevail provides us with an assurance for the future. Certainly as far as this Government is concerned we do not want to meddle unnecessarily with the occupational pensions movement.

Clearly Government does have a role. It, for example, has the central role of seeking to keep inflation under control. And it is one of the major achievements of this Government that inflation is now running at levels which have not been experienced in this country since the 1960s. That is good for the economy generally. But perhaps above all it is good for the pensioner because with the price protection we have given to pensions on the one hand and the assurance that savings are not going to be eaten away on the other, elderly people can again plan and look forward with confidence.

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So far as this Government is concerned, our starting point of policy is the interests of the pensioner. It is his interests which are paramount. We do not intend to interfere and intervene unnecessarily. We stand prepared to intervene if we feel, after examination, that the interests of the pensioner are not being fully met.

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