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Berry, C (2014) Austerity, ageing and the financialisation of pensions policy in the UK. British Politics, 11 (1). pp. 2-25. ISSN 1746-918X

DOI: https://doi.org/10.1057/bp.2014.19

Publisher: Palgrave Macmillan

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Additional Information: This is a post-peer-review, pre-copyedit version of an article published in British Politics. The definitive publisher-authenticated version Berry, C.P. (2014) Austerity, ageing and the financialisation of pensions policy in the UK, British Politics is available online at: http://dx.doi.org/10.1057/bp.2014.19

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Austerity, ageing and the financialisation of pensions policy in the UK

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Abstract: *This article offers a detailed analysis of the recent history of pensions policy in the UK, culminating in two apparent ‘revolutions’ in policy now underway: the introduction of ‘automatic enrolment’ into private pensions, and proposals for a new ‘single-tier’ state pension’. These reforms are considered exemplary of the ‘financialisation’ of UK welfare provision – typified in pensions policy by the notion that individuals must take personal responsibility for their own long-term financial security, and engage intimately with the financial services industry to do so. As such, the reforms represent the continuation of pensions policy between the Labour and coalition governments, despite the coalition government’s novel rhetorical commitment to austerity. In fact, the pensions revolutions will actually cost the state significantly more than current arrangements, yet the importance of fears about population ageing means that the government is both able to marshal the imagery of austerity to justify financialisation, but also required to partly conceal the increased expenditure this requires. The article shows therefore how the financialisation agenda in pensions policy was evident before the financial crisis, but has evolved to both take advantage, and mitigate the constraints, of a post-crisis political climate.*

Coalition governments are not usually associated with radical transformations in public policy practice. Indeed, the Cameron-Clegg coalition was justified principally on the basis of an imminent sovereign debt crisis, requiring co-operation 'in the national interest' (HM Government, 2010), rather than because of inherent affinities between the Conservatives and the Liberal Democrats in their approaches to public policy. Yet since coming to office in 2010, the coalition government has been responsible for two apparent revolutions in UK pensions policy, that is, the implementation of 'automatic enrolment' into workplace pension schemes, and the creation of a 'single-tier' state pension. The latter essentially abolishes the state second pension, which through various incarnations had offered an earnings-related 'top up' to the nominally social insurance-based basic state pension. The former ensures that the vast majority of people will now be saving in a privately-provided pension, in addition to any state provision they may be entitled to. Both reforms emanate, of course, from the Department for Work and Pensions (DWP), which has also been responsible for a third (and much higher profile) revolution in public policy – the establishment of a single benefit, Universal Credit, to replace a wide array of means-tested working age benefits. However, whereas at the time of writing the prospects for a successful implementation of Universal Credit appear bleak, both pensions policy revolutions seem unstoppable. This is despite the fact that, compared to either pensions reform discussed here, Universal Credit affects far fewer people and represents a much less radical departure from current practice (see Brewer *et al*, 2011; Dean, 2012). While these changes have not gone unnoticed by scholars, the literature within political science on the coalition's policy agenda has largely focused on issues around governance; *how* things are being done, rather than *what* is being done (Baldini and Hopkin, 2012; Bennister and Heffernan, 2012; Hazell and Yong, 2012; Richards *et al*, 2014) – and related to this, the implications for the UK constitution and public realm (Bogdanor, 2011; Skelcher *et al*, 2013). Of course, the relative novelty of coalition government in the UK, coupled with the radically altered fiscal environment within which the coalition partners are operating, makes this focus understandable. Yet it runs the risk of overlooking important continuities in policy agendas between the coalition and its predecessor – clearly evident in the case of pensions policy, whereby although the reforms are transformative, they were set in motion by New Labour in crucial regards. The analysis therefore broadly aligns itself with the growing literature on the continuities between the UK's pre-crisis and post-crisis models of economic statecraft (Crouch, 2011; Hay, 2013), albeit expanding this literature into new analytical territory through detailed examination of public policy. The literature on the nature of the Conservative Party's agenda for government also offers useful insights for this analysis (Heppell and Seawright, 2012), although a key focus of this work has been how the Conservatives' agenda is refracted via coalition dynamics, and as yet pensions policy has not featured strongly in this literature.

The article argues that the pensions reforms are exemplars of the financialisation of UK pensions provision. They are therefore a continuation of, rather than departure from, the Labour government's policy in this area. As understood here, the process of financialisation encompasses, firstly, the increased importance of financial markets and financial motives to the economy; secondly, the increased engagement between individuals and financial services and the personalisation of financial risks; and thirdly, the apparently intensified need for prudent financial behaviour (see Epstein, 2006; Finlayson, 2009; Lapavitsas, 2011; van der Zwan, 2014). The article will argue that all three features are apparent across the pensions revolutions, and have been accepted and/or pursued by policy-makers, and as such, UK pensions policy has been 'financialised'. In short, pensions provision has been gradually reoriented around the notion the individuals are personally responsible for retirement saving – with even the state pension reimagined as a 'savings platform'.

Interestingly, the pensions policy changes will cost *more* than the systems they are replacing. While the single-tier state pension will probably cost slightly less than the current state pension over the very long term (DWP, 2013b), this follows the significant increase in cost associated with restoring earnings indexation, applicable to both the current and future state pension systems (HM Treasury, 2010: 48).[1] Automatic enrolment will cost *significantly more*, immediately (around £11 billion by 2018), in the form of increasing the amount of tax revenue foregone through pensions tax relief (Pensions Policy Institute, 2013). Ostensibly, this problematises the coalition government's pursuit of austerity, and would appear to create conflict between a tacit financialisation agenda, and the more publicly espoused austerity agenda. However, this article also argues that we need to recast austerity in light of the longer-standing move towards financialisation in pensions provision, accepted by all main political parties in the UK. Austerity is not simply a novel and direct response to financial crisis and recession, but signifies a broader agenda in which the need for responsible financial behaviour giving rise to greater self-reliance is instilled not only upon individuals, but also the state itself (it is worth noting that, *ceteris parabus*, Universal Credit will also cost more than the systems it is replacing (Brewer *et al*, 2011; 2012)).

The pensions changes help, therefore, to facilitate austerity in this regard, which explains their attractiveness to the coalition government; but at the same time, the discourse around austerity acts as a constraint on the justification of the higher level of public spending that is seemingly necessitated by financialisation. The notion of population ageing, however, appears to play a crucial role at the intersection of austerity discourse, the financialisation agenda and pensions policy developments. Evidence of population ageing, although contestable (Spijker and MacInnes, 2013), obviously bears down on pensions provision, in terms of the cost of state pensions and adequacy of private pensions, and as such forms part of the rationale for both the retrenchment of state provision, and the establishment of new forms of support for behavioural change at the individual level. Yet it appears also to offer a convenient way to evoke the imagery of austerity, even where no actual cuts are taking place. The article therefore offers a partial corrective to existing analysis of the politics of austerity. Although the idea of and rationale for austerity has been critically examined (Blyth, 2013, Levitas, 2012; Stanley, 2014), we need to consider also whether the coalition is actually pursuing austerity in any substantive sense. That there have been significant spending cuts does not mean that the nature of austerity can be taken at face value – what is most important is how the pattern of both cuts and increases in public expenditure serve to reorient state orientations, as part of trends that were evident before the financial crisis, and before the coalition took office.

The first section of the article reflects briefly on financialisation, focusing in particular on its relationship with welfare reform, by way of establishing the article's conceptual framework. In doing so this section reviews the limited literature on financialisation and UK pensions, and outlines this article's original contribution. The second and third sections of the article survey policy developments related to private and state pension provision, respectively, under the coalition government. These sections draw mainly upon green and white papers published by DWP to outline its plans for pensions reform, before and after the change of government in 2010, to make the case for the financialisation of UK pensions policy, although other sources are also used where appropriate (see specific citations).

Financialisation and welfare retrenchment

Gerald Epstein offers a fairly expansive view of what financialisation is, in defining it as 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international markets' (2006: 3). Although perhaps implied in Epstein's reference to 'financial motives', it is fair to say that financialisation, upon its initial emergence as an analytical concept in the social sciences, referred mainly to macro-level economic processes, and meso-level forms of corporate organisation, rather than the household or individual dimension at the micro-level (Finlayson, 2009). The latter has, however, become increasingly important to analysis of financialisation. Paul Langley (2004) charts this change with reference to the evolution of the concept away from its origins in Marxism and regime theory – part of a meta-narrative signifying the shift from Fordist to post-Fordist capitalist organisation – and towards cultural political economy, where the relationship between individual behaviour and embedded institutional and discursive practices is emphasised as a constitutive aspect of economic life. As outlined in the Introduction, this article understands financialisation as a series of connected trends encompassing the increased role and power of the finance sector and financial markets in the economy, a reorientation of private economic actors' goals towards short-term financial returns, the greater and more intimate degree of contact between individuals and financial services (and the importance of engaging with financial services for individual well-being) and, related to this, the personalisation of financial risks as collectivised financial mechanisms are dismantled, intensifying the need for 'prudent' financial behaviour at the individual level.

The financialisation concept has been usefully applied to the welfare state, or more precisely the efforts of North American and European governments to reform or retrench welfare entitlements, demonstrating the mutually reinforcing relationship between financialisation and neoliberalism. Often this has taken the form of detailing the role of states in creating new financial products and facilitating the emergence of new private markets – in tandem with scaling back traditional welfare provision (see van der Zwan, 2014). In relation to the UK, however, the focus of research has principally been on the state's efforts to transform individual behaviour and expectations – to facilitate greater self-reliance, through intimate engagement with financial services and processes, as traditional welfare arrangements are reformed. The term 'asset-based welfare', which was briefly in vogue among policy-makers themselves, typifies this approach. Matthew Watson (2009b) has detailed, for instance, the New Labour's attempts to boost home-ownership as part of asset-based welfare, treating this agenda as exemplary of financialisation. Alan Finlayson (2009) has explored the creation by New Labour of Child Trust Funds through the rubric of financialisation, focusing on attempts by the Blair and Brown governments to use such instruments to both improve financial literacy and reorient individual aspirations. Of course, compared to other European countries the UK already has highly developed financial markets; it is understandable that analysts have focused therefore on the state's attempts to broaden access to these markets, to facilitate welfare retrenchment, rather than on the efforts to nurture new markets. However, as will be explored below, in terms of pensions policy, attempts to reorient individual behaviour must be seen in conjunction with efforts to develop a mass market in defined contribution pension products; the article therefore supplements existing work on welfare retrenchment and financialisation in this regard.

The financialisation literature in the UK has engaged with issues around pensions provision to a fairly limited extent. The increased need to save for a pension – and the investment risk entailed in this – is central to Langley's (2008) account of the 'everyday life' of global finance. Langley has also offered related studies of the promotional literature around new pensions saving schemes in the UK and the United States (Langley, 2006), and the contradictory role of the asset management industry – which is pivotal to pensions provision – in a financialised economy (Langley, 2004). Watson (2013) continues the theme of identifying contradictions within financialisation by showing how New Labour's efforts to create worker-saver-investors, partly through pensions policy, constrained the Brown government's response to financial crisis by tying individual welfare to the finance sector.

There remain, however, several gaps that this article hopes to fill. As yet there has been little specific research on the development of 'automatic enrolment' and the related National Employment Savings Trust (NEST) (a partial exception in this regard is research on the influence of an emerging behavioural economics paradigm in establishing the basis for automatic enrolment – and the implications and inherent flaws in such an approach; see Langley and Leaver, 2012; Mabbett, 2012; Ring, 2010. Deborah Mabbett's research is particularly useful in that, by comparing the behavioural turn in pensions policy across the UK with the United States, she is able to show that the UK government has not fully succeeded in legitimising the individualisation of risk, due to the residual sense that even private pensions remain within the sphere of public welfare). Similarly, as yet there has seemingly been no research on the coalition government's approach to the financialisation of pensions provision, and as such how it might relate to the coalition's austerity agenda. This article seeks to bring the evidence base up-to-date in terms of policy development, but a consideration of austerity also enables further reflection on the nature and rationale for the financialisation of pensions provision (given that the coalition has strengthened previously identified practices). Interestingly, the existing analysis of financialisation and pensions in the UK appears not to have considered the influence of population ageing in driving policy development. This is perhaps understandable given that analysis has focused on pensions reform, like welfare provision in general, as emblematic of wider economic processes and ideological currents. Nevertheless, it means that analysis to date has marginalised a factor which is frequently cited – albeit perhaps disingenuously – as a key influence in this specific policy area; looking at the relationship between austerity and financialisation creates space for reflection on this issue here, although further research would be welcome.

A further, related gap concerns the state pension system. Analysis so far has concentrated on private pensions, often assuming implicitly that state pensions are being retrenched in line with other forms of welfare. This article explores in more detail the extent to which the state pension system is being financialised: a process which strengthens financialisation at the individual level, but also serves to further the financialisation of the state itself – through state pension reform the state appears to be seeking to manage new or intensified financial risks, even if not actually spending less money. By filling in these gaps in the analysis of the financialisation of UK pensions, the article offers the literature on financialisation a detailed study of the transmission mechanisms of financialisation replete in a major area of social policy, leading to the suggestion that scholars should avoid treating financialisation as a sea-change in statecraft in the UK (irrespective of when this shift is deemed to have occurred). In highly complex areas such as pensions policy, financialisation has proceeded in a relatively piecemeal fashion, interacting with, and at different times, both constrained and enabled by, existing practive. As such, it is an uneven process, refracted by contemporaneous political circumstances (such as austerity). Indeed, policy-makers may *not* be motivated by advancing financialisation in any direct sense; rather, the process is evident in its effect in framing the nature of the problem ostensibly being addressed (such as population ageing).

Private pensions

Pensions provision in UK has largely been organised since the Second World War privately rather than through the state, and as such has exhibited a degree of financialisation for many years (see the contributions to Pemberton *et al*, 2006 for a historical analysis, particularly Pemberton, 2006. Bonoli, 2010 offers a history of UK pensions in comparative context). Traditionally, in the private sector, nationalised industries and local government, pensions were provided through collective investment funds. As these schemes matured, and their early members reached their full earnings potential, their size, and therefore capital market presence, led Gordon Clark (2000) to herald the age of 'pension fund capitalism'. Yet while these schemes were intimately connected to capital markets, the individual member did not experience them as such, because they offered guaranteed 'defined benefit' (DB) pensions. Backed by large, stable employers, and funded by healthy and stable investment returns, it was understandable that individuals understood these schemes as a form of wage-deferral rather than an investment. Indeed, individuals were often contractually obliged by their employer to join the pension scheme – personal responsibility for pensions saving had yet to come to pass. Insofar as there were risks, they were shouldered by employers.

Changes in corporate structures, and increasing competitive pressures from the global economy, are part of the reason for employers withdrawing from DB pension provision (although employers in formerly nationalised industries and local government have retained this form of provision – not necessarily by choice). But it is the advance of financialisation, which is of course associated with these trends, which offers a more coherent explanation. The financialisation of UK pensions provision is epitomised in the most direct sense by the emergence of 'defined contribution' (DC) pensions, and more significantly, their arrival into workplaces (see Langley, 2004; 2006). DC pensions are essentially individual investment products. They are sold directly to individuals, but also to employers on behalf of their staff in products known as 'group personal pensions'. Some DC pension schemes actually mimic the trust-based governance model of DB schemes, although investments are made on an individual rather than collective basis. Members' retirement income is dependent, firstly, on how successfully their investments perform, and secondly, the purchase of an annuity with their final pot at retirement (changes announced at Budget 2014, discussed further below, mean that DC savers will no longer be compelled to purchase an annuity at retirement – although it is likely that the vast majority of those automatically enrolled into a DC pension will do so). DC pensions therefore not only subject individuals to investment risks, but also involve making complex (and usually irreversible) financial decisions.

Finance sector deregulation had enabled direct sales of DC products to individuals and employers, but they were also given a fiscal boost by government. The earnings-related state pension will be discussed below, but it is worth noting here that individuals have traditionally been able to 'contract out' of this benefit if they have a DB pension – in return, both they and their employer would receive a National Insurance rebate. In 1988 the Thatcher government extended this privilege to DC pension schemes. So radical was this change – given the risks involved in DC pensions – that even some providers of DC pensions urged caution. The insurer Prudential (which has a large presence in the annuities market) sought to advise their prospective customers about the downside of these products, warning in a marketing brochure that 'if you are already a member of a company pension [that is, a DB scheme] or will soon become eligible to join one, you will probably feel it best to stay with your company scheme'. They were accused by the government of 'undermining pensions policy' (both cited in Morris and Palmer, 2011: 60).

Financialisation is replete, however, not simply in deregulatory activities but also new forms of regulation – and as such is directly implicated in the demise of DB, as well as the rise of DC. Beginning with the Statement of Standard Accounting Practice 24 (1988) and strengthened by Minimum Funding Requirement (1997), Financial Reporting Standard 17 (2000) and International Accounting Standard 19 (applied in the UK in 2005), the rules on governance and disclosure for DB pension funds have generally been tightened to ensure accurate market-value accounting of assets and, crucially, to ensure that the funding status of schemes is reported on sponsoring employers' balance sheets (Bridgen and Meyer, 2009: 598-599). Coupled with the triennial valuation cycle administered by the Pensions Regulator, DB schemes are under constant pressure to demonstrate their financial health in current terms, even though their principal liabilities may not fall due for many decades. The absence of an employer covenant or guaranteed retirement income for members means DC schemes need no such regulations – because DC schemes offer no guarantee regarding outcomes for retirement income.

Labour largely accepted this inheritance upon coming to office in 1997. In 1997, 34 per cent of private sector employees were members of DB schemes, compared to 12 per cent in DC schemes. By 2008, 14 per cent were in DB schemes, and 22 per cent in DC schemes. The overriding story, however, was that most private sector workers were not saving for a private pension at all, with the overall private sector scheme membership rate dropping from 46 per cent to 37 per cent over this period (Office for National Statistics, 2013b) – 'pension fund capitalism' in the UK was over before it had really even begun. Labour's solution was to expand access to DC pensions by compelling most employers to offer a 'stakeholder' pension (essentially a personal pension) to their staff. Employees had to make a conscious decision to 'opt in' to the new scheme. Charges that could be taken out of savings by providers were capped (conservatively) at 1 per cent – although the 'transaction costs' usually hidden in lower investment returns were overlooked – but employers themselves had no obligation to make contributions. The moniker 'stakeholder' is highly revealing, in that DC pensions were conceived not simply as a mechanism for increasing pensions saving, but also for creating a link between saving by individuals and investment in the wider economy (see Department of Social Security, 1998). Paul Langley's study of the individualisation of private pensions provision in the UK and the United States shows how promotional literature issued by governments during this period, such as guides to pensions saving, demonstrates the emphasis placed on personal responsibility, and presents the decision to save for a pension as an investment rather than a form of insurance (Langley, 2006; see also Watson, 2013). Ultimately, as the government quickly acknowledged, stakeholder pensions failed, in that a voluntaristic approach led to low take-up rates. Only around 5 per cent of private sector workers were in a stakeholder pension scheme by 2008 (although arguably the charge cap had helped to drive down charges in other forms of DC pensions). With individuals not saving for their own retirement, and the state pension continuing to lose value in real terms, eligibility for means-tested pensioner benefits was forecast to increase dramatically.

As expected, the Pensions Commission chaired by Adair Turner proposed a quasi-mandatory approach to pensions saving, through 'automatic enrolment' – the first of the two pensions policy revolutions discussed in this article. While a quasi-mandatory system appears at first sight to contradict the value placed on personal responsibility, Langley explains that '(neo)liberal government that targets the administration of conduct, individually and collectively, combines norms and juridical arrangements in a mutually interdependent relationship' (2006: 930-931). The commission was announced in 2002, and issued three reports between 2004 and 2006. The commission originally suggested that individuals were enrolled into state-run DC schemes known as 'personal accounts'. This was eventually eschewed by the government, in part due to the administrative challenge, but also the fear that a strong role for the state could create the sense of *guaranteed* investment returns – as in Sweden's 'notional' DC (NDC) additional state pension system. However, the Labour government partially accepted the argument that the pensions industry could not deliver affordable pensions products to the mass market, by establishing the National Employment Savings Trust (NEST), which ostensibly competes with a range of other providers for automatic enrolment business, but has a duty to provide a pension scheme to any employer (or self-employed person) – many providers deem small employers, for instance, as uneconomical clients. Importantly, the government accepted the commission's recommendation that employers should be compelled to contribute to their employees' pensions above a statutory minimum level.

The framing of the problem that the commission were trying to fix, however, is just as important as the solutions they (and the government) finally delivered. Why were individuals told they need to save more? The commission presented population ageing as its *raison d'etr*e, arguing that it had created 'unavoidable choices' in terms of saving more and working longer. Yet the reason population ageing created these dilemmas is the impact it would have on state provision: the commission argued that 'the state plans to provide decreasing support for many people in order to control expenditure in the face of an ageing population (2004: *x*), and '[l]ooking forward the state is planning to play a reduced role in pensions provision' (2005: 2)'. There was simply no such *plan* on the part of the state; indeed the commission's own analysis showed pension-related expenditure was expected to increase significantly in the coming decades, and their own proposals would have amplified this increase. The commission presents as a *fait accompli* the *expectation* that state provision would retreat in the face of population ageing, while at the same time recommending an expansion of certain forms of state support. Similarly, the commission accepted as given employers' unwillingness to shoulder the kind of risks that DB provision placed upon them. After a long discussion of an NDC alternative, the commission recommended that the new system of private pensions saving should consist of a pure DC pension scheme, for three reasons: the state's scarce resources should be focused on providing a basic income floor rather than matching the liabilities associated with DB or NDC; DC pensions would create an individual pot with identifiable pension wealth that would be less amenable to future political tinkering; and individualisation would provide people an opportunity to take on riskier investments should they wish to do so (2005: 172).

In taking forward the commission's plans for automatic enrolment, the Labour government emphasised the centrality of personal responsibility (the first of five 'tests of reform') to their agenda:

> We need to be clear that individuals must be responsible for their own plans for retirement. The reforms will ensure the provision of high-quality savings vehicles, and a solid state foundation to private savings. But the choice of how much to save, the level of risk to take with investments, and how long to work must be available to the individual. That provides the right balance of choice and support for individual responsibility (DWP, 2006: 22).

The white paper *Security in Retirement* made very little attempt to justify the choice of DC over DB for the new system (albeit in part because they had decided against a universal DC system, contra the commission's advice). They acknowledged that the rise of DC had been associated with a reduction in contribution rates, but argued this was not directly related to the DC model but rather the challenging circumstances in which it had emerged in the private sector. Indeed, DC pensions were lauded for their 'greater flexibility… [which] better matches the greater mobility in the labour market' (DWP, 2006: 34).

Of course, Labour was not in government long enough to see its plans come to fruition, although the necessary primary legislation had been passed by 2008. Yet despite the experience of financial crisis and the deep recession of 2008-2009, the coalition government largely accepted Labour's plans wholesale. Both the Conservatives and the Liberal Democrats has been supportive of automatic enrolment (and indeed Labour's plans for state pension reform, discussed below), having joined the cross-party chorus broadly welcoming the Pensions Commission proposals upon which Labour's plan was based. Only after the economic downturn began in 2008 did the Conservative leadership sound any significant notes of caution about the potential burden of automatic enrolment on business – although its public pronouncements were not matched by any substantive policy differences with the government (Bouchal and Norris, 2014: 13). A short pamphlet by Theresa May in 2010 promised a review of automatic enrolment legislation in this regard. This review took place incredibly quickly after the general election, reporting in October 2010, even though the Liberal Democrats had been handed the ministerial brief for pensions. The *Making Automatic Enrolment Work* review led to some alterations, including an extended timetable for the introduction of automatic enrolment and the minimum contribution rates, and the introduction of an 'earnings trigger' meaning those on very low pay would no longer be automatically enrolled (although many could still 'opt in' to pensions saving) – both changes designed to soften the impact of automatic enrolment on employers. The main story, however, is one of cross-party consensus on private pensions reform being maintained. The infamous review on employment regulation undertaken for the coalition government by Adrian Beecroft in 2011 had recommended that small employers be exempt from automatic enrolment duties altogether, or be granted the right to opt out. But as new pensions minister Steve Webb had already made clear when launching the *Making Automatic Enrolment Work* review, 'now is not the time for fiddling around the edges of polices, but for setting in process some real reform'. The reality of consensus was of course not always reflected in coalition rhetoric: despite his obvious debt to Labour's efforts in this area, Webb described the New Labour era as 'a decade of wild spending and unsustainable borrowing' and argued the coalition government's main pensions policy objective would be 'reinvent[ing] a culture of savings. A culture where people take responsibility for saving for their future' (Webb, 2010). Clearly, the government's thinking was fixed far more on instilling financialisation and individualisation within the pensions system than on untangling firms from the regulatory red tape that the new system created for employers. And they were comfortable linking this objective to their austerity agenda, despite the significant increase in expenditure that would result, and the fact that automatic enrolment originated during the boom years.

These messages have been reinforced by subsequent policy developments. Whereas previously policy had ostensibly been driven by the notion that population ageing created a need for individuals to save more privately, the *Reinvigorating Workplace Pensions* green paper (published in 2012) elevated 'under-saving' by individuals to one of the two reasons (alongside ageing) why the pensions system was in need of reform – despite the fact that the implementation of automatic enrolment had not even begun. The paper explained the government's motivation as the 'need to put in place the conditions to ensure that in the future… people are saving a sufficient amount for their retirement and take responsibility for doing so' (DWP, 2012: 9). The intimate role of the financial services industry in delivering this approach was underlined by the coalition government's plans for 'small pots', that is, the problem of individuals accruing a large number of relatively small (and uneconomical) pots of DC pensions saving as they move jobs, and are automatically enrolled in a different scheme by each new employer. Given the initial enrolment system is now based on inertia, individuals cannot be expected to pro-actively transfer their pot to a new scheme several times, as they change employer. Indeed, it may not be in their interests to do so, as their new employer's scheme may have higher charges than the one they are leaving behind. Yet the government has decided on a system of 'pot follows member' whereby individuals' savings are automatically transferred to the new employer's scheme (unless the individual opts out). The main alternative option was for the government to establish a state-run 'aggregator' (or use NEST for this purpose) into which all deferred savings would be invested.

It is understandable that the government opted against establishing a new public body to take responsibility for a significant portion (and perhaps even the majority) of all accumulated pensions saving in the future, but the 'pot follows member' approach represents, on top of automatic enrolment in general, another boon for pensions providers. The transaction costs – deemed 'unquantifiable' by DWP (2012: 18-19) – involved in pots entering and exiting schemes by default will be significant. Moreover, it means the vast majority of funds generated by automatic enrolment will remain privately managed, rather than millions of deferred pots being deposited in a state-run, or at least highly-regulated, aggregator scheme. The decision has to be seen in the context of the dominance of the automatic enrolment market by insurance companies. Group personal pensions (GPPs) offered directly to employers by insurers are now the most common form of workplace pension scheme. The trust-based governance structure which typified DB provision, and which the government's NEST scheme mimics for DC provision, is seen as an alternative to insurance-run schemes. But many insurers have in fact now established independent trusts – taking advantage of lax rules on the composition and appointment of trustee boards – in order to manage their automatic enrolment business. Legal and General, whose Pensions Strategy Director Adrian Boulding was part of the *Making Automatic Enrolment Work* review team, have pioneered this approach in recent years. While these schemes' trustees are legally responsible solely to the scheme members, invariably formal and informal arrangements relating to the creation of the scheme itself mean that the parent company's products and services in terms of scheme administration and investment management are favoured. Of course, even such outcomes may be considered preferable to GPPs, which are distinguished by the absence of even the principle of scheme governance independent of the provider.

The dual processes of proselytising financially responsible behaviour in conjunction with increased engagement with the financial sector typifies the wider financialisation process. It is worth reflecting on the fact that at every stage of the development of automatic enrolment and related policies the need to retrench state provision in the wake of population ageing has been emphasised by policy-makers, especially after the economic downturn and change of government. Yet as noted above automatic enrolment will cost £11 billion *more* than the current system in tax foregone due to pensions tax relief. This does not mean that the coalition government's austerity agenda is not relevant to recent developments in pensions policy – but it does require us to recast the meaning and intent of austerity in British politics. Austerity should be conceived as part of a wider agenda around reconfiguring the relationship between state and individual; the coalition government is content to commit additional public resources to welfare (although not necessarily content to publicise this fact) if it reinforces this agenda.

The decision to withdraw other forms of public support for saving might appear to contradict this argument. The government has of course maintained the tax-advantaged Independent Savings Account (ISA) introduced by the Labour government in 1999 (although ISAs were of course a repackaging of the Personal Equity Plan and Tax-Exempt Special Savings Account introduced by the Thatcher government). Yet they have abandoned the more novel instruments for incentivising saving introduced by Labour towards the end of its time in office, that is, the Child Trust Fund (CTF), noted above, and the Saving Gateway. Through the CTF, introduced in 2005, the government gave £250 to every child at birth, and a further £250 at age 7, generally for investment in low-cost and largely tax-free equity funds. For low-income families the amount was £500 at both stages. The entire fund could be transferred into an ISA at age 18 irrespective of ISA deposit limits. Through the Saving Gateway, which had been set for national roll-out in July 2010, the government would have given low-income individuals in receipt of certain means-tested 50p for every £1 they saved, up to a maximum of £25 per month, over a two-year period. Both schemes were intended to kick-start a habit of saving among those least inclined to save – young people and the poorest groups – but both were scrapped by the coalition government immediately upon taking office.

These developments are not, however, inconsistent with this article's argument about financialisation and pensions provision. Firstly, the schemes involve relatively small amounts of public expenditure. The CTF was described as a 'deception' by then Chief Secretary to the

Treasury David Laws (2010), arguing that the children in receipt of the government's contribution were not being made richer because those contributions were funded by government borrowing; which they would be responsible for servicing in the future. The 'emergency' budget of June 2010 described the Saving Gateway as 'not affordable given the need to reduce the deficit' (HM Treasury, 2010: 35). Yet the former saved the government only around £500 million per year, while the latter saved around £100 million per year – fairly meagre sums in comparison to the cost of automatic enrolment. These decisions allowed the government to demonstrate its commitment to austerity, without jeopardising the broader financialisation agenda.

Secondly, and crucially, we should not equate financialisation simply with requiring individuals to save more. Rather, it is about individuals taking responsibility for their own financial security. Indeed, this may mean saving *less*, not more, insofar as it involves taking on both mortgage and consumer debt, in order to participate in a consumption-led growth strategy dependent on the housing market (Hay, 2013). While automatic enrolment will, statistically speaking, *ceteris parabus*, increase the saving rate (that is, the proportion of current income saved rather than consumed), in an economic sense pensions are not a form of saving, rather deferred consumption. This rationale for automatic enrolment was stated boldly in the *Making Automatic Enrolment Work* report (DWP, 2010: 29). Private pensions saving therefore increases individual self-reliance in retirement, and offers the state an opportunity to partially retreat from a major form of welfare provision, to a far greater extent than general or short-term saving. As such, fiscal activism to support pensions saving is justifiable, far more so than support for other forms of saving.

Thirdly, because they are technically investment products rather than saving, private pensions create intimate links between individuals and the financial sector. The rise of DC pensions, in which the individual's retirement income is directly affected by investment returns (unlike DB pensions), reinforces this relationship. The same cannot be said about ISAs; even when they are invested rather than held as cash, there are strict limits on the amount that can be saved. General saving may even be a way to partially withdraw from participating in the wider financialised economy. At first sight, however, changes to the annuitisation process announced by the Chancellor at the budget in March 2014 appear to alter the role of financial service providers in the provision of DC pensions. The change essentially completes a process of reform initiated in 2011, and means that individuals in DC schemes no longer have to use their pensions saving to buy an annuity when they retire. Interestingly, the change was heralded by the coalition government as a liberation of individuals' own money, in that it removes the compulsion to hand their pot over, irreversibly, to an insurance company (HM Treasury, 2014). In this way, the notion of personal responsibility for one's own retirement security, which is central to financialisation, was reinforced, albeit seemingly at the expense of another feature of financialisation, the dependence on financial services – reminding us of Watson's (2009a) argument that financialisation strategies invariably contradict each other. Yet it must be noted that the vast majority of people will probably still buy annuities – because most people will be unable to manage the longevity risk by any other means – and most of those that do not will move their money into other financial products offered by insurers, notwithstanding concerns voiced by former Liberal Democrat cabinet minister Chris Huhne (2014) that the wealthiest savers will now invest instead in the buy-to-let housing market. Individual engagement with financial services may in fact become *more* intense. The change, which was broadly welcomed by Labour, was also controversial insofar as it appeared to undermine Steve Webb's plans for 'defined ambition' pensions, that is, schemes which contain elements of both DB and DC pensions. Indeed, plans for a new regulatory framework enabling DB-like 'collective' DC (CDC) schemes were announced by DWP alongside the Treasury's announcement on annuities, despite the fact that CDC schemes require an even greater degree of compulsion regarding decumulation than was already the case, not further deregulation (Berry, 2014). CDC schemes, popular in the Netherlands and Denmark, mimic pure DC schemes insofar as outcomes are dependent on investment returns rather than a formula related to working-age earnings, yet allow members to share investment risks within the scheme, including across generations, enabling riskier, but typically more efficient, investment strategies (Pitt-Watson and Mann, 2012). However, enabling CDC is not the same as mandating or even incentivising CDC, and it is likely that if CDC is introduced in the UK, it will be via the modification of existing DB schemes. Therefore, 'defined ambition' serves to facilitate further, albeit partial, individualisation of collective provision, rather than collectivisation of individualised provision.

The state pension system

The state pension system now in operation in the UK has undergone several major reforms in the last forty years – although none as big as the reform that will be introduced in April 2016, when a 'single-tier' state pension replaces the basic state pension (BSP) and earnings-related state second pension (S2P). This will essentially complete the state pension's reinvention as a platform for private saving. Again, while the reform can be broadly associated with the coalition government's austerity agenda, cutting pensioner expenditure is not the principal objective for reform, or even an important motivation. The starting rate of £144 per week (in 2012/13 terms) for the new benefit was carefully chosen to ensure that single-tier cost the same as the systems it was replacing for the foreseeable future (forecasting suggests it costs slightly less from the 2050s onwards), yet the coalition had already significantly increased the long-term cost of the current system by restoring earnings indexation for state pensions in payment. Crucially, single-tier means the entire state pension award will be uprated by earnings growth (at present, earnings-related state pensions in payment are uprated only by inflation). Current pensions minister Steve Webb in fact wants to make permanent the 'triple lock' of indexation by the higher of earnings growth, inflation or 2.5 per cent, but the earnings link alone will substantially increase the value of state pensions (and the triple lock has no impact on the public finances over the long term, because annual earnings growth is assumed to be above both inflation and 2.5 per cent in economic forecasts). We can see in the discrepancy between the apparent principle of cost-neutrality for single-tier, and the increased cost of state pension provision when the coalition's reforms are assessed as a whole, a highly revealing aspect of the coalition government's pursuit of financialisation within the context of austerity: it is prepared to commit greater public resources to ensure the viability of the reformed system, yet invariably is content to appear to be spending no more, or less, than on the system they inherited from Labour. The early adoption of earnings indexation by the coalition enabled it to be presented as a *fait accompli* when the costs of the single-tier reforms were later being considered. Nevertheless, by redefining the purpose of the state pension as enabling private retirement saving by individuals, the reform represents a subtle form of welfare retrenchment through which the state withdraws from any attempt to provide a genuine income-replacement benefit for pensioners, instead offering a framework within which individuals can become self-reliant –and quietly spending more in order to facilitate this framework.

The apparent radicalism of the coalition government's plan necessitates a brief look at the recent history of state pensions in the UK. In 1978, the Labour government established the state earnings-related pension scheme (SERPS). Ostensibly a top-up to the BSP, SERPS was essentially a state-run DB pension scheme in which outcomes were based on the *amount* of National Insurance paid by individuals each year (in contrast to simply the *number* of years spent paying National Insurance). As such, SERPS is best conceived as part of the story of

DB decline in the private sector, rather than a straightforward attempt to improve the state pension – as it used the government's balance-sheet to extend DB pensions to workers for whom private sector provision was becoming increasingly inaccessible. It is hard to see SERPS as anything other than the zenith of both DB and state pension provision. The Thatcher government cut the SERPS accrual rate as soon as it entered power in 1979, and in 1980 it infamously indexed the BSP to inflation rather than earnings increases. Moreover, as noted earlier, it allowed DC pensions to be used for 'contracting out'. A key element of SERPS was that individuals that already had good DB provision in the private sector (and the employer providing the scheme) could pay lower National Insurance contributions in return for forgoing access to SERPS – the Thatcher government also allowed DC pensions to be used for this purpose, thereby providing a major fiscal boost to individualised private pensions provision.

Of course, as demonstrated above, the rise of DC did not match the decline of DB, and pensioner poverty was becoming an endemic public policy problem. As such, at around the same time as implementing its stakeholder pensions programme to improve access to private pensions, the Blair government also hugely increased the means-tested support available to the poorest pensioners by introducing Pension Credit, set at a level designed to lift pensioner households out of poverty, and rising each year with earnings. The Labour government was consistently criticised for not restoring earnings indexation to BSP (especially when its apparent success in controlling inflation produced a rise in weekly payment of just 75 pence in 1999), but in addition to introducing Pension Credit, Labour also replaced SERPS with the state second pension (S2P). This move broadened access to the earnings-related state pension, including to those making contributions to society other than through paid employment, and improved outcomes for low earners (at the same time as, in general, making the benefit less generous).

For the most part, the Labour government's state pension record is one characterised by a continuing decline in the real value of the state pension for most people, albeit with additional support for the poorest groups (both current and future pensioners). The picture is not quite this straightforward (as discussed below), but the basic infrastructure of the state pension system remained intact until the coalition government took office. The 'single-tier' state pension represents a radical change in that it discontinues the accrual of S2P, and abolishes the associated contracting out arrangements. The flat-rate pension will be set above the level of the minimum income guarantee in Pension Credit, significantly scaling back the extent of means-testing in pensioner benefits. The new benefit also individualises the state pension system, by removing all entitlements based on marriage or civil partnership. The 2012 white paper which confirmed the government's decision was explicit on the rationale for change:

> The implementation of the single-tier pension will fundamentally reshape the state pension system. It is designed around modern society, with a clearly defined function: to provide a foundation to support people saving for retirement (DWP, 2013a: 27).

Interestingly, the 2011 green paper had identified the Universal Credit reforms as a model that pensions policy would seek to replicate, albeit by incentivising saving rather than work:

> This Government is taking forward radical reform to simplify the welfare system and ensure that work pays through the introduction of Universal Credit. We are now interested in looking at options for delivering a simpler and fairer state pension which rewards those who do the right thing and save for their retirement and is sustainable for future generations (DWP, 2011: 7).

Simplicity was listed in the green paper as the third of four principles underpinning state pension reform, with simplification ensuring ‘that it is easier for people to plan and save for their retirement’. The first principle, however, was ‘personal responsibility’ (the second and fourth were, respectively, fairness and affordability): individuals had to be enabled to ‘take responsibility for their retirement aspirations in the context of increased longevity’. The document further explained that ‘[p]ersonal responsibility is only possible if working people feel they will be rewarded for doing the right thing’ (DWP, 2011: 7-8). Crucially, Steve Webb’s foreword to the green paper suggested that simplification, fairness and affordability were not ends in themselves, but rather means for delivering the first principle:

> We want to support people to take more responsibility in saving for their retirement. We cannot realise that vision without making sure that the foundation of that saving is simple to understand, fair, and fiscally sustainable in the long term (cited in DWP, 2011: 5).

As suggested above, the notion of fiscal sustainability houses a very complex arrangement whereby the higher costs of the new system are shielded from view by the emphasis being placed on the transformed state/individual relationship that will be created by the system – the austerity agenda is therefore simultaneously both overlooked, in a direct sense, but also quintessentially legitimated. In this way, single-tier advances the financialisation of the state, by offering a revised, and narrower, demarcation of its responsibilities in terms of our financial circumstances in retirement, irrespective of the cost implications. The state pension will of course not be delivered by private financial institutions or subject to financial market disciplines, but the single-tier reforms are also consistent with the more expansive definition of financialisation offered here. Receipt of the state pension is recast as enabling – or even rewarding – prudent financial behaviour, rather than a product of entitlement.

The main pensions industry bodies have been strongly supportive of the single-tier state pension, despite the cessation of subsidies associated with contracting out, and despite the fact that they had previously been supportive of the changes made by the Labour government that have now been swept away. For instance, the National Association of Pension Funds (NAPF) declared themselves 'extremely supportive', arguing that 'the State Pension [sic.] system has a key role to play in providing an adequate retirement income for pensioners and in providing a solid foundation on which to base private pension saving' (NAPF, 2011: 4). The Association of British Insurers concurred (see House of Commons Work and Pensions Committee, 2013). Interestingly, research by Traute Meyer and Paul Bridgen (2012) found that the reason these bodies had generally supported Labour's efforts to improve state pension outcomes for low earners, even if this appeared to reduce dependence on private pensions, was that it would also reduce regulatory scrutiny of the market they operated in. We might be seeing a similar phenomenon now, with the pensions industry aware that as long as the state is lifting virtually all pensioners out of poverty, there will be little need to seriously interrogate the performance of the private pensions marketplace. Clearly, the relationship between policy-makers and industry bodies in relation to state pension reform is an area where further research would be illuminating.

It should be noted that, while Labour did not remove the earnings-related state pension – in fact, by introducing S2P they arguably sought to entrench it further – the reinvention of the state pension as primarily a platform for private saving had already begun under the Blair and Brown governments. Two key developments illustrate this: firstly, Pension Credit encompassed not only a minimum income guarantee but also the Saving Credit, which meant people with small amounts of private pensions income above the state pension received a larger top-up. More importantly, and secondly, the Pensions Commission had strongly considered the merits of a single-tier pension, but concluded that the messy legacy of contracting out meant that a single benefit, if rapidly introduced, would actually further complicate the state pension system. Instead, they recommended flattening accrual of S2P (therefore diluting its earnings-related element), so that in tandem the two state pension benefits would over time produce a flat-rate benefit. The Labour government accepted this proposal: its 2006 white paper on automatic enrolment and personal accounts therefore also introduced reforms to the state pension. The reforms were justified in a similar vein to the single-tier approach:

> [I]n order to make the system of personal accounts effective, we will provide a solid foundation on which people can save. To achieve this, we will reform state pensions so that they are simpler and more generous (DWP, 2006: 17).

The coalition government's 2013 white paper claims the mantle of William Beveridge, whose ideas spawned the UK social insurance system after the Second World War. It is indeed correct that Beveridge imagined the social insurance-based state pension as a foundation amount which could be supplemented by private saving. Yet the coalition government has made very little reference to the *principle* of social insurance in outlining its plans for the single-tier state pension. The state pension system is seemingly no longer deemed a collective enterprise administered by the state, but rather emblematic of a transactional relationship between state and individual in which the state takes responsibility for preventing poverty, in return for individuals taking responsibility for everything else. As such, Beveridge's legacy has only been partially appropriated, despite the fact that the social insurance-style funding mechanism has been retained, and that single-tier arguably returns to

Beveridge's original vision for social insurance, at least in contrast to the funding arrangements related to the earnings-related state pension established by Labour in the 1970s, and the means-tested pensioner benefits augmented by the Conservatives in the 1980s. Interestingly, an annex to the white paper on the history of the state pension makes no reference to how Beveridge's basic state pension was funded. The underlying rationale for the single-tier pension is probably closer, therefore, to that of the means-tested Pension Credit benefit it seeks to abolish, and indeed the UK's first state pension, the means-tested 'old age pension' introduced a century earlier in 1909.

But giving virtually everybody a flat-rate state pension of £144 per week leads to some highly complex, and in some cases perverse, distributional consequences. The single-tier pension offers a much larger state pension to some groups, particularly the lowest paid or those with limited employment records. They would of course have been entitled to Pension Credit in retirement, but pensioner couples receive a lower joint rate of Pension Credit (the single-tier pension has only individual rates), and the benefit has suffered from relatively low take-up. However, the single-tier pension also offers more to some among those that need it the least, that is, those currently not accruing an earnings-related state pension because they have 'contracted out' due to membership of a good occupational pension scheme (usually in the public sector). At the same time, single-tier initially offers a much lower state pension to those retiring several decades from now who could have expected to be 'contracted in' to S2P for a significant portion of their career. But this group is itself quite diverse, given the patchy nature of occupational pension provision in the private sector, and, furthermore, the fact that their full state pension award will be uprated by at least the rise in average earnings (currently, S2P and its predecessor benefits are only uprated once in payment by inflation) means the losses experienced by this group should not be exaggerated (see Institute for Fiscal Studies, 2013 for a more complete distributional analysis). It should be noted, finally, that means-tested benefits will remain a significant feature of pensioner benefits. The guarantee element of Pension Credit will remain for those not in receipt of a full single-tier pension, and many pensioners without significant amounts of private saving will remain entitled to means-tested benefits such as Housing Benefit and Council Tax Benefit. This is a crucial caveat, which serves to illuminate the government's intent: the *impression* that the state pension creates a firm and simplified savings platform, beyond means-testing, is apparently more important than whether such a platform exists *in actuality*.

It should be noted, finally, that the coalition government is also increasing the age at which individuals become entitled to the state pension. The Labour government had already implemented the Pensions Commission's recommendation to raise state pension age to 66 by 2026, 67 by 2036, and 68 by 2046 (with the Major government having already legislated to equalise male and female state pension ages at 65 in 2020, at the behest of the European Union). The coalition government has brought forward the increase to 66 to 2020 (therefore accelerating the equalisation timetable), and plans to bring forward the increase to 67 to 2028, and the increase to 68 to 2036. Clearly, such changes are associated with increasing longevity, but it is not clear that they can or should be seen as constitutive elements of state pension reform more generally. They represent a response by the state to the increased welfare costs associated with population ageing, but do they represent welfare *retrenchment*? In other words, they may represent austerity, conventionally understood, but it is not clear that changes to state pension age represent financialisation. Increasing state pension age does not in itself rewrite the relationship between state and individual, it simply makes the system slightly less generous in terms of lifetime benefit receipt – set against the backdrop of the vast majority of people receiving more in state pension benefits over the course of their retirement than they might have expected at the start of their working lives. Arguably, increasing state pension age has been necessary to fund the additional expenditure represented by restoring earnings indexation, or indeed the cost of automatic enrolment – but it is clearly not integral to the structure of the new benefit. The government's decisions on state pension age appear to have been quite *ad hoc* rather than strategic.

Conclusion

This article has argued that the two apparent revolutions in pensions policy now underway represent the financialisation of UK pensions provision, not solely in terms of the reorientation of individual behaviour and aspirations, but also through the role of pensions policy in facilitating new financial markets, and epitomising the financialisation of the state itself. The financialisation of UK pensions provision was evident under the New Labour government, which legislated to introduce automatic enrolment into private pensions, and began to characterise its state pension reforms as the development of a platform for private pensions saving (and indeed initiated under the Thatcher government). Although it has not been expressed in these terms, there has been a longstanding commitment to the financialisation of welfare provision among the main political parties in the UK, which helps to explain the continuity in pensions policy – despite the financial crisis and severe economic downturn, and the potential contradiction between the increased costs of financialised pensions provision in practice, and the coalition's austerity agenda.

The article invites us not to dismiss austerity, however, but rather to recast it as part of the wider financialisation agenda. The government seems content to marshal the imagery of austerity in order to justify increased expenditure on pensions, and in doing so calls upon the powerful image of an ageing society, which of course was a notable feature of public discourse on pensions policy before the financial crisis. The existing literature on financialisation and pensions in the UK has not afforded a central role to ageing in analysis, despite its consistent invocation by policy-makers. This article has not sought to interrogate the strength of the influence of population ageing on policy development, or indeed to gauge the sincerity of policy-makers' references to this trend, yet has sought to bring apparent concerns about ageing into analysis of financialisation more centrally, given the particular relevance of population ageing to pensions provision. Clearly, policy-makers' understanding of ageing (and austerity) is an area where further research is required. The role of both the media (in reproducing political narratives related to financialisation, austerity and ageing) and the private pensions industry (in lobbying for particular reforms) also stand out as areas where further research would be welcome. What is important, however, is that future analysis of financialisation recognises the piecemeal and often uneven process by which financialisation is advanced in major areas of social policy. The process is invariably shaped by traditional practices and extant political circumstances, and the impact of financialisation on public policy is probably best conceived in terms of its effect in framing the nature of the problem which policy is ostensibly addressing – in this case, an under-saving crisis in the context of population ageing, the severity of which was underlined by the impact of the financial crisis and recession on the state.

Acknowledgements

The author is extremely grateful to Adam White and Richard Berry for comments on an earlier draft of this article, and to three anonymous reviewers for generous comments and many thoughtful suggestions, although the usual disclaimers apply.

Notes

1. Earnings indexation immediately added more than £400 million to the annual cost of the basic state pension. In practice this extra spending has *not* materialised due to sluggish earnings growth, but over the long term we can expect the additional spending resulting from

earnings indexation to grow significantly as earnings growth typically outpaces inflation (especially inflation measured in CPI terms), and earnings indexation will from 2016 apply to the whole state pension award under the 'single tier' system (as discussed in the second section).

Word count (including notes)

10,062

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