Report of the Committee on the Economic and Financial Problems of the Provision for Old Age

Presented by the Chancellor of the Exchequer to Parliament
by Command of Her Majesty
December, 1954

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HER MAJESTY'S STATIONERY OFFICE
FOUR SHILLINGS NET

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* Sir Cuthbert Clegg retired from the Committee in July, 1954, for health reasons, and was subsequently replaced by Mr. Ross.

NOTE.—The estimated cost of preparing and publishing this Report is £2,067 12*s*. 5*d*. of which £797 represents the estimated cost of printing and publication.

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The Rt. Hon. R. A. BUTLER, C.H., M.P.,
Chancellor of the Exchequer.

INTRODUCTION

SIR,

1. We were appointed in July, 1953, with the following terms of reference :—

"To review the economic and financial problems involved in providing for old age, having regard to the prospective increase in the numbers of the aged, and to make recommendations."

2. We have held meetings on 35 days, on 18 of which we have heard oral evidence. At the outset of our Enquiry we issued an open invitation by notice in the press to all individuals or organisations who might wish to submit written representations and also addressed express invitations to submit evidence to those organisations known to be particularly concerned with matters within our terms of reference. At our request we have been provided with memoranda by the various Government Departments concerned and by the Government Actuary and these have been supplemented, where necessary, by oral evidence. A list of individuals and organisations who submitted evidence appears in Appendix I.

3. We wish to express our thanks for the ready assistance we have received from all quarters. In particular we should like to record our indebtedness to the members of the actuarial profession who co-operated in the special enquiry into the statistics of privately administered pension funds undertaken on our behalf by the Institute of Actuaries and by the Faculty of Actuaries in Scotland. The figures made available to us as a result of this investigation have been most valuable and gave us a much clearer picture of the extent and nature of superannuation schemes than has hitherto been available.

Membership

4. We greatly regret that Sir Cuthbert Clegg was obliged to resign from the Committee for health reasons. His place was taken subsequently by Mr. James Ross.

Scope of the Report

5. The subject of our Enquiry has been the economic and financial problems which arise from the prospect of a steady and substantial increase in the number of old persons as against a working population remaining roughly constant. Primarily, these problems are concerned with the provision of income for the old, not only under the schemes of National Insurance and National Assistance but also under occupational pension schemes and other forms of private provision. Although we have devoted most of our attention to this aspect, we have also considered certain services which are needed or are used by old people, such as hospital treatment, residential accommodation and domiciliary services. The old are not the only

people who need or use these services but they claim a large, and in some respects specialised share, and the scale of provision will be influenced by the increasing numbers of old people in the population.

6. We recognize, however, that the implications of the increase in the numbers of old people are of the highest importance, not only with regard to the effect on the national economy, but also for the individual. The increasing number of old people raises many human and social problems which, though not within our terms of reference, will require urgent consideration if our society is to meet the future with confidence.

7. Under the present National Insurance Scheme retirement pensions are available to men over 65 and women over 60. For the purposes of this Report we have defined " old age " as the period after the present minimum pension ages are reached. It does not follow from this, however, that we consider all people in these age groups to be " old " in the sense that their working life is at an end or, still less, that these minimum pension ages represent the limit of physical capacity to lead a useful and independent life. Indeed, the extent to which the old play, and should continue to play, a full part in the life of the community has been one of the most important questions which we have had to consider.

8. Our terms of reference are concerned with the economic and financial problems arising from the changing age-structure of the population. After surveying the present provision for old age we have therefore concentrated on future developments. We consider that the specific level of provision for individuals, whether by way of benefit rates or national assistance scales, as well as the standard of other services for the old, fall outside our terms of reference. There is independent and statutory machinery for reviewing the detailed administration of national insurance and of national assistance and we have not, therefore, dealt with questions of this kind.

9. The Government Actuary's Quinquennial Review of the operation of the National Insurance Act has been proceeding at the same time as our own examination of the wider economic and financial problems involved in the provision for old age. Certain aspects of some of the problems remitted to us are being considered by other Committees. The National Advisory Committee on the Employment of Older Men and Women has been set up to advise and assist the Minister of Labour and National Service in promoting the employment of older workers. The cost of the Health Service is now being examined by the Guillebaud Committee. The terms of reference of these Committees are clearly defined and effective liaison arrangements have ensured that overlapping has not taken place.

Outline of the Report

10. The subject with which we have had to deal is necessarily complex and has required the assembly of much technical detail. We have sought, therefore, to concentrate in our Report on the main general issues and to include such supporting detail as is necessary in Appendices. The Report opens with a brief account of the existing provision for old age. This is followed by discussion of the changes in population which are expected to take place, and the general economic and financial problems to which these changes will give rise. In succeeding Sections we consider in detail the problems of the various types of provision: national insurance retirement pensions, occupational pension schemes, and the other services needed for the well-being of the old.

SECTION I

SURVEY OF EXISTING PROVISION FOR OLD PEOPLE

Historical Summary

The Position at the Opening of the Century

11. Until the opening years of this century provision for old age was regarded as primarily a matter for the individual and his relatives. There were well-established institutions through which the individual could save for old age—friendly societies, savings banks, and insurance offices, but it was for the individual himself to make use of these. Charity, or, as a last resort, the locally administered Poor Law, relieved distress only if individual and family provision failed. Relief under the Poor Law included both cash and kind, as might be thought appropriate, and accommodation in Poor Law institutions for both the sick and the able-bodied. Relief was subject to a searching test of means (including possible support from relatives) and involved loss of both legal and social status.

The Break-up of the Poor Law

12. *Cash provision.* The Old Age Pensions Act, 1908, introduced a non-contributory pension of 5s. a week (raised to 10s. a week in 1920) for men and women at age 70. This pension was subject to tests of means and nationality, and its receipt did not involve Poor Law disqualifications. The cost was borne by the Exchequer. Contributory schemes of insurance against ill-health and unemployment were introduced by the National Insurance Act, 1911. The contributory principle was applied to pensions by the Widows', Orphans' and Old Age Contributory Pensions Act, 1925. Under this Act a contributory pension of 10s. a week was payable to both men and women from the age of 65. Pension from age 70 remained technically non-contributory, but the means and nationality tests were not applied if there had been title to a contributory pension up to that age. In 1937 the so-called "Black-Coated Workers' Scheme" (The Widows', Orphans' and Old Age Contributory Pensions (Voluntary Contributors) Act, 1937) offered voluntary admission on special terms to people who had not previously been within the scope of compulsory pensions insurance. The Old Age and Widows' Pensions Act, 1940, reduced to 60 the age at which a woman could qualify for the contributory pension. This was done partly on the ground that wives, who were on average some four years younger, should qualify for pension at the same time as their husbands ; and partly as a concession to single women.

13. The provisions of the Acts of 1908 and 1925 led to a substantial reduction in the number of old persons seeking relief from the Poor Law, but until 1940 this remained the only recourse of those old people who were unable to live on their pensions and any other resources they might have. In that year, however, the Old Age and Widows' Pensions Act empowered the Assistance Board (a statutory national authority previously concerned with unemployment assistance) to pay supplementary pensions, subject to a test of need, to contributory and non-contributory old age pensioners. The cost was borne by the Exchequer. Nearly one million pensioners sought and obtained supplementary pensions from the Board whereas less than half that number of old age pensioners had been receiving outdoor relief under the Poor Law immediately before the introduction of this measure. In 1942 the Beveridge Report proposed a comprehensive contributory insurance scheme, of which retirement pensions for the old would form a part. The National Insurance Act, 1946, set up the present National Insurance Scheme, which includes retirement pensions. Payment of these

pensions began in October, 1946. The National Assistance Act, 1948, completed the break-up of the Poor Law by creating a national system of cash allowances administered by the National Assistance Board, which was available to everybody in need and took the place of outdoor relief and supplementary pensions for all situations in which the need could be met by money.

14. *Hospital and other accommodation for those in need.* For the greater part of the past half-century the provision of hospitals has been shared between voluntary organisations which owe their origin to charitable enterprise, and Local Authorities whose powers to provide hospitals were derived in part from specific statutes relating to the public health and in part from the Poor Law provision of accommodation for the sick poor in hospitals and in workhouses. The Local Government Acts, 1929, abolished the Boards of Guardians* who had hitherto been responsible for the management of the Poor Law Hospitals and transferred the control of these to local authorities. The same Acts empowered Local Authorities to convert these institutions into Public General Hospitals. The cost of these developments was met from local rates assisted by a block grant from the Exchequer. As part of the National Health Service which was introduced in 1948, hospital treatment was provided on a national basis and financed by the Exchequer.

15. Responsibility for providing accommodation for old people in need of it also passed, under the 1929 Act, to the larger Local Authorities, acting through their Public Assistance Committees. Local Authority responsibility for this form of provision was continued under the National Assistance Act, 1948, although the type of accommodation provided and the conditions on which it is available underwent considerable changes.

Occupational Pensions and Private Provision

16. Alongside this advance in the provision for the old made by the central or local government, there have been important developments in the provision which people either make for themselves through private insurance, or which, in the form of pension schemes, is made in connection with employment. An occupational pension scheme for the Civil Service had been in existence since 1834 and there were other public schemes of very long standing, such as the arrangements for retired pay in the armed forces. After the first world war there was a considerable extension of superannuation schemes in the field of public and semi-public employments. A comprehensive scheme for teachers was first introduced in 1918 ; statutory provision for pensions for the Police was made in 1921, and for the Fire Services in 1925. A series of measures beginning in 1922, and culminating in the Local Government Superannuation Acts of 1937 and 1953 provided superannuation benefits for Local Government employees.

17. Pension schemes have also been introduced in a wide range of general commercial and industrial employments, including public utility undertakings such as gas, electricity, and transport, and in other institutions. This development has been rapid in recent years and has been encouraged by the favourable treatment given to such arrangements under the Income Tax Acts.

18. Provision for an individual's old age by means of private insurance contracts—e.g., endowment assurance—has also increased greatly as the century has advanced.

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* Parish Councils in Scotland.

The Present Position in Outline

National Insurance Retirement Pensions

19. The retirement pension paid under the National Insurance Scheme is the basic provision for old age. Under the Scheme, weekly contributions are payable by all insured persons and, if they are employed, by their employers. Pensions are available to all classes of contributors—employed, self-employed and non-employed. More than 21 million persons are now contributing for retirement pensions for themselves and their wives; a total of over 30 million persons. At present, the standard weekly rate of pension is 32s. 6d. for a single person and 54s. for a married couple and pension may be claimed on reaching the minimum pension age of 65 (or 60 in the case of a woman). It is paid only to persons who have retired from regular employment and a higher rate may be earned if retirement is deferred. To qualify for retirement pension, a person must normally have paid 156 contributions; to secure a pension at the standard rate he must also have an annual average of at least 50 contributions paid or credited (e.g., for weeks of sickness or unemployment) over insurance life. A lower average gives a lower rate of pension, and if the average is below 13 no pension is payable.

20. Receipt of pension is conditional on retirement from " regular employment ". The question whether or not a person has retired is one of fact and is determined by independent statutory authorities. Persons reaching age 70 (65 for women) are treated as retired whether or not they have given up work. If a pensioner under those ages does some work, his pension is reduced by 1s. for every shilling earned over 40s. a week; if weekly earnings are 72s. 6d. or more no pension is payable. The earnings taken into account are net earnings, after deduction of income tax and reasonable expenses in connection with the employment; superannuation or investment income are not treated as earnings.

21. Single women draw the standard rate of 32s. 6d. on the same conditions as men. A wife may qualify on her husband's insurance for her own retirement pension when her husband retires, if she is over age 60 and has herself retired. The standard rate of her pension is then 21s. 6d. whilst her husband is alive; at his death it is raised to 32s. 6d. Where the wife is under the age of 60 when her husband retires, he may draw a dependency increase of 21s. 6d. with his pension if she is residing with him or is being maintained by him and her earnings, if any, do not exceed 40s. a week. A pensioner may also draw increases in respect of any dependent children. On marriage a woman can choose whether to be insured on her own account or to rely on her husband's insurance. If a married woman relies on her husband's insurance her right to a pension will depend on her husband retiring as well as herself; but if she has been a regular contributor on her own account, she is entitled to a retirement pension at the same rate as the single woman and under similar conditions.

22. Persons who do not retire at the minimum pension ages but continue at work—and pay contributions—can earn higher pensions. Increments are payable in respect of the number of contributions paid while working after minimum pension age until age 70 (65 for women), when retirement pension is payable whether or not the claimant has retired from work. For every 25 such contributions paid before July, 1951, an extra 1s. is added and for every 25 paid after that date, 1s. 6d. is added to the weekly pension. The married man earning increments on his own account, whose wife is aged 60 or over and has retired, can also earn increments on her pension on his insurance. The effect of these arrangements is that a person reaching age 65 (60 for women) can earn a maximum of 10 increments (two for each year that

he continues at work) and so add 15s. to the standard rate of 32s. 6d., making a total pension of 47s. 6d. A married man can increase his wife's pension on his insurance by a maximum of 10s., providing a rate of 31s. 6d.: the combined maximum pension rate for a married couple would therefore be 79s. If the husband dies before his wife and she is receiving a pension on his insurance, her whole pension, including any increments he has earned for her, is revalued at the single person's rate, making a maximum pension of 47s. 6d.

23. The estimated total number of persons over the minimum pension ages in Great Britain at 31st December, 1953, was 6,934,000. Of these, 4,310,000, or about two-thirds, were receiving retirement pensions either on their own insurance or, in the case of wives and widows, on the husband's insurance. Retirement pensions paid under the National Insurance Acts in the financial year 1953-54 amounted to £334 million.

24. The following Table shows the distribution of these pensioners:—

TABLE I

NATIONAL INSURANCE RETIREMENT PENSIONERS

31ST DECEMBER, 1953

Thousands

	Men 65–69 Women 60–64	Men 70 and over Women 65 and over	Total
Men*	419	1,014	1,433
Women on own insurance	338	609	947
Wives on husband's insurance ...	123	602	725
Widows on husband's insurance ...	161	1,044	1,205
Totals	1,041	3,269	4,310

* About 75,000 of these pensioners were, in addition, receiving increases in respect of a dependent wife under 60.

25. The year 1953 was the first in which it became possible for persons reaching the age of 70 (65 for women) to have earned the full number of ten increments. The maximum rate of pension, however, is not yet payable because increments earned by contributions paid before July, 1951, were at a lower rate. Owing to deferred retirement approximately half the pensions being awarded to men in 1953 exceeded the standard rate of 32s. 6d. The same was true of three out of ten pensions awarded to women on their own insurance. The average number of increments earned by those who deferred retirement was six.*

Non-Contributory Old Age Pensions

26. Non-contributory old age pensions are now administered by the National Assistance Board. They are subject to a test of means and at present the maximum rate of pension is 26s. for a man or single woman, and 16s. for a married woman. In the future, apart from special provision for blind persons, these pensions will be replaced by retirement pensions payable under the National Insurance Scheme, and by national assistance. Section 74 of the National Insurance Act, 1946, provides that no new non-contributory pensions will be granted after October, 1961, except to people who have on that date already reached the age of 70, and to the blind.

27. The normal qualifying age for a non-contributory old age pension is 70 for both men and women, but blind persons can qualify at the age of 40. There are certain conditions relating to nationality and residence:

* Report of the Ministry of Pensions and National Insurance for the Year 1953. Cmd. 9159.

only persons who have been British subjects for at least 10 years are eligible, and they must have been resident in the United Kingdom for 12 years since reaching the age of 50 in the case of a British-born subject, and 20 years in all in the case of a naturalised British subject. The main condition, however, relates to means; a single person with means which do not exceed £26 5s. a year, after deducting up to £39 of any means other than earnings, will receive pension at the full rate of 26s. a week. A married couple draw the full rates of 26s. for the husband and 16s. for the wife if their means do not exceed £52 10s. after deducting up to £78 of any means other than earnings. Where means, after the appropriate deductions, exceed £89 5s. in the case of a single person and £178 10s. in the case of a married couple, pensions are not payable.

28. Capital is taken into account as yielding 5 per cent. or 10 per cent. according to the amount. The effect of the general procedure of assessing pensions is that pensions are payable at the full rates unless capital exceeds £865 in the case of a single person, or £1,730 in the case of a married couple, provided that there are no other resources. Reduced rates may be payable to persons with capital up to £1,495 (£2,990 in the case of a married couple). It was estimated in 1949 that, excluding the value of owner-occupied houses, the total capital owned by non-contributory old age pensioners and their wives was over £75 million.

29. In November, 1953, about 345,000 non-contributory old age pensions were in payment, and it is expected that the number will have fallen to 50,000 by 1971. The current cost is just under £20 million a year.

National Assistance

30. It is the duty of the National Assistance Board to assist all persons in Great Britain who are without resources to meet their requirements, or whose resources must be supplemented to meet their requirements. In the majority of cases in which assistance is paid to old people it supplements either retirement pensions or non-contributory old age pensions, but some old people are entirely dependent upon it.

31. The amount of national assistance payable is determined by reference to the applicant's " needs ". When assessing the amount of national assistance, the Board take into account the applicant's resources and make a payment to bring his income up to the current scale rate of 35s. for a single person or 59s. in the case of a married couple. The Board provide for rent separately; the amount is left almost at large and varies greatly in practice, but the average rent (including rates) paid by old people receiving assistance is about 10s. a week. The Board also have power to make discretionary payments in respect of special needs, and nearly half the allowances to old people carry an increase of this kind.

32. When assessing the applicant's resources the Board is precluded from taking into account the resources of any member of the person's household other than those of the wife (or husband) and of any dependants, normally only children under 16, for whom provision must be made in the allowance. Where there is a non-dependent member of the household, for example, a son or daughter in work, the Board assume a contribution of not more than 7s. a week. There are special provisions for the treatment of certain resources:—

(i) *Capital.* The Board disregard capital of less than £75; capital over £400 is taken into account in full. Between these limits the weekly assessment is adjusted by a sum dependent, not on the income actually received, but on the amount of capital. The value of a house owned by the applicant in which he lives, and war savings up to a maximum of £375, are disregarded.

(ii) *Superannuation payments and charitable gifts.* The Board have power to disregard certain resources up to an aggregate of £1 a week. Among these resources are the first 10s. 6d. of any superannuation payment or sickness payment from a friendly society, or of a charitable gift.

(iii) *Disability pensions.* War disablement pension, workmen's compensation, and disablement benefit under the National Insurance (Industrial Injuries) Acts, are disregarded up to £1 a week.

(iv) *Earnings.* Old people are allowed the benefit of the first £1 a week of earnings before their assessment is affected.

33. In November, 1953, provision was being made through assistance allowances for 1,400,000 old people, of whom over half a million were women over 65. Of the total for whom provision was being made, over one million were retirement pensioners, i.e. about one-quarter of the number of such pensioners, and about 160,000 were non-contributory old age pensioners, i.e. about one-half the number of such pensioners. The others were drawing no pensions under either of the two state schemes. Current expenditure on assistance for old people is about £50 million a year. The extent to which national assistance provides for old people is shown in the Table below.

TABLE II
NATIONAL ASSISTANCE GRANTS
NOVEMBER, 1953

	Total number of old persons in Great Britain	Number provided for through assistance	Percentage provided for through assistance	Average weekly amount of assistance paid (including rent)
	(Thousands)	(Thousands)		s. d.
National insurance retirement pensioners (including wives over 60)	4,310	1,110	26	14 3
Non-contributory old age pensioners (including wives over 60)	345	162	47	18 6
Other old persons	2,280	128	6	37 10
Totals	6,935	1,400	20	

National Health Service

34. The services provided under the National Health Service are available to all and are not conditional on any insurance qualification. At present the gross cost of the National Health Service is over £500 million a year and is financed mainly by the Exchequer, assisted by a payment of £40 million from the National Insurance Fund, and to a small extent, by local rates.

35. The services which are wholly financed by the Exchequer consist of :—

(*a*) Hospital, specialist and ancillary services ;

(*b*) General practitioner services, covering general medical service, general dental service, pharmaceutical service and the supplementary ophthalmic service.

Charges are payable by patients in respect of certain of these services.

36. *Hospital, Specialist, and Ancillary Services.* These services afford hospital treatment, normally without charge to the patient, and are used by old people in common with the rest of the population. Since the regional surveys of available hospital facilities made for the Ministry of Health during the war, special attention has been given to the elderly sick. It is now recognized that active medical treatment in special geriatric units may enable a large proportion of such patients to return to normal home life or to a local authority home.

37. Special problems are presented by old people in mental hospitals. Many old people are confused rather than certifiable. Again, methods of medical and social rehabilitation are proving extremely hopeful, and though there has been a large increase in the number of patients aged 65 and over admitted to mental hospitals in recent years it is expected that their discharge rate will also increase in the near future.*

38. It has been estimated that at present the total annual cost of hospital and specialist services to old persons may be of the order of £40 million. This would be equivalent to one-seventh of the total cost of these services, i.e., roughly in proportion to the numbers of old people.

39. *General Practitioner Services.* The family doctor already plays a most important part in the care of the elderly. With the development of co-ordinated geriatric services along modern lines the work of the general practitioner in this field may well increase. While approximately one-third of general practice is known to be concerned with young children,† elderly patients certainly require more attention than young or middle-aged adults.‡ It has not been found possible, however, to give any estimate of the cost of these services to old people.

Provision by Local Authorities

40. Local Authorities have a wide range of powers and duties under several statutes to provide services and other forms of provision which benefit the old. These include:

(*a*) Local Health Authority services under the National Health Service Acts, including home nursing, care and after-care, and domestic help;

(*b*) provision of residential accommodation under the National Assistance Act, 1948;

(*c*) housing.

41. *Home Nursing.* The Local Health Authorities have a duty to provide nurses to attend those who require nursing in their own homes and this service, which is provided either by the direct employment of nurses by local authorities or through arrangements with nursing associations, is much used by old people. No charge is made. The cost is borne by the local rates with the aid of a 50 per cent. grant from the Exchequer. The cost of this service for the old, assuming that about one-third of the cost is attributable to their use of it, was about £2 million in 1952-53.

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* Report of the Board of Control for 1953.

† *A Thousand Families in Newcastle upon Tyne.* James Spence, W. S. Walton, F. J. W. Miller and S. D. M. Court, 1954.

‡ R. C. Walsh, in Papers given to the International Congress of Gerontology, 1954. Indications, based on the study of eight general practices, are that consultations by elderly patients constitute about one-sixth of the total consultations, and that this proportion will rise.

42. *Health Visiting, Care and After-Care.* Local Health Authorities also have a duty to provide Health Visitors to give advice generally. A small proportion of their work relates to old people. The same is true of prevention of illness, and care and after-care, which are not however mandatory services.

43. *Domestic Help.* Local Health Authorities have power to provide domestic help where it is required because of illness or infirmity. This service is largely used for the assistance of households which include old people, and has developed rapidly since 1948, although there are still insufficient home helps to meet all needs throughout the country. Those using the service are charged according to their means; the balance of the cost is shared equally between the local rates and the Exchequer. It is estimated that the assistance given to old people under this service cost £2 million in 1952-53.

44. *Residential Accommodation.* Under Part III of the National Assistance Act Local Authorities have a duty to provide residential accommodation for persons who, by reason of age, infirmity, or other circumstances, are in need of care and attention. Such accommodation, usually known as "Part III accommodation", has been provided in varying degrees by all authorities; but experience indicates that there is still an unsatisfied demand. In 1953 over 50,000 old people were resident in Local Authority homes in Great Britain. In general they tend to be the very old—i.e., in the late seventies or eighties, and, of the total, about 40 per cent. are infirm.

45. Accommodation is available irrespective of means. A standard charge, payable by all residents who can meet it, is fixed by the authority at an economic level; this varies considerably not only between authorities but also between different homes. There is a minimum charge of 26s. a week which must be met by all residents; if their resources are insufficient the National Assistance Board make payments to enable them to meet the charge and to leave them 6s. 6d. pocket money. These amounts are related to the standard rate of retirement pension. The gross cost of providing residential accommodation is approximately £11 million a year. Payments by, or on behalf of, residents amount to about £3 million; this includes national assistance payments. The net cost falls on local rates; there is no Exchequer assistance other than a housing subsidy payable in respect of premises built or acquired after 31st October, 1947, for the purpose of residential accommodation.

46. *Housing.* Local Authorities are responsible for the provision of housing, with financial assistance from the Exchequer. Our interest in housing is limited to the extent to which the provision of suitable housing for the old can help them to lead happy and comfortable lives in their own homes. The evidence we have had suggests that in general, Local Authorities are aware of the need for special provision and include in their housing plans a proportion of small houses and flats specially designed for old people. The tenancy of such houses is sometimes conditional on the tenant having attained a certain age, and many housing authorities give indirect assistance to such tenants by charging lower rents.

Miscellaneous Public Provision

47. There are certain other measures designed to improve the position of old people, or those supporting them, which involve a sacrifice of tax revenue.

48. *Income Tax Allowances for the Aged.* Pensions are treated as earned income and thus attract the ordinary earned income allowance of 2/9ths.

To put the taxpayer who lives in retirement on a modest income derived from investment of his savings, in a similar position to the retired person who lives on a pension, an age allowance of 2/9ths of their investment income is given to taxpayers over 65 whose total income does not exceed £600 a year. Marginal relief is given to avoid anomalies where the total income is slightly above £600.

49. An allowance of £40 may be claimed by a taxpayer who, because of old age or infirmity, is compelled to depend on the services of a daughter resident with and maintained by him.

50. An allowance of £60 may be claimed by a widow or widower who employs a resident housekeeper. Although the relief is not intended to benefit old people as such, many widows and widowers are old people and, in this sense, the provision favours the old.

51. A taxpayer, maintaining a relative of his own or his wife's who is incapacitated by old age or infirmity from maintaining himself, may claim an allowance within a maximum of £60, provided that the relative's income does not exceed £85 a year; this figure is based on the annual standard rate of retirement pension. If the dependant's income exceeds this figure the allowance is reduced by £1 for each £1 of the excess.

52. *Tobacco Duty Relief*. The Finance Act, 1947, imposed a sharp increase in the rate of duty on imported tobacco. A scheme was therefore introduced whereby certain specified categories of pensioners—retirement pensioners and non-contributory old age pensioners—who certify that they are habitual smokers, may obtain tokens which enable them to buy tobacco at a reduced price. About 2,300,000, or more than half the total number of pensioners, take advantage of this concession, and the loss of duty involved is at present about £14 million.

Post-war Credits

53. Income tax post-war credits, which represent the additional tax paid for the years 1941-42 to 1945-46 as a result of the reduction of certain personal allowances and reliefs during those years, are in general paid only to men reaching the age of 65 and women reaching the age of 60. The maximum individual holding of post-war credits could be as much as £325, but the average repayment is about £60. During the first two years in which repayments were made more than £55 million a year was paid out, and since that time the annual repayments to old persons, and the number of old persons receiving them, have remained constant at about £17 million and 275,000 respectively. The amount outstanding at 31st March, 1954, was approximately £564 million.

Occupational Pension Schemes

54. Pension schemes are playing an increasing part in the provision for old age and many different kinds have been evolved to meet the needs of a wide range of occupations. It has been difficult to estimate the total numbers covered by some form of superannuation scheme, as comprehensive and up-to-date statistics do not exist. The evidence which has been made available to us, and which appears in Appendix V, indicates that at present the number of persons either currently receiving pensions or acquiring rights under occupational pension schemes is well over eight million.

55. *The Public Services*. The number of persons covered by superannuation in respect of employment by central or local government authorities exceeds three million. The current annual cost of paying pensions to just over half a million pensioners is about £100 million. With the exception of the

Civil Service and the Armed Forces, pension provision in the public services is on a contributory basis and the annual contributions amount to £75 million. In this field only Local Authority Schemes are funded and these funds account for almost the whole of the accumulated funds of £237 million.

56. *Industry and Commerce.* There is a great variety of schemes in industry and commerce generally, including the nationalised industries. Some of these are internally administered funds, others are arranged through Life Offices. There are also some arrangements of a more or less informal character. Bearing in mind that adequate information about this last group is not available; that the figures collected on our behalf do not show the latest position; and that the figures available, especially in respect of Life Office schemes, are not completely comprehensive; it appears likely that the number of persons either receiving pensions or acquiring superannuation rights in industry and commerce is at least five million: it may appreciably exceed this figure. Current annual expenditure on pensions is about £43 million and the annual contribution and premium income is of the order of £200 million. The accumulated funds approach £1,500 million. Under these schemes the number of current pensioners is very small compared with the number acquiring pension rights.

Other Private Provision

57. To complete the outline of existing provision we must refer to individual provision which plays a great part in supporting the old. Two items are of special importance. First of all, over one million persons over pension age are still at work. It is likely that they earn, on the average, at least £6 per week so that their total earnings are in excess of £300 million and may, in fact, be a good deal more. The earnings of elderly persons still in work are thus comparable in magnitude to the national insurance pensions paid to those who have retired. Secondly, the old do a great deal for themselves, which, although never assigned a money value, represents a high proportion of the true cost of maintaining them; a great deal is also done to support them by their relatives and neighbours, either by looking after them or by contributions towards their keep in money or kind. In addition, they sometimes benefit from houses which they own and occupy or let; they can draw on savings (whether in the form of insurance policies, annuities, savings bank deposits, National Debt holdings, stocks and shares or cash); and they may receive help from charity. Each of these plays a significant part in the complex pattern of provision for old age but we have not been able to quantify the provision they represent on the information at our disposal.

Summary

58. Table III summarises the provision for old age which it has been possible to quantify in money terms with reasonable precision. The expenditure shown in the Table does not give a comprehensive picture of the expenditure from all sources which benefits old people. It excludes, not only the resources referred to in the previous paragraph, but also certain other items, such as war and industrial injury disablement pensions and workmen's compensation payments, which are received by some old people but are not provision for old age as such.

TABLE III

ESTIMATED CURRENT* ANNUAL EXPENDITURE ON CERTAIN ITEMS OF PROVISION FOR OLD AGE

	£ million
Expenditure by Public Authorities	
National Insurance Retirement Pensions	334
Exchequer Expenditure:	
Non-contributory Old Age Pensions	20
National Assistance	50
National Health Service†	40
Tobacco Duty Relief	14
Income Tax Age Relief...	5
Local Authority Expenditure:	
Domiciliary Services under the National Health Service ...	4
Residential Accommodation under the National Assistance Act	8
Total	475
Superannuation	
Public and Local Government Superannuation	101
Private Superannuation	43
Total	144

* The figures generally relate to the year 1953.

† Excluding the general practitioner services.

CHANGES IN POPULATION

59. The problem of making provision for the old would be of great social importance even if their numbers were not increasing. It is rendered doubly difficult by the change that is now in progress in the balance between old and young. The number of old people is increasing, and will continue to increase for some years to come, both absolutely and relatively to the size of the working population.

The Origins of the Change

60. The reasons why this is so are to be sought in the course of births over the past century, in the reductions that have taken place in mortality and, to a much smaller extent, in the movement of population to and from Great Britain.

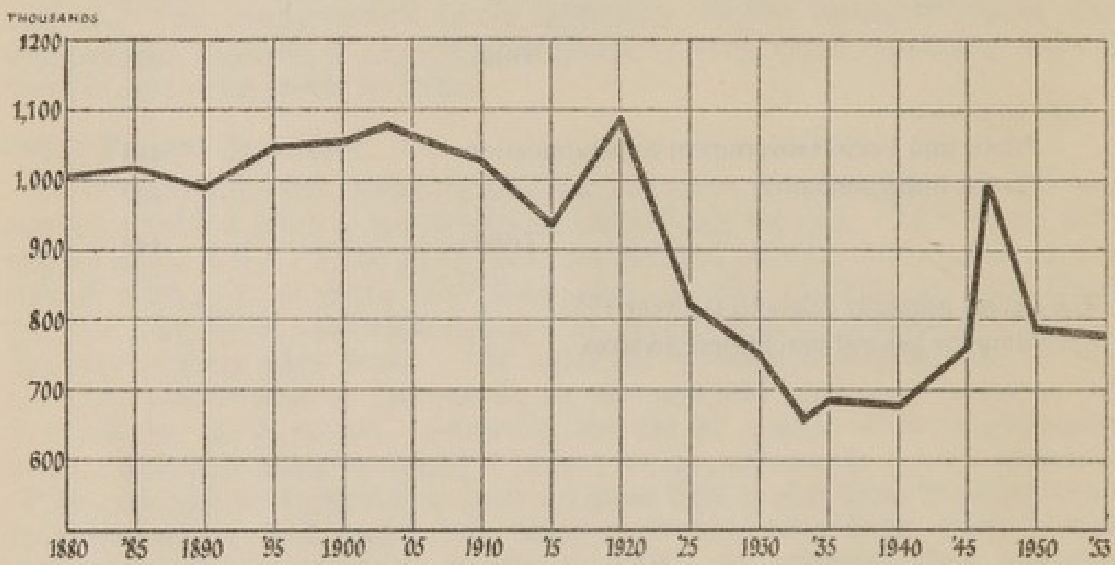

DIAGRAM 1

ANNUAL LIVE BIRTHS IN GREAT BRITAIN 1880–1953

61. The number of births (see Diagram 1) rose from about 766,000 a century ago to a peak of 1,082,000 in 1903, and then fell to 667,000 in 1933 (with a brief recovery after the first world war to an all-time high of 1,096,000 in 1920). In the past twenty years there has been first a gradual but relatively slight recovery to 701,000 in 1939, then the post-war boom reaching a peak of 994,000 in 1947 and latterly a fall to 773,000 in 1953—about 10 per cent. above the average for the 'thirties. One consequence of these changes is that the generation born at the beginning of the century was larger than earlier or later generations and that, in the absence of other changes, the number of persons reaching pensionable age in any one year would be at a maximum about 1965. Moreover, since the pre-1915 generation was larger than the generation that succeeded it, the number of persons over pensionable age would form an increasing proportion of the population until 1975, or later.

62. The second factor making for an increase in the number of old people has been the progressive decline in mortality, especially in the early years of life, and the consequent improvement in the chances that the average child will survive to the threshold of old age. Of 100 boys born in 1901, only 36 seemed likely to survive to the age of 65 at the rates of mortality

then prevailing, though as they passed through life such children have in fact had the benefit of a continuous improvement in mortality. Of 100 boys born in 1951, 65 were likely at current rates of mortality to reach 65. In fifty years a boy's expectation of life has increased by about 50 per cent., from 46 years in 1901 to 66 years in 1951; a girl's expectation of life has grown at almost the same rate, from 50 years in 1901 to 71 years in 1951. If births were to remain constant at a level just sufficient to maintain the population—which is approximately where the birth rate is at present—it would take many years for this improved expectation of life to be fully reflected in the age-composition of the population; the proportion of the elderly (i.e., men aged 65 and over and women aged 60 and over) would gradually progress from 13·9 per cent. in 1954 to 16·3 per cent.

63. The influence of migration has been of subordinate importance. During the eight decades from 1871 to 1951 the total net loss of population through migration was about 2¾ million; over the same period there were 73½ million births and 48 million deaths. In the light of this comparison, it is unlikely that the present age-structure has been much affected by migratory movements. Moreover, while the large outflow that took place up to 1931 must have tended to raise the proportion of old people in the population, since migrants are normally young, the net inflow of population that took place in the 'thirties probably had the opposite effect. Emigration since the war has been on a smaller scale than it used to be; and this falling-off in the flow of migrants from Great Britain must have operated to check, however slightly, the growth in the proportion of old people.

The Future Trends in Age Composition

64. In seeking to assess the future trend of population and of its component age-groups, we have had the advantage of a Memorandum by the Government Actuary which appears as Appendix II to this Report. We have also had the assistance of the Ministry of Labour and National Service in deriving from the Government Actuary's calculations estimates of the changes to be expected in the size of the working population. These estimates appear as Appendix III. The Memorandum submitted by the Government Actuary takes account of later information than the various projections that were prepared by the Royal Commission on Population which reported in 1949. It makes use of a number of alternative assumptions, but we may concentrate for the present on what are described as the "basic" estimates which rest on the following hypotheses:—

(*a*) that fertility will decline progressively from 1954 to 1979 to a level equivalent in the latter year to a net reproduction rate of 0·95;

(*b*) that the decline in mortality in each age-group over the next 25 years will be at the same rate as over the past 50 years; and,

(*c*) that migration can be neglected.

65. The first of these assumptions is broadly equivalent to assuming that the average number of births falls slightly from the present level but varies little between the first quinquennium 1954-59 and the last quinquennium 1974-79, the average for the entire period working out at about 720,000. The ratio between male and female births is taken to be 1·06 throughout, which conforms closely to the experience of the past ten years.

66. The estimates that result from these assumptions are summarised in Table IV. In this Table and in the discussion that follows, the term "elderly" is used to refer to men aged 65 and over and women aged 60 and over.

TABLE IV

ESTIMATED NUMBER OF ELDERLY PERSONS IN GREAT BRITAIN AND RATIO TO TOTAL POPULATION, 1911–79

Thousands

Census or estimate	Men 65 and over	Women 60 and over	Total number of elderly	Ratio of elderly to total population
				(per cent.)
1911	920	1,830	2,750	6·7
1921	1,100	2,250	3,350	7·8
1931	1,420	2,870	4,290	9·5
1941	1,850	3,680	5,530	11·8
1951	2,170	4,450	6,620	13·5
1954	2,230	4,660	6,890	13·9
1964	2,430	5,330	7,760	15·3
1979	3,330	6,170	9,500	18·2

67. Three comments may be made on the figures in Table IV. First of all, they show a slower, not a more rapid increase, in the proportion of old people than has hitherto been assumed. For example, the estimates quoted in the Beveridge Report in 1942 put the elderly at 9·6 million persons in 1971 and the ratio of the elderly to the total population in that year at 20·8 per cent. In Table IV these figures are not reached even in 1979. Thus the changes in population that we have now to contemplate were not only foreseen some years ago but were then thought to be more formidable than they now appear.

68. Secondly, the change in age-composition is not something that will shortly begin to happen, but has been in progress for half a century. In 1911, the elderly formed about 1 in 15 of the total population—a proportion not very different from that obtaining in the middle of last century; by 1954 the proportion had grown to 2 in 15; by 1979 it is likely to be approaching 3 in 15, but there is at present no reason to expect that it will rise above 3 in 15. Thus we are already half-way—and perhaps more than half-way—between the proportion normal in the later nineteenth century and the eventual proportion to which we have to look forward.

69. Thirdly, the rate at which this change has been occurring has been more rapid over the past twenty years than it is likely to be in the next twenty. Between 1931 and 1954 the increase in the number of old people was almost exactly the same as is to be expected between 1954 and 1979—a rather longer period—and the past increase has, therefore, been in a higher proportion than the prospective increase. Indeed, over the next decade, the increase in the number of persons of pensionable age is likely to be abnormally slow, mainly because of the losses sustained in the first world war by the generation now reaching pensionable age.

The Elderly as a Group

70. It is apparent from Table IV that elderly women far outnumber men. For every man of pensionable age there are two women. This is due in part to the earlier age at which women become eligible for pensions and in part to the greater longevity of women; seven women may expect to survive to 65 for every six men who are likely to do so. Over the next decade, the preponderance of women will grow, since the loss of life in the first world war was largely confined to men. Thereafter, however, the situation is likely to be reversed and the increase will be rather more rapid

among men. One reason for an eventual slight reduction in the proportion of women of pensionable age is that the decline in infant and pre-natal mortality has allowed a larger proportion of boys to survive compared with a generation ago.

71. Nearly one-half the women of pensionable age are widows, and the proportion of widows rises steeply with age. Of the women who were 60-64 years of age in 1951 only 1 in 4 was a widow, but 2 out of 3 women aged 80-84 were in that position. In due course, the proportion of widows will fall slightly, following the death of those who were widowed in the first world war. At the same time, the high marriage rates over the past twenty years will lead to an increase in the proportion of married women among the elderly and a decrease in the proportion of spinsters. Of women in their sixties, for example, the proportion of spinsters will be halved over the next thirty years; the proportion married will be about 20 per cent. higher and the proportion widowed 10 to 15 per cent. lower. These changes will be of great social importance but will have little effect on the cost of pensions. What effect they do have will be in the direction of reducing the cost, since married women (in respect of whom, if they are not insured in their own right, a lower weekly rate of pension is paid) will increase in numbers more rapidly than the total of single, widowed or divorced women—who may qualify for pension at the full weekly rate.

72. Although the elderly as a group are much larger in numbers than a hundred years ago, the age-composition of the group has changed relatively little. Some change has taken place since 1911: 26 per cent. of those over the present pensionable ages were over 75 in 1951 compared with 21 per cent. in 1911. In the next 25 years, if the Government Actuary's assumptions are fulfilled, this proportion will show a further small increase to about 30 per cent., leaving the large majority of the elderly still under 75. At present minimum pension ages, the proportion under 75 years of age is likely to be 70 per cent. in 1979.

73. This gradual change in the age-composition of the elderly reflects the relatively slow decline in mortality rates at higher ages. The diseases of the old, notably "heart disease" and cancer, have not been so amenable as the diseases of the young to improvements in public health services, in medical knowledge, in nutrition, and in the general standard of living. The comparison made in Table V between deaths at various ages fifty years ago and today shows a progressively smaller decline as the age advances.

TABLE V

AVERAGE ANNUAL DEATH-RATE PER 1,000 OF POPULATION IN GREAT BRITAIN IN AGE-GROUPS

Age Group	1900–02	1930–32	1950–52	Percentage decline from 1900–02 to 1950–52
		MEN		
0–14	22	8·4	3·2	85
15–44	6·7	3·9	2·0	70
45–64	25	17	15	40
65 and over ...	95	81	83	13
		WOMEN		
0–14	19	6·8	2·5	87
15–44	5·7	3·4	1·5	74
45–64	20	12	8·7	56
65 and over ...	85	69	63	26

74. In striking contrast to the fall in mortality rates among the young to a point below which no material further reduction can be expected, mortality rates among the elderly have changed relatively little for twenty or more years. For men, the rates show a slight increase ; for women, a fall of about 10 per cent. Even for women, however, the trend in recent years has been far from clear, and between 1942 and 1952 mortality rates for women never varied much from the average shown in Table V for 1950-52. Thus, it is impossible to say with confidence that a decline in mortality at advanced ages will take place over the next generation. This uncertainty affects not only the forecasts of future population that have been submitted to us but equally forecasts of the age-composition of the elderly as a group.

The Elderly and Other Dependants

75. We turn next to the change that is to be expected in the relationship between the elderly and other age-groups in the population. An increase in the elderly will obviously have a very different effect on the economy according as it is accompanied by an increase, or offset by a decrease, in the number of other dependants who have to be maintained by those who are in productive employment. We shall not enter into the question who is and who is not a dependant but will concentrate on the broad changes in the age-balance that are in progress between children (taken to include all persons under 15 years of age), the active age-groups (men from 15 to 64 years of age and women from 15 to 59 years of age) and the elderly (i.e., those over these ages).

76. For most of this century the number of children has been declining as the number of elderly increased, while the active age-groups have formed a rising proportion of the total population. (See Diagram 2.)

77. From the middle 'thirties onwards, however, this ceased to be true and a large increase in the number of dependants took place simultaneously at both extremes of age. More children were born, and at the same time the numbers reaching pensionable age continued to increase. Between 1939 and 1954 the number of children grew by over 1 million and the number of the elderly by over 1½ million, while the numbers in the active age-groups hardly altered.

78. No change on this scale is to be expected over the next ten years. As Table VI shows, a small increase among the elderly is likely to be balanced by a small decrease among the young. Even in the following years, although the changes in age-structure may more closely resemble those that have

TABLE VI

ESTIMATED POPULATION OF GREAT BRITAIN BY AGE-GROUPS, 1911–79

PERCENTAGE DISTRIBUTION

	Children 0–14	Active Age-groups Men 15–64 Women 15–59	Elderly Men 65 and over Women 60 and over
1911	31	62	7
1931	24	66	10
1939	22	67	11
1951	22	64	14
1954	22	64	14
1964	21	64	15
1979	20	62	18

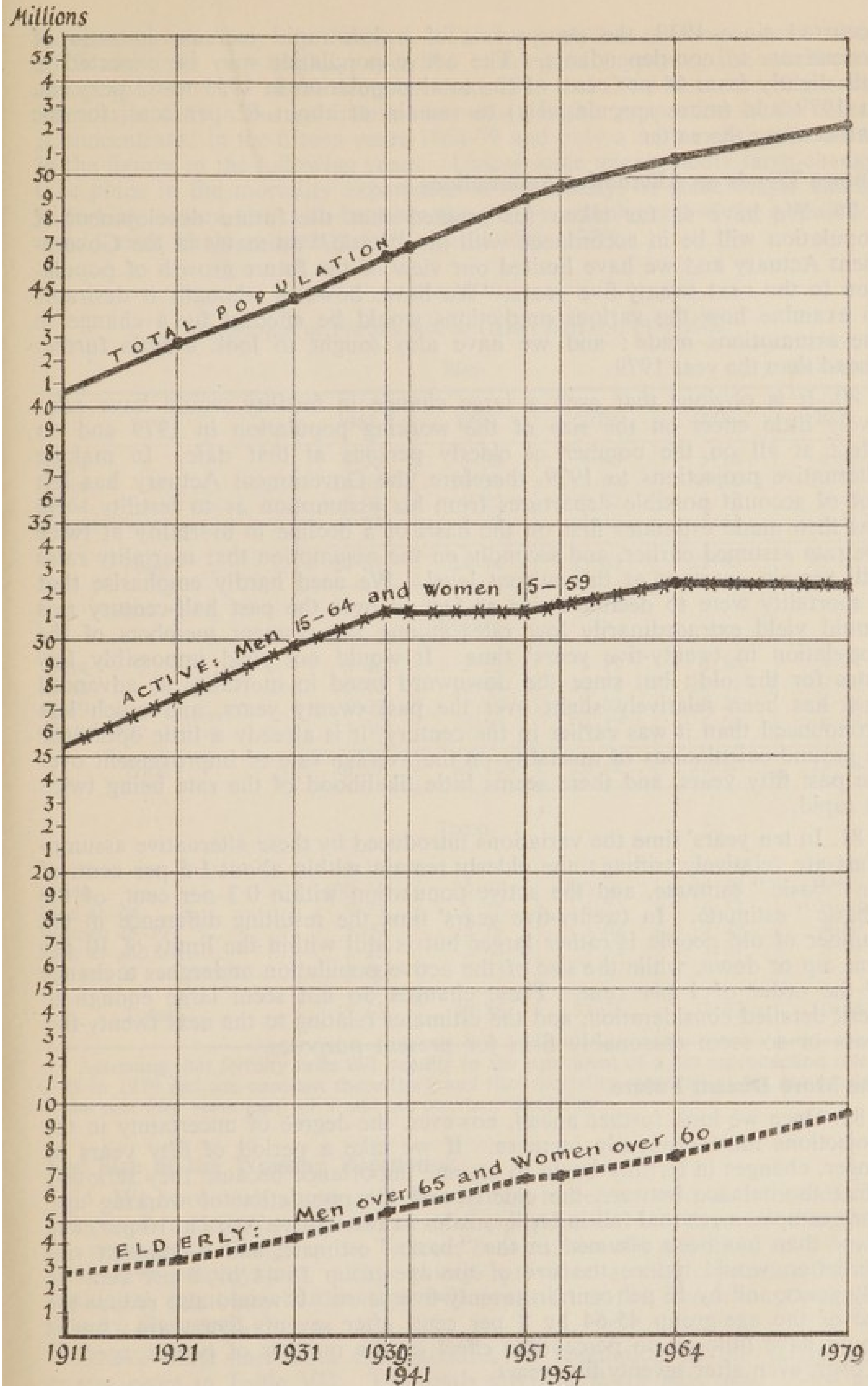

DIAGRAM 2

Changes in the Balance between Active and Elderly Population, 1911–1979 occurred since 1939, the prospect is of a less rapid increase in ratio of dependants to non-dependants. The active population may be expected to fall slightly from 64 per cent. of the total population in 1951 to 62 per cent. in 1979 and (more speculatively) to remain at about 62 per cent. for the half-century thereafter.

Future Trends on Alternative Assumptions

79. We have so far taken for granted that the future development of population will be in accordance with the "basic" estimates of the Government Actuary and we have limited our view of the future growth of population to the next twenty-five years. We have, however, thought it desirable to examine how the various predictions would be affected by a change in the assumptions made; and we have also sought to look a little further ahead than the year 1979.

80. It is obvious that even a large change in fertility would have relatively little effect on the size of the working population in 1979 and no effect at all on the number of elderly persons at that date. In making alternative projections to 1979, therefore, the Government Actuary has left out of account possible departures from his assumption as to fertility. He has then made estimates first on the basis of a decline in mortality at twice the rate assumed earlier, and secondly on the assumption that mortality rates will remain constant at the current level. We need hardly emphasise that if mortality were to decline twice as fast as over the past half-century this would yield extraordinarily low rates among the younger members of the population in twenty-five years' time. It would not yield impossibly low rates for the old; but since the downward trend in mortality at advanced ages has been relatively slight over the past twenty years, and much less pronounced than it was earlier in the century, it is already a little optimistic to ground calculations of mortality on the average rate of improvement over the past fifty years, and there seems little likelihood of the rate being twice as rapid.

81. In ten years' time the variations introduced by these alternative assumptions are relatively trifling: the elderly remain within about 1·5 per cent. of the "basic" estimate, and the active population within 0·3 per cent. of the "basic" estimate. In twenty-five years' time the resulting difference in the number of old people is rather larger but is still within the limits of 10 per cent. up or down, while the size of the active population undergoes a change of the order of 1 per cent. These changes do not seem large enough to merit detailed consideration, and the estimates relating to the next twenty-five years or so seem reasonably firm for present purposes.

The More Distant Future

82. Once we look further ahead, however, the degree of uncertainty in the projections must obviously increase. If we take a period of fifty years or longer, changes in fertility begin to assume importance because they seriously affect the balance between the elderly and the population of working age. For example, a gradual fall in fertility rates in twenty-five years to 10 per cent. lower than has been assumed in the "basic" estimate, and a constant rate thereafter, would reduce the size of the age-group 15-44 by 8 per cent. in fifty years, and by 16 per cent. in seventy-five years. It would also reduce the size of the age-group 45-64 by 8 per cent. after seventy-five years; but it would have little or no perceptible effect on the number of people aged 65 or over, even after seventy-five years.

83. We show in Table VII the changes in the age-distribution of the population over the next seventy-five years if the "basic" assumptions of the

Government Actuary are fulfilled. Total population reaches a peak about 1979 and falls very slightly over the ensuing fifty years. The number of old people shows a slight drop between 1979 and 2004 but rises thereafter. The major shift in the age balance towards a higher proportion of the elderly is concentrated in the fifteen years 1964-79 and only a minor change is shown in the figures in the following years. Unless some unexpectedly large changes take place in the mortality experience of the elderly, or some major change in fertility occurs, the ratio between the elderly and the rest of the population would seem likely to remain fairly stable after 1979.

TABLE VII

PROJECTION OF POPULATION OF GREAT BRITAIN, 1954–2029*

Millions

	1954	1964	1979	2004	2029
MEN					
0–14	5·70	5·50	5·40	5·14	4·93
15–44	10·36	10·56	10·66	10·48	10·07
45–64	5·73	6·25	6·22	6·72	6·43
65 and over	2·23	2·43	3·33	3·31	3·61
Total	24·02	24·74	25·61	25·65	25·04
WOMEN					
0–14	5·46	5·23	5·11	4·86	4·67
15–44	10·40	10·41	10·32	10·01	9·60
45–59	5·09	5·15	5·02	5·29	4·89
60 and over	4·66	5·33	6·17	6·02	6·28
Total	25·61	26·12	26·62	26·18	25·44
TOTAL					
0–14	11·16	10·73	10·51	10·00	9·60
15–44	20·76	20·97	20·98	20·49	19·67
Men 45–64...	5·73	6·25	6·22	6·72	6·43
Women 45–59	5·09	5·15	5·02	5·29	4·89
Men 65 and over	2·23	2·43	3·33	3·31	3·61
Women 60 and over ...	4·66	5·33	6·17	6·02	6·28
Total	49·63	50·86	52·23	51·83	50·48

* Assuming that fertility rates fall steadily to the equivalent of a net reproduction rate of 0·95 in 1979 and are constant thereafter; and that mortality rates fall at the same rate as in the past fifty years until 1979 and are constant thereafter.

The Size of the Working Population

84. We have dealt above with the changes to be expected in the number of old people and in the age-balance of the population, but have not examined the prospective change in the balance between the old and those who are in productive employment. This change provides a rough measure of the additional economic burden that will result from the trends in population already discussed.

85. We may start from the estimates of population in the active age-groups given in Table VII. The totals given there for men aged 15–64 and women aged 15–59 do not, of course, coincide with the number of persons in the "labour force" (using this phrase in its widest sense to include

employers as well as self-employed and unemployed workers), still less with the population actually in employment; nor do the totals for persons under 15 and over 65 coincide with the number of dependants. Even if the numbers in each age-group remained constant, it would be possible for substantial shifts to take place between workers and dependants through a rise in the school-leaving age and hence in the normal age for entry into employment; through better health and a decline in the number of persons chronically sick or incapacitated; through a change in the attitude to retirement or in opportunities of prolonging working life; through a change in the volume of unemployment; and through a greater tendency by women to seek paid employment and greater opportunities of obtaining it. In all of these ways great changes may take place, and in the past two decades have taken place, in the numbers in employment, for reasons quite unconnected with the age-composition of the population. One may also dispute whether members of the armed services should be ranked for this purpose as workers or dependants and into what category the hard-working housewife should be put.

86. If we push an analysis in terms of workers and dependants too far, we reach a point at which we are no longer discussing population changes, but are really trying to form a picture of the way in which the national income is likely to grow and of the share of it that will be required in order to maintain particular groups—the old, the sick, the unemployed, children, and so on. Even if we knew, for example, that an increase in the number of old people is likely to be offset numerically by a decrease in the number of children, we cannot immediately conclude that there will be no additional burden on the economy. Who can say whether the cost of maintaining children is greater or less than the cost of maintaining old people? The same amount per head might be spent on them or on their behalf; but this would be a reflection of the amount of money at their disposal rather than a fixed measure of the cost of maintenance at any given time. Children may "cost" little because their parents are poor, while old people "cost" more because they have had time to acquire property. Even from the standpoint of the public purse, there is no easy way of equating the cost of young and old. The cost to the Exchequer of maintaining children depends on the size of the family allowances that are voted, the provision for their education that is made, and so on. These magnitudes may change because of fresh decisions on social priorities, and there can be no guarantee that in years to come the state will abide by some fixed parity in the provision that it makes for old and young. Again, the burden of supporting a larger number of old people does not necessarily rest on those who gain from a decline in the number of children. Equivalence of gains and losses from a wide social point of view is not automatically translated into corresponding gains and losses in tax revenue and Government expenditure, still less into a happy constancy of burdens, family by family.

87. For these reasons, we have not attempted to pursue the problem in terms of the ratio to be expected between workers and dependants. But we think that it may be useful to show how the working population may change on certain assumptions. The Ministry of Labour and National Service has provided us with estimates of the changes to be expected over the next 25 years if the proportion of persons who are gainfully occupied in each quinquennial age-group bears the same relationship as at present to the total population in each age-group. These estimates are shown in Table VIII below.

TABLE VIII

ESTIMATED WORKING POPULATION OF GREAT BRITAIN, 1954–79

Millions

Age Group	Men			Women			Total		
	1954	1964	1979	1954	1964	1979	1954	1964	1979
15–44	9·84	9·96	10·10	5·17	5·32	5·19	15·01	15·28	15·29
Men 45–64 ... Women 45–59...	5·38	5·84	5·82	1·85	1·86	1·81	7·23	7·70	7·63
Men 65 and over Women 60 and over	·68	·74	1·01	·39	·44	·46	1·07	1·18	1·47
Total	15·90	16·54	16·93	7·41	7·62	7·46	23·31	24·16	24·39

88. Because of the way in which Table VIII has been prepared, it leaves out of account the possible changes of the types referred to above in paragraph 85 that might affect the size of the working population even if the numbers in each age group remained constant. It disregards, in particular, changes in unemployment rates, retirement habits, and the attraction of women into paid work. Such changes have occurred in the past on a large scale and may in the future be prolonged, reinforced or reversed.

Unemployment

89. Table VIII relates to the total working population, including unemployed workers and members of the armed services. Unemployment may not, however, remain as low as it now is, and employment may not correspond with the upward trend indicated in the Table. At the Census of 1931 2·5 million people returned themselves as out of work and in 1951 only 450,000. The finances of the National Insurance Scheme are at present based on the assumption that unemployment will average 4 per cent., and this would be equivalent to nearly one million workers in 1979. If this assumption were to be fulfilled the increase in the population in work between now and 1979 would almost disappear. Nor would this be all: for if it became more difficult to find a job, some people would give up looking for paid employment and would no longer form part of the occupied population. An unemployment rate of 4 per cent. might therefore have rather larger repercussions on employment than the arithmetical equivalent of the increase in unemployment.

90. We do not wish to imply that it is inevitable that unemployment should come to average 4 per cent., or indeed that it must average more than in recent years. We have no means of predicting how successful or fortunate a future generation will be in avoiding large-scale unemployment. But we think it right to point out that, while the rate of unemployment cannot be expected to fall much below the present level, it might well rise substantially above it; and that the Government have thought it prudent to lay down as a working assumption for the purposes of the National Insurance Scheme a rate which is 2-3 per cent. higher than the current rate.

Retirement Habits

91. Our knowledge of the changes that have occurred in retirement habits is a great deal more limited and uncertain than our knowledge of trends in unemployment. Figures are available of the numbers who, at successive Censuses, have returned themselves as retired, but it is difficult to be certain

that "retirement" has meant the same throughout and that when a man claimed to be in work 50 years ago, his output was such as to warrant a similar claim today.

TABLE IX

PROPORTION OF CENSUS POPULATION OCCUPIED AT ADVANCED AGES IN GREAT BRITAIN, 1901–51

per cent.

Year	Men			Women		
	65–69	70 and over	65 and over	60–64	65 and over	60 and over
1901	..	..	61·4	..	13·4	..
1911	..	..	56·8	..	11·5	..
1921	79·8	41·2	58·9	18·1	10·0	12·8
1931	65·4	33·4	47·9	16·3	8·2	11·0
1951	48·7	20·9	32·0	14·4	5·3	8·0

92. For what they are worth, the Census figures are summarised in Table IX. They indicate that of men aged 65 or over only 32 per cent. were in employment in 1951, compared with 48 per cent. in 1931 and 61 per cent. in 1901. For women aged 65 and over the fall has been from 13 per cent. to 5 per cent. over the same period of time. Data for the United States show a similar trend.*

93. There are some signs that the pre-war tendency towards earlier retirement—intensified no doubt by the inter-war depression—has now been arrested and perhaps even reversed. Estimates made by the Ministry of Labour and National Service for employees only (i.e. excluding employers and workers on their own account) show an increase in the number of elderly men (65 and over) between the middle of 1950 and the middle of 1953 by 10·5 per cent. and in elderly women (60 and over) by 21·1 per cent. The total number of elderly employees rose by 109,000 in these three years. More than half of this increase was accounted for by women who were not married, the number of such women in paid employment growing by no less than 57,000.†

94. We discuss the problem of retirement in greater detail in Section IV. For present purposes we are concerned only with the order of magnitude of the alteration that might be called for by a change in retirement habits in the estimates in Table VIII of the size of the occupied population. The contribution to be expected from any likely postponement of retirement would not appear to be large in relation to total available manpower. If there were no change in retirement habits over the next 25 years the elderly would constitute about 6 per cent. of the labour force of about 24 million persons, and most of this 6 per cent. would be in the age-groups 65-69 (men) and 60-64 (women). A major change in retirement habits would be required to turn this 6 per cent. into 7 per cent. and so add a bare 1 per cent. (or 240,000) to the numbers in work.

* Between 1890 and 1940 the proportion of men 65 years of age and over in the labour force dropped from 68 per cent. to 42 per cent. The proportion rose somewhat in the tight labour market of the war and post-war years but at the end of 1951 it was back to the 1940 level. On the other hand, the proportion of women aged 65 and over who were in the labour force was higher in 1950 at 9·5 per cent. than it had been before. "Fact Book on Ageing" (Federal Security Agency), 1952, pp. 24, 54.

† Ministry of Labour Gazette, June, 1951 and 1954.

95. It would be unreasonable to expect a general postponement of retirement at ages over 70 and, indeed, a rising standard of living, coupled with more widespread pension and superannuation benefits, would presumably have the opposite effect. At ages below 70 the tendency may well be the other way, especially if, as we argue elsewhere, social policy is directed towards encouraging later retirement. But out of the 867,000 men aged 65-69 in 1951, 422,000, or nearly half, were in employment, many of the remainder were incapacitated, and a reasonable estimate of the maximum number who might conceivably have been retained in employment would be 300,000, of whom a large proportion might have chosen to retire even if suitable jobs had been available for them. There is perhaps more scope for, and more likelihood of, an increase in the employment of elderly women, since only 191,000 out of the 1,328,000 women aged 60-64 were gainfully employed in 1951. The changed attitudes of women to paid work that have become apparent at younger ages may be communicated in time to those approaching retirement, particularly if greater opportunities are offered of continuing in employment.

Women Workers

96. This brings us to the third main influence on the size of the labour force of which no account is taken in Table VIII: the proportion of women seeking paid employment. There has been a general tendency for opportunities of employment for women to grow, especially in areas of the country where such opportunities were previously deficient; and a parallel tendency for women who have married earlier, and completed their families earlier, than was customary a generation ago, to seek paid work and to stay at work for a longer span. Industry affords an increasing number of light repetitive jobs calling for the finger skills traditional among women; more women are finding employment in clerical work and in the distributive trades, often on a part-time basis; and to judge from the similar trends in the United States, these tendencies have not yet reached their limit. At the same time, married women are not only more disposed to seek employment but are now rarely prevented from finding it by a marriage bar. The reduction in the burden of housekeeping tasks has made it easier for single as well as married women to work outside their homes; and the social conventions which at one time kept many single women in idleness have now largely disappeared. The growth in the number of the elderly may impose some check on these tendencies by obliging middle-aged daughters to stay at home and tend their parents. On the whole, however, we are inclined to think that more women will seek paid employment over the next generation and, given continuing full employment, the opportunities open to them will continue to expand.

97. The possible importance of this will be evident from the change that has occurred in the past twenty years. In 1931, out of 6·2 million women aged 35-54, only 1·4 million were occupied; in 1951, out of 7·3 million women in the same age-group 2·5 million were occupied. Thus, between those dates over 1 million more women aged 35-54 entered the labour force and the proportion occupied in this age-group rose from 23 per cent. to 34 per cent. This took place in spite of a major change in marriage habits that operated to increase the proportion of women in this age-group who were married. Out of the 1·4 million women aged 35-54 in 1931 who were occupied, only 427,000 were married: in 1951, out of 2·5 million occupied women in this age-group, nearly 1·4 million were married.

The Balance between the Elderly and the Working Population

98. It is unlikely that the three factors that have been enumerated as affecting the future size of the occupied population will all operate in the same direction. It is also unlikely that any one of them will affect the

numbers at work more than marginally except in periods of high unemployment. On the whole, therefore, we think that the estimates of the occupied population in Table VIII are an adequate measure against which to set the corresponding estimate of the number of old people.

99. According to Table VIII the working population is likely to increase over the next 25 years by just over 1 million or nearly 5 per cent. This is both a larger and a faster increase than is to be expected in the active population which, as may be estimated from Table VII, shows a prospective increase of just over 2 per cent. The main reason for this divergence lies in the large increase in the number of elderly workers; even in the absence of a change in retirement habits there may be an additional 400,000 elderly workers in the labour force. Nearly half the increase in the working population shown in Table VIII is in workers who would be entitled to claim retirement pensions.

100. It also emerges from Tables VII and VIII that the working population is likely to increase relatively quickly over the next ten years, as the post-war generation enters the labour market, and relatively slowly in the ensuing fifteen years. Once again, the really awkward changes seem likely to occur between 1964 and 1979, not in the years immediately ahead.

101. This becomes apparent when we compare the changes in the working population with the changes in the number of the elderly (some of whom are also included in the working population):—

TABLE X

ESTIMATED NUMBER OF ELDERLY PERSONS AND SIZE OF WORKING POPULATION, 1954–79

Thousands

	Elderly persons	Working population	Elderly persons as percentage of working population
1954	6,890	23,310	29·6
1964	7,760	24,160	32·1
1979	9,500	24,390	39·0

102. Over the next ten years the elderly will grow in number, although only about 10 per cent. faster than the working population; but in the following fifteen years their number will grow more than 20 per cent. faster. Today there are three elderly persons for every ten workers; in 25 years' time there will be four for every ten workers.

103. This is not a catastrophic change viewed against the background of Table VII and the comments already made on that Table. However the problem may appear in financial terms, it does not reach formidable dimensions when looked at as a change in the balance of population between those seeking employment and those who are either too young or too old to work.

Conclusion

104. In short, total population and working population will show a gently rising tendency over the next twenty-five years while the number of old people will rise much more rapidly. The change in age-composition to be expected is, however, neither new, sudden, nor (taking young and old together) particularly large. To anyone viewing the matter exclusively in terms of the balance between producers and consumers, workers and dependants, there might seem little cause for uneasiness. So far, however, we have taken no account of the financial consequences of the changes in progress and to these we must now turn.

SECTION III

MAIN ECONOMIC AND FINANCIAL PROBLEMS

105. The principal feature of old age is increasing dependence on others. Sooner or later, the old have to give up work and the income that goes with it. In doing so, they become dependent, directly or indirectly, on the labour of other people. If they own property, or draw an annuity or a pension, this fact of dependence is concealed and they retain at their command purchasing power over the services of the working population. But when they have no other source of income the fact of dependence manifests itself more nakedly, either within the family circle or in a solitary struggle with poverty. Nor is the dependence exclusively financial. With old age, health frequently declines and someone has to be found to care for and nurse the sick or bedfast old person. The very sense of dependence, and the loss of consequence and purpose that goes with it, are themselves only too often the hidden canker behind the infirmities of age. Unlike children who thrive on the consciousness of increasing independence, the aged have to reconcile themselves, generally against the grain, to a gradual surrender of their powers.

106. It is in the fact of dependence that the major economic and financial problems of old age originate. The economic problems are those that result from the need to accumulate or free resources out of which adequate provision can be made for the old ; the financial problems arise out of the need to transfer to the old the purchasing power that will give them the appropriate command over those resources. If everyone were to set aside enough during working life to provide for old age, the financial problem would be solved, although the economic problem would remain of using resources saved today in order to yield income to-morrow. But most people do not reach the age of retirement with ample accumulated savings. Even if account is taken of the savings that they have made, voluntarily or compulsorily, in superannuation and insurance contributions, relatively few people have succeeded in the past in paying what would bring them in retirement a return adequate to their needs in old age. These needs can be met only by the children whom they have reared ; by other relatives and friends who are willing to stand by them ; out of state pensions that far exceed the value of the contributions made in the past by the beneficiaries ; and by the National Assistance Board, Local Authorities or charitable bodies. There is thus a financial problem of paying, from one source or another, for what is beyond the means of the old ; and an economic problem of finding room, amid all the other claims on the nation's resources, for what is due from the generation still at work to the generation that has passed working age.

107. The dependence of the old on the rest of the community varies with age, just as the dependence of children varies with age ; and it is almost as difficult to measure the one form of dependence as it is to measure the other without some analysis of the age-group under discussion. Unfortunately, the available data rarely permit of much sub-division and it is usually necessary to be content with broad averages covering all persons aged 65 or over, or all persons over pensionable ages. In examining the dependence of the elderly on the rest of the community, and how it has altered and is altering, we have looked first at their current means of livelihood.

Sources of Income of the Elderly

108. There has been no systematic analysis of the income and expenditure of elderly households in Great Britain. We attach great importance to such

an analysis, and had time permitted, would have wished to set on foot a special enquiry to assemble the necessary information. For some other countries the information already exists.* In the absence of similar information for Great Britain, we have been supplied by the Ministry of Labour with a special analysis of the data which they collected in 1953 in connection with their enquiry into the budgets of a representative sample of British households. The Ministry have singled out households consisting largely or exclusively of elderly persons and the information of most interest for our enquiry is summarised in Table XI†. Elderly persons living with relatives (probably about one half) are excluded altogether from Table XI.

TABLE XI

AVERAGE WEEKLY INCOME AND EXPENDITURE OF A SAMPLE OF ELDERLY HOUSEHOLDS

	All Households (487)	One-person Households (183)	Two-person Households (272)
	s. d.	s. d.	s. d.
Wages, salaries and business or professional earnings	40 –	7 5¾	62 11¾
National Insurance Retirement or Old Age Pensions	31 0¾	25 0½	32 8¼
Other pensions, including private pensions	10 2½	5 1¾	14 0¼
National Assistance	6 –	8 6¼	4 2¾
Other social service payments ...	1 9¾	1½	2 10½
All other income	14 9¾	10 7¼	18 9¼
Total income as returned	103 10¾	56 11	135 6¾
Total expenditure as returned	123 1	67 7	157 6
Number of persons per household ...	1·67	1	2
Percentage gainfully occupied	*20*	*9*	*25*
Percentage aged 70 *and over*	*44*	*64*	*38*

109. The information summarized in Table XI should be treated with caution. The main purpose of asking questions about income in the enquiry conducted by the Ministry of Labour and National Service was not to obtain precise details of income, but to enable households to be grouped in certain broad categories according to the income of the head of the household and also the total income of the household. The sample relates only to 487 households which supplied records during February, March and April, 1953, including 183 one-person households and 272 two-person households. The figures in Table XI, therefore, do not purport to represent the typical situation in an elderly household but the broad averages obtained for the various sources of income returned by the householders in the sample. The imperfections of the data will be apparent from the wide divergence between the recorded expenditure and income of the households to which Table XI relates. The average gross weekly income for all households works out at just over £5, while expenditure averages a little over £6 per week. Some part of this difference may reflect the use of past savings or

* For the U.S.A. the outstanding facts are given in " Economic Implications of an Ageing Population ", *American Economic Review*, May, 1954; and for Australia they are presented in a recent study prepared by Dr. B. A. Hutchinson.

† Five households in which the total income of the household exceeded £30 per week are omitted.

undisclosed income from relatives. Whichever figure is accepted, these averages fall well below the general average for the country, largely because of the comparatively small number of gainfully occupied persons in elderly households, but partly also because earnings at advanced ages are generally lower than earnings in the prime of life. The elderly, as is only too evident from Table XI and the number who have recourse to national assistance, often live on or near the borderline of poverty.

110. A similar divergence between the average income of the elderly and of the rest of the community was disclosed by the national survey of income and expenditure conducted at about the same time by the Oxford Institute of Statistics.* The income of elderly households covered by this survey averaged only 52-54 per cent. of the national average, and for expenditure the ratio was 60 per cent. In the United States, family income in cases where the head of the household is over 65 has been estimated to be about three-fifths of the average for all families.†

111. Table XI shows how dependent the elderly are on income from pensions, and on the public social services. On the average, they draw about 40 per cent. of their income from retirement and other pensions, and this proportion rises to well over 50 per cent. for old persons living on their own (nearly half of them women aged over 70). These are averages ; and there is obviously a world of difference between households where the head still draws a wage or salary and those in which he has already retired. This is evident from the contrast between persons living alone (very few of them at work), who draw less from wages and salaries than from national assistance, and the married couples in the final column of Table XI who draw nearly half their income from wages and salaries, some of them no doubt being almost entirely dependent on earned income.

Changes in the Income of the Elderly

112. Fifty years ago, Table XI would have looked very different. At that time, the average old person in the wage-earning class had no income at all once he retired, except perhaps a few shillings from savings, the Poor Law or a friendly society. " He had usually to choose between living, often as an unwanted guest, with a married son or daughter, or going into the workhouse."‡ For this reason, it was relatively uncommon to find old people living on their own, and it is correspondingly difficult to make comparisons between their standard of living at that time and the standard of living which they enjoy today. In his survey of poverty in York in 1899, for example, Mr. Rowntree found that, of the households living in " primary poverty " (i.e., below the level of bare subsistence) only 10 per cent. were in that condition because of the old age or illness of the chief wage-earner ; in 1936 this proportion had risen to over 40 per cent., with old age alone accounting for 37 per cent. In the meantime " primary poverty " from other causes had greatly diminished ; but this improvement was apparently not shared in, or shared to the same extent, by poverty due to old age. The number of persons in " primary poverty " caused by the illness or old age of the chief wage-earner had risen more rapidly by 1936 than the total number of old people. Mr. Rowntree also found that " the poverty of old age is more acute than that due to any other single cause "§, and that about one-third of all old people in York were living in poverty (defined in a sense less

* See especially the *Bulletin of the Institute* for October and November, 1953, p. 380.
† " Fact Book on Ageing ", p. 50.
‡ B. S. Rowntree, " Poverty and Progress ", 1941, p. 114.
§ Ibid., p. 66.

strict than " primary poverty ").* When he repeated his survey for a third time in 1950, he found that old age now accounted for over two-thirds of those of all ages who were living in poverty and so had become by far the most important cause of poverty.† But because of the marked improvement in living standards that had taken place in the meantime, this higher proportion was quite consistent with a drop by over one-half in the absolute number of elderly households in poverty.

113. It would seem a reasonable inference from these facts that, while there has been an improvement in the standard of living of the elderly (as measured by their means of livelihood), the improvement has been less striking than the large sums now disbursed in pensions might lead one to expect. Such improvement as there has been is undoubtedly to be ascribed largely to the growth of the social services and particularly of retirement pensions. These have grown from *nil* fifty years ago to over £330 million in 1953 and, as Table XI would seem to show, form about 30 per cent. of the total income of the elderly as a class. Occupational pensions, which are nearly half as large, in the aggregate, as pensions paid by the state, have also grown rapidly. But this increasing outlay in national and other pensions would seem to be partly in substitution for the burden that previously fell on the relatives who supported the elderly in their own homes, and partly the means whereby some older workers have been enabled to retire from work at an earlier age.

TABLE XII

COST OF NATIONAL INSURANCE RETIREMENT PENSIONS IN 1953–54

£ million

Age	Men	Women				Total
		On own insurance	Widows*	Wives on husband's insurance	All women	
Under 60	—	—	—	3†	3†	3†
60–64	—	28	12	8	48	48
65–69	35	24	22	14	60	95
70 and over... ...	83	25	61	19	105	188
All ages	118	77	95	44	216	334

* Excluding widows with title to a pension on their own insurance.

† Dependency increases to women married to retirement pensioners aged 65 or over.

The Growth of Pensions

114. The importance of pensions in the income of the elderly increases with age and is greater for women than for men. In Table XII the Government Actuary has supplied us with an approximate sub-division of the total cost of retirement pensions by age, sex and (in the case of women) by marital status. From this it appears that well over one-half the total outlay on retirement pensions is drawn by those who are over 70 and nearly two-thirds is drawn by women. Table XII also shows that the payment made to men aged between 65 and 70, and women aged between 60 and 65 who draw pensions on their own insurance, is a relatively small proportion of the total cost.

* B. S. Rowntree and G. R. Lavers, " Poverty and the Welfare State ", 1951, p. 34.

† Ibid., p. 71.

115. The growth of pensions since the beginning of the century is summarised in Table XIII. Fifty years ago there were no national pensions and only relatively few drew private pensions. Public assistance to the elderly was confined to the payment of a few million pounds in outdoor poor relief and the support of the aged poor in the workhouse. The total transfer to the elderly in pensions and poor relief was probably not in excess of 1 per cent. of the national income. Before the first world war a start had been made with non-contributory old age pensions but the total cost of these was still only £7 million in 1910. By 1930 national pensions were costing ten times this in terms of money and about five times allowing for the fall in the value of money, while private pensions were also growing although no figures are available to quantify the change. Today the total outlay on pensions, including occupational pension schemes, is a little under £500 million and a further £50 million goes in national assistance to the elderly, the joint total representing about 4 per cent. of the national income.

116. It is difficult to forecast how matters will look in 25 years' time. The Government Actuary's estimate for retirement pensions at current rates of benefit is £665 million. Contributions and premiums payable under existing occupational pension schemes already amount to £271 million and the pensions payable in 1979 may be well in excess of this total. If the national income is likely to be higher, so also may be the level of retirement pensions. It would seem reasonable to predict a total outlay at present prices of at least £1,000 million, which represents about 7 per cent. of the present national income but perhaps only between 5 and 6 per cent. of the national income in 25 years' time. All these figures are exclusive of private pension arrangements in the strict sense, i.e., pensions paid to persons who have taken out life insurance policies in their private capacity.

TABLE XIII

THE GROWTH OF PENSIONS 1900–79 £ million

	1900	1910	1930	1953	1979*
Contributory old age and retirement pensions	—	—	35†	334	665
Non-contributory old age pensions ...	—	7	37	20	1
Total	—	7	72	354	666
Occupational pensions...	..	..	..	144	440§
Outdoor poor relief‡ or assistance grants	12	16	42	50	¶
National income	1,750	2,000	4,000	14,000	—

* Forecast.
† Includes widows' contributory pensions.
‡ These figures include provision for persons other than the old.
§ "The Growth of Pension Rights and their Impact on the National Economy", *Journal of the Institute of Actuaries*, Vol. 80, Part II, No. 355, p. 151.
¶ Estimate not available.

The Increasing Cost of National Pensions

117. The current cost of national pensions falls far short of the pension rights that will ultimately have to be met. There are large numbers of people who were brought into the insurance scheme for the first time at a late age in 1948 and who will not qualify for a retirement pension until they have completed at least 10 years in insurance i.e., not until after 1958. The pensions actually drawn by the elderly today are no measure, therefore,

of the legal title to retirement pensions of the generation now approaching retirement. Thus, pensions are destined to play a larger part in the life of the elderly and to raise new economic and financial problems for the nation quite apart from any change either in the rate of pension payable or in the proportion of the population that has passed retirement age. It is not merely the demographic changes that were discussed in the last Section that are likely to add to the burden of pensions, but the changes in eligibility for pension that will be taking place concurrently.

118. The two sets of changes are of roughly equal importance. The population of pensionable age, as we have seen, is expected to grow from 6·9 million in 1954 to 9·5 million in 1979, i.e., by nearly 40 per cent. This factor in isolation would increase the cost of retirement pensions in approximately the same proportion. But the number of pensioners is expected to increase over the same period from 4·3 million to 7·6 million, or by about 80 per cent., because of the inclusion of classes of person who were not compulsorily insured before 1948. This makes the increase in the numbers of pensioners not 40 per cent. but 80 per cent., i.e., twice as great. Even on these assumptions, moreover, there will still be large numbers of elderly persons who are not in receipt of pensions, e.g., because they are still at work. The figures just given imply that one in five of those who have reached pensionable age will not be drawing a pension in 1979 compared with a proportion in 1954 of nearly two in five.

119. There remains a further important reason for the increase in the cost of retirement pensions. This cost, according to the Government Actuary's estimates, will grow from £334 million in 1953-54 to £665 million in 1979-80, i.e., instead of increasing by 80 per cent., it will double. This difference arises largely because the cost of increments to those who have postponed retirement is expected to rise from £3 million in 1953-54 to no less than £63 million in 1979-80, an increase which accounts for about one-fifth of the growth in pension expenditure.

120. This striking increase in the cost of increments illustrates forcibly how misleading is the current surplus or deficit of the National Insurance Fund as a measure of what is required to keep it in balance. If those who have remained in work although over pensionable age were to retire tomorrow, the cost of benefits would increase forthwith by a sum approaching £50 million and the surplus which at present exists would immediately be converted into a substantial deficit. Postponement of retirement means postponement of the date at which a pension will be drawn, and hence postponement of a burden on the Fund. But the postponement is not indefinite and in the end the burden will have to be shouldered. Moreover, the burden will vary as retirement habits fluctuate under the influence of labour shortage or unemployment. In a slump, for example, pension claims may come forward at an accelerated rate, throwing the Fund into still larger deficit through earlier retirements at a time when expenditure on unemployment benefit is already abnormally high.

The Budget and Pension Expenditure

121. The analysis which we have given above of the factors contributing to an increase in pension expenditure goes some way to explaining why the economic and financial problems that lie ahead are more formidable than the demographic changes in prospect might indicate. These changes represent the prolongation of a fairly steady trend ; but the problems now arising in the finance of pensions are new because the National Insurance Scheme has undergone an important, discontinuous change. Pension expenditure will not increase at the same steady rate as before the war nor will the

state's contribution maintain a steady ratio to the total. On the contrary, as we have seen, pension expenditure at present rates of benefit will rise $2\frac{1}{2}$ times as fast as the number of elderly persons; if the whole of the prospective deficit on National Insurance falls on the Exchequer, the state will have to find, not £70 million as at present, but about £430 million, or over 6 times as much. In twenty-five years time, the Exchequer will have to bear one half of the total expenditure on National Insurance benefits and a still higher proportion of the expenditure on retirement pensions alone.

122. Not only would this represent a burden growing far more rapidly than the number of elderly persons; it would be a burden falling on the taxpayer after a prolonged period of high taxation, and an addition to the Budget when it already constitutes a very high proportion of the national income. If the tax revenue of the state amounted to little more than 5-6 per cent. of the national income, as at the beginning of the century, there would be less difficulty in making provision for large additional expenditures on the social services. But it is quite another thing to heap such expenditures on top of the existing liabilities falling on the Budget when no less than 30 per cent. of the national income already finds its way to the Government in taxation. An additional sum of approaching £400 million annually, such as will eventually have to be found in order to meet the deficit in the National Insurance Fund at current rates of benefit, represents nearly as much in command over real resources as the entire national Budget in the years following the Boer War. To mortgage this sum towards meeting additional pension liabilities would be to limit severely the scope of any other increase in Government expenditure that might have to be faced in future or to reduce equally severely the chances of a reduction in taxation. Yet if the deficit is not met from taxation it will have to be borne by the community in some other way. Some part of it might, for example, be financed out of increased contributions. How it should be distributed between taxpayers and contributors is a matter which we discuss later.

The Transfer Problem

123. In a rather wider sense the burden of old age involves the transfer to the elderly of income currently derived from the exertions of others. To the extent that such transfers take place, the elderly are a burden on the rest of the community. The transfers may, of course, take place voluntarily and consist of gifts and other help; it is doubtful how far they can then be represented as a "burden". But when they involve a compulsory levy in taxation, or are met by the payment of national insurance contributions, the transfers impose a burden on taxpayers and contributors for the benefit of those who draw pensions.

124. Under private pension schemes there need be no eventual burden on the rest of the community since the contributions made under these schemes are usually paid into a fund which, on investment, yields an additional stream of income to meet the cost in benefits. The income represents a charge on the capital assets of the community—and to that extent represents a hostage to fortune—but the assets themselves have come into existence only because of the savings represented by the original payments of premium. Normally there is some equivalence between the benefits enjoyed by the pensioner and the income which his savings have allowed to be generated.

125. In effect, therefore, a private person who provides, directly or indirectly, funds that are invested on his behalf, makes provision for his maintenance at some future time by inducing or allowing someone else to contract the obligation to maintain him. He enters into a forward transaction in

which, for a current down-payment, he receives the promise of a future pension. The other party to this transaction is ultimately someone seeking to make use of borrowed funds in order to build assets from which a future income will be derived. It is from these assets that the income out of which the pension can be paid is ultimately forthcoming.

126. This is not, however, the whole story. In the first place private pension schemes are granted various tax concessions, partly with a view to encouraging this form of saving. These concessions contribute towards a more rapid rate of capital accumulation but at the same time they confer on certain investments a degree of exemption from tax. An increasing proportion of the earnings of industry is mortgaged to the payment of private occupational pensions. Secondly, if the total savings of the community come increasingly to take the form of pension contributions, the chances are greater that saving today will be offset by dis-saving tomorrow. The contributions that are saved by this generation are still mounting and remain well in front of the pension benefits that are now being disbursed. But in course of time, if pension schemes cease to spread and the number of contributors ceases to increase, no net accumulation of funds and hence no net saving will take place except in so far as progressively larger benefits are contracted for. The period that lies immediately ahead may thus prove more favourable to saving and capital accumulation than the period that follows it.

127. Under the National Insurance Scheme there is no similar equivalence between the payments made by individual contributors and the benefits that they will ultimately receive, and no investment of the one so that it will fructify in the other. The burden of state pensions is met, not out of past savings made collectively by the pensioners, but out of current earnings. Even when the National Insurance Fund is not in deficit, there is a direct transfer from those who are paying insurance contributions to those who are receiving state pensions. But although there is as yet no cash deficit there is already, on a strict assessment, a real deficit. For the operations of the scheme involve an accumulation of liabilities towards contributors that has not been balanced by an equal accumulation of assets, and in due course this will be reflected in a current deficit. It is indeed the fact that these assets have not been brought into existence that is the economic reality underlying the prospective financial deficit in the Fund. The benefits promised to contributors presuppose the accumulation of their contributions at compound interest, but since these contributions are being used up as fast as they are received in order to pay benefits to the pensioners who did not make adequate contributions in the past, no fund on the scale presupposed has been accumulated. In future years, therefore, no return on that fund will exist to help to balance outgoings.

Pensions and Capital Accumulation

128. It is evident that pensions are intimately linked with the whole process of capital accumulation and that the scale of pensions that can be contemplated depends, on the one hand on the enhancement of the country's productive power that would result from the building of additional capital assets, and on the other on the ease with which additional savings can be spared for this purpose. If the National Insurance Scheme were conducted on the same principles as a private scheme, then the investment of the contributions would enable valuable assets to be constructed that would eventually furnish the means out of which pensions could be paid. But the Scheme is heading for a deficit that will have to be met out of general taxation, and, to some degree, out of the savings of the taxpayer, so that it will actively impede the very process of capital accumulation on which, implicitly, it rests.

Pensions and Funding

129. It is, of course, open to the state to follow the practice of private pension schemes and accumulate a fund, although the annual additional sum required to build up a fund on the necessary scale (which, if all benefit liabilities were funded would amount to £400 million) is to say the least, extremely formidable. The state might set on foot an expanded programme of capital construction so as to add to its assets at a rate more in keeping with the rate at which it was adding to its liabilities in the form of benefit rights. It might also employ an insurance fund to make advances to industry and accelerate the accumulation of capital assets in private hands.

130. But the state is under no obligation to build up a fund. It can make use of taxation to cover the interest element implicit in pension costs, while this option is not open to a private pension scheme. Moreover, the state cannot circumscribe its activities within the limits of a single fund. Its interest lies in any measures likely to bring about an increase in the national income and it should be seeking to promote this interest independently of any considerations governing the future level of pensions.

131. If the state had followed the example of private pension schemes and brought into existence a national pension fund sufficiently large to meet emerging costs, the only questions for discussion would be whether the bargains entered into with those who borrowed from the fund would be honoured and whether their expectations would be fulfilled. There would still be a transfer problem of a kind in that there would be a charge on the various borrowers which in time to come, if their expectations were disappointed, they might have difficulty in meeting. This situation might result if through inflation, war, or some kind of social catastrophe, the borrowers found their total commitments such as to leave no surplus out of which to pay interest and dividends and so put the state in funds to meet its pension obligations.

132. In fact, however, the possibility of 100 per cent. funding is of academic interest only. The National Insurance Fund is not self-supporting ; there is a large prospective deficit. On pension account alone, a deficit already exists and might be increased at any time: it is open to any Government to announce an increase in benefit rates which its successors would have to finance, and it can, in doing so, add to the future liabilities of the state with a facility that makes even a war seem a laborious method of inflating the National Debt. It can cast the burden on its successors of honouring pledges given today without any corresponding obligation to bring into existence the capital assets that would help to enable the pledges to be kept.

The Major Issues

133. We turn now to the two major issues that emerge from this analysis:—

(a) What can or should this generation do to ease the task of the next in providing for the elderly?

(b) What can a future generation afford to do for the elderly out of its own resources without undue strain?

The first of these questions relates to the transfer that might take place between this generation and the next, or rather between this generation in the working age-group and this generation when it has passed through that age-group ; the second relates to the transfer that would be called for within the future population from one generation to another.

134. We begin by considering what could be done to shoulder the burdens of the future through action taken now. The only ways in which the state can act to assist future generations are by accumulating capital resources and by making it easier for national productivity to improve. So far as the

second of these two is concerned, we presume that anything that would be instrumental in improving productivity would already engage the attention and support of the state independently of the interests of the elderly. So far as capital accumulation is concerned, the issue is more complicated.

The State and Capital Accumulation

135. At any point in time the state may be accumulating capital rapidly, independently of any pension schemes that it has formulated; and it may claim that it is making provision for future generations in other ways (e.g., through expenditure in defence, education, etc.). It is under no obligation to balance one particular set of promises for the future against one particular source of expanding revenue. What it does require to do is to make sure that it is taking the measures necessary to make the national income move upwards at a satisfactory rate, and that the promises that it is entering into to pay pensions, interest on National Debt, etc. are not excessive in relation to this rate of growth.

136. The state accumulates capital in a number of ways. It may pay sums into a fund such as the National Insurance Fund for investment through the National Debt Commissioners; it may build capital assets or help the nationalised or other industries to finance a large investment programme; or, finally, it may run a Budget surplus and pay off National Debt. Its activities under these three headings will be co-ordinated and governed not merely by reference to the situation that may rule in 20 or 30 years' time—indeed, that is likely to be a minor consideration—but probably by the economic condition of the country at the time. The state may wish, for example, to have a large Budget surplus in the interests of general deflation; or it may be seeking to pursue an expansionist policy, even at the cost of an increase in the National Debt. It would be undesirable to require the Government to allow its budgetary policy to be dominated by an obligation to accumulate capital at some stated rate, since this would be likely to be inconsistent with the steady pursuit of a policy of full employment. It would be possible for the state to be required to set aside a fixed sum annually to be paid into the National Insurance Fund, provided it were understood at the same time that this might involve, in whole or in part, a corresponding increase in state indebtedness in some other direction and no increase whatever in real capital assets.

137. Thus, if the state were required to embark on the building up of a large insurance fund, sealed off from the other elements in the national Budget, there would not necessarily result any net addition to national savings. It would require an increase in the size of the Budget surplus, and an increase that did not react adversely on private savings (e.g., through higher taxation) to bring about such a result. On the other hand, the building up of a fund would hardly operate to diminish savings; and while it might complicate the task, in the short run, of keeping the economy of the country on an even keel, it might help to accelerate over the longer run the whole process of expansion in the national capital and the national income. We attach the greatest importance to continuing efforts by the state to assisting this process by any means in its power. The larger the obligations which the state assumes towards a future generation of pensioners, the more important it is that it should facilitate the accumulation of real capital assets.

138. It has been represented to us that the scope for future capital accumulation is not unlimited and that, in private industry at all events, it is not lack of finance that is the principal obstacle to a larger scale of investment. The willingness of private industry to embark large sums in additional investment, however, is restricted below what would be in the general social

interest by heavy taxation and other circumstances. There are many directions in which additional capital could be fruitfully employed, and these include some of the major uses for capital, such as transport, fuel and power, and urban re-development. The best guarantee of higher pensions for the future would be increased investment, both in this country and overseas.

139. We do not wish, however, to lay stress exclusively on capital accumulation, since this is only one of a number of ways in which economic progress can be assisted and later generations put in a stronger position to meet the cost of pensions. More rapid technical progress, keen and efficient management, a raising of the general level of skill and education are all of very great importance. It would be a mistake if, in an effort to speed up capital accumulation, measures were taken that reacted adversely on any of these and retarded the growth of productivity instead of promoting it.

The Prospective Growth in National Income

140. We turn next to the second question in order to consider briefly whether, with all the assistance that can be expected from this generation, the national economy in twenty-five years' time will be able to support the prospective burden of pensions that it will have to bear. We have seen that even on present rates of benefit the burden of state pensions is likely to double, and it is unlikely that the increase in payments under private pension arrangements will be less rapid. We have also seen that the increase in national pensions is likely to be accompanied by a much faster rate of increase in the burden falling on the Exchequer.

141. The provision that can be made in future for pensions must depend largely upon the success with which the nation increases its total production and so adds to its total income. In the past there has been a progressive improvement in productivity, carrying with it a general rise in the standard of living. The rate at which this has proceeded has varied: in recent years the national income has grown at 3 per cent. per annum and real income per head at a somewhat slower rate. This rate of increase owes something to the simultaneous expansion in the size of the working population, an expansion which appears now to have ceased and which is unlikely, as we have seen, to be resumed on any significant scale. It has been put to us that it might be reasonable to assume a continuing improvement over the next 25 years at the rate about $1\frac{1}{2}$ per cent. per annum. We do not feel competent to express a judgment on this point; but it goes without saying that so large an increase — equivalent to nearly 50 per cent. over the 25 years —would be by far the most important single factor tending to ease the burden of providing for old age. It would indeed be a more rapid increase than is likely to occur in the number of elderly persons, although only half as rapid as the increase in expenditure on national pensions at present rates.

142. Increasing productivity is not something that happens of itself, nor is there anything inevitable about it. It reflects the cumulative outcome of the efforts of employers and employed to find improved ways of doing things, aided by an increasing stock of the instruments of production. If capital accumulation or innovation were to slow down, there would be a corresponding retardation in the growth of the national income. Other factors also might exercise a favourable or unfavourable effect: the terms of trade, for example, might move to Britain's disadvantage; or tax policy might be adapted to make technical progress in industry more attractive and more rapid.

143. Even a very large increase in productivity will not automatically solve the problem of transfer. Those who gain most from higher productivity are the employers and workers who help to bring it about. Some part of

the proceeds is mortgaged as a return on capital and will go, for example, to meet private pensions and superannuation benefits. Little or none of the gain from higher productivity will automatically accrue to the elderly unless they are in employment, and it will therefore be necessary to tap the higher purchasing power of the population through taxation (as well as through increased contributions) if the charge on the community of maintaining a growing number of pensioners is to be met.

144. There is, moreover, a tendency for the needs of the elderly to grow as the standard of living rises, so that pensions considered adequate at one time seem insufficient to a later generation. If the income and standard of living of the community improve, there will undoubtedly be pressure to make pension benefits rise at a more or less corresponding pace. This will add further to the deficit even if, as already explained, contributions are adjusted in scale with benefits. It might well happen, if the national income grew by 50 per cent., that demands would be made for pensions 50 per cent. larger than now, and that the total expenditure on national pensions alone would threaten to rise above £1,000 million a year.

145. We have also taken no account so far of burdens other than the cost of pensions. But the elderly account also for a large part of the community's health bill ; they have to be housed, in part at the expense of the community ; and there are many miscellaneous services that are provided by Local Authorities for the benefit of the elderly. All these expenses, some of which are listed in Table III, will almost inevitably grow at least as rapidly as the number of elderly persons.

146. There is also a possibility that the burden of pensions will be increased by earlier retirement from work, stimulated both by the rising standard of living and by the growth of private pension schemes. Earlier retirement would increase the proportion of elderly persons in receipt of pension and so increase the scale on which a transfer must take place from the rest of the community.

The Real Problem

147. In all our discussions on the future cost of pensions we have taken as a starting point the rates of benefit that were payable at the time of our appointment. We do not think that the burden of pensions at those rates should prove an unmanageable one in twenty or thirty years' time. Certainly, if the national income were to grow from £14,000 million to-day to, say, £20,000 million in 1979, it would appear possible for the state to meet an outlay on pensions rising from £334 million to £665 million per annum. But this is not the real problem. Pension benefits are one item only in a Budget that is already very large, and will be under pressure to expand still further ; and the rates of benefit that are payable do not remain fixed and calculable, but have hitherto undergone substantial periodic increases. We have to look not just at the figures as they stand to-day, but at the strains that may be felt in the Budgets of to-morrow.

148. In considering any future changes of pension rates, therefore, full regard should be had, not only to the ease or difficulty with which they can be financed at the time, but also to the continuing and mounting load which they will throw on the community in general and on the Budget in particular. Moreover, if the major part of the increase in pension expenditure is to fall on the Budget, there must be a corresponding economy in other directions, even though this may mean that pensions are given priority over other social services. Finally, one of the primary objects to which the efforts of the state should be directed is that of ensuring that the capital assets of the community are growing at a satisfactory rate.

SECTION IV

NATIONAL INSURANCE RETIREMENT PENSIONS

The Method of Finance

149. Retirement pensions are one of the benefits provided under the comprehensive National Insurance Scheme. Expenditure on benefits and administration under this Scheme is met from a single National Insurance Fund; the income of the Fund is mainly derived from the weekly contributions payable in respect of each insured person and which relate to all the benefits under the Scheme. The amount thus collected is based on what is commonly known as the "actuarial contribution" but which we should prefer to call the "age 16 contribution". This is the weekly sum which would be needed, on average, to provide a person who contributes from age 16 with the benefits of the Scheme if contributions not spent on current benefits for him and his dependants were invested to provide future benefits. If the insured person is employed, part is paid by the employer. In all cases the Exchequer makes a payment in respect of each contribution and this is known as the "Exchequer Supplement". Under the National Insurance Act, 1946, this Exchequer Supplement was one-third of that part of the actuarial contribution which related to unemployment benefit and one-sixth for most of the other benefits, including retirement pensions.

150. A payment of 10d. for men and 8d. for women towards the cost of the National Health Service is added to the weekly amount due in respect of National Insurance benefits from each contributor. The National Health Service is available to all; benefits are not conditional upon any insurance qualification or the proof of having paid contributions. The present annual cost of the Service of over £500 million is almost entirely financed by the Exchequer; the yield of the 10d. and 8d. payments by contributors—£40 million—represents only about 8 per cent. of this cost.

151. The total weekly contributions payable for National Insurance in respect of employed persons are set out in Appendix IV. Of the sums of 9s. 2d. for men and 7s. 3d. for women actually paid by employed persons and their employers towards the benefits of the National Insurance Scheme, 4s. 2d. and 3s. 8d. are attributable to retirement pensions. At present the total value of the weekly stamp for an employed person (which is purchased and affixed to a card by the employer) is 10s. 9d. for men and 8s. 5d. for women; in addition to the payment towards the National Health Service the stamp includes the contribution for the separate Industrial Injuries Scheme. Self-employed and non-employed persons are also insured under the National Insurance Scheme for retirement pensions (and certain other benefits) and pay appropriate contributions, including the amounts applied to the cost of the National Health Service.

152. The "actuarial contribution" for a given level of benefits would be sufficient to cover the cost if full benefits were restricted to those persons who contributed from age 16. In that event, in the early years when benefit expenditure would be small a fund would accumulate as a result of the investment at interest of the excess of contributions over current benefits. In this way future benefits would be secured. But full benefits have been conceded to all persons brought within the National Insurance Scheme as well as to many already retired. A liability has, therefore, been assumed against which there has been no adequate contribution income. Moreover, contributions are not funded but are used to meet current expenditure and no provision has been made to liquidate, by special deficiency payments, the liabilities thus assumed. These liabilities which, owing to the special nature

of the benefit, relate almost entirely to retirement pensions, will emerge in the future as an excess of expenditure over income—and may be termed the " emerging cost ".

153. As expenditure was expected to exceed income from contributions (including the Exchequer Supplements) from the inception of the Scheme, provision was made for annual Exchequer payments to maintain the National Insurance Fund at its starting level. A scale was fixed at an initial payment of £36 million, rising by £4 million each year until 1955 ; thereafter the level of the additional payments to the Fund was to be determined by Parliament. The state thus assumed liability for the emerging cost of the retirement pensions then provided in addition to supplementing the contributions. To relieve the Exchequer of some part of the heavy increase in future expenditure, the 1946 Act provided that after five years the contribution paid by the insured persons (and their employers, if any) should be increased by 4d.*

154. The method of finance adopted under the 1946 Act was comparable as far as pensions are concerned with that of the earlier Contributory Pensions Acts. The contributory principle was first applied to state pensions for old age by the Widows' Orphans' and Old Age Contributory Pensions Act, 1925. The pension contributions required by that Act from employed persons and their employers were also calculated on an actuarial basis ; if contributions were paid from age 16 until pension age, and funded, they would have provided the contributors with pensions from age 65 until age 70. Pensions to which contributors became entitled after age 70 were payable as of right without a means test. The joint contributions were not funded and were applied to meet the pensions currently payable at the full rate to persons who had not paid adequate contributions from age 16. The resulting cash deficiency on the Pensions Account was to be covered by an equalised Exchequer grant fixed initially at £4 million a year for the first 10 years of the scheme. The Act provided for three decennial increases in contributions, as it was intended that for persons entering insurance after 1956, the joint contributions of employers and employees should cover the whole cost of their pensions including those payable after age 70. The financial arrangements introduced by the 1946 Act differed only in detail ; in particular, a specific Exchequer Supplement fixed as a proportion of the joint contributions of employers and employees was introduced.

155. The financial provisions of the 1946 Act were modified by the National Insurance Act, 1951. On Government instructions the scheme had originally been financed on an assumed average rate of unemployment of 8½ per cent., and as a result of the very low level of unemployment actually experienced there was a considerable surplus of income to the Fund during the first years of the operation of the Scheme. The assumed average rate of unemployment for the purposes of assessing the adequacy of the rates of contribution and estimating income and expenditure was therefore reduced to 4 per cent. The provision for annual payments from the Exchequer was repealed and at the same time the Exchequer Supplement was adjusted. This Supplement now amounts to approximately one-seventh of the total age 16 contribution for all benefits. There is at present no statutory provision for meeting any annual deficits which may arise.

156. The 1951 Act also provided for an increase in the rate of certain retirement pensions, and all retirement pensions were further increased by the Family Allowances and National Insurance Act, 1952. The result of

* Report by the Government Actuary on the Financial Provisions of the National Insurance Bill, 1946. Cmd. 6730, paragraph 24.

these two Acts has been to increase benefits by about one-quarter for a single person and by rather more than this for a married couple. Although the 1952 increases were accompanied by appropriate increases—related to an entrant at age 16—in the contributions, the pension liability which was not covered by contribution income was substantially increased.

157. On the average, the capital liability for the pensions of each of the 4 million existing pensioners at July, 1948 when the Scheme came into full operation was about £550—without allowing for the small offset of any accumulated contributions. For persons under pension age at that date, the liability in respect of the difference between the value of pensions and future contributions was, for a single man then aged 25, £40; for a man then aged 40, over £150; for a man then aged 55, £350. Against these sums the most that could have been contributed up to that time since 1926 was £15 for a man aged 25 and £35 for a man aged 40 or over. In total the capital liability assumed by the state for retirement pensions at July, 1948, after allowing for future contributions was of the order of £8,500 million, of which about £6,000 million was in respect of persons under pension age: or £280 on average for each of the 21¼ million contributors to the Scheme. The additional liability for retirement pensions undertaken by the 1951 and 1952 Acts was about £120 a head for every contributor to the Scheme, making a total capital liability in respect of retirement pensions of about £12,500 million.

158. Table XIV shows the capital value of the pension of a person who attained pension age on 1st January, 1954 and the accumulated value at that date of such a person's contributions at 3 per cent. interest, assuming that he and his employer had paid contributions since 1st January, 1926, when the first Contributory Pensions Act came into operation:

TABLE XIV

	Accumulated value* of contributions since 1st January, 1926	Capital value of pension on 1st January, 1954
	£	£
Single Man	120	820
Married Man, wife same age	120	1,560
Married Man, wife five years younger ...	120	1,720
Single Woman	105	1,130

* No allowance is made for benefit of survivorship.

If all existing pensioners are considered as a group the amount of contributions paid by, and in respect of them, was on the average only about one-twentieth of what it would have cost to purchase their pensions on ordinary commercial terms.

159. The invested assets of the former separate schemes for Health, Unemployment and Pensions, amounting in all to about £900 million, were taken over by the National Insurance Scheme. Of this total about £550 million came from the Unemployment Insurance Fund, the result of negligible unemployment during and after the war; £230 million from the National Health Insurance Funds; and the remainder from the Contributory Pensions Accounts. A sum of £100 million was credited to the National Insurance Fund as a starting balance and the remaining £800 million was used to constitute a National Insurance (Reserve) Fund. This Reserve Fund does not provide, nor was it intended to provide, an actuarial reserve. The interest

on the investments of the Reserve Fund is paid into the National Insurance Fund but no other transfer may be made from it save by Resolution of the House of Commons. In 1952 some of the surplus which had accumulated in the National Insurance Fund as a result of favourable unemployment, and to a much lesser extent sickness, experience since 1948 was transferred to the National Insurance (Reserve) Fund. The value of the investments transferred was about £285 million, making the balances in the Reserve Fund nearly £1,100 million. The balance in the National Insurance Fund at 31st March, 1954, was over £300 million.

160. There has in the past been a surplus in the annual working of the National Insurance Scheme, but this is not likely to continue much longer. Expenditure on benefits will soon exceed income and the excess will grow rapidly. Forecasts of the future receipts and payments of the National Insurance Fund, at present rates of contributions and benefit, are given below in Table XV and illustrate the growth of this annual deficit.

TABLE XV

ESTIMATED FUTURE RECEIPTS AND PAYMENTS OF THE NATIONAL INSURANCE FUND

Receipts	£m.	*Payments*	£m.
1954–1955			
Contributions of Insured Persons and Employers ...	439	Retirement Pensions ...	351
Exchequer Supplements ...	70	Other Benefits ...	157
Interest ...	45	Administration ...	27
		Surplus ...	**19**
	554		554
1959–1960			
Contributions of Insured Persons and Employers ...	428	Retirement Pensions ...	430
Exchequer Supplements ...	68	Other Benefits ...	209
Interest ...	45	Administration ...	28
Deficit ...	**126**		
	667		667
1979–1980			
Contributions of Insured Persons and Employers ...	438	Retirement Pensions ...	665
Exchequer Supplements ...	70	Other Benefits ...	222
Interest ...	45	Administration ...	30
Deficit ...	**364**		
	917		917

161. Although there is a slight annual surplus at present, taking the operations of the National Insurance Fund as a whole, there is already a substantial deficit on pensions taken by themselves. It is not possible to make an exact distribution of revenue between the various benefits that are financed out of National Insurance contributions, but the revenue strictly assignable to retirement pensions is estimated to be already about £100 million below the current expenditure on those pensions. This deficit will grow over the next twenty-five years; as Table XV shows the present small surplus on the working of the National Insurance Fund as a whole will be

converted by 1979-80 into a deficit of £364 million. The reasons for the prospective increase in expenditure on retirement pensions have already been explained in paragraphs 117-119; the numbers in receipt of pensions will grow both because more people will be of pensionable age and because a higher proportion of them will be eligible for retirement pensions. Expenditure on other benefits also shows an increase as the Table assumes a long term average of 4 per cent. unemployment and allows for a gradual increase in sickness rates.

162. The formula by which benefits and contributions are linked under National Insurance is one implying an equivalence between the current scale of benefits, and the contributions paid throughout insurance life by an entrant aged 16 and those paid on his behalf by his employer, if any, and the Exchequer. We can be reasonably sure, however, that in fifty years' time when a young man now aged 16 retires, rates of benefit will have altered. In all probability they will have risen, either because of inflation, or because of an improvement in living standards. The calculations made over some fifty years on the occasion of each increase in benefit will be found to bear little relation to the benefits ultimately payable. On reaching age 65 a man will then have paid less—possibly far less—than his share of the cost of his pension, even if contributions throughout his insurance life have been faithfully adjusted in accordance with the age 16 convention so as to keep pace with the higher rates of benefits. On the other hand the state will find itself saddled with a liability, for which no specific provision is made, equal to the value of the difference between the contributions actually paid and those which would have been strictly necessary to pay for the eventual benefits offered at age 65.

163. The method of financing pensions which has been adopted inevitably creates a deficit for which a balancing payment will always be required in future. The deficits forecast have been substantially increased by successive concessions to persons who have not paid adequate contributions from age 16. The inclusion of new classes of pensioners, in particular persons in classes not compulsorily insured under the old Contributory Pensions Schemes, who have to contribute for at least 10 years before becoming entitled to pension, will lead to substantially increased expenditure on pensions from 1958 onwards. Although there is at present no statutory obligation, we are bound to assume that failing any other provision, these deficits, representing past obligations undertaken by Parliament, will be met by the Exchequer, i.e., by the community at large through taxation.

164. The rising cost of National Insurance, due primarily to retirement pensions, which will fall on the taxpayer will thus be substantial for many years to come even if no further increases are made in benefit rates. If future increases are financed in the same way as hitherto, every 5s. added to the present 32s. 6d. rate of benefit would add nearly £60 million to the estimated deficit for 1979-80.

Contributions

165. The growing numbers of old persons will inevitably mean that there will be correspondingly increased demands on the resources of the national economy for goods and services. In the previous Section we have discussed the question whether an increasing national income will create the physical resources from which these demands can be met. We now propose to examine the financial problem of finding the right method of transferring part of the national income to the old, on an increasing scale as the years pass.

166. We have considered whether the present method of transfer—through an insurance scheme for which contributions are paid—is the best way of providing for old age. The "insurance principle" as applied to National Insurance means that contributions are required from all insured persons to establish title to benefit, and are related to the benefit rates on the age 16 basis described above. The great virtue claimed for the "insurance principle" is that pensions are provided under it as of right and not as charity from the state. It may perhaps be doubted how far this can be claimed validly for a scheme under which at present pensioners have paid on average for only about 5 per cent. of the capital value of their pensions. Moreover, entrants into the Scheme over age 16 pay a contribution related to that age; the contribution required in respect of retirement pensions alone for entrants at ages 35, 45, and 55 would be about twice, four times and ten times this amount. Improved standards of living due to advances in productivity, or inflation with consequent decline in the value of money, may well in the future, as in the past, lead to demands for higher pensions. If precedent is followed the grant of any such increases will repeat the process of adding to the deficits to be met by the Exchequer.

167. Nevertheless, we think the balance of advantage is clearly in favour of a system under which payment of contributions is one of the conditions for receipt of benefit, as against any system under which this link is severed and the whole cost falls on the Budget. No such change was advocated by any of those who submitted evidence to us. We do not think such a system under which constantly mounting charges had to be met from taxation would continue to be tolerated without the introduction of some form of income test under which the rate would vary with the resources of the recipients; and it would therefore become indistinguishable from national assistance. We think that contributions provide an important measure of social discipline since everyone is aware that higher rates of pension must at once be accompanied by higher contributions. The existence of an accepted actuarial basis is a useful safeguard when rates of benefit are under consideration; it imposes some check on reckless increases by reason of the need to have regard to the amount required to pay for them, and to some extent removes the difficult question of rates of contribution from the arena of political controversy.

168. One alternative to the present system would be a "pay as you go" method of finance for pensions. Under such a system the expected expenditure on pensions in a relatively short period of, say five years, would be assessed and the contributions payable during that period would be fixed at an amount sufficient to cover that expenditure. The proportion of the "contributions" to be paid by the insured persons and their employers and the proportion to be paid by the Exchequer would require consideration; the important feature would be that these proportions once fixed would remain constant. One objection to such a development would be the increasing size of the contribution which would be required from the contributor. The weekly contribution for the five years beginning 1957-1958 would have to be rather more than 2s. higher than at present; in the five years beginning 1979-1980 it would have to be about 7s. higher. This high rate of contribution would be necessary to cover the heavy liabilities which have already been incurred and as these obligations have been assumed by the Exchequer we do not consider that it would be practicable to introduce such a scheme.

169. It has been suggested that the receipts of the scheme could be increased by requiring payment of higher contributions from insured persons at the

higher levels of income. At present the contribution paid by, or in respect of, insured persons is the same for all within the same insurance class and in practice it cannot be set higher than the poorest can pay. This is a serious limitation and we should have liked to suggest some way of escaping from it. On consideration, however, we do not feel able to recommend a system of contributions varying according to income. We were assured that any proposal to vary the rate of contribution would meet with wide-spread opposition unless the rate of benefit were also varied according to the contribution. A scheme of variable pensions can no doubt be devised: such schemes exist in a number of countries, including the United States. But, apart from the administrative difficulties involved, we do not think that such a departure from the existing arrangements in this country would be readily accepted. Moreover, so far from reducing the prospective deficits due to pensions, it would tend to increase them. The higher pensions postulated in return for higher contributions would add to the emerging cost of pensions and it would be difficult if not impossible to prevent the whole or at any rate a large part of the increase from falling on the Exchequer.

170. It would be possible to calculate the contribution in some other way than the present age 16 basis. The amount of contribution payable by each person entering the scheme at any specified age could be calculated and would correspond to the premium that would be required by a self-supporting insurance institution for similar pension rights. It would be low at the early ages and would increase very steeply as the date of entry approached pension age. But the introduction of a compulsory national scheme on this basis would place an impossible burden on the older contributors, and it would clearly be extremely difficult to operate a system of contributions varying with the age of entry of insured persons and with their ages when increases in benefit were granted. The only practical way of bringing the uncovered liabilities into account would be by adding a flat amount to each contribution so calculated that in total the requisite additional sum would be raised. We do not think that it would be reasonable to levy a contribution on this basis to cover the whole of the present uncovered liability. It does not follow, however, that a modest addition based on the same principle but designed to meet only some part of the uncovered liabilities, could not be justified. The original National Insurance Act, 1911, provided for the liquidation of the initial liability by additional sinking fund contributions, and in 1946 the National Insurance Act provided for an addition to the contribution, to take effect five years later, as some assistance towards the heavy emerging cost.

171. After reviewing the alternatives we have reached the conclusion that in relation to the expenditure arising from the cost of pensions at their present rates, there should be no change in the present basis of assessment of the contribution; that is to say, it should be limited to the "actuarial contribution" determined by reference to an entrant at age 16, together with the additional 4d. imposed by the 1946 Act. One-seventh of this contribution should be paid by the Exchequer. We recognise that this method of finance leaves uncovered the greater part of the liabilities arising from past concessions; but the part so left uncovered is a burden which the Exchequer has accepted and we do not think this situation can now be altered.

172. We have also to consider, however, whether the same principle can justifiably be applied to the higher contributions which will become necessary if the rates of pension are increased. If the increase in the contribution on this account is limited to that appropriate to an entrant at age 16, a large part of the liability arising from the increase in pension rates will be left uncovered. The position is the more dangerous in that the immediate calls on the national purse will be relatively small and the large future liability

will be concealed. We cannot exclude the possibility that there may be a series of future increases in the pension rates. If the process of adding large amounts to future uncovered liabilities is repeated, the result must be on each occasion to add correspondingly to the future budgetary burden.

173. We think, therefore, that in the event of an increase in the pension rates, the increase thereby occasioned in the contributions should include, not only the addition to the "actuarial contribution" for an entrant at age 16, but also an appropriate sum in respect of the liabilities not covered by the age 16 contribution. This is not a new departure. It is in fact the application of a principle already adopted to some extent in the Acts of 1911 and 1946. The uncovered liabilities to which we refer consist in part of the increase in the pensions of those already on pension when the change in rates takes effect ; so far as this is so the cost should fall on the Exchequer. So far, however, as the uncovered liabilities arise from the increases in the future pensions of existing contributors we think it reasonable that the cost should form part of the contribution to be shared in the usual proportions between them and the Exchequer. We recommend, therefore, that if an increase should be made in the present rates of pension, the consequent addition to the contribution should not be confined, as it has been in the past, to the increase appropriate to an age 16 entrant. There should, in our view, also be added such further sum as will be sufficient, on average for the whole body of contributors at the time, to meet the part of the cost of the increase in the pension rate not covered by the increase in the age 16 contribution. One-seventh of this addition to the contribution should be paid by the Exchequer. Similar principles should be applied on the occasion of any further increase. Two members of the Committee, Mr. McAndrews and Mr. Bartlett, are not prepared to support this recommendation unless it is accompanied by the restoration of the proportion of the contribution to be paid by the Exchequer to the former level of one-sixth.

Funding

174. A fund in which the excess of income over current outgoings is accumulated at interest is an essential feature of private insurance. National Insurance contributions are assessed on the basis that would be appropriate if a fund were to be set up and full actuarial reserves accumulated. In a funded scheme, the Exchequer would have to meet the liability due to bringing into full benefits persons above age 16, by paying a deficiency charge over a period of years in order that the necessary funds might be gradually accumulated. This method of financing the National Insurance Scheme has not, however, been adopted. The Government Actuary has calculated that allowing for the present assets of the scheme, including the value of future contributions, the net sum to be capitalised in order to put the Scheme on a fully funded basis for all benefits would be £9,600 million. To liquidate this sum over a period of 40 years at an assumed rate of interest of 3 per cent. would require an annual sinking fund payment of over £400 million a year. Accumulation on this scale is clearly out of the question. In the previous Section we have dealt at length with the economic and budgetary implications of funding, and on the whole we have reached the conclusion that funding operations in respect of the National Insurance Scheme are not to be recommended.

175. We have also considered the present balances in the National Insurance (Reserve) Fund and the National Insurance Fund. The interest on these Funds is treated as the current income of the Scheme. The Reserve Fund is not in any sense an actuarial reserve and represents balances taken over from the pre-1948 state insurance schemes, together with a surplus on the

working of the present Scheme arising mainly from low unemployment. A Resolution of the House of Commons is required before any issues can be made from this Fund. We have already pointed out that there is at present no statutory provision for meeting the future annual deficits. Accordingly, if no other arrangements were made it would be necessary to meet those deficits by drawing on the capital, first of the National Insurance Fund, and, when that had been exhausted, of the National Insurance (Reserve) Fund. Extensive use of capital might no doubt be necessary and justifiable to meet a crisis of unemployment: but so far as deficits arise, as indeed they will, out of pension expenditure, such a procedure would obviously be highly improvident and, in a sense, irregular, having regard to the sources from which the accumulated Funds have been derived. We do not suppose that events would be allowed to take this course. Nevertheless, we recommend that steps should be taken, by means of the provision of adequate subventions from the Exchequer, to ensure that the balances of the Funds should not be depleted on account of deficits arising from the payment of pensions.

Universality

176. Before 1948 compulsory insurance for pensions was restricted to manual workers and other employees whose remuneration did not exceed a certain limit. In addition, persons in certain pensionable employments, such as the civil service, local government service, teaching and the railways, were excepted from compulsory insurance. There were arrangements for voluntary membership of the state pension scheme, and in 1948 there were altogether about 1 million voluntary contributors.

177. The present scheme is universal and compulsory. The three general reasons of principle given by the Coalition Government in 1944 for making it so, were, first, that in any social insurance scheme citizens should stand together without regard to difference of status, function or wealth ; secondly, that many people had hitherto been excluded from state insurance whose need of its benefits was at least as great as that of many of the insured population ; and, thirdly, that universality would avoid difficulty in continuing insurance cover through the various changes of status to be expected in the course of a normal working life.

178. Universality has meant that many people are now covered by compulsory insurance for pensions who have other provision for old age. Apart from personal savings, the number of persons either receiving pensions or acquiring rights under some form of superannuation scheme is now over 8 million. Many of those at present receiving pensions are not entitled to national insurance pensions in addition, but this situation is temporary. The number of old people receiving both the national pension and an occupational pension will steadily increase, and although some superannuation schemes provide only modest cover on retirement others provide generous pensions.

179. We do not consider, however, that it would be either useful or practicable to abandon the principle of universality now that it has been established. This principle applies not only in the National Insurance Scheme but elsewhere in the social service field. To depart from it now would involve a major change in the pattern of the social services. We recognize, however, that, so far as pensions are concerned, universality means that many people will receive a national pension who may not need it. It is true that it would not be impossible to except from the existing Scheme persons adequately covered in other ways. To do so would, however, raise difficult problems. The national pension is available on favourable terms and it would not be easy

to reach agreement on the groups to be deprived of its advantages. Moreover, there is no guarantee that a person will necessarily remain covered for an occupational pension throughout life. If, as a result of a change of occupation, such a person lost entitlement under an occupational pension scheme and arrangements were not made for re-entry into the national scheme, there would be an increased demand on national assistance.

180. The exception of certain classes from compulsory insurance for pensions would reduce the future liabilities of the National Insurance Fund, but it would also lead to financial difficulties during the transitional period. There would be a heavy loss of contribution income in the immediate future. At the same time, the rights acquired by the payment of contributions during the past six years by persons who might be excepted from compulsory insurance could not be ignored. Any solution which involved compounding for those rights would impose a serious strain on the Fund.

181. There may be some danger in particular cases that the national pension and an occupational pension may together provide a combined income in retirement approaching that earned during working life, especially where retirement is deferred. This would raise the question of the share of the national output which ought to be appropriated by the unoccupied older members of the community, and might encourage retirement sooner than would otherwise be the case. The implications of this clearly require more detailed consideration and we deal with this question at more length in Section V.

The Pension Age

182. The point at which the pension age under the National Insurance Scheme is fixed is obviously a matter of major importance not only in relation to the Scheme itself, but also because it is likely to influence the age limits of other schemes and retirement practices generally. It is to be observed at the outset that what we are here considering is the minimum age at which pension becomes payable, subject to retirement, and not an age at which pension becomes automatically payable, as would be the case if there were no retirement condition. When non-contributory old age pensions payable at the age of 70 were instituted in 1908, and when contributory pensions payable at the age of 65 were introduced in 1925 (the age for women was subsequently reduced to 60), no retirement condition was imposed. This condition was first applied when the present National Insurance Scheme was introduced by the National Insurance Act, 1946 ; the minimum pension ages under that Act are 65 for men and 60 for women.

183. Appendix VI indicates the ages adopted for the purpose of state pension schemes in some other countries. It is not entirely satisfactory to compare these with the ages adopted under the National Insurance Scheme because of variations in population structure, tradition and the types of scheme involved. This country, for instance, is alone in having a retirement condition, although the United States operates an earnings rule and France provides increased pensions if retirement is deferred. In most countries there is a fixed age at which pension is payable, although it may be adjusted subsequently on account of means or earnings. In many countries the age adopted for this purpose is 65 ; this is the case in the United States, New Zealand, the Netherlands, Switzerland, Belgium, Australia and Denmark. In the latter two countries there is a lower age for women. The pension age for both sexes is, however, 67 in Sweden and 70 in Norway and Canada. In France pension may be claimed at 60, but unless retirement is deferred beyond that age or a breakdown in health prevents such deferment the pension is at a low rate.

184. In discussing the minimum age for retirement from work which would be reasonably applicable to the generality of cases, it is obviously important to seek guidance from medical evidence. The medical evidence we have had is that no definition of old age can be given which can be universally applied. The state of old age can perhaps best be described as that in which the physical and mental capacity for adult life becomes so reduced that there is a definite limitation of human activity. The point at which old age begins in this sense varies from individual to individual. To the extent that old age entails dependence on others for services previously self-supplied, old age first becomes a major contributory factor in the period from 70 to 75 years of age. This is true of both men and women. There is a regrettable lack of precise evidence as to the physical capacity of women between 60 and 65 and men between 65 and 70 to continue at their own trade, especially where this involves heavy labour in difficult conditions. But it is not unreasonable to conclude that with most men and women the age of 70 can be regarded as the point after which, in the majority of cases, the ageing process may become marked and serious in its effects. Many individuals are found who are able to continue active and regular work well over this age. There are others able and willing to work if a change to some less active employment is possible.

185. In this connection it is pertinent to enquire into the extent to which retirement does not, in fact, take place until after the minimum pension age. Over 1 million men and women above the present minimum pension ages are still at work. The Report of an Enquiry into the Reasons given for Retiring or Continuing at Work* indicates that of the men interviewed 6 out of every 10 reaching age 65 stayed on at work. The extent to which increments to pensions are earned by continuance at work provides further evidence. Such increments have been earned by about one-half the men at present coming forward for retirement pensions at the various ages between 65 and 70, and by about one-third of the women claiming pensions between 60 and 65. Even including those who did not earn increments at all—many of these being persons in poor health—the average period of deferment exceeded one year and for men was nearly 18 months.

186. The medical evidence and the numbers of people who do in fact work until ages well after the present minimum pension ages indicate that over a wide field these do not by any means represent the limit of the working life. Nor can it be doubted that with the present pension ages many people receive pensions some time before reaching old age in the physical sense. The margin of premature retirements is probably influenced by the fact that the national pension may be claimed at 65 and 60; other factors may include occupational pensions and the retirement practices of industry. Whatever the reasons, in total such retirements represent a loss of able hands to the economy.

187. If the minimum pension ages were raised there would be a reduction in the number of pensioners and, consequently, in the amount paid in pensions. The financial saving would be substantial but it is important not to entertain exaggerated expectations with regard to the net financial effect. During the interval before reaching the new pension ages, unemployment benefit and sickness benefit would be payable, and since the unemployment and sickness experience of this age-group would certainly be higher than the average, these benefits would more than counter-balance the contributions paid during that interval by the old people. Moreover, there would, on

* Report of an Enquiry by the Ministry of Pensions and National Insurance, 1954. Paragraph 121.

balance, be some reduction in total receipts from contributions, if the contributions were reassessed as presumably they would be, to take account of changes in the age limit. As an illustration of the scale of financial saving that might be expected, the following example may be given. If the minimum pension age were raised now to 68 for men and 63 for women there would be a gross annual saving in expenditure on retirement pensions rising to about £125 million by 1979–80. The net saving that would be achieved is estimated to be about £50 million, or roughly one-seventh of the deficit in that year. In addition, if more people stay in employment there would probably be some gain from increased production and increased revenue from taxes payable on earnings.

188. An increase in the minimum pension ages, therefore, while it would not solve the financial problem, would make a substantial contribution towards doing so. If pension ages were raised, hardship would result unless certain other measures were taken at the same time. In the first place it would not be tolerable for the invalid or the man who cannot find work—and can now take pension at 65—to be left without cover after that age because a higher pension age had been fixed in the light of a higher average limit of working capacity. Sickness and unemployment benefit would, therefore, have to be available for such people at standard rates, subject to the normal contribution conditions for those benefits. Sickness benefit is already available without limit of time, but it would be necessary to remove or adjust the limit on the payment of unemployment benefit, once the ages of 65 and 60 in the case of women, had been reached. Raising the pension ages would accentuate the problems which already exist of demarcation for the purposes of sickness and unemployment benefit where older workers who are in poor health cannot find employment. Hardship would also be caused to those at present approaching pension age if the pension ages were raised without adequate notice. Some people will already have made arrangements for retirement or there may be age limits in connection with their employment whose modification will require further consideration.

189. We have noted a number of indications that the desirability of encouraging and facilitating the voluntary postponement of retirement is being increasingly recognised in the public services, in the universities, and, to some extent, though as yet to a lesser extent than we should like to see, in those sections of industry and commerce which operate a fixed retiring age. The practical difficulties which still have to be overcome are fully and clearly explained in the Report of the National Advisory Committee on the Employment of Older Men and Women.* It is of the greatest importance that solutions for these difficulties should be found, and applied with general acceptance, and we have no doubt that the methods suggested by the Committee for attaining this object are the right ones.

190. But postponement of retirement while retaining the present minimum pension ages, important though it is, is only a first step. In our opinion it will not do all that is necessary to meet the needs of the situation as it will develop in the future: in particular, under the system of increments to pension for postponing retirement, the reduction in the annual amount that would otherwise be paid in pensions will be small.

191. In these circumstances, and after reviewing all the evidence available to us, we have reached the conclusion that some increase in the minimum pension ages is necessary, and that positive action ought to be taken immediately to set matters in train for a future change. To avoid

* First Report, Cmd. 8963, 1953.

hardship a substantial interval of some years must be allowed before an increase in the minimum pension ages can come into force ; but just because of the need for long notice before a decision can become effective an early decision is the more necessary. We are fully conscious that any such proposal is likely to meet with strenuous and sincere opposition. But financial facts must be faced. We accordingly recommend that statutory provision should be made now for raising the minimum pension ages for both men and women by one year after an interval of not less than five years. The minimum pension ages should ultimately be 68 for men and 63 for women and these levels might be reached by further increases of one year at a time at appropriate intervals. The pension payable on reaching the new minimum pension ages should be at the standard rate theretofore paid at ages 65 and 60. We do not propose any change in the existing provision whereby retirement pension is payable at age 70 (65 for women) whether or not the claimant has retired from work ; it will follow, therefore, that the period during which increments can be earned will be reduced. Concurrently with these changes the right to unemployment benefit and sickness benefit should be secured on the lines indicated in paragraph 188.

192. So far we have considered pension ages in the context of the existing differential of five years between men and women established by the 1940 Act. When men reached the pension age of 65 their wives were, on the average, four years younger and the change enabled the wife to qualify for pension at the same time as her husband in most cases. The 1946 Act provides for an allowance for a dependent wife of a pensioner even though she is under 60 and, therefore, one of the original justifications for the differential has disappeared. The evidence is that women live longer and it would appear that from a physiological point of view the minimum pension age of 60 for women is probably too low. There is also the view, based on sex equality, that the pension ages for the two sexes should be the same.

193. On the other hand we are bound to recognize that women do in practice retire sooner than men. This is no doubt due in part to the lower minimum pension age for women and there may also be reasons of health.* Working women, especially single women, who have to run their homes unaided outside working hours, may wish to retire as soon as possible. The policy of employers also tends towards the earlier retirement of women than men. In our opinion, restoration of parity between pension ages for the two sexes might well be justified despite these considerations if it were likely to achieve any considerable saving, and if it were not the case that substantially the increase in the pension age would apply only to single women. An increase of pension is payable to all men pensioners for their dependent wives and this increase, which is at the same rate as the married woman's rate of pension on her husband's insurance, would still be payable in respect of married women who did not work between the ages of 60 and whatever higher age is fixed. The net savings involved would be relatively small—about £20 million—and would be at the expense of married women who had kept up their own insurance, and spinsters. On the whole, we have reached the conclusion that present conditions are not such as to justify our recommending the removal of the differential.

The Retirement Condition and the Earnings Rule

194. Under the present National Insurance Scheme pensions are conditional on retirement after reaching the minimum pension age. The retirement condition does not apply to men over 70 and women over 65. Moreover, a limit is set to the amount that a pensioner may earn during the

* See Report of an Enquiry by the Ministry of Pensions and National Insurance, 1954.

period up to ages 70 or 65 without the pension being affected. An earnings rule of this kind is a necessary complement to the retirement condition.

195. None of the witnesses advocated abolition of the retirement condition but a number suggested an increase in the earnings limit. Obviously if the latter were raised sufficiently the effect would be equivalent to the removal of the retirement condition.

196. The abolition of the earnings rule and the retirement condition would mean altering the whole basis of the existing Scheme, and there would no longer be any justification for the increments which are at present paid if retirement is deferred. A flat rate of pension payable from a stated age would simplify the administration of the National Insurance Scheme. The earnings rule, with any misunderstandings and evasions to which it may give rise, would disappear, and there might be some gain to production from part-time work, though this cannot easily be measured. Such a change would facilitate gradual retirement from full-time work by permitting people who no longer felt able to continue in a regular job to take up part-time work. If at the same time the right to earn increments were also abolished, most of the increased expenditure due to the payment of all pensions from the minimum pension ages onwards would in the long run be made good.

197. The charge on the Fund, however, would be immediate whereas the full saving on increments would not accrue for many years. Over 1 million pensioners (i.e., all those under 70 or 65) are liable to have their pensions adjusted if their earnings exceed the prescribed figure of 40s., but of these only about five per cent. actually have their pensions reduced because of earnings in any one week. On the other hand, over half a million persons over minimum pension age have not retired at all. Most of these are working regularly and are earning increments. If pensions were paid from the minimum pension ages to all persons, whether they had retired or not, there would be a net additional cost to the Fund, which would be £55 million in 1955-56 and would decline to about £20 million in 1979-80.

198. Such a change would constitute a drastic simplification of the National Insurance pension arrangements and it would be possible to associate it with an increase in the age at which pensions could be taken. Alternatively, a higher rate of pension could be paid at some later age like 70, while providing a more modest rate of pension from the present minimum ages.

In this connection we note the view of the National Advisory Committee on the Employment of Older Men and Women in their First Report,* that

> "Employers will respond more readily to encouragement to retain in their employment older workers whom they know, than to engage others; and many workers could continue to give good service in their existing jobs but would find it difficult to obtain or undertake new work."

But under any such arrangement pensions would be paid to people who were in regular full-time work, and would, in effect, supplement wages. There are grounds for thinking it would be feared that wages might in certain cases be adjusted to take account of the fact that a pension was being received. Such a development would be thoroughly undesirable even if, as we suppose, it were attempted by only a few employers. Much of the part-time work which pensioners might be expected to undertake might be at the expense of full-time work in which they might otherwise have remained.

199. For these reasons we do not recommend any change in the present rule according to which the receipt of pension up to the age of 70 or 65 is

* Cmd. 8963, 1953. Paragraph 65.

conditional on retirement. It follows in our view that the pension up to this age should be subject to an earnings rule. The present limit of 40s. is based on an assessment of the amount of employment that may reasonably be disregarded in deciding whether or not a person has really retired from regular work. The rule would clearly be ineffective if the pension, together with the amount that could be earned without affecting it, approached the amount which could be earned by regular full-time work. The difference between the earnings commanded by men and by women might be considered to justify some differentiation in respect of the earnings limit as between the two sexes, but on the whole we think that the same limit should apply in all cases. We have not considered the detailed questions arising out of the present arrangements, such as the way in which earnings are calculated for the purpose of the earnings rule. It has, for instance, been represented to us that pensioners would more readily undertake some kinds of seasonal work if earnings were averaged over a longer period instead of being taken into account week by week. This is the type of question which could appropriately be considered by the National Insurance Advisory Committee if it were thought necessary to refer it to them.

Increments

200. When the Beveridge Report suggested increments as a feature of the retirement pension proposals, it recommended that they should be at such a rate as would give the individual some, but not all, of the saving resulting through his postponement of retirement. This remains broadly true of the present rates. It has been represented to us that increments should be based on the principle of exact actuarial equity, but we see strong grounds for not introducing this principle into the Scheme. It could hardly make any alteration in the present pattern of retirements and it would involve elaborate variation of increments, not only from age to age, but also between men and women, between single and married women, and in the case of married couples, according to the relative ages of husband and wife.

201. Indeed, there is something to be said in favour of abolishing these increments altogether. Their object is commonly thought to be to give insured persons an incentive to remain at work rather than retire on pension, but it is clear from the evidence that they have little effect of this kind.* The main consideration which influences the decision of those who are able to continue in work, and have the opportunity to do so, is the fact that retirement from work almost always means a substantial loss of income. Many people are happier at work. A reluctance to make a complete break with the habits of a lifetime also has its share. A small prospective increase in the pension later on, though welcome when it comes, can seldom affect the decision. We have also received some evidence seeking to establish on grounds of abstract principle that a system of increments to the present pension rate does not properly find a place in the national scheme. We appreciate the force of these considerations, at least as a reason for not increasing the present rates of increment, and think they might well have provided grounds for not instituting a system of increments at all. The case is different, however, when it is a question of abolishing them. They may have little effect as an incentive to postpone retirement but they are a well-known feature of the National Insurance Scheme and if they were removed or materially reduced we should expect the public reaction to this change to be seriously unfavourable to the success of the steps now being taken to facilitate and promote voluntary postponement of retirement: in our opinion,

* Report of an Enquiry by the Ministry of Pensions and National Insurance, 1954. Paragraph 122.

this would be too high a price to pay for any financial saving that might otherwise be secured.

202. We recommend, therefore, that the system of increments to pension should be continued, but that there should be no alteration in the present rates of increment consequential on any future change in the rate of pension.

Level of Pension

203. It would, we consider, be outside our terms of reference to attempt to suggest any particular figure for the level of pension. It is necessary, however, that we should express our views upon the main considerations to be taken into account in fixing this level, since the rate of pension is obviously the principal element in both the present and future cost of pensions.

204. The Beveridge Report* proposed that " Social Insurance should aim at guaranteeing the minimum income needed for subsistence ". The " subsistence rates " of benefit for adults of working age suggested in the Report were arrived at by taking a minimum requirement for food, clothing, fuel, light and sundries, costing them at 1938 prices and adding 25 per cent.—the estimated rise in the cost of living after the war. To this was added a fixed average figure for rent. When considering the appropriate rate for retired persons it was contended that, on strict subsistence arguments, a rate of pension below the rate of working age benefit could be justified. As it was desirable to secure for the aged something more than bare subsistence, and to avoid the inconvenience of stepping down from benefit to pension on reaching a particular birthday, the Report recommended that the ultimate pension rate should be the same as the rates proposed for unemployment and sickness benefit. The Report recognized that the problem of provision for old age was a particularly difficult one, owing to the number of persons involved, and pointed out that the existing generation of old and middle-aged people had not contributed for anything approaching a subsistence pension in the past. Many of them had, for this very reason, made other provision. The Report, therefore, proposed that pensions should not be at a full subsistence level in the first instance but should rise to it gradually over a period of twenty years. National assistance would be available during this transitional period for those old people whose resources were inadequate.

205. The Coalition Government, when announcing their social insurance proposals in 1944,† rejected subsistence as a basis for benefit rates. In their view, the definite linking of benefit to subsistence rates would involve frequent variation in accordance with the cost of living; but the more important objection to subsistence benefits was that social insurance must deal in averages of need and requirement. It was considered that the conception of relating individual payments precisely to individual needs, was not capable of realisation in an insurance scheme—particularly where all classes of the community were covered. It was therefore proposed that " the right objective is a rate of benefit which provides a reasonable insurance against want and, at the same time takes account of the maximum contribution which the great body of the contributors can properly be asked to bear." National assistance would remain in reserve to fill the inevitable gaps left by insurance, and to supplement it where individual needs made this necessary.

206. The National Insurance Act, 1946, did not relate benefits to subsistence as it was considered impossible to have a general level which

* Social Insurance and Allied Services. Report by Sir William Beveridge. Cmd. 6404, 1942.

† " Social Insurance Part I ". Cmd. 6550, 1944.

excluded some kind of supplementation. The rates were fixed at figures which were justified broadly in relation to the current cost of living, and when introducing the Bill the Minister of National Insurance stated that the Government had endeavoured ". . . to give a broad subsistence basis to the leading rates within the framework of a contributory insurance scheme ".* Provision was made for the quinquennial review of the rates and amounts of benefit by the Minister:

> ". . . in relation to the circumstances at the time, of insured persons in Great Britain including, in particular, the expenditure which is necessary for the preservation of health and working capacity; and to any changes in these circumstances since the rates . . . were laid down . . . and to the likelihood of future changes ".†

207. When the National Insurance Scheme had been in full operation for two years, the growing numbers of the elderly as well as the number of pensioners applying for National Assistance, were considered to justify certain interim changes. The National Insurance Act, 1951, provided for an increase in retirement pension for all persons over minimum pension age on 1st October, 1951, and subsequently for all pensioners on reaching the age of 70 (65 for a woman). At the same time the increments for deferred retirement were raised. While the increased rate was related to the increased cost of living, the changes as a whole were intended to encourage people to continue in work as long as possible.

208. The Family Allowances and National Insurance Act, 1952, raised the standard rates of unemployment and sickness benefit and of the retirement pension that could be claimed at the minimum ages of 65 or 60 to their present levels. These further increases in the rates were justified by reference to changes in the cost of living and, in particular, to the increases attributable to the reduction of food subsidies.

209. The Beveridge Report, in proposing parity of the main rates of benefit did so on grounds of convenience, with a reservation that on subsistence principles a lower rate could be justified for the retirement pension. The Coalition Government proposed in 1944 a lower rate for pension than for sickness and unemployment benefit. The 1946 Act provided a uniform standard rate for all these benefits, but the 1951 Act gave existing pensioners and future pensioners over 70 (65 for women) a higher standard rate than those which were retained for sickness and unemployment benefit. Parity was restored by the 1952 Act. It can be argued that sickness and unemployment, being largely unforseeable, may find a person without reserves, whereas provision for old age can be made in advance. On the other hand, the retired man has to meet the replacement of household goods and clothing as well as current consumption out of his resources, whereas sickness and unemployment generally mean only temporary interruption of earning power. These arguments are evenly balanced although the situation might be very different if there had been serious long-term unemployment since the Scheme came into operation.

210. It is apparent from the evidence we have received that the view is widely held that the minimum standard rate of pension ought by itself to provide " subsistence ". People's needs vary, however, whereas under the National Insurance Scheme there is a flat rate of benefit. Rents alone, among many other variable factors which might or might not be regarded as essential for subsistence, vary considerably from 5s. or less to 35s. or more a week, and cases where rents are higher than average or there are

* Mr. James Griffiths, Minister of National Insurance. Speech on the Second Reading of the National Insurance Bill, 6th February, 1946. (Hansard, Vol. 418, Col. 1741.)

† National Insurance Act, 1946, Section 40.

other special requirements, must be met by supplementation if there are no other resources. Moreover, as the Scheme is universal, a "subsistence" rate of benefit designed to meet the needs of those without other resources, would also be paid to persons who have been able to provide for their own old age by way of personal savings or through superannuation schemes, most of which have already been assisted through tax reliefs. The National Insurance Scheme itself contains provisions which enable persons to earn higher pensions; as retirement is deferred by more than one-half of those reaching minimum pension age, the average pension in payment now appreciably exceeds the minimum standard rate of 32s. 6d. and will rise as more people working to the older ages have the opportunity to qualify for increments.

211. From the pensioners' point of view prices, particularly those of essential items such as food, are of the greatest importance. In considering the appropriate level of pension, therefore, current trends in the cost of living should be taken into account; these should include not only the price level at a particular time but the likelihood of future changes whether favourable or unfavourable. It must also be recognized that quite apart from price levels the concept of what constitutes decent and tolerable subsistence changes—generally upwards—with time. The National Insurance Act, 1946, provides for a review of benefit levels at appropriate intervals. Any attempt to establish an absolute relationship between "subsistence" and pension level might well lead to too frequent changes in the rate of benefit (and contribution) and would be unsatisfactory to all concerned.

212. A contributory scheme cannot, in our view, be expected to provide a rate of benefit which would enable everybody, whatever their circumstances, to live without other resources either of their own providing or by way of national assistance. Even if a "subsistence" rate of pension could be related to some average of need and requirement, a large increase in pension would be required to make any substantial reduction in the number of pensioners at present receiving supplementation. As so much of the cost of national pensions has to be met from general taxation an attempt to provide a subsistence rate for all without regard to need would appear to be an extravagant use of the community's resources. Indeed, where only limited resources are available it is argued by some that the emphasis should be upon improvements in assistance scales—which would benefit those, by definition, most in need—rather than on improvement in the rates of insurance benefits.

213. We wish to stress that a changed attitude on the part of the public to the whole problem of national assistance is needed. In the minds of many it appears to be simply the successor of former systems of poor relief. In the welfare state as we know it today, "national assistance" subject to a needs test is available for many purposes, though often under a different name. For instance, the value of a state scholarship is related to the parents' income and the scholarship, though paid by the Ministry of Education, is really a form of national assistance. Legal aid is also given after a test of needs. The global sum of money available for all forms of state expenditure, including the social services, is limited. If pensions beyond a certain level are provided to all irrespective of need it must inevitably mean a reduction in expenditure elsewhere.

214. It would be impracticable to operate a pension rate which would make national assistance unnecessary. We consider, however, that the proportion of people drawing national assistance at any given time offers a useful guide to the extent to which the national pension rate is failing to

attain its limited objective of a reasonable basis of provision for old age involving supplementation in only a moderate percentage of cases. The relationship between National Insurance retirement pension and assistance scales has changed since 1946, and the effect of this, together with the "attraction" which always takes place when the scales are increased, has no doubt affected the numbers of retirement pensioners seeking supplementation.

TABLE XVI

NATIONAL ASSISTANCE GRANTS IN SUPPLEMENTATION OF RETIREMENT PENSIONS

	Number of Grants in Supplementation of retirement pensions*	Annual percentage rate of increase
October, 1946	460,000	—
December, 1949	558,000	7·1 (average for 3 years)
" 1950	678,000	21·5
" 1951	767,000	13·0
" 1952	856,000	11·7
" 1953	938,000	9·6

* A grant may cover the needs of more than one pensioner—e.g., a married couple—and taking this into account the number of pensioners covered by supplementation is therefore approximately 20 per cent. higher than the figures given in this column.

In November, 1953, grants covering approximately 1,100,000 retirement pensioners, or slightly over 25 per cent. of the total number, were in payment. As the Table shows, the rate of increase in the number of applicants is diminishing. Some witnesses have told us, however, that there are still some old people who do not apply for assistance despite the fact that they may be eligible.

215. On the whole, the conclusion we have reached is that there cannot be any stereotyped formula for fixing the level of benefit and changes should not be made except at infrequent intervals and unless there are compelling reasons; when they are made their nature and amount should be decided on a balance of a number of considerations, in particular the following:—

(1) The change in the cost of living, due regard being had to the circumstances giving rise to it and the likelihood of its continuance;

(2) the extent to which pensioners have recourse to national assistance, this being broadly indicative of the relation between the pension rate and the cost of subsistence;

(3) the amount of the additional contribution required by an increase in pension rates and of the increase in the future charge on the Exchequer.

SECTION V

OCCUPATIONAL PENSION SCHEMES

216. In the previous Section we have examined the retirement pensions payable under the National Insurance Scheme, which are the basic provision for old age. Groups or individuals can and do make further provision by way of personal savings, insurance policies, or through occupational pension schemes. Pensions related to former employment are playing an increasingly important part in the provision for old age. Many salaried workers, both in the public services and in private industry, have long had the benefit of such schemes. In addition a number of firms provide pensions on an ex-gratia basis. Since the war there has been an increasing movement in industry towards pension schemes for manual workers, reflecting the general belief that the standard of living in retirement should be more closely related to that enjoyed during working life.

The function of occupational pension schemes

217. The principal, although not the sole, aim of an occupational pension scheme is to provide for employees in their years of retirement. A pension scheme enables an employer to make provision in advance for his responsibilities towards his ageing employees, particularly those who have given long service. It gives him greater freedom in retiring those employees who are no longer regarded as efficient as a result of increasing age or ill health. Moreover, in the conditions of full employment which have been experienced during and since the war, a pension scheme may help to attract and retain employees who might not otherwise be able to make adequate provision for their own old age. Pension schemes are widely regarded by both sides of industry as a desirable feature of employment conditions.

Development of occupational pension schemes

218. We found at the outset that there were few up-to-date statistics in existence with regard to occupational pension schemes and that a special enquiry such as that carried out by the Ministry of Labour in 1936 could not be completed in time to be of use to us. We are, therefore, much indebted to the Institute of Actuaries and the Faculty of Actuaries in Scotland and their members who conducted an enquiry for us, the results of which are given in Appendix V.

TABLE XVII

STATISTICS RELATING TO OCCUPATIONAL PENSION SCHEMES

Note: The dates to which these figures relate are:—

Public Services / Nationalised Industries: generally 1953 and 1954.

Other Industries: Internally Administered Schemes: various dates during the past 5 or 6 years. Life Office Schemes: end 1953.

£ Million

	Public Services	Nationalised Industries	Other Industries: Internally Administered Schemes	Other Industries: Life Office Schemes	Totals
Pensions per annum in course of payment	101	11	27	5	144
Contributions and premiums payable by:					
members	30	14	17	81	271
employers	41	25	63		
Accumulated Funds ...	237	261	730	450*	1,678

* This figure is tentative only, as no information for an estimate is available.

TABLE XVII—(*continued*)

STATISTICS RELATING TO OCCUPATIONAL PENSION SCHEMES—(*continued*)

Thousands

	Public Services	Nationalised Industries	Other Industries: Internally Administered Schemes	Other Industries: Life Office Schemes	Totals
Pensioners	600	100	150	50*	900
Members	2,500	1,500	1,400	1,700	7,100
Total number of the occupied population					23,300

* This figure is tentative only, as no information for an estimate is available.

219. Some 3 million people in this country are covered by superannuation schemes in the public service and it seems probable that the corresponding number in industry and commerce generally now exceeds 5 million. Of the total not more than 1 million are currently drawing pensions ; most of these are public service pensioners, as superannuation schemes have been in operation in the public services for some time. The remaining 7 million, representing about one-third of the population contributing under the National Insurance Scheme, are currently acquiring rights under some form of pension scheme.

220. In 1936, when the Ministry of Labour carried out an official enquiry, there were estimated to be about 1½ million workers in industry and commerce who were covered by superannuation schemes. This figure has been trebled in less than 20 years. It is difficult to estimate the present rate at which the number of persons covered by superanuation schemes is growing, but the indications are that there is continuing expansion in this field.

The Public Services

221. The Civil Service Superannuation Scheme is non-contributory. There is no superannuation fund, the sums needed to meet the cost of benefits falling due being voted annually by Parliament. Only established civil servants are pensionable. The amount of pension depends on length of service and salary reached at or near the end of service. The level of benefit (including a lump sum) approximates after 40 years service to the equivalent of two-thirds of the salary reached. The minimum retiring age is 60 but employment may be continued indefinitely after that age by agreement between the Department and the officer, and additional pension rights may be earned.

222. The superannuation schemes for teachers and National Health Service employees are contributory. Teachers and their employers each pay contributions equal to 5 per cent. of the teacher's salary and the employer's contribution is, as regards maintained schools, recognised for grant by the Education Departments. The contributions are taken in aid of the Department's Vote each year and the superannuation benefits are charged against that Vote as they fall due. There is no superannuation fund but the Acts require that a statutory account should be kept as for a fund and that there should be an actuarial inquiry every seven years to determine the sufficiency or otherwise of the contributions required to meet the benefits payable. The National Health Service Superannuation Scheme is on a similar basis, but the contributions payable are 6 per cent. from salaried employees and 5 per cent. for manual

workers, with employer's contributions of 8 per cent., and 6 per cent. respectively. The employer's contribution is met by the Exchequer. Benefits under both schemes are broadly similar to those applying in the Civil Service.

223. Local Government superannuation schemes are contributory and must be funded. Separate funds are maintained by Local Authorities to take the contributions of 5 per cent. of wages from employer and employee in the case of manual workers; in the case of salaried staff, the contributions from employer and employee is, with certain exceptions, 6 per cent. The employing authority is wholly responsible for liquidating any back-service liability by sinking fund payments over a period of not more than 40 years and for making good any deficiency revealed on valuation. The level of benefit depends on length of service and salary at or near retirement, and the benefits are comparable to those of the Civil Service Scheme. The Local Government Superannuation Act, 1953, facilitates employment beyond the normal retiring age of 65 and additional pension rights can be earned up to the age of 70.

224. There are certain public service pension schemes, such as those for policemen, firemen and the armed forces, which are not intended to provide solely for old age. Retirement from these occupations often does not imply more than a change of job.

Nationalised and Private Industry

225. The pensions provided under superannuation schemes in this sphere, whether financed privately or through a Life Office, are, as in the public services often related to length of service and to the level of pay. Thus, the pension may be based on the average salary during the whole of service or, particularly in the case of salaried staff, the average salary during the last few years of service. The maximum pension may be up to two-thirds of final salary or its equivalent in terms of pension and lump sum. In other schemes, particularly those applicable to manual workers, benefits take the form of a specific amount of pension for each year of service or a flat rate pension not related to length of service. Benefits proportionate to service on premature retirement due to breakdown in health may also be provided, and in recent years it has become increasingly common to make provision for widows in connection with superannuation schemes.

226. The financial provisions of pension schemes vary considerably. In the schemes operated by the nationalised industries, which are subject to the approval of the Minister concerned, the management of the scheme may be retained in the hands of the employing corporation or an independent fund may be set up under the control of trustees. The Mineworkers Pension Scheme, for instance, is financed by joint contributions which are paid into a fund under the control of trustees. We understand that the payment of benefits under the contributory pension scheme for the wages grades employees of the British Transport Commission is a direct obligation of the Commission; there is no separate fund under the control of trustees, but due provision is to be made year by year for the pension liabilities incurred in respect of the current year's working.

227. The schemes in private industry and commerce are frequently managed under Trust Deeds and they may be internally administered; alternatively, the scheme may be effected through an assurance company by means of life assurance policies or deferred annuity contracts. This distinction is not necessarily hard and fast as schemes which are internally administered in form may be wholly or partly reassured with Life Offices.

228. *Internally administered schemes.* The usual form of internally administered scheme involves the payment of contributions by both employer and

employees and the setting up of an independent fund to which these contributions are carried and from which benefits are paid, the balance being suitably invested. The proportion of the contributions borne by employees varies widely, though it is unusual for the employee to pay more than half the annual contribution. The employer may also make payments necessary to extinguish any deficiency which may be revealed at a periodical valuation.

229. *Life Office schemes*. In this type of arrangement there are specific contracts under which the contributions of the employer and the employee are applied to the purchase of endowment assurances or deferred annuities of a given amount at a given age. Within this formula many variations are possible—for instance, the employer's contributions may be applied to purchasing endowment assurances and the employee's to the purchase of deferred annuities. As the premiums have to be fixed in relation to a given pension level, additional provision is required if it is desired to provide a higher rate of pension when salary is increased.

230. *The tax position*. The legislation governing the taxation of superannuation contributions and benefits is extremely complex, having grown up with the development of the schemes themselves. Broadly speaking, however, there are four ways in which tax reliefs apply, depending on the type of scheme concerned.

(1) An endowment assurance policy providing a lump sum on death or attainment of a stated age is taken out by the employer for the employee. The employee's contribution ranks for relief as if it were a premium on an ordinary life assurance policy (i.e., the maximum rate of relief is roughly 3s. 6d. in the £, assuming payment of income tax at the present standard rate); and the employer's contribution is relieved of tax in full as a working expense. Premiums returned to an employee (e.g., on leaving employment) are not subject to tax, but refunds to an employer are treated as trading receipts for tax purposes. In most cases it is an Inland Revenue requirement that at least three-quarters of the lump sum on retirement should be used to purchase an annuity. Such an annuity is taxable as earned income, but if an annuity is purchased voluntarily with a lump sum not subject to this requirement, that annuity is taxable as unearned income.

(2) Under the second type of arrangement, which like the first applies to Life Office schemes, the employer and employee collaborate with one another to provide, through an insurance company, a deferred annuity for the employee on retirement. If the scheme is recognised by the Commissioners of Inland Revenue as a bona fide pension scheme the shares of the two contributing parties are relieved of tax to the same extent as in the preceding example. Equally, premiums returned to an employee are not taxable and premiums returned to an employer are treated as trading receipts. The annuity itself will be treated as earned income, but up to one-quarter of it may be commuted for a lump sum which is not taxable.

(3) Where pensions are provided by means of an internal trust fund—an "internally administered scheme"—to which both parties contribute, and this fund is "approved" by the Commissioners of Inland Revenue under the Income Tax Acts, the contributions of both sides rank as expenses and are entirely exempt from taxation. The investment income of such a fund is also immune from tax. The resulting annuities are taxed as earned income. The main conditions for the approval carrying these valuable concessions are that the Commissioners should be satisfied: (*a*) that the sole purpose

of the fund is the provision of non-commutable annuities for members at a stated age or earlier incapacity, or for widows and dependants ; (*b*) that the pensions are reasonable in amount having regard to remuneration and length of service. When contributions are refunded to an employee, the fund is required to pay tax at a quarter of the standard rate on the amount refunded. It may, but is not required to, deduct an equivalent amount from the refund. Refunds to employers are subject to tax at the standard rate. There are provisions for the partial approval of a fund that provides other benefits besides annuities.

(4) Similarly, an employee's compulsory contributions to a superannuation scheme set up by a public general Act of Parliament to provide him with benefits on retirement or death are exempt from tax. This applies to many of the schemes for the public services. Some public service schemes are operated through approved funds and then, even when they are not set up under public general Acts, the reliefs described in (3) above apply.

Any estimate of the current cost of these tax reliefs is necessarily speculative as it must take into account not only the relief on the total contributions paid and the investment income of the funds, but also the tax yield from pensions now in payment. However, it is thought that at present the annual sacrifice of revenue involved may be of the order of £100 million.

General considerations

231. The development of superannuation schemes, which is directly encouraged by the tax reliefs available, clearly has important implications for the national economy. Occupational pension schemes enable persons to preserve on retirement a standard which is nearer to the standard of living they enjoyed during working life. Even where the occupational pension is small, it will when added to the national pension, often place the pensioner in a position where he need not apply for national assistance—although in fact the National Assistance Board are required by statute to disregard the first 10s. 6d. of weekly superannuation payments.

232. This might, in the long run, give substantial relief to the Exchequer. The current cost of national assistance to old people is about £50 million a year. This sum might be expected to grow with the increase in the number of old people. A much larger proportion of the old, however, will, as time passes, be in receipt of retirement pensions or of occupational pensions, and this should both limit recourse to national assistance and exercise a steadying influence if it should happen that old people have more difficulty in retaining their employment.

233. The existence of such schemes in some industries inevitably leads to pressure for the introduction of them in others. Some old-established industries may find the cost of introducing a pension scheme prohibitive and there are complex technical difficulties in operating pension schemes in industries with a high labour turnover, such as building and civil engineering. Nevertheless, pension schemes have developed rapidly over the last few years and, as already indicated, large numbers of the working population are now covered by some form of scheme. We have considered, therefore, whether there is a danger that the obligations undertaken by pension schemes will, in the context of an ageing population, prove more than the economy will be able to bear. This would undoubtedly be so if the productivity of the country does not expand to the same extent as the obligations that the economy will have to meet.

234. Pension schemes promote saving in that income is set aside from current consumption and made available, if it is properly applied, for capital development. This adds to the national power to produce and so, economically as well as financially, helps to secure the income on which the old must live. Money invested through superannuation schemes represents an important source of new capital; and these savings, in particular the employees' contributions, might not be made—or not made to the same extent—in any other way.

235. Any estimate of the contribution made to the national savings by superannuation schemes and private insurance policies is necessarily subject to a margin of error. The information collected in the special enquiry already referred to, together with the analysis of earlier information in "The Growth of Pension Rights", indicates a present annual total of about £170 million for occupational pension schemes alone.* The increase in Life Office funds, excluding the part relating to pension schemes, was about £80 million in 1951, and the increase in Industrial Life funds, £40 million.† Part of this increase, however, related to whole life insurance and did not arise from any effort to save specifically for retirement.

236. Savings approaching or perhaps even exceeding £300 million per annum, represent a substantial proportion of the country's net savings which, over the past few years, have averaged about £1,500 million. Moreover, as has been pointed out in the valuable study already quoted:

> "The saving effected through life assurance companies and pension funds is one of the few forms of saving which is not largely hypothecated in advance to the finance of particular forms of investment. The bulk of this saving is invested in Stock Exchange securities (although a part is invested in mortgages and properties), and thus directly or indirectly becomes available to finance new issues of capital made by existing or new companies through the medium of the Stock Exchange."‡

237. The flow of savings into pension funds would appear to have helped to keep down the rate of interest during the post-war period of capital shortage, and undoubtedly helped to finance a volume of capital expenditure larger than would otherwise have been practicable. It is, however, a flow which is likely to diminish as pension outgo increases and the growth of pension schemes becomes less rapid. Thus, the present generation has an unusually favourable opportunity to add to, or improve, the capital equipment at its disposal.

Funding

238. The only effective way of ensuring that assets are available to meet commitments is by collecting contributions and paying these into a fund or to a Life Office; in either case the annual surplus of income over expenditure on benefits is invested. Funding is the best safeguard against over-commitment and has the additional advantage of security for the money contributed. We do not regard as a serious danger the risk that the funds accumulated in connection with pension schemes might prove to be too large for the economy to absorb.

* "The Growth of Pension Rights and their Impact on the National Economy", pp. 156–7. On the basis of Table XVII of our Report, the excess of premiums and contributions over pension outgo is £127 million, and taking the interest on accumulated funds as about £60 million and other expenses as between £10 and £20 million, net savings would appear to amount to about £167 million.

† Ibid., p. 157.

‡ Ibid., p. 159.

Regulation of Schemes

239. In our view the development of pension schemes is desirable, not only on general social grounds but also because they provide pensions largely outside the budgetary structure and that, in so far as they are funded, they make a contribution to the future problem of meeting the cost of old age. The extension of occupational pensions might help to limit the state liabilities under the National Insurance Scheme since provision for a higher standard of living in retirement will be made increasingly outside the state scheme.

240. A substantial proportion of the cost of occupational pension schemes is borne by the Exchequer by way of tax relief. We consider, therefore, that it is reasonable to require that, in general, the provisions of these schemes should not conflict with national policy. Recognition or approval by the Commissioners of Inland Revenue for the purpose of obtaining tax relief is now used as an instrument of fiscal policy, and we suggest that this procedure might properly be used more widely. We accordingly propose that certain provisions should be made a condition of approval or recognition by the Commissioners of Inland Revenue. We are aware that the recent Report of the Committee on the Taxation Treatment of Provisions for Retirement* contains recommendations relating not only to existing and future pension schemes, but also to individual provision for retirement. If these recommendations are put into effect, the suggestions which we make in the following paragraphs should, we think, be applied to them with suitable adaptations.

Relationship with the National Insurance Scheme

241. There does not appear to be an immediate risk of superannuation resulting in over-provision for old age. It is unlikely that excessive pensions will be provided under superannuation schemes which are financially sound ; the necessity of meeting the cost of pensions from contributions of employers and employees will ensure that the pension level is not set too high. Apart from the fact that under many schemes pensions are not yet payable, inflation has effectively reduced the level of provision for retirement, except in those schemes in which the pension is related to final salary, where the result of inflation is to throw a serious burden on the fund. If pension is related to the average salary earned over a period of years the effect of inflation falls almost wholly on the pensioner. Nevertheless, it is possible that, particularly where retirement is deferred, the combined income from the national pension and the occupational pension may approach or even equal that earned during working life, especially when account is taken of taxation and the expenses of working life. Many superannuation schemes do in various ways take account of the national pension in whole or in part for this reason. However, where the occupational scheme takes account of the rate of national pension current at a particular time, changes in that rate frustrate the object of the arrangement unless the opportunity is taken to make a suitable adjustment. We consider therefore, that superannuation schemes ought to take variations in the rate of national pension into account so as to ensure that the combined income from both sources does not at any time exceed a certain level. In general, this level might be two-thirds of final salary, or its equivalent, but we recognise that modifications may be needed in respect of workers whose final wages are low.

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* Report of the Committee on the Taxation Treatment of Provisions for Retirement. Cmd. 9063, 1954.

242. Despite the growth of occupational schemes the national scheme is likely to remain the basic provision for old age and the contribution to that scheme will remain a prior charge on income. Superannuation arrangements are by no means confined to better paid wage and salary earners, and there may be cases in which even a comparatively small contribution in addition to the national insurance contribution will be more than a household can afford. In our view, it is essential that when superannuation schemes are established close attention should always be paid to the total contributions which the persons covered can reasonably be expected to make towards their own old age. If the proportion of weekly earnings set aside to provide for old age is too high there will be pressure for higher wages, and wage increases for this purpose would have an inflationary effect.

Retirement Ages

243. As the average age of the population is rising, any developments which encourage early retirement may lead to serious consequences. Provision enabling pension to be taken at some stated age, which is a necessary feature of pension schemes, may encourage retirement sooner than would be the case, and often as early as age 60 for men and 55 for women. This may be so even if the fixed age is ostensibly the minimum pension age and arrangements exist in the scheme for retirement to be deferred beyond it ; the mere fact that an adequate income is available may lead to premature retirement. The results of the Enquiry by the Ministry of Pensions and National Insurance* strongly suggests that superannuation schemes are associated with comparatively early retirement, and that age limits beyond which employees are not retained are much commoner in employments which are superannuable than in those which are not. However, the nature of the employment is an important factor, and the evidence provided by that Enquiry may have been affected by the fact that approximately three out of five of the pensions from employers were from public authorities or nationalised industries, where normal retirement ages have tended to be low. Some details of the ages at which pension may be taken in certain public service and privately administered schemes are contained in Appendix V.

244. A fixed age included in pension schemes ought not to be regarded as the age at which an individual must necessarily retire from normal full-time employment. The National Advisory Committee on the Employment of Older Men and Women,† in considering the obstacles to the continued employment of older workers, has already drawn attention to this aspect of pension schemes. In our view, the minimum pension age should not be lower than 65 for men and 60 for women. Moreover, if the minimum pension ages under the National Insurance Scheme were raised, we consider that there should be a similar increase in the minimum pension ages prescribed in occupational pension schemes. We suggest, therefore, that in future tax relief should not be granted to pension schemes which permit retirement below the ages of 65 for men and 60 for women ; and that the rules of all schemes should be sufficiently flexible to allow the pension ages to be varied in the event of changes in the minimum pension ages under the National Insurance Scheme. Some discretionary power to allow different ages would be necessary in respect of certain occupations. We recognise that the sanction suggested could not be applied to statutory public service schemes but we should hope that in a matter of such importance the public services would play their part and take steps to bring their minimum pension ages into line with those we have recommended.

* Report of an Enquiry by the Ministry of Pensions and National Insurance, 1954.

† First Report. Cmd. 8963.

245. We are aware that many schemes provide for deferment of retirement beyond the stated age by agreement between the employer and the employee, and that schemes frequently provide for an increased pension if retirement is deferred. This is now the practice in the public services. Such positive inducements may encourage postponed retirement and it is desirable that provision for deferred retirement should be included in pension schemes.

Mobility of Labour

246. In paragraph 120 of the First Report of the National Advisory Committee on the Employment of Older Men and Women reference is made to the fact that some loss of accrued pension provision ordinarily occurs in private industry upon voluntary resignation in order to enter another employment. In private schemes, whether financed through an internal fund or insured through a Life Office, a withdrawing employee may receive not more than a sum represented by his own contributions (usually accumulated at interest and less a deduction in respect of income tax), the value of which is much lower than the capital value of his accrued pension rights. The loss of rights thus incurred, which may be heavy in the case of those whose length of service is considerable, was thought by the National Advisory Committee to restrict the mobility of labour by limiting the opportunity of workers to transfer to other employment as they become older.

247. This issue, although raised by the National Advisory Committee in connection with the employment of older persons, has wider implications. Mobility of labour is obviously desirable if the economy is to remain flexible and progressive. But a measure of stability in the employment field is also desirable, and in conditions of full employment there is perhaps a tendency towards an excessive turnover of labour rather than the reverse. An employer can also reasonably claim that where skills have been taught at his expense his undertaking should benefit from the training so given. Indeed, a primary motive of employers when introducing pension schemes in the past has undoubtedly been to encourage and reward continuity of employment with a particular firm. Since the practice of providing superannuation cover has been spreading rapidly there has been some change in emphasis in the outlook of employers in relation to the need to make pension arrangements for their staffs. As we have already indicated, about one-third of the working population is covered for superannuation benefits and the number continues to increase. In these circumstances, especially under conditions of full employment, such schemes are becoming an important factor in the recruitment of staff. There is, moreover, a growing tendency to regard pension provision as " deferred pay " and, as a corollary, certain measures have been adopted to preserve an employee's accrued pension rights if he should elect to enter another employment. With the spread of pension schemes and the growing acceptance of the principle of " deferred pay ", free movement from one employment to another without the penalty of a loss of accrued pension rights may well become a commonplace. There will be transfers to as well as away from particular employments so that transfer values will be received which will offset transfer values paid out ; incoming staff will have received training in their previous employment which will compensate, at least in some measure, for the costs sustained by an employer in the training of staff who subsequently leave his service. Whether this is true in particular cases or not, under present-day conditions the national interest in its widest sense requires industry to respond rapidly to changes in demand and technological advances. The readjustment of manpower which will be entailed ought not to be impeded by any artificial restrictions arising out of pension arrangements. If the economy as well as the individual

is to benefit from the free circulation of ideas and talent, it is particularly important that the technical and administrative staff in the higher posts should be able to change their employment without undue difficulty. If the position were ever reached in which virtually all employment offered superannuation rights, there would be reluctance on the part of employees to leave one employment for another, as well as reluctance on the part of employers to engage older staff, who would have to be fitted into pension schemes at late ages, unless there were adequate means of preserving pension rights on a change of job.

248. In our view, arrangements whereby the accrued pension rights of a person with substantial service may be preserved on a change of employment, including movement between the public services and private employment, are in the general national interest and would facilitate the employment of older persons to which the National Advisory Committee has directed attention.

249. Where, as is usually the case, membership of a scheme is confined to the staff of a particular employer, the preservation of accrued pension rights can be effected in two ways. Under the first method, which is widely followed in the public services, a "transfer value", representing the value of the individual's interest in the fund associated with the employment which he is leaving, can be passed to the fund associated with the new employment, and applied to purchase, so far as it will go, back service rights in that fund. Clearly such arrangements should be on a reciprocal basis as between one employer and another and can only be applied where the new employment has a pension scheme. There is an extensive system of reciprocal arrangements of this type in the public services, e.g., as between the civil service, local government services, teaching, and nationalised industries, to provide for the transferability of pension rights. Although the provision of transfer values is not at present common in private employment it has tended to become more prevalent. The second method of achieving the object in view takes the form of granting the withdrawing member the right to the accrued pension based on his actual service, which is placed in "cold storage" until he reaches the normal retiring age for his old employment, when the pension so conserved becomes payable. We understand that this method is being increasingly employed in private industry, and it is analogous to that adopted in the Civil Service in relation to transfers of civil servants to particular occupations which are styled "approved employment". "Cold storage" pensions are particularly convenient in the case of pension schemes associated with Life Offices and such schemes already not infrequently include such a provision.

250. Our attention has been directed to two large superannuation schemes applicable to employees of private firms in large sections of a particular industry or trade, namely employees of the flour milling industry and officers in the Merchant Navy. An employee who transfers from one firm to another in one of these schemes carries his accrued rights with him and the need for the passage of transfer values or the provision of "cold storage" pensions does not arise.

251. We are advised that there are no technical difficulties in the adoption of the "cold storage" device. As regards the transfer value method, there may sometimes be technical difficulties, though we are assured that they should not prove insuperable. The method may well be unacceptable to many employers in the present climate of opinion, even though they may be disposed to adopt the "paid up" pension or "cold storage"

method. Transfer arrangements are common form in other countries where occupational pension schemes are firmly established, e.g., in the United States. In some countries, notably Canada and the Netherlands, their provision, if membership of a scheme has lasted more than a certain number of years, is obligatory as a condition of approval for tax relief. In Canada, for example, the employee's prospective rights in the fund must, if relief under the Income Tax Acts is to be secured, vest absolutely when he attains age 50, subject to a minimum of 20 years' service.

252. We have given much consideration to the suggestion that it should be made a condition of approval or recognition by the Commissioners of Inland Revenue that schemes should include provisions to ensure that if an employee who has reached a particular age, such as 40, or completed a specific number of years, for example 20, of pensionable employment, transfers to another employment with an approved scheme, a transfer value should pass ; where there is no approved scheme in the new employment he should be entitled to a " paid up " pension placed in " cold storage ". We appreciate that the question of approval for income tax purposes does not arise in connection with the non-contributory and unfunded statutory scheme for civil servants. Provision is already made on an extensive basis so far as transfers within the public service field are concerned, but we presume that if it were national policy to ensure the preservation of substantial accrued pension rights on a change of employment, the Government would pursue a similar policy in relation to those of its own staffs who left for, or came from, private employment.

253. We have, with some reluctance, come to the conclusion that although the practice of granting transfer values and particularly of granting " paid up " pensions to employees leaving an employment is spreading, the general climate of opinion is not such that the principle of compulsion should be applied at this time. With the continued growth of pension schemes, however, the time may not be far distant when the idea of general transferability or the provision of " paid up " pensions will come to be widely acceptable. Such a development, by preserving accrued pension rights must tend to mitigate the demands on the Exchequer, whether by way of reducing the calls on national assistance or by limiting the demands that will be made from time to time for increasing the standard rate of retirement pension. We content ourselves, therefore, with recording our general approval of the growing practice of adopting methods to ensure the preservation of accrued pension rights. We hope that employers will give careful consideration to the desirability of making provision on these lines, whether by way of amendment of existing schemes or when new schemes are contemplated.

Statistics

254. As we have already indicated, the information ordinarily available about occupational pension schemes is inadequate for the determination of national policy. Although the information placed at our disposal has been more comprehensive than any collected since 1936, it had to be compiled specially for our enquiry and is not complete. The importance of these pension schemes in the national economy is already great and is likely to become even greater. We therefore consider that information on this subject should be readily available, and we recommend that, for the future, returns giving certain minimum statistics about all pension schemes provided in connection with employment should be submitted at regular, but not necessarily annual, intervals to some central official agency which should be charged with the duty of collating the information obtained and publishing summary reports.

SECTION VI

NATIONAL ASSISTANCE AND OTHER SERVICES FOR THE OLD

255. The provision which the community makes for the old is not restricted to national and occupational pensions. Their needs are also catered for by a wide range of services, which include national assistance, medical attention and hospital treatment, residential accommodation, and various kinds of domiciliary service. In Section I we have reviewed the present arrangements for the provision of these services by central and local government authorities and given an approximate estimate of their current cost. In general, these services are available to the community as a whole, without regard to age, but the extent to which they are needed and the kind of service required will clearly be affected by the proportion of old people in the population.

256. It is apparent from the evidence submitted to us that all these services have undergone rapid development in the last few years and many important experiments are now in progress. Further experience of the expanded social and geriatric services should, in a few years' time, enable a far clearer assessment to be made. In the present stage of development and experiment, it would be unrealistic to attempt to assess their probable future cost. The cost of the National Health Service is being considered by the Guillebaud Committee. The evidence we have had, though indicative of the wide interest that is being taken in the problems of caring for the old, is not sufficient to justify making detailed recommendations.

The particular needs of the old

257. The old are no more a homogeneous group that the young or the middle-aged. Their needs vary and provision for those needs must be made in different ways. Some are in work while others have retired ; some are in good health while others are, in varying degrees, incapacitated ; some live alone, others with relatives, and others again in homes and institutions. The general pattern of need, moreover, is constantly changing. Over the past generation there has been a trend towards earlier retirement ; and although this may now have been arrested, there is a larger proportion of retired people among the elderly than there used to be. Some of these are people who have given up work on grounds of health who would formerly have been obliged to continue. At the same time, there are many of the old who enjoy better health, or who can more quickly be cured of certain types of illness than their predecessors of similar age. Perhaps the most striking change of all has been the increase in the number of old people living entirely on their own : and, it may be, in great loneliness. Special statistics prepared by the General Register Office show that in 1951 no less than 750,000 elderly women and 168,000 elderly men were living alone. It is unfortunately impossible to obtain exactly comparable figures for earlier years, but from the Censuses of 1911 and 1931 it would appear that the total number of households of one person was less than 500,000 in the first of these years and between 750,000 and 800,000 in the second. If the proportion of elderly persons among those one-person households in 1931 is taken as being the same as in 1951, namely 60 per cent., the Census figures imply a rise of about 450,000 in 20 years in the number of old people living alone, i.e., by about 100 per cent. The repercussions of this increase on housing requirements are obvious.

258. The counterpart of this change has been, almost certainly, a greater isolation of the elderly from their relatives. Nevertheless, it would be unfortunate in every way to attempt to treat the old as if they were a

class whose problems could be considered apart from those of the rest of the community to which they belong. The more closely the old can be regarded as an integral part of the community, the less formidable will be the problems to be faced as a result of their growing numbers. We have had no evidence to show that family ties and the spirit of good neighbourliness are weaker than they used to be. It would be tragic if they were. No welfare service, however efficient or exhaustive, can take their place. There are old people who have outlived their families and some difficulty may be experienced in putting such lonely individuals in touch with the appropriate services. The general practitioner will often be the person who finds old people living without friends or relatives and who can put them in touch with the domiciliary services they need.

259. The witnesses who have given evidence to us have been almost unanimous that the broad general aim of social policy for the old should be to enable them to live, independently as far as possible, in their own homes. Cash provision by way of national and occupational pensions supplemented by personal savings or, where necessary, national assistance, enables old people to remain in their own homes. If need for attention arises it is more easily, and may often be more economically, supplied by the appropriate service if the old person is at home. Expenditure on preventive measures at an early stage may avoid heavy expense and suffering later on.

Authorities making provision for old people

260. Witnesses were agreed that considerable difficulties arose because so many different authorities were involved in making provision for old people, and their respective duties were not always clearly defined. For instance, as indicated above, old people are clearly happier and are likely to be more useful members of the community if they can remain in their own homes. To enable them to do so may well require considerable expenditure by the Local Authorities on the provision of domiciliary services such as home helps, home nurses, or transport to a physiotherapy clinic. If, on the other hand, the old persons are admitted to hospital, the cost of maintaining them falls on central funds. We wish to emphasise that the primary financial consideration is the effect on the public purse as a whole. The cost of maintenance in the hospital bed is probably greater than the cost of providing domiciliary services ; it is certainly greater if account is taken of capital costs. We believe that the method of financing the services needed by old people might well be considered afresh. Clearly the closest co-operation is needed between the various bodies concerned.

National Assistance and non-contributory pensions

261. The cash income for rent and other requirements provided under the National Assistance Scheme represents the assured minimum subsistence below which nobody in this country need fall. Such help is not conditional on proof of destitution. Substantial amounts, both in respect of capital and income are disregarded in assessing the resources of an applicant. These include the complete disregard of the value of a house owned and occupied by the applicant, and of up to £375 of war savings, and the partial disregard of other capital up to £400. Certain items of income are also disregarded within limits. The latest figures available (for November 1951) indicate that, apart from house property owned and occupied by about 50,000 old people drawing assistance, the declared capital assets of old people drawing national assistance—then numbering about 1 million—amounted to more than £32 million. More than half this amount was completely disregarded in assessing their resources.

262. In setting out these figures we have in mind the view, still held in some quarters, that national assistance is conditional on destitution. This may have deterred some people from seeking help for which they would be eligible. The numbers who claimed supplementary pensions from the Assistance Board in 1940—and the present system of assistance grants to retirement pensioners differs little, except in name, from the system then introduced—showed how much more readily help of this kind was accepted from a national authority than from the locally administered Poor Law. A few people may fail to apply for help simply through ignorance that they are eligible. We are assured, however, that it is the Board's policy to give adequate publicity to the service they provide, and we have had no evidence to suggest that the present arrangements for national assistance are not fully capable of playing their essential part of preventing distress among the old by securing a basic minimum.

263. Non-contributory old age pensions are subject to a test of means. Although the test applied differs in certain respects from that laid down for national assistance, many old people may qualify for either form of help, and so receive whichever is the more favourable. Statutory provision has already been made for winding up a system which in effect duplicates part of the field now covered by the National Assistance Scheme, and in view of this we see no need to comment further on this form of provision.

Housing for the old

264. As it is desirable on grounds of both social happiness and finance that the old should be encouraged to live at home as active members of the community and look after themselves as long as possible, suitable housing for the old is a first requirement. At present too many old people are living alone in houses either too large for them or unsuitable in other ways: for example, in the households covered by the Ministry of Labour enquiry (see paragraph 108) the average number of rooms occupied by old people living alone was 3·6 and by elderly couples 4·5. While recognizing that some old persons are reluctant to leave the homes they have known, even though they have become a burden, we believe that they should be encouraged to move both for their own sake and that of others. It is important, however, that a change of house should not lead to the isolation of the old. Active old people have much to give to a community and they should not be regarded as a burden; even when they are no longer working themselves they may often enable others to work outside the home.

(i) *New bungalows and flats.* Between 1918 and 1939 it appears that less than 1½ per cent. of new homes were specially designed with the needs of old people in mind, and it was suggested in 1947 by the Nuffield Foundation* that the ideal figure in future housing programmes should be 5 per cent. Some of our witnesses suggested 10 per cent. as an appropriate figure. In planning new towns and housing estates Local Authorities should be encouraged to include in every district a proportion of small flats or bungalows suitable for old people and scattered among the family houses. We are in fact assured that this is being borne in mind and according to the returns for the six months ending 31st December, 1953 the new dwellings suitable for old people amounted to 8·4 per cent. of all new Local Authority dwellings built in that period. It is not known however, how many of these are let to old people and how many to younger people wishing to live alone.

* Report of a Survey Committee appointed by the Nuffield Foundation under the Chairmanship of T. Seebohm Rowntree, 1947.

(ii) *Adaptation of old houses.* It is not always necessary to build complete new residential establishments or blocks of flats. Large houses might well be adapted for several old people, each with their own room or rooms and possibly some communal services: each single flatlet does not necessarily need its own bathroom accommodation.

(iii) *Houses with some communal services.* It can be argued that as people become less able to care for themselves they should be able to move from homes, which they can manage more or less on their own or with occasional neighbourly help, to flats or terraced bungalows with certain communal facilities. These already exist in certain areas, sometimes associated with a residential home where full maintenance for those unable to look after themselves is provided. It is important in providing such facilities to ensure, as far as possible, that they are sited in the neighbourhood to which the inmates belong, so that they are not separated from the life of the community, particularly the younger members of their own families. Harm may be done, to both young and old, by uprooting old people and so splitting up the family unit where each member has his own contribution to make. It is possible to be lonely and ill in a new and comfortable home, and contact is easily lost with relatives and neighbours who can do so much in small ways to make old people's lives congenial and substantially independent of outside help.

Domiciliary Services

265. The provision of adequate domiciliary services is, without question, one of the essential needs if old people are to be kept active and, as far as possible, in their own homes. The extent to which services such as domestic help, home nursing, laundry facilities, chiropody and hot meals are available in any area is extremely variable. Local Authorities have a duty to provide health visitors and a home nursing service, and they have power to make arrangements for the care and after-care of sick persons and for the provision of domestic help. These services rank for Exchequer grants. Local Authorities are also empowered to make contributions to the funds of any voluntary organisations who provide recreation or meals for old people. They have limited powers under the Public Health Acts to provide certain laundry facilities. The allocation of administrative and financial responsibility for these services is a matter which calls for the most careful consideration both in the interests of the old people themselves and to prevent waste. Rather than to build and maintain special residential accommodation it would, in our view, be better for the community to provide these services and so keep old people at home. This would conduce to the happiness of the old people by enabling them to remain active members of the community, and might well be cheaper.

266. While emphasising the importance of these services it is essential that consideration should be given to their proper co-ordination. The home can have too many visitors and the danger of this is greatest when responsibility for services is divided among several authorities. We have noted with interest an experiment at present being conducted, where there is one trained almoner (supplied by a voluntary body acting in collaboration with a Local Authority) in a given area who is familiar with all the services available and to whom old people can look for advice. In certain areas, such as the County of London, the various services are co-ordinated through

central and local committees on which the various authorities and voluntary organisations are represented. There is also the national organisation of the Old People's Welfare Committees which both stimulate and co-ordinate effort in this large and complex field.

Residential accommodation

267. As already stated, County and County Borough Councils and the corresponding authorities in Scotland provide residential accommodation for about 50,000 old people. Residential homes are also provided by voluntary organisations. The cost per place varies but may be taken on the average as between £3 and £6 per week. There appears to be a large unsatisfied demand for such accommodation, particularly in certain areas where domiciliary services are not well developed. This may well increase as the number of old people rises but need not necessarily do so. Much of the accommodation in use at present, particularly some in the old Poor Law Institutions which have been adapted, is far from satisfactory. There is evidence which indicates that the opening of new homes in modern buildings in itself leads to an increase in demand.

268. Since the accommodation available is limited, Local Authorities are bound to have regard to the urgency of the need of those desiring admission and, as a result a high proportion of the residents in these homes are old or infirm. Such people require a certain amount of nursing and special care and while it can be argued that the physical standards of admission to these homes are too high, it would clearly be undesirable if homes intended for relatively able-bodied residents should become another form of chronic sick hospital.

"Halfway Houses"

269. The housing and care of the elderly infirm presents a special problem. While the National Assistance Act, 1948, places a duty on the County and County Borough Councils of "providing residential accommodation for persons who by reason of age, infirmity, or any other circumstances are in need of care and attention which is not otherwise available to them", and the National Health Service is intended to provide for the sick, there are still many aged and infirm persons who are not receiving the type of care or treatment which they require because they do not fit the categories defined by the Acts. It has been suggested to us that these cases could best be assisted by the provision of Homes intermediate between hospital and Local Authority residential accommodation. Patients would be admitted to these Homes only by way of the geriatric units of hospitals so that their needs might be carefully assessed. Their stay in the Home would vary according to their condition. They might stay—as in convalescent homes—for comparatively short periods and then return to their own homes if any and if circumstances permit, or enter Local Authority or voluntary homes. Alternatively, their health might deteriorate and they would then return to hospital. This close link with the hospital would appear to be essential so that the cases may return at once if full scale nursing becomes necessary. A third possibility is that old people should stay in the Home for an indefinite length of time, even permanently, because their health is not sufficiently good to enable them to be transferred elsewhere, for the frail a move could be a shock sufficiently severe to require an immediate return to hospital. Certain Homes on these lines already exist. They are managed by voluntary organisations although the maintenance costs of the old people in the Home are met at some periods of their stay by the Regional Hospital Board, at others by one of the Local Authorities

in the area. The question of administrative and financial responsibility for the day to day running of establishments which are jointly used clearly requires serious consideration.

Hospital Accommodation

270. Maintenance and treatment in hospital is the least economical form of provision for old age. It should, therefore, be reserved as far as possible for those who can profit directly from medical attention. The average cost of maintaining a patient in hospital varies from £4-£5 a week to £13-£14 a week according to the type of treatment required.

271. There are encouraging signs that the provision of active medical treatment specially designed to meet the needs of old people can restore many of those previously regarded as "chronic sick" and permanently bed-ridden to the independence of home life. Some seventy units providing geriatric treatment have been established in Great Britain since the introduction of the National Health Service. These units work in close collaboration both with the Local Authorities and the general practitioners. This is a development which we welcome, both for the improvement it promises in health and happiness and for the relief to the heavy cost of looking after large numbers of chronic sick. Moreover, active younger people now employed in looking after them can be released for other work. Patients who cannot, for social reasons, return home can often be transferred to long-stay annexes or local authority homes and there receive the modest nursing care they need at a relatively small cost.

272. It is difficult to assess the need for an increased number of beds for the old and chronic sick which has been mentioned by some of our witnesses. On the whole we are inclined to think this is more a question of reorganisation and extension of the services provided, and improvement of the existing accommodation. Further experience of the many experiments in geriatric care now in progress is, we believe, required before long-term building plans are made.

273. Modern methods of treatment also promise improvement in the serious problem of the old who are admitted to mental hospitals. In recent years their numbers have increased considerably largely for social reasons. Many of these patients are confused rather than certifiable. An increasing number, as a result of active and appropriate medical treatment, are able to return to their own homes, and with further experience and development of specialist geriatric services this number should increase still further. Where some continued medical or custodial care is needed, the provision of special long-stay annexes, where less supervision is given, is proving satisfactory for the patients themselves and at the same time facilitates the treatment of those who are really mentally deranged.

Conclusions

274. During the past ten years there have been major changes in the approach to the problem of providing services for the old. Certain services for which Local Authorities were previously responsible have been taken over by the central government. Local Authorities and voluntary organisations are experimenting with different forms of assistance for the elderly. At this stage it is difficult to obtain a clear picture of the pattern of future provision for old people, not only with regard to the nature, but also the scale of the services required to meet their needs. The provision of geriatric units under Regional Hospital Boards working in association with special Homes for the frail ambulant, the general practitioner service and the residential

homes provided by the Local Authorities may be expected in due course to reduce the number of chronic sick requiring hospital treatment. The extent to which people who are fit to continue earning to later ages may affect the demand for services. In these circumstances we do not think we can usefully make specific recommendations about the provision of services for old people and in conclusion we would only wish to make certain general observations.

275. Old people should as far as possible continue to live as members of the community. With this end in view, we consider that it is important that special housing of varying types, adapted to the needs of old people but not isolated from the rest of the community, should be provided. The necessary domiciliary services should be developed and co-ordinated both with the general practitioner and geriatric services.

276. The question of how the work of central authorities, Local Authorities and voluntary organisations concerned with providing the various services required by old people can best be co-ordinated, requires urgent consideration. At present administrative and financial responsibility for the various services is divided between central and local authorities drawing their funds from different sources and in different ways. There must be a natural temptation to try to place elsewhere the responsibility for cases which do not fit easily into any of the conventional or statutory definitions, and the best interests of the individual old person may therefore not always be served. It should be borne in mind that an immediate saving to the funds of one authority may impose a greater burden on public funds elsewhere. We consider, therefore, that the powers to provide services for the old, and the arrangements for financing those services, should be re-examined. We recognise, however, that the problem of the proper division of responsibility and the appropriate distribution of the financial burden involved has wide implications which go far beyond the matters which have been remitted to us.

SECTION VII

SUMMARY AND RECOMMENDATIONS

277. Our Report is concerned with the economic and financial problems which arise from the prospect of a steady and substantial increase in the number of old persons as against a working population remaining roughly constant. Primarily, these problems relate to the provision of income for the old, not only under the schemes of National Insurance and National Assistance, but also under occupational pension schemes and other forms of private provision. We have also considered certain services which are needed or are used by old people, such as hospital treatment, residential accommodation and domiciliary services.

Existing Provision for Old Age

278. *Historical summary.* The national system of provision for old age has been built up gradually over the past fifty years. Non-contributory pensions at age 70 were introduced in 1908 at 5s. a week and raised to 10s. a week in 1920. Contributory pensions of 10s. a week at age 65 were introduced in 1925 over a wide field though not universally. The pension age for women was reduced to 60 in 1940. In 1946 the present universal scheme of contributory retirement pensions came into operation.

279. Fifty years ago the Poor Law was the ultimate recourse for those in need. In 1929 this responsibility was transferred to the Public Assistance Committees of Local Authorities. In 1940 the duty of providing money payments, where necessary, in supplementation of pensions, was taken over by the Assistance Board. Since 1948 hospital treatment and medical services have been provided on a national basis and financed mainly by the Exchequer. Local Authorities remain responsible for providing accommodation for the aged who need it, and for a number of other services.

280. In the same period there has been a great extension in the provision for old age by means of occupational pension schemes and by individual insurance or other forms of thrift.

281. *The present position in outline.* The basic provision for old age is now the national insurance retirement pension payable at a minimum age of 65 for men and 60 for women at a standard weekly rate of 32s. 6d. for a single person and 54s. for a married couple.

282. For those not qualified for such a pension a non-contributory pension is available at age 70, subject to certain tests of means, residence and nationality. The standard weekly rate is 26s. for a man or single woman and 16s. for a married woman.

283. Old people who are without resources or whose resources are insufficient for their needs may receive allowances from the National Assistance Board. The current scale rates are 35s. for a single person and 59s. for a married couple. In addition, payments are made in respect of rent.

284. The National Health Service, available to the whole population, is of particular importance and value to old people and caters specially for their needs in a number of ways.

285. Local Authorities have a wide range of powers and duties to make provision for the old including home nursing, health visiting, domestic help, and residential accommodation where necessary; and in the lay-out of housing schemes they have due regard for the requirements of old people.

286. Mention should also be made of certain income tax allowances for the aged, tobacco duty relief, and the arrangement under which repayment of post-war credits is, in general, limited to persons of pensionable age.

287. The private resources of the old include the widely extended provision made under occupational pension schemes and personal insurance. Moreover, many old people are still in employment and their total earnings amount to a very substantial sum.

Changes in Population

288. The number of old people is increasing, and will continue to increase for some years to come, both absolutely and relatively to the size of the working population. The reasons are to be found in the course of births over the past century and in the progressive decline in the death rate. Today the number of men and women of pensionable age is just under 7 million, or about 2 in 15 of the population. In 1911 this proportion was 1 in 15. By 1979 the proportion is likely to be nearly 3 in 15, and the total number of old people to be 9½ million.

289. Elderly women far outnumber men: for every man of pensionable age there are two women. This is due in part to the earlier pensionable age for women and in part to their greater longevity. Nearly half the women of pensionable age are widows and the proportion of women who are widows rises steeply with age.

290. Although the elderly as a group are much larger in numbers than a hundred years ago, the age-composition of the group has changed relatively little. The proportion over 75 was 21 per cent. in 1911 and 26 per cent. in 1951 ; it is not likely to exceed 30 per cent. in 1979.

291. Between 1911 and 1954 the proportion of children to the total population fell substantially, while that of the active age-groups increased ; in the next 25 years there is likely to be a gradual fall in the proportion of children and also in that of the active-groups. The active age-groups will, however, still form as high a proportion of the population as in 1911. The changes to be expected in the next ten years are small in comparison with those experienced over the past 15 or to be expected in the ensuing 15 years.

292. In evaluating the burden on the community, the fall in the number of children may be thought to offset the increase in the number of the elderly, but we do not think such a conclusion can be relied upon as a basis for future policy. The numbers estimated to belong to the working population are subject to various elements of uncertainty, such as the future level of employment, the extent to which women seek employment, and the future pattern of retirement habits.

293. The general picture that presents itself in terms of numbers is that total population and working population will show a gently rising tendency over the next 25 years, while the number of old people will rise much more rapidly. The change in age-composition to be expected is, however, neither new, sudden, nor (taking young and old together) particularly large. Nevertheless, it does not follow that the economic and financial problems of making provision for the elderly are to be regarded without serious concern.

Main Economic and Financial Problems

294. The economic problems are those that result from the need to accumulate or free resources out of which adequate provision can be made for the old ; the financial problems arise out of the need to transfer to the old the purchasing power that will give them the appropriate command over those resources. They may have occupational pensions or other savings ; if

not, their needs can be met only by the children whom they have reared, by other relatives and friends who are willing to stand by them; and out of national pensions, national assistance, Local Authority services or charity.

295. There has been no systematic analysis of the income and expenditure of elderly households in Great Britain. From such information as is available they appear to draw about 40 per cent. of their income from retirement and other pensions and this proportion rises to well over 50 per cent. for old persons living on their own (nearly half of them women aged over 70); these figures are averages and thus conceal wide variations between individual households. In comparison with fifty years ago there has been an improvement in the standard of living of the elderly but this improvement has been less striking than the large sums now disbursed in pensions might lead one to expect. The increasing outlay in national and occupational pensions would seem to be partly in substitution for the burden that previously fell on relatives, and partly the means whereby some older workers have been enabled to retire from work at an earlier age.

296. Fifty years ago pensions were relatively uncommon. Public assistance to the elderly was confined to the payment of a few million pounds in outdoor poor relief and the support of the aged poor in the workhouse; the total represented an amount which was probably not in excess of 1 per cent. of the national income. Today the annual outlay in pensions, including occupational pensions, is about £500 million and with a further £50 million in national assistance to the elderly, the joint total represents nearly 4 per cent. of the national income. In 25 years' time, and even assuming no increase in pension rates, it would seem reasonable to predict a total outlay of at least £1,000 million, which represents between about 7 per cent. of the present national income but perhaps only between 5 and 6 per cent. of the national income in 1979.

297. The cost of national insurance retirement pensions, at the existing rates, is estimated to grow from £334 million in 1953-54 to £665 million in 1979-80, that is, it will be doubled, whereas the number of persons of pensionable age will have increased by only 40 per cent. This is mainly because the 1946 Act brought all those below pensionable age when it came into force within the scope of the pension scheme; in 1979 only one in five of those over pensionable age will not be drawing a pension, compared with 2 in 5 in 1954. Pension expenditure at present rates will rise 2½ times as fast as the number of elderly persons; if the whole of the prospective deficit on National Insurance falls on the Exchequer the state will have to find, not £70 million as at present, but £430 million, or over 6 times as much.

298. Under a private pension scheme future liabilities are usually covered by the accumulation of a fund of appropriate size. It would be open to the state to build up such a fund for the National Insurance Scheme. But this is not practicable—the annual additional sum which would be required to build up a fund on the necessary scale would be of the order of £400 million for 40 years; and there are considerations arising out of the general system of control of national finance which indicate that such an attempt to mortgage so large a part of the national resources for a particular object would, on the whole, be injurious to the economy. The fund on which the National Insurance Scheme must rely is that of the real capital assets of the community, including its human assets. From this it follows that the larger the obligations which the state assumes towards a future generation of pensioners, the more important it is that it should facilitate the accumulation of real capital assets.

299. In the past there has been a progressive improvement in national productivity, carrying with it a general rise in the standard of living. It has been put to us that it might be reasonable to assume a continuing improvement over the next 25 years which might amount in total to 50 per cent. It goes without saying that so large an increase, which obviously should not be taken for granted, would be far the most important single factor tending to ease the burden of provision for old age. It would not do so automatically, however. Little or none of the gains from higher productivity will necessarily accrue to the elderly who are not in employment, and therefore the higher purchasing power of the population will have to be tapped through taxation, as well as through increased contributions, in order to meet the cost of pensions.

300. The figures which we have used are based on existing pension rates and the possibility of increases in these rates must be taken into account. Moreover, the services now made available to the elderly represent a considerable total of expense which is certain to increase substantially. Accordingly, in considering any future changes of benefit rates, full regard should be had not only to the ease or difficulty with which they can be financed at the time, but also to the continuing and mounting load which they will throw on the community in general and on the Budget in particular. Moreover, if the major part of the increase in pension expenditure is to fall on the Budget, corresponding economy in other directions will be required, even though this may mean that pensions are given priority over other social services. Finally, the efforts of the state should be directed towards ensuring that the capital assets of the community are growing at a satisfactory rate.

National Insurance Retirement Pensions

301. These pensions are one of the benefits paid out of the National Insurance Fund. The revenue of the Fund consists of the weekly contributions paid by and in respect of insured persons, of which the Exchequer pays one-seventh, and the interest from accumulated balances. Up to the present there has been an annual surplus of income over expenditure. This has been mainly due to the low level of unemployment ; the total expenditure on pensions now exceeds the part of the contribution revenue assignable to them by more than £100 million a year. In the near future, even assuming no increase in the rates of benefit, there will be a deficit in the working of the Fund and this deficit will grow rapidly. It is likely to be £126 million in 5 years' time, and £364 million in 25 years' time. No provision is at present made for meeting these deficits from any source other than the accumulated balances of the Funds.

302. *Contributions.* The rate of contribution under the Scheme, including the Exchequer share, is assessed primarily at the amount appropriate to an entrant at age 16. It is therefore quite insufficient to meet the cost of benefits, at any rate as regards pensions, because it assumes payment for nearly 50 years in the case of men and nearly 45 years in the case of women ; no present pensioner has paid contributions for such a period and it will be many years before any pensioner can have done so. Moreover, there have been several increases in the rates of pension, and though there has usually been a simultaneous increase in the rate of contribution, the increased contributions could only be collected for the future and not for the past. The result of this method of finance may be illustrated by the fact that the capital liability assumed by the state for retirement pensions at July, 1948, after allowing for future contributions, was of the order of £8,500 million ; subsequent Acts have increased this capital liability to about £12,500 million. To put the

matter in another way, it is estimated that the contributions paid by and in respect of present pensioners cover only about one-twentieth of the amount it would have cost to purchase their pensions on ordinary commercial terms. A man who reached pension age on 1st January, 1954, could not have paid more in contributions (including interest at 3 per cent.) than £120; his pension had a capital value of between £820 and £1,720, according to whether he was single or married, and to the age of his wife compared with his own. For a single woman the figures are £105 for contributions and £1,130 for the capital value of the pension.

303. In the light of these figures, the question that presents itself is whether any change should be proposed in the present system under which some part of the expenditure is covered by means of contributions, and the large and increasing deficits which we have described can be met only by calls upon the general taxpayer.

304. After reviewing various other methods of finance we think that the system of insurance, under which the payment of contributions is one of the conditions for receipt of benefit, should be retained. It provides an important measure of social discipline, since everyone is aware that higher rates of pension must be accompanied by higher contributions.

305. As regards the future level of contributions we have reached the conclusion, that in relation to pensions payable at the present rates, the contribution determined by reference to an entrant at age 16 should be continued without any increase other than the additional 4d. imposed by the 1946 Act. In the event, however, of an increase in the pension rates, the consequent addition to the contribution should not be confined, as it has been in the past, to the increase appropriate to an age 16 entrant. There should, in our view, also be added such further sum as will be sufficient, on average for the whole body of contributors at the time, to meet the part of the cost of the increase in the pension rate not covered by the increase in the age 16 contribution. One-seventh of the total increase in contribution thus assessed should fall on the Exchequer. Similar principles should be applied on the occasion of any further increase. The effect of these proposals would be that so far as future deficits arise from benefits at their present rates, the present position will remain unaltered and the cost will fall on the Exchequer. As regards any amounts added in future to the rate of pension the cost, other than the cost for those already on pension at the time the change was made, would be completely covered by the contributions, of which the Exchequer would bear one-seventh. The cost for those already on pension would fall on the Exchequer. (Paragraph 173.)

306. *Funding:* The accumulation of a sufficient capital fund is in general appropriate, and, indeed, essential, for a self-supporting superannuation scheme. In the case of the National Insurance Scheme, however, apart from the impracticability of setting aside the very large sums that would be required, we are satisfied that on general grounds of budgetary policy such a system is not to be recommended. In the main the "fund" on which the National Insurance Scheme must rely is that of the general resources of the community built up by all possible means including increased productivity. At the same time we think it important that steps should be taken to ensure that the existing National Insurance Funds should not be depleted on account of future deficits arising from expenditure on pensions. (Paragraph 175.)

307. *Universality:* As the present National Insurance Scheme is universal, many people who have alternative provision will qualify for national pensions. We do not, however, think that it would be practicable to abandon universality now that it is established as a feature of the social services.

308. *Pension Ages:* The medical evidence and the numbers of elderly people who do in fact work until ages well beyond the minimum pension ages of 65 for men and 60 for women, indicate that over a wide field these do not by any means represent the limit of working life. There is evidence that the desirability of encouraging and facilitating the voluntary postponement of retirement is being increasingly recognized. But voluntary postponement of retirement, important though it is, will not in our opinion do all that is necessary to meet the needs of the situation as it will develop in the future. Some increase in the present minimum pension ages appears to us to be inevitable. Adequate notice of some years must be given before such an increase can properly come into force, and, therefore, action is required now. We recommend that provision should now be made to raise the ages at which the standard rate of pension can be claimed by one year after an interval of not less than five years, and that the ages should ultimately be raised in the same way to 68 for men and 63 for women. While there are some grounds for eliminating, or at least narrowing, the present difference between men and women in respect of minimum pension ages, we are not satisfied that such a change would be desirable, at any rate under existing conditions. (Paragraphs 191 and 193.)

309. *Retirement Condition and Earnings Rule:* We consider that the present rule by which pensions below 70 (65 for women) are conditional on retirement should be retained, and we do not recommend any alteration in the present rule under which pensioners may earn up to 40s. a week without reduction of pension. (Paragraph 199.)

310. *Increments:* The increments to pension which can be earned by those who stay at work after the minimum pension ages are a feature of the scheme which is closely linked with the retirement condition. They do not appear to play any significant part in encouraging deferment of retirement and for the reasons we have indicated we recommend there should be no improvement in the present rates even if benefit rates are increased. (Paragraph 202.)

311. *Level of Pension:* A contributory scheme cannot be expected to provide a rate of pension which would enable everybody, whatever his circumstances, to live without other means. Such a pension rate would be an extravagant use of national resources. There cannot be any stereotyped formula for fixing the level of benefit, and changes should be at infrequent intervals; when they are made they should take into account the balance of a number of considerations, in particular the following:

(1) The change in the cost of living, due regard being had to the circumstances giving rise to it and the likelihood of its continuance;

(2) the extent to which pensioners have recourse to national assistance, this being broadly indicative of the relation between the pension rate and the cost of subsistence;

(3) the amount of the additional contribution required by an increase in pension rates and of the increase in the future charge on the Exchequer. (Paragraph 215.)

Occupational Pension Schemes

312. Some three million people are covered by superannuation schemes in the public services, and it seems probable that the corresponding number in industry and commerce generally exceeds five million. This last figure is three times what it was 20 years ago, and there is continuing expansion in

this field. Many of the schemes are comparatively new and will not begin to pay out substantial sums in pension in the immediate future.

313. Occupational pension schemes are nearly always funded, either directly or through the medium of premiums paid to an insurance company ; and in this way promote saving and provide an important source of investment capital. Funding is also a safeguard against over-commitment and secures the contributions that have been made. It is unlikely that the accumulated funds will be too large for the economy to absorb. The development of superannuation schemes is desirable on grounds of social policy. Moreover, these pensions are outside the budgetary structure and, in so far as the schemes are funded, they make a contribution to the future cost of providing for old age. They may ultimately help to limit the state liabilities under the National Insurance Scheme.

314. Part of the cost of occupational pension schemes is borne by the state in the form of tax reliefs. These reliefs afford a means of securing that such schemes do not contain provisions which might conflict with the national interest. We have therefore suggested that tax relief should not be granted to schemes which do not conform with certain conditions. (Paragraph 240.)

315. A combined income from superannuation and the national insurance retirement pension, which closely approaches that earned during working life, would be a direct inducement to early retirement. Many occupational pension schemes are arranged with due regard to the national pension. We consider that this practice should be generally adopted, and that provision should be made to ensure that the combined income does not exceed two-thirds of final salary (though modifications may be needed in respect of workers whose final wages are low). (Paragraph 241.)

316. In the fixing of the contributions payable under occupational pension schemes, due attention must be paid to the total contributions that persons can afford to set aside for old age, bearing in mind that they must also contribute for the national insurance retirement pension. (Paragraph 242.)

317. A stated age at which pension may be taken is a necessary feature of occupational pension schemes. We agree with the National Advisory Committee on the Employment of Older Men and Women that such fixed ages should not be regarded as the ages at which retirement must take place. Tax reliefs should not be granted to pension schemes with lower minimum pension ages than those fixed for the purpose of National Insurance ; discretionary power would be needed to allow different ages in respect of certain occupations. The rules of occupational schemes should be sufficiently flexible to permit pension ages to be varied in the event of changes in the ages under the state scheme. We hope that the public services will bring their minimum retirement ages into line with those recommended for private schemes. (Paragraph 244.)

318. The mobility of labour which is desirable if the economy is to remain progressive ought not to be restricted by the existence of occupational pension schemes. Many schemes already allow the retention of pension rights on a change of employment by granting a transfer value or a "cold storage" pension. In our view, the time has not yet been reached when provision on these lines could properly be made a condition for tax relief ; but we wish to record our approval of the growing tendency to provide for preservation of rights on a change of employment, and hope that employers will give careful attention to the desirability of incorporating such provisions in both new and existing schemes. (Paragraph 252.)

319. Information about occupational pension schemes in industry and commerce will be necessary for the formulation of national policy. We recommend that in future all schemes should be required to supply adequate statistics at regular intervals for publication by some central official agency. (Paragraph 253.)

National Assistance and Other Services for the Old

320. *National Assistance:* National assistance, subject to a needs test, is an essential feature of the social services, not only in relieving financial want, but in education, the National Health Service, and elsewhere. A change of approach to "national assistance" by those who still regard it as no more than the successor of former systems of poor relief is clearly required. There is nothing to suggest that the present arrangements for national assistance are not fully capable of playing their part in securing a minimum standard of living for all old people.

321. At this stage of their development it is difficult to obtain a clear picture of the sort of services old people will need, or the scale on which they should be provided. We have not therefore made specific recommendations but confined ourselves to offering general observations.

322. The broad aim should be to enable old people to live in their own homes where they can continue to be happy and useful members of the community, in touch with their relatives and neighbours. Special housing of various types suitable for the old, but not isolated from the rest of the community, will therefore be needed.

323. Adequate domiciliary services are essential if this policy is to be successful, and expenditure on these can often prevent greater cost and suffering later on. The fullest co-operation between the domiciliary, general practitioner and geriatric services is most desirable.

324. There appears to be a large unsatisfied demand for the residential accommodation provided for the old by Local Authorities, and this demand may increase not only because of the increasing numbers of the old, but also because the provision of new accommodation stimulates the demand. Such homes should be reserved for relatively able-bodied residents and it would be undesirable if they became another form of chronic sick hospital.

325. Many aged people who cannot live at home are too infirm for Local Authority accommodation. These might best be helped by the provision of homes intermediate between hospital and Local Authority residential accommodation ; some such homes already exist.

326. Treatment in hospital should be reserved so far as possible for those who can profit directly from it. There are encouraging signs that modern methods of geriatric treatment will reduce the numbers who up to now have been retained in both general and mental hospitals. It would be premature to embark on long-term building plans for the accommodation of increasing numbers of chronic sick and other old patients in hospitals until there has been more experience of recent developments.

327. Difficulty often arises from the division of responsibility for the different services used by the old, and closer co-operation by the various authorities in this field is urgently needed. We recognize, however, that the problem of the proper division of responsibility and the appropriate distribution of the financial burden involved has wide implications which go far beyond the matters which have been remitted to us.

We desire warmly to record our sense of indebtedness to our Secretaries, Miss K. Whalley and Mr. J. P. Carswell, for their services to us both during our deliberations and in the preparation of our Report. Their intimate knowledge of the system of national insurance and of the allied schemes of social security has been invaluable to us. Our Report, on a large and intricate subject, has of necessity been prepared under conditions of urgency, and they have responded cheerfully to the inevitably exacting demands made upon them. It is not too much to say that without their knowledge, skill and unflagging industry it would have been impossible for us to complete our Report in the period since the taking of evidence ended last July.

(Signed)

T. W. PHILLIPS (*Chairman*)

C. BARTLETT*

A. K. CAIRNCROSS*

J. H. GUNLAKE

F. J. C. HONEY*

JOHN IMRIE

A. McANDREWS*

F. A. A. MENZLER

JAMES ROSS

JANET VAUGHAN*

K. WHALLEY
J. P. CARSWELL } *Joint Secretaries*

27th November, 1954.

* Signed subject to the Reservations on pp. 85–93.

RESERVATION REGARDING NATIONAL INSURANCE CONTRIBUTIONS

1. I regret that I must differ from my colleagues in regard to the contribution to be charged in the event of an increase in the rate of benefit.

2. My colleagues hold the view, as regards the finance of the existing benefits, that the weekly contributions to be charged should be related to the actuarial contribution appropriate to an entrant at age 16. I entirely agree with this view and I see no good reason for adopting any different basis when calculating the additional contribution consequent upon an increase in the rate of benefit.

3. I appreciate that, on the occasion of an increase in benefit, the adoption of the age 16 contribution results in the Exchequer undertaking a very heavy liability—just as it did at the inception of the scheme—in respect of what, in a private scheme, would be called back-service rights. The alternative proposed by my colleagues, however, seems to me to involve serious inequities between contributors of different ages. In particular, new entrants at the age of 16 coming into insurance after the increase in rates had taken place would be required to pay a contribution much in excess of the actuarial value of the benefits.

4. If these inequities are to be avoided, I see no practicable alternative to the age 16 contribution basis and to the undertaking by the Exchequer of full liability for back-service rights in respect of an increase in the rate of benefit. It may well be, however, that, if the Exchequer assumes responsibility for back-service, it should not also be asked to continue its present subvention to the age 16 contribution in respect of pensions, whether or not it should do so in respect of the contribution for other benefits of the National Insurance Scheme. If, therefore, it is desired to relieve the Exchequer of some portion of the heavy cost of pensions, I consider that the most appropriate method would be to reconsider the Exchequer subvention to the age 16 contribution for pensions, with a view to charging a greater proportion of that contribution than at present on the insured persons themselves and their employers, if any.

(Signed) F. J. C. HONEY.

27th November, 1954.

RESERVATION REGARDING NATIONAL INSURANCE CONTRIBUTIONS AND REGARDING THE RETIREMENT CONDITION, THE EARNINGS RULE, AND INCREMENTS IN CONNECTION WITH NATIONAL INSURANCE RETIREMENT PENSIONS

Contributions

1. I am in agreement with my colleagues that, when benefits are raised, the increase in contributions should generally be greater than the increase in the actuarial assessment. I do not, however, altogether accept the formula by which they wish to link the increase in contributions and benefits.

2. When retirement pensions are increased, the new rates of pension are extended automatically to all past and present contributors, irrespective of the amounts they have already contributed, or will contribute over the rest of their insurance lives. Any actuarial balance *ex ante* is thus thrown out by back-service payments which fall *ex post* on the National Insurance Fund and create a deficit in the operations of the Fund. It is deficits so created, together with the liabilities assumed through the admission of additional groups to the National Insurance Scheme, that will cast a heavy and mounting burden on the Fund, and ultimately on the Exchequer, in future years.

3. It appears to me necessary, however, to distinguish between a situation in which the increase in pensions takes place under the impulse of a general inflation and one in which it takes place independently of such inflationary forces.

4. If all that were involved were a change in the value of money, an increase in pension liabilities would be of limited significance. So long as contributions and benefits kept pace with one another, and rose at the same pace as the cost of living, the financial deficit which we foresee would increase more or less proportionately and so, too, in all probability would tax revenue. Thus, although the value of money would alter, the real dimensions of the burden on the Exchequer would not be greatly affected. The absence of funding, which distinguishes National Insurance from private insurance, implies that there is no fund to be depreciated through inflation and that if the liabilities of the Scheme are inflated in money terms, so also are the ultimate assets of the Scheme in the form of taxable income.

5. In such circumstances, the increase in money benefits would be designed to keep them constant in real terms, and the increase in contributions, on the age 16 formula, would have the same effect. Back-service payments might be large in money terms but would confer no real gain on insured persons. To raise contributions more than benefits would, in effect, transfer from the Exchequer to the contributors part of the real liabilities which, at present, stand to fall on the Exchequer. This does not mean that those liabilities would not rise in terms of money, or that the annual sum to be found in order to meet the deficit in the National Insurance Fund would not also increase. But the scale of liabilities and deficit alike would shrink in relation to other elements in the Budget and other constituents in the national income.

6. On the other hand, if rising pension benefits were due to other circumstances, so that the added burden on the Exchequer was a real one, and not merely a reflection of a fall in the value of money, the present formula would confer a real uncovenanted benefit on the insured person at the expense of the taxpayer. The contributor might argue at each stage that he was paying the actuarial equivalent of the benefits due to him, as at present calculated, when, looking backwards, he could not demonstrate any such equivalence, even allowing for changes in prices.

7. It appears to me quite proper, in circumstances of this kind, to oblige the contributor to pay more than he would under the age 16 formula. He would presumably be enjoying a higher real income out of which to make an extra contribution. If he were halfway through his insurance life, this extra contribution might roughly balance the uncovenanted benefits now held out to him. As for the new entrant into insurance, what he pays for are the benefits that he will receive in forty or fifty years' time, not the benefits payable today; if benefits are likely to improve and the Fund bears the risk of having to pay more, it should also be able to exact a premium against the risk.

8. How large the premium should be is obviously a matter for argument. My colleagues have suggested a formula which I am quite ready to accept.

9. I do not think, however, that this formula should apply to adjustments in contribution and benefit intended to deal with changes in the value of money. We are all agreed that the state must accept the liabilities to which the National Insurance Fund stands committed by virtue of past concessions, even though these liabilities are extremely large, and seriously weaken the insurance element in the present Scheme. The formula which my colleagues propose is intended to prevent a large increase in those liabilities; but if it were applied in all circumstances it would, under cover of inflation, put on contributors most of the apparent, monetary, increase in these liabilities and free the state of a corresponding real burden.

Retirement Condition, Earnings Rule and Increments

10. Under the present system of National Insurance there is a sharp distinction between the conditions governing employment in the first five years above minimum pension age and the conditions governing employment thereafter. Between 65 and 69 a man can draw his pension only if he retires; if he does retire and take his pension, it is reduced by anything over £2 per week that he may earn from work; on the other hand, if he continues to work, he can earn increments in the pension to which he will later be entitled. All of these provisions cease to apply as soon as he reaches 70.

11. I can find no justification for this distinction and recommend that it be abolished. None of the three provisions that now apply existed before 1946; they were introduced in fulfilment of the recommendations of the Beveridge Report; and Lord Beveridge, in his evidence, showed no disposition to defend them.

12. I take first the question of increments. My colleagues agree that they are of little effect in inducing workers to postpone their retirement and that if increments did not already exist, there would be no strong case for instituting them. The sole grounds on which they urge that increments be continued are that their abolition would prejudice public acceptance of our other recommendations.

13. Among these recommendations is one envisaging an eventual increase in the minimum pension age to 68. I find it hard to believe that increments could long survive such an increase unless at the same time—and this no one proposes—workers were allowed to earn increments over the age of 70. A system under which increments could be earned for two years only would begin to look distinctly odd.

14. It is not necessary for me to discuss the stages by which increments might be removed, since this must depend on the extent to which our various recommendations are adopted. I concur in the view of my colleagues that there should be no adjustment in increments if benefit rates are increased

and no extension if the pension age is raised. If it were agreed that the earning of increments should cease not more than, say, ten years from now, it would be relatively easy to devise interim arrangements that gradually reduced the number of years in respect of which increments could be earned. Existing pensions would, of course, remain unaffected.

15. If the pension age were not increased, I should still favour the abolition of increments. I agree, however, this would probably have to be coupled with the abandonment of the retirement condition and the earnings rule; and to these I now turn. The retirement condition appears to command widespread support, the earnings rule equally widespread dislike; but the two are inseparable and stand or fall together.

16. The abandonment of the retirement condition would mean pensions became payable on a flat rate at 65 (or any higher minimum age decided upon), just as they are now paid at 70, without further question. There would be no need to pay a higher pension if a man continued in work after 65. If it were thought desirable to follow the practice of private schemes, there might be some nominal increment proportionate to the number of additional years' service; but, on the whole, it would seem preferable to do away with increments altogether.

17. The withdrawal of the retirement condition might appear a costly proposal since it would involve the Exchequer in a net additional outlay of £55 million per annum if put into effect at once. Nearly half a million persons who are now working and earning increments would draw national pensions over and above their current earnings from work. But what they would draw before retirement they would otherwise draw after retirement; the heavier immediate burden on the National Insurance Fund would be largely offset by a fall in outgoings in later years. Not all, but nearly all, the saving to the Fund resulting from voluntary postponement of retirement is ultimately passed on through increments in benefit rates so that in the long run it makes little difference financially whether increments are kept or abolished.

18. I do not suggest the additional immediate outlay involved should be assumed by the Exchequer within the next year or two. My recommendation is intended to deal with the long-term aims towards which policy should be directed, and it would obviously be preferable to defer action until a period of slack trade when it was desirable, on general grounds, to release additional purchasing power.

19. It is commonly argued in favour of the retirement condition that it is wrong in principle that a man should draw pension and wages simultaneously. What is wrong in principle at 69 should also be wrong in principle at 70, but from 70 onwards the principle is not applied. Nor is a man who draws a private pension or an occupational pension denied the right to continue in work if he chooses.

20. It may be feared that to drop the retirement condition would be to invite wage-cutting by unscrupulous employers. Such fears appear to me to have little substance. Within the field covered by collective bargaining or Wages Councils, there is a recognized rate which employers cannot cut except by agreement; and outside this field, employers normally pay at least the trade union rate. The most I should expect would be that employers might take on pensioners at the trade union rate while they were paying younger men at higher rates. In any event, since men over 70 can already draw both pension and wages, no fresh point of principle is involved.

21. There is, moreover, an opposite danger: that rigid insistence on a fixed rate of wages for old and young may exclude the old from employment altogether because of their slower speed of work or the other inconveniences to which they may expose their employers. Even the payment of slightly lower wages in such circumstances would still leave the older men at a disadvantage in comparison with younger competitors for a job.

22. A further objection is that the withdrawal of the earnings rule would encourage men to give up full-time employment and eke out their pension with part-time and occasional earnings. It is difficult to say on what scale this would be likely to happen. We do not even know on what scale it is already happening; there is undoubtedly a good deal of evasion of the earnings rule, though it probably takes the form of non-disclosure of relatively small earnings rather than of earnings that would disqualify from pension altogether. So far as current information goes, it suggests that comparatively few old people do part-time work. In the recent Report on "Reasons Given for Retiring or Continuing at Work", only 494 out of 7,487 men aged 65–70 who had retired said that they were doing part-time work. In the 1951 Census only 23,200 men aged over 65 and 51,800 women aged over 60 returned themselves as in part-time employment. If these figures are even approximately correct, the scope for part-time employment would seem highly restricted and the risk that men might give up full-time in favour of part-time employment correspondingly small.

23. I should not wish to rest the case for getting rid of the retirement condition, however, on the lack of part-time employment. On the contrary, my main reason for wishing to get rid of it is precisely that I hope to see opportunities of part-time employment for the old increase and multiply. If a growing number of old people have to be helped to lead happy and useful lives I can think of nothing more important than that they should learn to retire slowly, continuing in work for as long as possible, but for diminishing stretches of time, at a diminishing pace of work and with diminishing responsibilities. It is wrong, wasteful and cruel that men should be faced with the choice between drawing their pension, retiring altogether, or nearly so, and staying on in their job with an undiminished load. It is this as much as anything that makes men brittle and cuts short their retirement while their wives, who have learned to ease off more gradually, outlive them. From the point of view of a happy and prosperous society it is desirable that men of 65–70 should be free to choose, not whether to retire, but how much to retire: far more desirable than that every able-bodied man should postpone retirement until the last possible moment.

24. The withdrawal of the earnings rule would be at some cost to the National Insurance Fund: the total annual amount by which pensions are abated under the rule is perhaps about £1½ million. On the other hand, the withdrawal of the rule would encourage many pensioners to take jobs who have little incentive at present to do so and would lead others who now do part-time work to do more. So far as this happened, there would be some gain to the community and, in the form of additional tax revenue, to the Exchequer.

25. In order to encourage the part-time employment of older workers, I suggest that no national insurance contributions should be payable by them or by their employers so long as their hours are less than half those normal in their trade. As matters stand, the contributions that are paid by employers represent, in effect, a poll-tax on employment. This tax falls more heavily on part-time than on full-time work since it does not diminish in amount as

the number of hours worked diminishes*. It thus operates to discourage part-time employment, including the part-time employment of elderly workers, whether retired or not. While I see no reason to reduce the contribution in favour of part-time workers below the pensionable ages, I am in favour of removing a discouragement to the part-time employment of older workers.

26. If our recommendations were accepted, and the pension age rose eventually to 68, the changes that I propose above would involve no more than a lowering by two years of the provisions which, at present, govern pensioners of 70 years of age and over. If our recommendations as to pension age were rejected, and no increase took place in pension age, it would, of course, still be possible to bring into effect at 65 the provisions now in force at 70, abolishing increments, the retirement condition and the earnings rule simultaneously. If this were done, however, there would be a strong case for paying a lower rate of pension at 65 than at 70 and maintaining a gap between the two rates. The justification for this would lie in the large proportion of men aged 65–70—about one-half—who are still in jobs and thus have an income already. It is easier for a man to make ends meet in his sixties than in his seventies, when old age more commonly sets in, earnings disappear and needs increase. A two-decker pension rate, is, however, an alternative to an increase in the pension age rather than to the various measures which I propose.

27. To sum up. I recommend:

(*a*) that the earning of increments should cease, without prejudice to existing pensions;

(*b*) that the retirement condition and the earnings rule should be withdrawn and pensions paid as of right at all ages above the minimum;

(*c*) that no national insurance contributions should be payable in respect of part-time workers over the pensionable ages.

(Signed) A. K. CAIRNCROSS.

27th November, 1954.

* If part-time work does not exceed 8 hours per week, however, no contribution is payable except in respect of industrial injury. Where a worker has already retired, he (but not his employer) is exempt from paying contributions except for industrial injuries on any work which he undertakes.

RESERVATION REGARDING THE MINIMUM PENSION AGES

1. We find it impossible to agree with the majority recommendations for raising the minimum retirement ages.

2. The recommendations with which we cannot agree are (1) that a decision should be taken now to raise the National Insurance minimum retirement ages for both men and women by stages of one year at a time after an interval of not less than 5 years, and that ultimately the minimum ages should be 68 for men and 63 for women; and (2) that minimum pension ages in occupational pension schemes should not be lower than 65 for men and 60 for women; that tax reliefs should not be granted to schemes providing for retirement at lower ages; and that the rules of all schemes should be sufficiently flexible to allow the pension ages to be varied in the event of changes in the minimum pension ages under the National Insurance Scheme.

Resources for meeting increased expenditure

3. The majority recommendation of an immediate decision to raise minimum retirement ages is put forward on the grounds that it will make a substantial contribution towards reducing the financial burden of providing for old age, and that any hardship caused thereby will be taken care of by ensuring that sickness and unemployment benefits are available at the standard rates without limit of time once the age of 65, or 60 in the case of women, has been reached.

4. Although the number of old people who will have to be supported by those of working age will increase very considerably over the next 25 years, there will be little reduction in the proportion of the population in the normal working ages. The changing age structure of the population will not, therefore, involve any material reduction in the country's productive resources. Increased expenditure on retirement pensions will, of course, necessitate the transfer of a greater proportion of the national income to the old but not, so far as we can see, a reduction in the total resources within which the transfer takes place. While we agree that the budgetary difficulties of such a large transfer must not be minimised we do not see, in the experience of the post-war years, convincing evidence that a high level of taxation has hampered the country's productive effort. Moreover, the increased expenditure will fall to be met out of an expanding national income. On a reasonable estimate the national income is likely to rise by nearly 50 per cent. over the next 25 years and there is no reason to suppose that revenue from taxation cannot be increased correspondingly.

5. With the foregoing considerations in mind we cannot accept the view that the financial burden of retirement pensions will be so heavy as to justify the compulsory deferment of the National Insurance retirement ages. The easement in the financial burden secured by this means will in any case only be small. It is stated in the Report (para. 187) that if the minimum pension ages were raised now to 68 for men and 63 for women the net annual saving to the National Insurance Fund in 1977–78 would amount to no more than £55 million. This amount represents about 2½d. on the standard rate and reduced rates of income tax at 1953–54 tax rates and levels of income. It is less than 1/6th of the total annual income tax reliefs given by the present Government.

Encouragement of older men and women to remain at work

6. We would agree, of course, that the burden of retirement expenditure is affected by employment policy in relation to older men and women.

The greater the number of old persons who are prepared to continue at work, the smaller will be the burden to be carried by those of working age. The Enquiry into the Reasons for Retirement carried out by the Ministry of Pensions and National Insurance suggests that the majority of people who give up work at the minimum pensionable age do not do so because they are unwilling to carry on, but mainly because of ill-health and the retirement policies followed in industry and commerce. Given the safeguard of full employment we believe that the practical difficulties of extending the employment of older people who are fit to work can be overcome, and that an increasing number of men and women will choose to work beyond the present retirement ages. This seems to us to be a far more desirable and practical method of reducing the burden of retirement pensions in the present circumstances.

Capacity to remain at work at minimum pension ages

7. There will remain the substantial number of men and women who take a pension at the minimum ages on health grounds or because of work strain, about a half of the total number retiring at these ages according to the Ministry of Pensions and National Insurance Enquiry. Unfortunately, little investigation has been made so far into the physical capacity of men and women to continue at their own trade beyond the minimum retirement ages, especially where this involves heavy labour in difficult conditions. But what evidence there is suggests that for possibly many workpeople in the heavier and more exposed occupations continuation of full-time employment may be neither possible nor desirable. The lack of precise evidence in this field of inquiry is a further reason for rejecting the majority view.

8. It is not sufficient to assume, as the majority assume, that cases of hardship would be taken care of by unemployment and sickness benefits. Sickness and unemployment are not comparable with retirement; they are a hardship in themselves. Moreover, the majority appear to have had in mind only those persons fortunate enough to have retained their fitness for work when they reach retirement age. Sickness and unemployment benefits, designed for temporary interruption of earnings, are in our view inadequate to meet the needs of the substantial number of those whose fitness, through work or otherwise, has been permanently impaired at or before the existing minimum retirement ages. We cannot agree that the community's responsibility to such persons is discharged by providing benefits only when they reach a point where they are physically incapable of work or unable to obtain it. Indeed, so far from raising retirement ages there may well be a case for earlier retirement from the more arduous occupations.

Pension ages in occupational pension schemes

9. It follows from what we have said above that we are no less strongly opposed to the majority recommendation for raising the minimum pension ages in occupational pension schemes. It appears to us to be based on an insufficient appreciation of the need for flexibility in the ages at which pensions should be payable in different occupations and industries.

(Signed) C. BARTLETT.

A. McANDREWS.

27th November, 1954.

RESERVATION REGARDING THE MINIMUM PENSION AGE FOR WOMEN

1. While I agree that the savings effected by raising the pension age for single and married women (who have kept up their own insurance) to that of men would be small, I believe that small savings should not be despised. Further, as long as they are physically fit, I can see no reason why one section of the community should be in part supported by the rest of the community, at an earlier age than their contemporaries. If women expect the same opportunities and conditions of work as men, they must also expect to make the same contribution to the productivity of the country through the length of their working life. We have received no satisfactory medical evidence that women over 60 are less fit than men at that age or less fit than they have been during their previous working life. No comparable figures for morbidity in the age-groups concerned are available. Indeed if a wise policy is to be formulated for the best use of the man and woman power of the country, together with provision for old age, a detailed study of the fitness for work in different occupations at different ages in both sexes is required as a matter of urgency.

2. Reference is made in the body of the Report of an Enquiry by the Ministry of Pensions and National Insurance, " Reasons given for Retiring or Continuing at Work ", which might suggest that morbidity is higher for women. The authors are insistent however that no comparison can be made between men and women since the Enquiry covered only women insured on their own account and one quarter of the women covered had already given up work more than five years previously. The results may be summarised briefly and are difficult to reconcile. In the case of 1,000 men, who took retired pension at the age of 65, sickness, ill health or strain was given as the reason by 211. In the case of 1,000 women who took retirement pensions at the age of 60, similar reasons were alleged by 283. On the other hand, it is stated that one quarter of 4,834 men taking their retirement pension at the minimum age (65) fell into the category of chronic sick and more than a quarter gave ill health, heaviness or strain of work as the reason for taking pension, while of 6,592 insured women retiring at 60 or during the preceding five years, approximately 8 per cent. fell into the category of chronic sick and approximately 21 per cent. gave ill health or strain of work as a reason for retirement.

3. Apart from morbidity, it is incontrovertible that the expectation of life of women at the more advanced ages is, in fact, greater than that of men. I would, therefore, recommend restoration of parity between pension ages for men and women at the same time as the pension age is raised.

(Signed) JANET VAUGHAN.

27th November, 1954.

APPENDIX I

Evidence Received

(Those who gave oral evidence are marked with an asterisk)

Admiralty.
Air Ministry.
Association of County Councils in Scotland.
*Association of Municipal Corporations.
Association of Occupational Therapists.
Association of Welsh Local Authorities.
*The Lord Beveridge, K.C.B.
Board of Guardians and Trustees for Relief of the Jewish Poor, Registered.
*Board of Inland Revenue.
*British Employers' Confederation.
British Federation of University Women Limited.
Chartered Auctioneers' and Estate Agents' Institute.
Dr. L. Z. Cosin, F.R.C.S.
*County Councils Association.
Department of Agriculture for Scotland.
*Department of Health for Scotland.
District Councils Association for Scotland.
*Faculty of Actuaries in Scotland.
*Government Actuary.
Home Office.
*Institute of Actuaries.
Miss E. B. Kerr.
Land Agents' Society.
Liberal Party Organisation.
*London County Council.
Metropolitan Borough of Islington.
Ministry of Education.
*Ministry of Health.
Ministry of Housing and Local Government.
*Ministry of Labour and National Service.
*Ministry of Pensions and National Insurance.
National Adult School Union (Education and Social Service Committee).
*National Assistance Board.
*National Corporation for the Care of Old People.
*National Council of Women of Great Britain.
National Federation of Grocers' and Provision Dealers' Associations.
National Federation of Professional Workers.
National and Local Government Officers Association.
*National Old People's Welfare Committee.
*National Savings Committee.
National Society for Epileptics, Chalfont Colony.
*National Spinsters' Pensions Association.
*National Trade and Kindred Organisations Committee on National Insurance.
National Union of Holloway Friendly Societies.
National Women's Citizens Association.
Noble Lowndes Pension Service.
S. Normington, Esq.
Northern Counties Institute for the Blind.
Officers' Pension Society Limited.
Over 60's Centre Scheme (South East Essex Area) Committee.
*Registry of Friendly Societies and Office of the Industrial Assurance Commissioner.
*Retail Distributive Trades Conference, Employers' Side.
Percy Rockliff, Esq., O.B.E.
Scottish Association of Friendly Societies.

*Scottish Counties of Cities Association.
Scottish Education Department.
Scottish Federation for the Welfare of the Blind.
Scottish Home Department.
*Scottish Old People's Welfare Committee of the Scottish Council of Social Service.
*Dr. J. H. Sheldon, M.D., F.R.C.P.
Society of Housing Managers.
Mrs. May M. Thompson.
Professor A. P. Thomson, M.C., M.D., F.R.C.P.
*Trades Union Congress, General Council of.
*Treasury.
Trustees of the Whiteley Homes.
Professor R. E. Tunbridge, O.B.E., M.D., F.R.C.P.
Urban District Councils Association.
Urban District Council of Billericay.
War Office.
Councillor Sam Williams.
Women's Gas Federation.

APPENDIX II

Memorandum by the Government Actuary

Population Trends in Great Britain

I. Population Changes During the Last Hundred Years

1. The statistical facts regarding the population of Great Britain can be summarised in two or three sentences. Birth and death-rates have fallen steadily over a long period, with the result that although the total population is still increasing in numbers the rate of increase has considerably diminished. For the last forty years the increase has been confined to the population of middle-aged and old people. The rapid growth in the numbers of people who have passed the normal age of retirement from work is due more to the higher proportions surviving to that age than to any remarkable lengthening of the average life-time after retirement.

2. In general, these features are common to both men and women. Differences in detail will be referred to, where necessary, at a later stage. The following table summarizes in round figures the changes which have occurred in the size and age-structure of the total population of both sexes as revealed by the censuses of the last hundred years.

TABLE 1

Population of Great Britain (Men and Women)

Year	0–14	*Age Group* 15–44	45–64	65 *and over*	*All ages*
		(a) Numbers (millions)			
1851	7·4	9·5	2·9	1·0	20·8
1861	8·2	10·4	3·4	1·1	23·1
1871	9·4	11·6	3·8	1·3	26·1
1881	10·8	13·3	4·2	1·4	29·7
1891	11·6	15·1	4·7	1·6	33·0
1901	12·1	17·7	5·5	1·7	37·0
1911	12·6	19·5	6·6	2·1	40·8
1921	12·0	20·0	8·2	2·6	42·8
1931	10·8	21·0	9·7	3·3	44·8
1951	11·0	20·8	11·7	5·3	48·8

Year	0–14	15–44	45–64	65 and over	All ages
		Age Group			
	(b) Percentage distribution				
1851	35	46	14	5	100
1861	36	45	14	5	100
1871	36	44	15	5	100
1881	36	45	14	5	100
1891	35	46	14	5	100
1901	32	48	15	5	100
1911	31	48	16	5	100
1921	28	47	19	6	100
1931	24	47	22	7	100
1951	22	43	24	11	100

3. From Section (*a*) of the table it can be seen that during the last forty years the population under age 45 has remained virtually constant at about 32 million, whilst the numbers over that age have increased from nearly 9 million to 17 million. During that period, although the total population has grown by only 20 per cent., the "middle-aged" population (ages 45-64) has increased by nearly 80 per cent., and the "elderly" population (ages 65 and over) by as much as 150 per cent., but the "under 45's" not at all.

4. Section (*b*) of the table shows that until the end of last century there was little or no variation in the proportions in which the total population was distributed over the four broad age-groups. Up to that point there were, for every 12 persons in the "working" age-group 15-64, 7 young dependants and one old dependant; in 1951 the corresponding numbers were 12, 4 and 2 respectively. The ratio of old people to "workers" has been doubled, while the ratio of children to "workers" has been reduced by nearly one-half. The net effect of these opposing changes on the national economy is not a matter within the scope of this paper.

II. Birth Rates

5. These population changes are mainly the outcome of changes in fertility and mortality during the period. As regards the former, Table 2 shows, for the three year period adjacent to each population census, the average annual number of live births and the number of legitimate births per 1,000 married women under age 45.

TABLE 2

Live Births in Great Britain

Period	Average annual number (thousands)	Legitimate births per 1,000 married women under age 45
1870–72	922	295
1880–82	1,011	289
1890–92	1,018	267
1900–02	1,064	239
1910–12	1,007	201
1920–22	987	184
1930–32	725	127
1950–52	773	108

For the purpose of a proper study of the fertility trend it would be necessary to analyse this experience in more detail. The above figures are quoted merely to show the consistent downward movement which continued over a long period until a few years before the war of 1939-45. In the years immediately following the war this trend was sharply reversed and although the "boom" has largely subsided, the figures for 1950-52 are still well above the level which, but for the interruption of the war, might have been reached if the long-term trend had continued.

III. Death Rates

6. In a population of changing size and age-distribution, numbers of deaths —whether in themselves or expressed as proportions of the total population of all ages—are devoid of any real meaning. It is, however, interesting to note that the number of deaths in 1950-52 was the same as the number in 1870-72 in a population little more than half the size. The age-distributions of the deaths were, it need hardly be said, fundamentally different:

Numbers (annual average) of deaths in age-groups

Thousands

—	0–14	15–44	45–64	65 and over	Total
1870–72	270	113	87	112	582
1950–52	31	36	134	382	583

Table 3 relates these deaths and those in the intervening periods to the corresponding age-group populations:

TABLE 3

Deaths per 1,000 of population in age-groups

Period	0–14	15–44	45–64	65 and over
1870–72	29	10	23	90
1880–82	25	8·0	23	87
1890–92	23	7·5	25	98
1900–02	21	6·2	22	89
1910–12	15	4·8	18	80
1920–22	11	4·3	15	75
1930–32	7·6	3·6	14	74
1950–52	2·8	1·7	11	72

7. Like the birth-rate figures in paragraph 5, these ratios are presented to give the broad picture. It has already been shown that the proportion of older people in the population is progressively increasing, and for this reason the use of broad age-groups for the purpose of a comparison extending over many years introduces some bias into the resulting figures. A refined analysis of mortality trends would take account of this, and it would also be necessary to study the experience of men and women separately. Table 3 does, however, provide an adequate basis for the following broad conclusions:

(i) At the younger ages mortality has been declining throughout the period covered by the table. At the older ages the decline did not set in until the beginning of the present century.

(ii) The extent of the decline decreases as the age advances. The 1950–52 figures for the four age-groups are 13, 27, 50 and 81 per cent. respectively of those for 1900–02.

(iii) The mortality rates of children and younger adults are now so low that they cannot fall much lower. The figures for the oldest age-group show some signs of beginning to flatten out.

IV. The Elderly Population

8. In the light of these figures (particularly the percentages quoted in (ii) of the previous paragraph) it becomes easy to identify the primary cause of the great increase in the numbers of elderly people. The obverse of the substantial decline in mortality during the greater part of the life span is a

substantial increase in the probability that a new-born child will survive to the threshold of old age; this is the main reason for the remarkable increase that has occurred in the expectation of life (i.e., the average future life-time) at birth. The vista of future life-time stretching out from that threshold would be considerably lengthened if mortality rates at the more advanced ages were also declining rapidly; but this, as has been seen, is not the case, and the expectation of life at ages over 60, say, has not in recent years increased very much, particularly in the case of men. As the following table shows, the age-distribution of the population from 65 onwards has changed very little during the last hundred years:

TABLE 4

Percentage age-distribution of elderly population

Year	*Age-group* 65–69	70–74	75–79	80–84	85 and over	Total, 65 and over
1851...	39	30	18	9	4	100
1871...	41	30	17	8	4	100
1891...	41	31	17	8	3	100
1911...	43	30	16	8	3	100
1931...	43	29	17	8	3	100
1951...	38	30	19	9	4	100

The increase in the size of the elderly population is, in fact, due primarily to the continuous growth of the numbers in younger age groups which has resulted from the substantial decline in mortality revealed by Table 3.

V. MIGRATION

9. The changes in the size and age-distribution of the population cannot, of course, be attributed solely to changes in birth-rates and death-rates. To complete the picture, reference must be made to the element of migration. Generally speaking, the balance of migration has been outward. During the eight decades between 1871 and 1951 the total net loss of population from this cause amounted to some 2¼ million. This is a substantial figure, but to be seen in proper perspective it needs to be considered in relation to the 73½ million births and the 48 million deaths which were the primary factors in the increase of population from 26 million to nearly 49 million during the period. In the light of this comparison it can hardly be supposed that, so far as age-structure (as distinct from actual numbers) is concerned, the population situation would have been fundamentally different if there had been no migratory movement in either direction.

VI. SEX-CONSTITUTION

10. No reference has so far been made to the sex-constitution of the population. Throughout the period covered by the national records the number of male births has always exceeded the number of female births to an extent which has varied at different times between about 3½ and 6½ per cent., the general secular tendency being upwards rather than downwards. (The ratio of male births to female births is usually referred to as the masculinity ratio.) On the other hand, male mortality has always been heavier than female mortality; generally speaking, the relative difference has been at its greatest in the age-range 45–64, but at all ages it has tended to increase with the passage of time because, on the whole, the mortality of women has declined more rapidly than the mortality of men.

11. The net effect of these opposing factors—combined with losses due to war and migration in which male lives have preponderated—has been to produce, over a long period in the past, an approximate balance between the child

populations of each sex and thereafter a preponderance of females which increases with age. The historical picture is as follows:

TABLE 5

Female population as percentage of Male population

Age groups

Year	0–14	15–44	45–64	65 and over	All ages
1851	99	107	108	123	105
1871	99	109	110	122	106
1891	100	108	113	128	106
1911	100	108	110	134	107
1931	98	109	113	133	109
1951	96	104	115	144	108

As a result of the secular increase in the masculinity ratio to which reference has already been made, the figures in the first column are seen to be declining, and a decline can also be noticed in the second column if allowance is made for the fact that the figure for 1931 is inflated as a result of the war casualties of 1914–18. This inflation has now spread to the third column and will soon be apparent in the fourth. If—as has been assumed in the population projections presented in a later section—the masculinity ratio persists at its present level, the excess of females in the population will, in the absence of further extraneous losses of male lives, progressively decline—although clearly many years must elapse before the female/male ratio at the advanced ages is greatly affected.

VII. POPULATION PROJECTIONS

12. Although, for the sake of brevity, the historical synopsis of population structure given in the earlier part of this note has been based on figures comprising both men and women, it will be evident from paragraphs 10 and 11 that any attempt to forecast the populations of future years must have regard to the fundamental sex differences referred to in those paragraphs.

13. The population problem was exhaustively examined by the Royal Commission which reported in March, 1949. A vast quantity of statistical material was assembled for the Commission by a Committee of experts who, after profound study of the national vital statistics, produced a range of population forecasts on a number of alternative assumptions. Such forecasts, if they are not to be sheer guesswork, can be constructed only by identifying what appear to be the prevailing trends inherent in series of mortality and fertility rates derived from past experience and deciding to what extent, if any, these trends need to be modified before they can be adopted as a reasonable basis for prognosticating the future. The emphasis for this purpose must clearly be on general tendencies revealed by the study of figures extending over a considerable period of time; and as the work done for the Royal Commission is still very recent it might be argued that the time for a systematic re-examination is not yet ripe.

14. There are, however, three practical considerations on the other side. In the first place, population projections must proceed from a current baseline. The Royal Commission was at a disadvantage in this respect in that the latest population figures at its disposal were those derived from the Census of 1931 and the National Registration of 1939, whereas a complete count and a detailed age-distribution, derived by sample, are now available in respect of the year 1951. Secondly, very little information was available to the Commission in regard to mortality experience after the war. Thirdly, the Commission was faced with the very difficult task of deciding whether, for forecasting purposes, the rise in the birth-rate which was in full spate during the period of its deliberations was to be regarded entirely as a temporary post-war boom or as indicative in some measure of a real reversal of the downward trend which had persisted for so many years prior to 1939. This aspect of the population problem is still very difficult to assess; nevertheless, there are now available several years of post-war experience which were, of course, entirely lacking when the Commission was sitting.

VIII. Future Mortality

15. As regards mortality, the addition of the experience of the last few years to the existing stock of historical material has by no means simplified the study of secular trend. At the younger ages, the mortality rates for both sexes have declined during the last decade at an even greater rate than in earlier years. At the older ages, on the other hand, there has been little or no improvement; indeed, there is some suggestion—at any rate in the case of men—of a deterioration. It would, however, be unduly pessimistic to infer, from the information at present available, that at these ages the downward trend which has persisted for so many years has now worked itself out. Although it is customary, for the sake of simplicity and convenience in analysis, to think of the secular decline in mortality as a smooth and regular progression, a more detailed representation would be expected to display a series of steps of irregular height and depth corresponding to the incidence of the advances in medical skill which, together with the progressive amelioration of environmental conditions, have been the root causes of the fall in the death-rate.

16. As it is impossible to foretell either the timing or the extent of future developments in medicine, the most straightforward method of attempting to estimate how many members of the existing population will survive in specified future years is to ascertain the average rate at which the death-rates of men and women in the various age-groups have been reduced from year to year over a fairly long period in the past, and to assume that for the time being this rate of reduction will continue. Projections made by this (or, indeed, any other) method obviously become increasingly speculative as the period covered by the estimate is extended, and no attempt has been made to forecast mortality changes more than 25 years ahead, i.e., after 1979. Death rates by sex and age appropriate to 1954 were estimated on the basis of the latest available statistics and it was assumed that during the ensuing quarter of a century these would decline year by year in geometrical progression at the average rate experienced at each age during the first half of the century. From what has been said in paragraph 15 it will be apparent that the average rates of decline assumed for the future tend to be somewhat greater at the younger ages, and somewhat smaller at the older ages, than if the experience of the most recent years had been excluded from the analysis.

17. It has been thought convenient to take 31st March, 1954, as the starting point of the projections. Estimates of the population at this date have been framed on the basis of the 1951 Census, subsequent population estimates made by the Registrars General in the light of the Census figures and all available information regarding population movements in the short intervening period.

IX. Future Births

18. An estimate of the population at all ages 25 years hence involves a forecast of the births during the period 1954–79. The primary question at issue in this connection is whether the birth-rate has now attained something approaching stability following the "boom" of the post-war years. The figures from 1947 have been as follows:

TABLE 6

Live Births in Great Britain

Year	Thousands *Live births*
1947	1,000
1948	877
1949	827
1950	784
1951	770
1952	764
1953 (estd.)	769

Although the last three entries in this table might be read as an indication that more normal conditions have now supervened, they do not in themselves justify an assumption that, if fertility rates were now to continue for a time at the present level, a uniform annual crop of about 765,000 births would be produced. Fertility varies markedly with age of mother and duration of marriage; as regards the age-factor alone it will be seen from Table 8 below that, although the total numbers of women at the child-bearing ages are not expected to change considerably during the next 25 years, their age-distribution will—as the result of fluctuations in the birth-rate in earlier years—be far from stable.

19. When variations of this kind are taken into account, calculations based on current fertility rates produce a series of estimates of births which falls to 720,000 in about 10 years' time and rises considerably during the following 10 years. It may well be, however, that the present level of births reflects to some extent an impetus deriving directly from war-time or post-war causes the effect of which will gradually wear off during the period. After allowance for this the estimated numbers of births adopted for the population projection were as follows:

TABLE 7

Estimated Live Births in Great Britain, 1954–1979

Thousands

Period	*Estimated average annual number of births*
1954–59	735
1959–64	705
1964–69	705
1969–74	725
1974–79	720

These births were sub-divided between the sexes by using a male/female ratio of 1·06, which conforms closely to the experience of the last 10 years.

X. ESTIMATED FUTURE POPULATIONS

20. The estimated populations of each sex in 1954, 1964 and 1979, on the assumptions as to mortality and fertility described above and making no adjustment for the possible effects of migration, are shown in Table 8 below. They include members of the armed forces and the merchant navy at home and abroad.

TABLE 8

Estimated Population of Great Britain at certain dates

Millions

Age Group	Males			Females		
	31st March, 1954	31st March, 1964	31st March, 1979	31st March, 1954	31st March, 1964	31st March, 1979
0–14 ...	5·70	5·50	5·40	5·46	5·23	5·11
15–24 ...	3·27	3·74	3·55	3·22	3·60	3·38
25–34 ...	3·65	3·22	3·92	3·66	3·20	3·78
35–44 ...	3·44	3·60	3·19	3·52	3·61	3·16
Total, 15–44	10·36	10·56	10·66	10·40	10·41	10·32
45–54 ...	3·39	3·28	3·21	3·56	3·41	3·22
55–64 ...	2·34	2·97	3·01	2·89	3·31	3·26
Total, 45–64	5·73	6·25	6·22	6·45	6·72	6·48
65–74 ...	1·52	1·67	2·30	2·13	2·36	2·89
75–84 ...	·63	·67	·92	1·00	1·18	1·53
85 and over...	·08	·09	·11	·17	·22	·29
Total, 65 and over ...	2·23	2·43	3·33	3·30	3·76	4·71
Total, all ages	24·02	24·74	25·61	25·61	26·12	26·62

Age group	31st March, 1954	31st March, 1964	31st March, 1979
0–14	11·16 (22)	10·73 (21)	10·51 (20)
15–44	20·76 (42)	20·97 (41)	20·98 (40)
45–64	12·18 (25)	12·97 (26)	12·70 (25)
65 and over ...	5·53 (11)	6·19 (12)	8·04 (15)
Total, all ages	49·63 (100)	50·86 (100)	52·23 (100)

21. The table shows an estimated increase in the population of all ages of about 1¼ million in the next ten years and a further increase of about 1¼ million in the ensuing fifteen years. The increase over the whole 25-year period is considerably less than the 4 million shown in Table 1 (*a*) for the twenty years 1931–51. In the period 1954–64 the child population declines by nearly half a million, while the population at the working ages (15–64) increases by a million. In the period 1964–79 the numbers in both these groups show a small decline. The figures for ages 65 and over, read in conjunction with the historical series in Table 1 (*b*), indicate a steady continuation of the ageing process; in 1979 the numbers in this age-group are nearly 50 per cent. greater than in 1954, and represent some 15 per cent. of the whole population.

22. The most striking feature of the table so far as sex-constitution is concerned is the steady decline in the proportion of females to males. The indication is that—possibly for the first time in our history—the number of women at the principal marrying ages will soon fall below the number of men at these ages. The figures are as follows:

Age-group	Females per 100 males		
	1954	1964	1979
0–14	96	95	95
15–44	100	99	97
45–64	113	107	104
65 and over	148	155	141
Total, all ages	107	106	104

In considering these figures the remarks in paragraph 11 should be borne in mind, and it must also be remembered that the projections make no allowance for future immigrants or emigrants of either sex. It seems clear that a time may not be very far distant when the dimensions and sex-incidence of migration may have a significant bearing on the child-producing capacity of the home population.

XI. Effect of Migration

23. The introduction of migration as an element in population projection would involve assumptions regarding not merely the size of the net inward or outward flow of migrants but also their relative numbers from year to year and the nature of their distribution by sex and age. The statistics of past migration display no very clear-cut pattern, and any such assumptions could only be very arbitrary. In the projections prepared for the Royal Commission an attempt was made to give some idea of the possible effect of migration on the size and structure of the future population by assuming a level annual flow of migrants distributed by age and sex according to a fixed pattern. A comparison of a projection in which migration is allowed for in this manner with another in which no such allowance is made (the same assumptions regarding fertility and mortality being made in both cases) indicates that a uniform loss (gain) of 50,000 migrants a

year—about 1 per 1,000 of the population—would, after 25 years, reduce (increase) the population by about 1½ million persons. As nearly 90 per cent. of the migrants were assumed to be under age 45, the size of the elderly population was only slightly affected ; at ages under 65, the reduction (increase) was of the order of 3½ per cent. The sex-constitution of the population was also only slightly affected, for the reason that the hypothetical migrant body was assumed to consist of males and females in almost equal proportions. In the absence of any clear indication of what the future course of migration to or from this country is likely to be, computations such as these are of very limited value.

XII. Alternative Projections

24. It is more informative to attempt to assess, in a very general way, to what extent the projections given in Table 8 would be affected by substantial changes in the nature of the assumptions made in regard to mortality. Since a general increase in mortality rates is unlikely, it is not unreasonable to assume that a lower limit to the size of the future population would be provided by a computation based on constant mortality at the current level. An upper limit is less easy to select, and although an alternative projection has been made on the supposition that the death-rates at all ages will decline at twice the rate used for the basic projection (an assumption which, at the younger ages, produces extraordinarily low rates in 25 years' time) it is perhaps better described as "optimistic" than as an extreme measure of the extent of population growth. For the sake of contrast the projection on the basis of constant mortality can conveniently be labelled "pessimistic".

25. In summary form the results, on the three bases, for the 1979 population are as follows:

Table 9

Projected population of Great Britain, 1979, *on alternative assumptions (both sexes)*

Millions

Age group	Pessimistic	Basic	Optimistic
0–14	10·39	10·51	10·60
15–44	20·83	20·98	21·06
45–64	12·38	12·70	12·93
65 and over	7·41	8·04	8·64
Total, all ages	51·01	52·23	53·23

26. This comparative table is very useful in two respects. First, the figures for the first two age-groups show how small is the effect, in terms of future population, of postulating considerable changes in death rates which are themselves already very small. Secondly, from a comparison of the estimated populations in 1979 aged 65 and over with the corresponding estimate (5·53 million) for 1954 it will be seen that the "basic" estimate for 1979 is 2·51 million in excess of this figure, while the "pessimistic" estimate exceeds it by 1·88 million. That is to say, the size of the present "middle-aged" population is such that, even if there is no further decline in mortality, the numbers aged 65 and over will increase by about one-third during the next 25 years. On the "optimistic" basis, however, the numbers will increase by well over one-half during the period.

27. The results of the three alternative projections invite the following tentative conclusions. During the next 25 years the child population (ages 0–14)—somewhat inflated at present by the post-war boom in births—may be expected to fall by half a million or more. The population (aged 15–64) (33 million at present) is unlikely to show an increase of more than one million. The elderly population (now 5½ million) will increase by at least 2 million and may increase by as much as 3 million. At the end of the period it will be nearly one-quarter the size of

the population of working age instead of about one-sixth as at present. In the population of working age the numbers of men and women will be very evenly balanced, whereas in the elderly population the latter will continue to exceed the former to much the same extent as at present.

These conclusions are perforce subject to the limitation that the calculations on which they are based make no allowance for migration. If the net movement —either inward or outward—was at all considerable and consisted mainly of persons of the same sex, the stability of the population of working age, as regards both numbers and sex-constitution, might be appreciably affected.

XIII. "PENSIONER" POPULATIONS

28. For the sake of uniformity with the historical material presented in the early sections of this note, the dividing line between the "working age" and the "elderly" populations has been drawn at age 65 in the projections for both men and women. To convert the latter population to a "pensioner" basis, the women aged 60–64 must be transferred to it. If this is done, the estimated numbers of pensionable age, in comparison with those at the working ages, are as follows:

TABLE 10

Comparison of estimated numbers of pensionable age with those at the working ages

Millions

—	Ages 65 and over (men)	Ages 60 and over (women)	Ages 15–64 (men) and 15–59 (women)	(1)/(3)	(2)/(3)
	(1)	(2)	(3)	(4)	(5)
31st March, 1954	2·23	4·66	31·58	·071	·147
31st March, 1964:					
Pessimistic	2·38	5·26	32·29	·074	·163
Basic	2·43	5·33	32·37	·075	·165
Optimistic	2·48	5·39	32·46	·076	·166
31st March, 1979:					
Pessimistic	3·04	5·77	31·81	·096	·181
Basic	3·33	6·17	32·22	·103	·192
Optimistic	3·61	6·52	32·50	·111	·201

XIV. THE MORE DISTANT FUTURE

29. The projections presented in earlier paragraphs have been limited to a period of 25 years for no particular reason other than to emphasise that any attempt to predict the course of population movement over a longer period becomes increasingly a matter of conjecture, if only for the reason that estimates of the size of the population many years hence depend so largely on the assumptions made in regard to future births. The estimates for 1979 would clearly not be substantially affected, at the adult ages, by changing the fertility assumptions described in paragraph 19; but in attempting to look further ahead it is desirable to consider the effect of adopting alternative bases.

30. The estimated average annual numbers of births given in Table 7 were based on the assumption that age-specific fertility rates would decline progressively during the period 1954–79 until, in the latter year, they were equivalent to a female net reproduction rate of ·95. (In subsequent paragraphs this is referred to as the "basic" fertility assumption.) If, however, the reproduction rate in 1979 were assumed to be 10 per cent. lower, or 10 per cent. higher, than ·95 and the fertility rates assumed for the intervening years were adjusted

accordingly, the average annual number of births in each quinquennium of the period 1954–79 would compare with those in Table 7 as follows:

Thousands

Period	Table 7	"Lower"	"Higher"
1954–59	735	728	742
1959–64	705	684	726
1964–69	705	670	740
1969–74	725	674	776
1974–79	720	654	788

31. Projections for 50 and 75 years hence (i.e., to the years 2004 and 2029 respectively) have been made on all three bases. In each case it has been assumed that mortality, after declining between 1954 and 1979 in the manner assumed in the earlier "basic" projections, will thereafter remain constant at the 1979 level. The estimated populations in broad age-groups are as follows:

TABLE 11

Estimated Population of Great Britain on varying fertility bases

Millions

Age Group	Year 2004			Year 2029		
	"Lower"	"Basic"	"Higher"	"Lower"	"Basic"	"Higher"
Males						
0–14	4·36	5·14	5·98	3·81	4·93	6·25
15–44	9·67	10·48	11·33	8·47	10·07	11·84
45–64	6·70	6·72	6·74	5·91	6·43	6·96
65 and over... ...	3·31	3·31	3·31	3·56	3·61	3·66
Total ...	24·04	25·65	27·36	21·75	25·04	28·71
Females						
0–14	4·12	4·86	5·66	3·61	4·67	5·91
15–44	9·23	10·01	10·81	8·08	9·60	11·28
45–64	6·72	6·74	6·76	5·87	6·39	6·91
65 and over ...	4·57	4·57	4·57	4·72	4·78	4·84
Total ...	24·64	26·18	27·80	22·28	25·44	28·94
Males and Females						
0–14	8·48	10·00	11·64	7·42	9·60	12·16
15–44	18·90	20·49	22·14	16·55	19·67	23·12
45–64	13·42	13·46	13·50	11·78	12·82	13·87
65 and over... ...	7·88	7·88	7·88	8·28	8·39	8·50
Total ...	48·68	51·83	55·16	44·03	50·48	57·65

From the third section of the table it will be seen that the variations of the "lower" and "higher" estimates from the "basic" are as follows:

Age Group	Year 2004		Year 2029	
	"Lower"	"Higher"	"Lower"	"Higher"
0–14...	−15 per cent.	+16 per cent.	−23 per cent.	+27 per cent.
15–44...	− 8 per cent.	+ 8 per cent.	−16 per cent.	+18 per cent.
45–64...	negligible	negligible	− 8 per cent.	+ 8 per cent.
65 and over	no change	no change	− 1 per cent.	+ 1 per cent.
All ages	− 6 per cent.	+ 6 per cent.	−13 per cent.	+14 per cent.

32. Table 11 also shows the extent to which changes in the fertility assumptions affect the broad age structure of the estimated populations. Fifty years hence (i.e. in the year 2004) the ratio of the numbers aged 65 and over to those aged 15–64 is *reduced* from 23·2 per cent. on the "basic fertility" assumption to 22·1 per cent. on the "higher fertility" basis, but the ratio of the combined numbers aged 0–14 and 65 and over to the 15–64 group is *raised* from 52·7 per cent. to 54·8 per cent. By the year 2029, however, the size of the population at the working ages is more profoundly affected by the change in the fertility basis, with the result that the ratio of the numbers aged 65 and over to those aged 15–64 is reduced from 25·8 per cent. ("basic") to 23 per cent. ("higher"), while the ratio of the combined numbers aged 0–14 and 65 and over to the numbers at ages 15–64 is almost unaffected, the percentages being 55·4 per cent. ("basic") and 55·8 per cent. ("higher").

APPENDIX III

ESTIMATES PREPARED BY THE MINISTRY OF LABOUR AND NATIONAL SERVICE OF THE AGE DISTRIBUTION OF THE WORKING POPULATION OF GREAT BRITAIN

Table 1 shows the numbers occupied in 1954 and estimates for selected future dates. Table 2 shows the percentages of the total number occupied by age-groups on the same basis. Table 3 estimates the numbers of persons unoccupied and over the minimum pension ages in 1954 and on future dates.

The Tables show the working population which would result from applying to the population projections for 1954, 1964, and 1979 provided by the Government Actuary (Appendix II, Table 8) the proportions occupied in the various age-groups in mid-1952. The figures therefore imply that the proportions occupied in each age-group in the total population are throughout the same as in 1952, and leave out of account any future changes in the proportions occupied in the various age-groups which might occur. They show in effect what will be the changes if the habits and attitudes relating to work which existed in 1952 remained unchanged.

TABLE 1

Age Distribution of Working Population of Great Britain at mid-1952, and as estimated at certain future dates

Millions

Age Group	Males				Females				Total			
	1952	1954	1964	1979	1952	1954	1964	1979	1952	1954	1964	1979
15–24	2·89	2·89	3·27	3·14	2·36	2·34	2·64	2·46	5·25	5·23	5·91	5·60
25–34	3·49	3·56	3·14	3·82	1·42	1·46	1·28	1·51	4·91	5·02	4·42	5·33
35–44	3·57	3·39	3·55	3·14	1·43	1·37	1·40	1·22	5·00	4·76	4·95	4·36
Total 15–44	9·95	9·84	9·96	10·10	5·21	5·17	5·32	5·19	15·16	15·01	15·28	15·29
45–54	3·17	3·26	3·15	3·09	1·35	1·36	1·30	1·23	4·52	4·62	4·45	4·32
55–64 (Males), 55–59 (Females)... ...	2·07	2·12	2·69	2·73	0·48	0·49	0·56	0·58	2·55	2·61	3·25	3·31
Total 45–64 (Males), 45–59 (Females)	5·24	5·38	5·84	5·82	1·83	1·85	1·86	1·81	7·07	7·23	7·70	7·63
65–69 (Males), 60–64 (Females) ...	0·42	0·42	0·46	0·62	0·22	0·22	0·26	0·24	0·64	0·64	0·72	0·86
70 and over (Males), 65 and over (Females)	0·26	0·26	0·28	0·39	0·16	0·17	0·18	0·22	0·42	0·43	0·46	0·61
Total 65 and over (Males), 60 and over (Females)	0·68	0·68	0·74	1·01	0·38	0·39	0·44	0·46	1·06	1·07	1·18	1·47
Total 15 and over	15·87	15·90	16·54	16·93	7·42	7·41	7·62	7·46	23·29	23·31	24·16	24·39

TABLE 2

Percentage age distribution of the Working Population of Great Britain at mid-1952 and as estimated at certain future dates

Age Group	Males				Females				Total			
	Mid 1952	1954	1964	1979	Mid 1952	1954	1964	1979	Mid 1952	1954	1964	1979
15–24	18·2	18·2	19·7	18·5	31·8	31·6	34·6	33·0	22·5	22·4	24·5	23·0
25–34	22·0	22·4	19·0	22·6	19·2	19·7	16·8	20·2	21·1	21·6	18·3	21·8
35–44	22·5	21·3	21·5	18·5	19·3	18·5	18·4	16·4	21·5	20·4	20·5	17·9
Total 15–44	62·7	61·9	60·2	59·6	70·3	69·8	69·8	69·6	65·1	64·4	63·3	62·7
45–54	20·0	20·5	19·0	18·3	18·2	18·3	17·1	16·5	19·4	19·8	18·4	17·7
55–64 (Males), 55–59 (Females) ...	13·1	13·3	16·3	16·1	6·5	6·6	7·3	7·8	11·0	11·2	13·4	13·6
Total 45–64 (Males), 45–59 (Females)	33·1	33·8	35·3	34·4	24·7	24·9	24·4	24·3	30·4	31·0	31·8	31·3
65–69 (Males), 60–64 (Females) ...	2·6	2·7	2·8	3·7	2·9	3·0	3·4	3·2	2·7	2·8	3·0	3·5
70 and over (Males), 65 and over (Females)	1·6	1·6	1·7	2·3	2·1	2·3	2·4	2·9	1·8	1·8	1·9	2·5
Total 65 and over (Males), 60 and over (Females)	4·2	4·3	4·5	6·0	5·0	5·3	5·8	6·1	4·5	4·6	4·9	6·0
Total 15 and over	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

TABLE 3

Estimated Non-occupied Persons in Great Britain Over Present Minimum Pensionable Ages

Millions

	1954	1964	1979
Males			
65–69	0·45	0·51	0·67
70 and over	1·10	1·18	1·65
Total 65 and over ...	1·55	1·69	2·32
Females			
60–64	1·14	1·30	1·21
65–69	1·08	1·20	1·43
70 and over	2·05	2·38	3·06
Total 60 and over	4·27	4·88	5·70
Total Males 65 and over and Females 60 and over ...	5·82	6·57	8·02

APPENDIX IV

TABLES SHOWING THE MAIN CHANGES IN MAIN RATES OF CONTRIBUTIONS OF EMPLOYED PERSONS IN RESPECT OF UNEMPLOYMENT, HEALTH AND PENSIONS INSURANCE, 1926–1946, AND NATIONAL INSURANCE, 1948–1952.

	1926							
	Men				Women			
	Employee	Employer	Exchequer	Total	Employee	Employer	Exchequer	Total
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
Unemployment	7	8	6¾	1 9¾	6	7	5¼	1 6¼
Health ...	4½	4½	—	9	4	4½	—	8½
Pensions ...	4½	4½	—	9	2	2½	—	4½
Total ...	1 4	1 5	6¾	3 3¾	1 0	1 2	5¼	2 7¼

	1936							
	Men				Women			
	Employee	Employer	Exchequer	Total	Employee	Employer	Exchequer	Total
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
Unemployment	10	10	10	2 6	9	9	9	2 3
Health ...	4½	4½	—	9	4	4½	—	8½
Pensions ...	5½	5½	—	11	3	2½	—	5½
Total ...	1 8	1 8	10	4 2	1 4	1 4	9	3 5

	1940							
	Men				Women			
	Employee	Employer	Exchequer	Total	Employee	Employer	Exchequer	Total
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
Unemployment	9	9	9	2 3	8	8	8	2 0
Health ...	4½	4½	—	9	4	4½	—	8½
Pensions ...	6½	6½	—	1 1	5	3½	—	8½
Total ...	1 8	1 8	9	4 1	1 5	1 4	8	3 5

	January, 1946							
	Men				Women			
	Employee	Employer	Exchequer	Total	Employee	Employer	Exchequer	Total
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
Unemployment	10	10	10	2 6	9	9	9	2 3
Health ...	5½	5½	—	11	5	5½	—	10½
Pensions ...	7½	7½	—	1 3	5	4½	—	9½
Total ...	1 11	1 11	10	4 8	1 7	1 7	9	3 11

	October, 1946							
	Men				Women			
	Employee	Employer	Exchequer	Total	Employee	Employer	Exchequer	Total
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
Unemployment	10	10	10	2 6	9	9	9	2 3
Health ...	5½	5½	—	11	5	5½	—	10½
Pensions ...	1 6½	1 6½	—	3 1	1 3	1 2½	—	2 5½
Total ...	2 10	2 10	10	6 6	2 5	2 5	9	5 7

	July, 1948							
	Men				Women			
	Employee	Employer	Exchequer	Total	Employee	Employer	Exchequer	Total
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
*All National Insurance Benefits	3 10½	3 8½	2 1	9 8	3 0½	2 10½	1 7	7 6

	October, 1951							
	Men				Women			
	Employee	Employer	Exchequer	Total	Employee	Employer	Exchequer	Total
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
*All National Insurance Benefits	4 0½	3 10½	1 4	9 3	3 2½	3 0½	1 0	7 3

	July, 1952							
	Men				Women			
	Employee	Employer	Exchequer	Total	Employee	Employer	Exchequer	Total
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
*All National Insurance Benefits	4 8½	4 5½	1 6	10 8	3 8½	3 6½	1 1½	8 4½

* In addition to these rates the weekly stamp includes the payment of 10d. for men and 8d. for women towards the National Health Service and the Industrial Injuries Contribution.

APPENDIX V

STATISTICS RELATING TO OCCUPATIONAL PENSION SCHEMES

PART A

Public Service and Privately Administered Pension Schemes

The Tables* given below were compiled by the Institute of Actuaries and the Faculty of Actuaries in Scotland from information supplied by their members. Table 1 shows the number of schemes, the number of pensioners and members and the amount of contributions, interest and pensions paid, together with the total accumulated funds. Table 2 analyses the numbers so far as possible between males and females, staff and workpeople and according to pension age, on the basis of such information as is available. The Tables should be read with the following comments in mind. The figures understate the true position partly because it was not possible to arrange for statistics to be returned for every pension fund in existence and also because they are not up to date and exclude informal arrangements where no regular provision is made in advance for meeting pension costs. In Table 1 the apportionment of employers' contributions into "normal" and "additional" should be regarded as approximate as in some funds this sub-division is not given in the accounts. It is believed that the figures do not involve any appreciable element of duplication except possibly as regards the number of members. The information given in Table 2 is subject to many limitations. The sub-division between clerical and administrative staff and works staff is sometimes not known and the analysis is, therefore, incomplete. As regards "normal" pensionable age, the age of retirement may often depend on the completion of a given number of years (usually 40) of service; moreover deferment of retirement is nearly always permissible. Thus, although the rules may provide for retirement at 60 the effective average retirement age in present conditions may be appreciably higher and the figures shown should accordingly be regarded with some reserve.

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* In Tables 1 and 2, Group II (Nationalised Industries and Statutory Corporations) is sub-divided into (*a*) figures supplied by the Government Actuary's Department, including those relating to the public services, and (*b*) figures supplied by other actuaries, including those for the coal industry. Notional and paper funds, such as those maintained in connection with the Teachers, and the National Health Service Superannuation Schemes, have been excluded from the last two columns of Table 1.

TABLE 1

Number of funds	Current pensioners (including widow pensioners)		Members other than pensioners		Employers' contributions		Amount of accumulated funds	Gross annual income from interest, dividends and rents (excluding employers' payments in respect of interest guarantees)
	Number	Annual pensions	Number	Annual contri-butions	Normal annual contri-butions	Additional annual payments in respect of back-service rights, valuation deficiencies, interest deficiencies, etc.		
		£		£	£	£	£	£
I.—Local Government Superannuation Funds (1937 *Act or Private Act*) 532	94,927	8,197,243	514,146	9,086,967	9,514,683	8,986,292	226,332,242	6,994,265
II.—Nationalized Industries and Statutory Corporations								
(*a*) 18	484,000	93,000,000	2,461,000	25,400,000	22,800,000	—	11,000,000	400,000
(*b*) 150	113,581	10,661,994	1,006,489	9,976,159	15,605,809	9,777,973	260,765,547	9,457,772
III.—Other Funds (excluding those wholly or partly re-assured with Life Offices) 1,941	153,137	26,872,892	1,386,108	16,527,291	39,716,109	23,332,563	729,552,423	26,283,628

TABLE 2

	I Local Government Superannuation Funds (1937 Act or Private Act)	II Nationalized Industries and Statutory Corporations (see attached Note)		III Other funds (excluding those wholly or partly reassured with Life Offices)
		(a)	(b)	
Number of Pensioners				
MALES				
See Note at foot ...	8,119	—	15,937	28,052
Staff	11,259	163,000	26,576	50,600
Workpeople	32,227	207,000	50,646	21,270
Totals	51,605	370,000	93,159	99,922
FEMALES*				
See Note at foot ...	3,684	—	180	4,369
Staff	4,981	76,000	1,586	13,758
Workpeople	2,572	1,000	1,934	6,075
Totals	11,237	77,000	3,700	24,202
Numbers of Members other than Pensioners				
MALES				
See Note at foot ...	—	—	56,668	202,836
Staff	100,434	656,000	189,248	456,837
Workpeople	155,861	1,221,000	654,032	318,354
Totals	256,295	1,877,000	899,948	978,027
FEMALES				
See Note at foot ...	—	—	8,490	70,163
Staff	68,666	502,000	33,637	111,965
Workpeople	15,628	82,000	1,920	77,851
Totals	84,294	584,000	44,047	259,979

	Group II (a)		Groups I, II (b) and III	
	Males	Females	Males	Females
Number of members other than pensioners whose "normal pensionable age" is:				
Under 50	626,000	24,000	3	177
50	—	—	332	3,212
Over 50 but under 55 ...	—	—	4,451	13,287
55	—	—	3,222	44,504
Over 55 but under 60 ...	15,000	165,000	2,031	31,840
60	—	—	167,207	136,257
Over 60 but under 65 ...	741,000	395,000	474,115	88,685
65	495,000	—	1,330,029	46,790
Over 65	—	—	28,799	1,800
Totals	1,877,000	584,000	2,010,189	366,552

NOTE: The figures on these lines relate to staff and workpeople combined, the analysis being unavailable.

* Excluding widows of members.

PART B

Life Office Statistics

The following figures have been extracted from the British Life Assurance Statistics 1951-53 compiled by the Life Offices Association and the Associated Scottish Life Offices. These statistics relate to business transacted within the United Kingdom by virtually all the Life Offices operating in this country and represent business in force at the end of 1953.

There may be some duplication of lives shown as covered by group life, group pensions and group endowment schemes. Moreover, there may be duplication of the lives covered by the schemes to which the figures in Table 3 refer and the figures given in Part A of this Appendix. It is not possible to estimate what adjustments should be made on this account.

TABLE 3

1. *Group Life*

Estimated number of Lives	Sums Assured	Premiums received in year
	£	£
1,222,000	563,551,505	6,435,167

2. *Group Pensions*

Estimated number of Lives	Pensions per annum		Premiums received in year
	In course of payment	Deferred*	
	£	£	£
1,163,000	4,193,000	176,879,000	48,463,076

3. *Group Endowment Assurances*

Estimated number of Lives	Sums Assured	Estimated Pensions per annum		Premiums received in year
		In course of payment	Deferred*	
	£	£	£	£
200,500	154,325,327	17,300	12,005,000	9,161,465

4. *Scheme Business by Individual Policies—Assurances and Annuities*†

Number of Policies	Lives	Sum assured under assurances	Estimated Pensions per annum		Yearly Premiums
			In course of payment	Deferred*	
		£	£	£	£
803,000	400,000	348,970,000	1,083,000	46,310,000	23,682,000

* i.e., full expected pensions based on current salaries.

† These figures are based on returns from 90 per cent. of the Offices which transact this type of business. They are therefore incomplete and give only an approximate indication of the amount of business.

APPENDIX VI

Provision for Old Age in Certain Other Countries

A comprehensive comparison of the provision for old age in different countries would have to take into account wide variations in population structure, resources and traditions. The following summary does no more than indicate the various ways in which the problem has been approached in the United States, New Zealand, the Netherlands, Sweden and France. The facts given are based on information supplied by British Labour Attachés abroad.

2. The population structure of the five countries concerned and of Great Britain, is summarised in the following two Tables:—

Table 1

Dependency as a Percentage of the Active Population in Various Countries

Country	Population of school age as percentage of active population		Population over pension age as percentage of active population	
	Most recent current estimate	Projected	Most recent current estimate	Projected
Great Britain	35·3	33·0	21·8	29·5
France (1)...	39·1	36·9	26·8	37·6
New Zealand (2) ...	50·0	51·3	15·0	13·8
United States (3) ...	47·6	36·4	13·6	15·9
Sweden (4)	32·0	29·6	12·5	20·5
Netherlands (5)	20·9	18·6	10·9	14·9

Notes:

(1) Minimum pension age 60, and the fraction for the "old" therefore includes a high proportion of persons still in work. The projection assumes declining mortality and fertility.

(2) Projection assumes a net annual immigration of 5,000. Pension age is 65.

(3) Projection assumes declining mortality and fertility. Pension age is 65.

(4) Pension age is 67, thus producing a sharp depression in the fraction shown as "old".

(5) Pension age is 65.

Table 2

Occupied Percentage of the Population over Minimum Pension Age in Various Countries

Country	Percentage of persons over minimum pension age * still occupied		
	Men	Women	Both sexes
Great Britain (1951) ...	32	8	16
United States	39	8	22
New Zealand	25	3	13
France	†	†	33‡
Sweden	†	†	26
Netherlands	†	†	20

* In Sweden, 65. No separate figures for persons over the national pension age (67) are available.

† No separate figures supplied.

‡ Pension age 60.

3. With certain exceptions, all employed persons and self-employed persons are compulsorily covered by the Federal Old Age and Survivors Insurance Scheme, or the connected scheme for railway workers, giving a total coverage of about four-fifths of the working population. The scheme provides pensions (subject to a retirement test based on an earnings rule) for both sexes from age 65 and widows' and children's benefits. Non-contributory assistance is administered by the States under their own legislation.

4. The Federal Scheme is financed by contributions from the insured persons and their employers and is designed to be self-supporting. No contribution is payable by the state. The contributions are related to the first $3,600 of wages; initially the contributions were 1½ per cent. of wages from both the employed person and from his employer but are now 2 per cent. from each (3 per cent. of earnings for the self-employed). It is intended that the contributions should rise quinquennially until they represent 3¼ per cent. each from employer and employee and 4⅞ per cent. from the self-employed.

5. The contributions are paid into a fund, and as contributions have up till now exceeded outgoings the scheme has substantial assets accumulating at interest. The right to pension depends on satisfaction of contribution conditions. The rate of benefit, like the amount of contribution, depends on the earnings record, and the maximum pension is related to the same amount as the maximum income on which there is liability to pay contributions.

6. About 11 million persons, or slightly less than one-fifth of the total numbers in gainful work, are covered by occupational pension schemes which supplement the pensions payable under the Federal Scheme. In addition there are about 4½ million pensionable Government employees who are not at present covered by the Federal Scheme.

7. The development of occupational pension schemes has been stimulated by economic conditions during and since the second world war. In 1930 there were 720 schemes covering 2·4 million persons; in 1945 7,425 schemes covering 5·6 million persons; in 1953 more than 14,000 schemes covering 11 million persons.

8. The schemes vary but about two-thirds are funded through insurance contracts and the remainder are generally operated through trust funds. Less than one-third of the persons covered, or about 30 per cent., pay contributions. The employees' contributions, if any, are relieved of tax only to the extent allowed on ordinary private insurance. The employers' contributions are treated as a business expense if the scheme is approved by the taxation authorities; otherwise they are treated as part of the employees' income. The main conditions of approval are:—

(*a*) the scheme must be a bona fide pension scheme;

(*b*) the contributions must be set aside;

(*c*) the resulting fund must be maintained on a sound basis;

(*d*) there must be no discrimination between employees.

Contributions on behalf of an employed person must not exceed what is reasonable in relation to his salary. Deficiency payments by employers and the interest income on funds may also be relieved of tax if similar rules are satisfied.

9. The schemes take account of the pensions payable under the Federal Scheme either by deducting them wholly or in part from what would otherwise be due under the occupational scheme or by guaranteeing a minimum combined amount from both sources. The effect of such arrangements may provide between 40 per cent. and 60 per cent. of wages and considerably more in some cases.

10. Many schemes require employment at the time of retirement as a condition of pension. Where the employer alone pays contributions there are frequently "vesting" arrangements, i.e., the employee acquires the right to a deferred annuity on completing a certain number of years of service and attaining a certain age.

11. Most schemes allow employment to continue after the normal pension age at the employers' discretion. Many such schemes have an upper compulsory retirement age—usually 70. Experience indicates that workers over 65 are more common in firms without pension schemes.

New Zealand

12. At present the national provision for old age consists of a non-contributory pension from age 60, subject to tests of means and residence, and national superannnation, which is subject only to a residence test, from age 65. The payments under the latter scheme are on an annually increasing scale which began at £10 a year in 1940 and will reach £175 10s.—the current rate of the non-contributory pension—in 1975. National superannuation will then be the full provision from age 65 and the non-contributory pension will be available only for those below that age with insufficient means. There are no contribution conditions.

13. The method of finance is "pay as you go". A social security contribution of 7½ per cent. is levied on all income and these contributions meet approximately two-thirds of the annual cost of pensions. The remainder of the cost is met by the state. Employers do not contribute as such but pay the social security contribution due on their corporate income.

14. About 16 per cent. of the occupied population are covered by occupational pension schemes and about one-half of this number are Government employees. There are more than 2,000 schemes and the number is growing rapidly. Most of the private schemes require contributions from both employer and employed —the employee's contribution being normally 5 per cent. of salary or wages. The normal provision is a lump sum at a certain age ; this feature is attributable to the means test for the national non-contributory pension, which takes income from any source into account. It is usual for schemes to be insured with an insurance company or for funds to be invested in a building society. Provision for transfer values is unusual but transfer arrangements permit Government employees to carry their rights with them when moving to other employment, and also apply within certain groups of firms.

15. A special feature of the provision in New Zealand is the National Provident Fund. This institution is used by local authorities, statutory corporations and other bodies to provide pensions for their employees. It also offers facilities to members of the public on a voluntary basis.

16. The contributions of employees are relieved of tax only to the extent permitted on ordinary insurance policies. The contributions of employers are treated as a business expense if the scheme is approved by the taxation authorities.

17. Retirement practice varies considerably. In the public service it is the policy to retire at 60, subject to the completion of 40 years' service and in any event at 65. In other public undertakings the retirement age is usually 65 but retirement can take place below that age, especially in the case of women. Private schemes are designed to afford the right to retire at a given age—65 in about two-thirds of the schemes and usually 60 in the remainder.

The Netherlands

18. With certain exceptions wage earners below certain income limits are compulsorily insured for pensions from age 65 for both sexes. Persons who have reached age 35 without being insured are not subsequently eligible to enter the scheme. There is also a non-contributory pension, subject to a means test, and supplementary assistance for those whose resources are inadequate.

19. The contributory scheme is on an insurance basis. The contribution is shared between the employer and the employed and the rate of benefit is related to the contributions paid. There are no conditions as to means, retirement, earnings or nationality.

20. Consideration is being given to the introduction of a comprehensive scheme with contributions of 7½ per cent. of income. The pensions would be on a subsistence basis but there would be contribution tests. The scheme would be self-supporting, in that the contributions of the insured persons would balance outgoings on benefit in each accounting period. Neither employers nor the state would contribute, except in so far as the state would pay contributions for those unable to contribute themselves.

21. Approximately 50 per cent. of those in gainful employment are covered by pension schemes outside the national scheme. Apart from the public services, which account for about one-fifth of those covered by some form of superannuation, there are two distinct types of arrangement: industry-wide schemes and private funds. Both types of scheme have developed rapidly in recent years. In 1938 there were 14 industry-wide funds covering 84,200 persons, and in 1953 40 funds covering 791,000 persons, or about one-half the total number of persons covered by superannuation. Private funds have grown from 337, covering 116,000 persons in 1938, to 957, covering 511,000 persons in 1953. All private superannuation arrangements must now be made either through the industry-wide scheme or by a private firm or through a Life Office. The funds and schemes are supervised by a central official agency in the same way as insurance companies. The introduction of ex-gratia arrangements has been prohibited with effect from 1st January, 1954. Employers' contributions and deficiency payments are exempt from tax as business expenses and compulsory contributions payable by the employees are also relieved of tax.

22. Members of the industry-wide schemes can change from one firm to another within the industry without loss of pension rights. The law requires compensation to be paid to any employee who leaves a pension scheme. This is limited to the return of the employee's contributions if there is less than five years' service; for longer periods of service deferred pensions may be provided or alternatively a lump sum related to the length of service. Special arrangements operate in the Government service.

23. The usual pension age in private schemes is 65 although a lower age is often specified for women. Industry-wide schemes do not normally take account of the national pension when fixing the level of the industrial pension, but such adjustments are common in other private schemes.

Sweden

24. The national pension scheme in Sweden provides a pension from age 67 for both sexes which affords a bare livelihood without recourse to assistance. The pensions are financed by a compulsory "pension fee" of 1·8 per cent. of all income above a certain minimum and this is payable by all persons between ages 18 and 66. These fees cover only 16 per cent. of the cost of pensions and the balance is met by the state.

25. The pension consists of a basic amount payable on attaining age 67, subject to residence and nationality tests. In addition supplements which are liable to reduction on account of other income are payable. These supplements include:—

(*a*) a cost-of-living supplement determined quarterly by reference to price levels prevailing in June, 1946;

(*b*) an improved standard of living supplement, introduced in 1953 to enable pensioners to share in the improved standard of living in Sweden;

(*c*) a housing supplement which varies according to the locality.

26. Apart from the public services about 500,000 persons, representing 20 per cent. of the labour force, are covered by occupational pension schemes. About 34 per cent. of these are administrative, clerical or technical employees and the remainder are manual workers.

27. In the public services the pension provision is non-contributory. In industry and commerce pension schemes are now developing rapidly. Staff schemes are normally funded through a central organisation—the Swedish Salaried Employees Pension Fund—to which employer and employee contribute. The latter's contribution may not exceed 8 per cent. of his salary. These contributions are relieved of tax. Pension rights acquired under this arrangement are not affected by a change of employment. Pension schemes for manual workers are usually non-contributory and are not funded, but tax relief may be claimed by the employer on a sum notionally set aside against his liability for pensions.

France

28. The greater part of the working population is compulsorily covered for pension. In addition to the general scheme there are a number of separate schemes for particular occupations. The schemes are contributory and in the general scheme 9 per cent. of the total contribution payable for social security is related to pensions. Part of this is borne by the employer.

29. The right to a pension depends on the satisfaction of contribution conditions and the rate depends on the average earnings over the past 10 years —revalued to take account of the change in the value of money. A pension of 20 per cent. of earnings may be claimed at age 60; if pension is deferred after this age or there is a breakdown in health, the rate of pension may be up to a maximum of 40 per cent. of earnings. There are no conditions as to means, earnings, retirement, residence or nationality.

30. Adequate information is not available about occupational pension schemes.

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