Latest UK pension reforms will lead to a yet deeper crisis

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Under the government's latest changes to occupational pensions, workers over 55 years of age will be able to withdraw their pension pot—even if they have not retired—and invest it as they choose.

This replaces the present requirement to use it to buy an annuity on retirement that provides a fixed annual income, widely believed to be a rotten deal.

The move, presented by the Conservative-Liberal Democrat coalition and all the major political parties as giving people greater "choice" in and "control" over how they manage their own money, is another step in the dismantling of the pension system. It paves the way for yet another social disaster for workers and their families.

Anyone aged 55 or older can now withdraw some or all of their pension pot as cash. While up to 25 percent can be taken out tax-free, the rest—if taken—will be taxed as part of the person's income for the year. Even though the average pension pot is less than £30,000, there will be a considerable cost to taking out the whole lot in one go. The Treasury estimates that the tax yield from those cashing in their pension pot will amount to some £4 billion over the next five years.

The new rule applies only to the 540,000 people who belong to a defined contributions (DC) or money purchase scheme. Those who pay into the more advantageous defined benefit (DB) or final salary schemes, which employers are trying to phase out, can only cash in their pension pot if they transfer to the DC scheme. Once again, the measure serves to bolster the employers and reduce their costs.

The maximum state pension is a derisory £115.95 a week, or around £7,000 a year, nowhere near enough to keep body and soul together. Fifty percent of the population already live on this tiny sum. The rest are presently fortunate enough to have an occupational pension, invested in the stock market. But with an average pension pot of around £60,000 buying an annuity worth about £3,200, this too is usually a paltry addition.

The next generations of pensioners are even less likely to have an additional pension provision.

Those without the benefit of an occupational pension or a private pension plan to top up the state pension are dependent on Pension Credit and Savings Credit worth a maximum of £45 a week to eke out an existence, if they claim them at all. Even this is in jeopardy, as the chancellor has announced a £119.7 billion spending cap on state benefits for 2015/2016. The cap does not include State Pensions or Jobseeker's Allowance, but does include other social security benefits such as Pension Credit, Attendant Allowance for those caring for the disabled or sick, and Winter Fuel Payments that affect pensioners.

A report by the Scottish Local Forum against Poverty and Rights Advice Scotland observes that overall pensioner numbers have increased since 2010, with the biggest increase seen in the take-up of Retirement Pension only. They also record that the number of pensioners claiming State Pension topped up with Pension Guarantee Credit has fallen, along with those just claiming Pension Guarantee without a State Pension.

As a Welfare Rights Officer in the West of Scotland, I have met many pensioners who have no idea they were entitled to a top-up of their Retirement Pension if they fell below a certain level. I often come across pensioner couples where when one dies, the other is left living on a single State Pension, sometimes as little as £60 per week—usually if it's a woman who has not worked as long as her husband and only paid what was once referred to as the "little stamp."

With the phased rollout of the Universal Credit welfare benefit, couples, where one is under the qualifying age for Pension Credit, will both be treated as working age and therefore be expected to claim Universal Credit and be subject to the rules of under occupancy and benefit cap. At present, if one of a couple is over the qualifying age they can make a "couple" claim for Pension Credit and be exempt from these harsh rules of Universal Credit.

Universal Credit will also have an impact on pensioners who may have dependent children living with them, as Child Tax Credits will be replaced by a child care element. One in 71 children in Scotland lives in Kinship Care (cared for by relatives or family friends). Many are looked after by their grandparents, and 31 percent of them were unable to provide the basic necessities of heating, clothing and food to acceptable levels for the children in their care.

Pensioners joined other kinship carers in March 2014 to protest outside the Scottish parliament at the Scottish National Party (SNP) government's Children and Young People (Scotland) Bill (which became an Act later that month).

The SNP claimed the bill would recognise kinship carers in law and lead to more support and resources.

However, the bill and subsequent act have arguably done the opposite—reducing the number of kinship children deemed to have "at risk" or "looked after" legal status, ensuring access to local authority services and financial assistance. This leaves more pensioner kinship carers at the mercy of the welfare system and falling further into poverty.

More and more frequently, I assist pensioners who are financially supporting other family members adversely affected by the draconian welfare reforms. They have to rely on support from their families and food banks due to benefit sanctions and tougher rules on claiming employment, disability and sickness benefits.

According to Age UK:

* One in six pensioners (1.8 million or 16 percent of pensioners in Britain) live in poverty, defined as 60 percent of median income after housing costs.

* Pensioners are the biggest group of people on the brink of poverty, with 1.2 million living on the edge.

* Low income in retirement is often the result of earlier low pay, or time out of employment—due, for example, to caring responsibilities, disability or unemployment.

* Women, age 80 to 84, single people living alone, private tenants, and Pakistani and Bangladeshi people are at greater risk of pensioner poverty.

"Pension freedom" is likely to lead to an open season for pension fraudsters and yet another financial mis-selling scandal. Scam operators have already begun cold-calling potential retirees.

Most people will be tempted to use the cash to pay off their debts, or to give it to their children or grandchildren to pay off student loans or put down a deposit to buy a home. One way or another, the money will all end up in the hands of the financial institutions to the detriment of their income in retirement.

Other changes are in the pipeline, including the right for retired workers to "cash out" their annuity as of April 2016 and use it as they wish. This will affect up to 5 million retirees.

The impact of these changes will be to eradicate, in one way or another, the value of the occupational pensions into which half of all workers have paid throughout their working lives.

The Socialist Equality Party calls for the establishment of a workers' government pledged to a socialist programme. It would end the anarchy and wastefulness of the profit system by cancelling all debts to the international finance institutions and transforming the banks and major corporations into publicly owned and democratically controlled utilities. Wealth would be taken from the billionaires and diverted to meet essential social needs, including a decent pension for all.

For further details visit: www.socialequality.org.uk