



Old Age Pensions Act 1908

Standard Note: SN 4817
Last updated: 12 August 2008
Author: Djuna Thurley
Section: Business and Transport Section

The *Old Age Pensions Act 1908* provided for the first UK state pensions, financed out of central taxation. The pension was 5 shillings a week. It was means-tested, with the full amount paid to those with incomes below £21 a year and reduced on a sliding scale for those with incomes between £21 and £31 and ten shillings. Initially, people needed to have been resident in the United Kingdom for 20 years and there were behavioural tests. For example, people could be disqualified if they had made themselves poor in order to qualify, had been imprisoned or convicted under the Inebriates Act.

This note provides a brief overview of the background to the introduction of the first state pensions, the basic rules of the original scheme and some of the subsequent developments. The Annex suggests more detailed sources of information for further reading.

This information is provided to Members of Parliament in support of their parliamentary duties and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as being up to date; the law or policies may have changed since it was last updated; and it should not be relied upon as legal or professional advice or as a substitute for it. A suitably qualified professional should be consulted if specific advice or information is required.

This information is provided subject to [our general terms and conditions](#) which are available online or may be provided on request in hard copy. Authors are available to discuss the content of this briefing with Members and their staff, but not with the general public.

Contents

1	Campaign for the first state pensions	2
2	Legislation and finance	4
3	Introduction of old age pensions	7
3.1	Provision under the Act	7
3.2	Introduction of the scheme	9
4	Subsequent developments	10
4.1	The introduction of national insurance	10
4.2	The current pension reform agenda	11
5	Annex – Further reading	13
1	Campaign for the first state pensions	

The *Old Age Pension Act 1908* was the first UK pension legislation. Prior to this, the Poor Law in force in the 19th Century made very limited provision for retirement. Michael Hill explains that:

In the early 19th century, the Poor Law in the UK, reinforced in the reforms of 1834, assumed that employment should be the primary source of support for anyone (and that therefore any relief given should normally be in 'workhouses') Such an approach gave no attention to the notion of retirement. The later 19th century saw a shift away from this assumption. A more sympathetic response to poverty in old age began to emerge, but perhaps more importantly self-help devices began to multiply.

However, it was easier for the latter to offer security to individuals in the short run – against temporary sickness and even against unemployment – than to deal with the long-run demands likely to be imposed by pensions. Another set of organisations that were feeling increased pressure were the charities, and they too joined the voices in favour of a new approach to the support of retired people. The main governmental devices to cope with this issue were the locally based social assistance system (the Poor Law Boards). These bodies began to recognise older people as a special category of applicants for help whose needs merited special attention...¹

Howard Glennerster of the London School of Economics explains that the elderly became the first group to escape the Poor Law:

...life expectancy was growing. The risks of poverty in old age were growing because most workers had little opportunity to save significant sums for themselves and their wives. Local ratepayers were unhappy at rising costs. If central government took on this responsibility, they would be relieved. Trade unions believed older workers posed a threat to jobs. They also genuinely believed that a decent pension was a fair reward for a lifetime of work.

Pensions paid out of taxes became a rallying cry of the new radical Liberals as well as the new Labour movement and social reformers. This solution also appealed to those who wanted to see a more decisive return to the principles of 1834. Detach the more

¹ M Hill, *Pensions*, 2007, p23

favoured elderly from the Poor Law and a more rigorous application of the workhouse test would become easier. The old guard in the Charity Organisation Society did not see things that way. They saw the extension of state relief as undermining individual independence.²

More detailed accounts of the campaign for the first state pensions can be found in Derek Fraser's *Evolution of the British Welfare State*³ and Pat Thane's *Old Age in English History: Past Experiences, Present Issues*.⁴ Derek Fraser explains that:

The issue of old age pensions, though a remarkable breakthrough in English social policy was not the subject of controversy by the time they were introduced, because of the long and popular campaign on their behalf.⁵

Arguments were made for both contributory pensions and a non-contributory scheme funded out of taxation. Joseph Chamberlain who became a Unionist Cabinet Minister from 1895,⁶ proposed a contributory scheme in 1891. However, this ran into opposition from the friendly societies who, according to Fraser would "tolerate no state competition for that same pool of working-class earnings which financed the contributions of their several million members."⁷

One of the difficulties with non-contributory pensions was cost. However, in 1899 public interest was stimulated by the introduction of such a scheme in New Zealand.⁸ Pat Thane explains the way in which support for a non-contributory state pension was mobilised by Reverend F H Stead, warden of the Congregationalist Browning Settlement in Walworth, South-East London. Together with George Barnes, the Secretary of the powerful Amalgamated Society of Engineers he formed the National Council of Organised Labour (NCOL) in 1898-9.⁹ This adopted the slogan "a free state pension of 5 shillings a week".¹⁰

In 1899, the Government appointed a Select Committee, chaired by Henry Chaplin, to look at the issue. This concluded that a system of old age pensions could be established in the UK but rejected compulsory contributions from earnings as it would defer benefits.¹¹

In 1902, after the Boer War, the campaign was stepped up.¹² Derek Fraser explains that in 1906 the Liberal Government was "faced with a mass of opinion in favour of pensions":

The Fabians, the TUC, the co-operative movement and the Labour Party all supported universal pensions financed out of taxation, and by the time the Liberals were in office even two former implacable opponents were coming around. The Charity Organisation Society, which had always opposed state pensions in principle, was now prepared to

² Ibid, 69

³ Fraser D, *The evolution of the British welfare state*, Third Edition, 2003, p164

⁴ P Thane, *Old Age in English History: Past Experiences, Present Issues*, 2000

⁵ Fraser D, *The evolution of the British welfare state*, Third Edition, 2003, p164

⁶ He had previously been a member of the Liberal Party and President of the Board of Trade in Gladstone's Government in the 1880s

⁷ Ibid, p164. The website of the Association of Friendly Societies (<http://www.friendlysocieties.co.uk>) explains that 'Friendly Societies have been around for hundreds of years and may even have their origins dating back to Roman times. They grew from the simple premise that if a group of people contributed to a mutual fund, then they could receive benefits at a time of need.'

⁸ Ibid, p165

⁹ P Thane, *Old Age in English History: Past Experiences, Present Issues*, 2000, p205

¹⁰ Ibid, p 206

¹¹ *Report of the Select Committee on the Aged Deserving Poor*, Parliamentary Papers, viii (1899)

¹² Pamphlets produced on the issue by a range of organisations can be found on the London School of Economics website at: <http://www.lse.ac.uk/library/pamphlets/SocialPolicy/socialpolicypamphlets/pensions.htm>

accept a voluntary contributory scheme, while conversely the friendly societies were reluctantly acknowledging the advantages to them of a non-contributory scheme.¹³

In 1906, therefore, the Government promised that pensions would be introduced, on a non-contributory basis.

2 Legislation and finance

The introduction of an old age pension scheme was announced by the then Liberal Chancellor of the Exchequer, Henry Asquith, in his 1908 Budget. The *Old Age Pension Act 1908* was formally introduced to Parliament at the end of May by David Lloyd George, who was then Chancellor of the Exchequer, Mr Asquith having become Prime Minister. The Bill had its second reading in the House of Commons on 15 June 1908.¹⁴ The *Times* of the following day, gave the following account of the debate in its 'Review of Parliament':

The Chancellor of the Exchequer, whose speech struck many members as being almost apologetic in tone. His chief purpose seemed to be to ward off hostile criticism by dwelling on the incomplete and experimental character of his pension scheme. But he dealt in turn with the objections which had been taken to the proposals of the Government. Justifying in the first place the resolve of the Government to institute a non-contributory scheme, he laid stress on the argument that while most reformers in this country had begun by favouring direct contribution from those who were to benefit, they had afterwards changed their opinion, realising that a contributory scheme must be cumbersome, expensive, and, in a country like ours, wholly impracticable. He mentioned Mr Chamberlain as one of those whose views had changed in this way. A contributory scheme, he insisted, would be unjust to many people. The vast majority of women would be excluded from its benefits, and the majority of working men were not in a position to make adequate provision for old age in addition to provision against accidents, sickness and unemployment. Most of the friendly societies had found that superannuation schemes practically failed through lack of subscriber.¹⁵

Lloyd George went on to address some of the detailed questions and criticisms that had been raised regarding the scheme: for example, regarding the cost of the scheme; the minimum age of eligibility; the treatment of couples; the "industry test"; and the "pauper disqualification". He ended by "insisting on the purely experimental nature of the Ministerial proposals." He did not "pretend that all destitution would be met by this legislation, but a beginning would be made, a real beginning."¹⁶

The Times went on to report the comments of Opposition and backbench Members:

Mr Chaplin,¹⁷ who spoke next, that that the Bill did not improve greatly on acquaintance. It had, however, some redeeming features. The demand for universal pensions was not conceded in it; the local authorities were given some power of discrimination, and the Bill was experimental. On the other hand, it was open to serious objection; the scheme was not contributory, it had the appearance of discouraging thrift; two or more old people living in the same house had harsh treatment meted out to them; and no indication had been given to the House of the method of taxation which would be selected for the purpose of getting the money that would be required to carry out this reform. He complained that the Bill had not been thought out by its

¹³ Fraser D, *The evolution of the British welfare state*, Third Edition, 2003, p165

¹⁴ HC Deb, 15 June 1908, c564-676

¹⁵ *The Times*, 'Review of Parliament', 16 June 2008

¹⁶ Ibid

¹⁷ Surrey, Wimbledon, Conservative

promoters, and he warned the Government gravely to be very careful not to do anything that might endanger the great work done by the friendly and benefit societies. Woe betide any Government that should do that!

Mr Harold Cox¹⁸ then moved an amendment declaring that while it was desirable that the State should organise aid for the unfortunate by establishing and assisting a general system of insurance against the principle risks of life, it was unjust to spend taxpayers' money in giving taxpayers' money to people selected by arbitrary standards of age, income, and character. The Hon member for Preston's speech was very successful, and he was frequently cheered by the Opposition. He ridiculed the opinion, expressed the other day, by the Prime Minister that this pension of 5s a week was going to put 500,000 people 'beyond the reach of pecuniary anxiety and care'... In the course of his rather damaging criticism of the Bill he rather provoked the Labour members who, he said, would have no character test at all for the applicants of pensions. Did they, he asked, really propose to give pensions described as honourable to men who had been dishonourable and pensions to all blackguards, or there must be an inquiry into character. He spoke strongly in favour of a contributory system on the German model...

The amendment was seconded from the other side of the House by Lord R Cecil who saw socialistic elements in the measure. The view of the Labour members who follow Mr A Henderson was explained by Mr O'Grady, who foreshadowed several important amendments, and said the Bill was hopelessly inadequate as it stood. Sir W Foster, differing from Mr O'Grady, held that one of the chief merits of the scheme was the discrimination that was proposed, and Mr Maddison, the Liberal-Labour member for Burnley, gave the measure a cordial welcome, accepting it gratefully, for he realised that the financial exigencies of the day did not permit of more favourable treatment for the poor.¹⁹

Derek Fraser explains that changes that were made as the Bill went through Parliament. For example, the proposal that a couple should only get 7s 6d, rather than 10s, was removed following backbench opposition. A sliding income scale was also introduced so that a smaller pension was paid to those with incomes between 8s and 12s per week. In the end, he argues:

Though some in the Lords still opposed pensions as 'thinly disguised outdoor relief' and others still favoured a contributory pension as ideologically more respectable, the 1908 Old Age Pensions Bill found widespread support...

The Bill received Royal Assent on 1 August.

In 1909, Mr Lloyd George announced his 'People's Budget'. He explained that money needed to be raised to pay for the necessities of the country, including pensions:

I am told that no Chancellor of the Exchequer has ever been called on to impose such heavy taxes in a time of peace. This, Mr Emmott, is a war Budget. It is for raising money to wage implacable warfare against poverty and squalidness. I cannot help hoping and believing that before this generation has passed away we shall have advanced a great step towards that good time when poverty and wretchedness and

¹⁸ Preston, Liberal

¹⁹ *The Times*, 'Review of Parliament', 16 June 2008

human degradation which always follow in its camp will be as remote to the people of this country as the wolves which once infested its forests.²⁰

Mr Austen Chamberlain,²¹ for the Opposition,²² responded that:

With a good deal of what he said and with a great deal of the objects which he set before the House, I, for one, heartily sympathise, and for well-considered measures to promote these objects he will probably find as much sympathy on this side of the House as on the side from which he speaks. But I think there is some inconvenience in shadowing forth in this vague manner vast projects which may mean much and which may mean little, which are capable of no immediate or early realisation, which may serve great hopes and serve the purpose of an electoral manifesto, but which must recur every year after year in our discussions in this House before they can be brought to fruition.²³

As regards the *Old Age Pensions Act*, he said:

The complaint was not that the Government tried to bring in old age pensions, or, indeed, that they should have made special terms for those who were already old, or approaching old, but that they did not begin their constructive scheme at the other end by establishing a scheme that was workable for all time, and which might have contemplated the necessities which might arise, and which needed to be dealt with by exceptional and temporary legislation.²⁴

Lloyd George's "People's Budget" of 1909 has been considered to be "one of the most controversial of all time", proposing as it did a "large increase in the tax burden on the landed classes to pay for higher social spending."²⁵ Lloyd George gave a series of speeches around the country to make the case for his Budget. In a speech at Limehouse on 30 July 1909, he said:

The Budget, as your Chairman has already so well reminded you, is introduced not merely for the purpose of raising barren taxes, but taxes that are fertile, taxes that will bring forth fruit the security of the country which is paramount in the minds of all. The provision for the aged and deserving poor it was time it was done. It is rather a shame for a rich country like ours probably the richest in the world, if not the richest the world has ever seen, that it should allow those who have toiled all their days to end in penury and possibly starvation. It is rather hard that an old workman should have to find his way to the gates of the tomb, bleeding and footsore, through the brambles and thorns of poverty. We cut a new path for him, an easier one, a pleasanter one, through fields of waving corn. We are raising money to pay for the new road, aye, and to widen it, so that 200,000 paupers shall be able to join in the march. There are so many in the country blessed by Providence with great wealth, and if there are amongst them men who grudge out of their riches a fair contribution towards the less fortunate of their fellow-countrymen they are very shabby rich men.²⁶

²⁰ HC Deb, 29 April 1909. c548

²¹ Liberal Unionist, East Worcestershire; Austen Chamberlain (son of Joseph Chamberlain) entered Parliament in 1892 as a Liberal Unionist, (later Conservative) MP. During his career he was Chancellor of the Exchequer and leader of the Conservative Party

²² The Liberal Party won the 1906 election with 399 seats. The main opposition was an alliance of (156) Conservative and Liberal Unionist MPs. There 29 Labour MPs and 82 Irish Nationalists.

²³ Ibid, c559;

²⁴ Ibid, c554

²⁵ <http://www.number10.gov.uk/output/Page12250.asp>

²⁶ http://www.liberalhistory.org.uk/item_single.php?item_id=47&item=history

The Downing Street website explains how these events led to the introduction of the Parliament Act:

The House of Lords vetoed the Budget leading to a constitutional crisis and two general elections in 1910. The *1911 Parliament Act* cemented the supremacy of the House of Commons in the Constitution and prevented the upper house from vetoing any public legislation that originated in and had been approved by the Commons.²⁷

3 Introduction of old age pensions

3.1 Provision under the Act

The amount of the pension provided under the Act was 5 shillings a week (equivalent of about £19.30 a week today).²⁸

To be eligible for a pension under the Act, a person needed to be at least age 70, have been resident in the United Kingdom for at least twenty years and have means not exceeding £31 ten shillings.²⁹ There were a range of circumstances in which people would be disqualified from the old age pension, for example, if they had avoided working when able, made themselves poor in order to qualify, had been imprisoned or convicted under the Inebriates Act. Section 3 of the *Old Age Pensions Act 1908* provided that:

3 (1) A person shall be disqualified for receiving or continuing to receive an old age pension under this Act, notwithstanding the fulfilment of the statutory conditions –

(a) While he is in receipt of any poor relief (other than relief excepted under this provision) and, until the thirty-first day of December nineteen hundred and ten unless Parliament otherwise determines, if he has at any time since the first day of January nineteen hundred and eight received, or hereafter receives, any such relief: Provided that for the purposes of this provision –

(i) any medical or surgical assistance (including food or comforts) supplied by or on the recommendation of a medical officer; and

(ii) any relief given to any person by means of the maintenance of any dependant of that person in any lunatic asylum, infirmary, or hospital, or the payment of any expenses of the burial of a dependant; or

(iii) any relief (other than medical or surgical assistance or relief herein-before specifically exempted) which by law is expressly declared not to be a disqualification for registration as a parliamentary elector, or a reason for depriving any person of any franchise, right or privilege;

shall not be considered as poor relief;

(b) If, before he becomes entitled to a pension, he has habitually failed to work according to his ability, opportunity, and need, for maintenance or benefit of himself and those dependent upon him;

Provided that a person shall not be disqualified under this paragraph if he has continuously for ten years up to attaining the age of sixty, by means of payments to friendly, provident, or other societies, or trade unions, or other approved steps, made

²⁷ <http://www.number10.gov.uk/output/Page12250.asp>

²⁸ [Hhttp://www.dwp.gov.uk/mediacentre/pensioncentenary/H](http://www.dwp.gov.uk/mediacentre/pensioncentenary/H); DWP has also produced some figures to show the cost of living in 1908

²⁹ Old Age Pensions Act 1908, section 2

such provision against old age, sickness, infirmity, or want or loss of employment as may be recognised as proper provision for the purpose of regulations made under this Act, and any such provision, when made by the husband in the case of a married couple living together, shall as respects the right of the wife to a pension, be treated as provision made by the wife as well as by the husband;

(c) While he is detained in any asylum within the meaning of the Lunacy Act 1890, or while he is being maintained in any place as a pauper or criminal lunatic;

(d) During the continuance of any period of disqualification arising or imposed in pursuance of this section in consequence of conviction for an offence.

(2) Where a person has been before the passing of this Act, or is after the passing of this Act, convicted of any offence, and ordered to be imprisoned without the option of a fine or to suffer any greater punishment, he shall be disqualified for receiving or continuing to receive an old age pension under this Act while he is detained in prison in consequence of the order and for a further period of ten years after the date on which he is released from prison.

(3) Where a person of sixty years of age or upwards having been convicted of any course is liable to have a detention order made against him under the Inebriates Act, 1898, and is not necessarily, by virtue of the provisions of this Act, disqualified for receiving or continuing to receive an old age pension under this Act, the court may, if they think fit, order that the person convicted be so disqualified for such period, not exceeding ten years, as the court direct.

The behavioural tests were later dropped and the residence requirement shortened.³⁰

When the Bill was presented to Parliament the income limit was set at £26 a year. However, the principle of a sliding scale (up to £32 10s) was accepted when the Bill was before Parliament.³¹ The amount to which an individual was entitled, was provided for in the Schedule to the Act:

Schedule	
Means of pensioner	Rate of pension per week
Where the yearly means of the pensioner as calculated under the Act -	s. d
Do not exceed £21	5
Exceed £21, but do not exceed £23, 12s and 6d	4
Exceed £23 12s and 6d, but do not exceed £26, 5d	3
Exceed £26 5s, but do not exceed £28, 17s, 6d	2
Exceed £28, 17s and 6d, but do not exceed £31, 10s	1
Exceed £31, 10s	No pension

³⁰ M Hill, *Pensions*, 2007, p24; H Glennerster, 'Poverty policy from 1900 to the 1970s', in H Glennerster et al ed, *One Hundred Years of Poverty and Policy*, York., 2004, p69

³¹ The Times, 'Old Age Pensions, the First Payments', 31 December 1908

3.2 Introduction of the scheme

DWP explains how the new system was administered:

Pension officers from 1908 onwards did day to day assessments, visiting the homes of claimants. Compensation claims from officers following these visits ranged from illness contracted in the slums to an insect bite to falling through a trap door.

Pension applications were submitted to committees of nine people (at least two of whom had to be women). Successful pensioners were issued with an order book to be cashed each week.³²

The first applications forms for the new old age pensions were issued in September 1908. The *Times* reported that:

The application forms for old-age pensions were issued yesterday. The pensions, of course, will not become due until January 1 next, but the authorities, in view of the widespread inquiries which will be necessary by the pension offices and the sub-committees, are anxious to encourage claimants to send in their applications as soon as possible.

In some parts of London the offices were besieged at any early hour by would-be claimants. In districts like Whitechapel, Bermondsey, Lambeth and Southwark the demand for the forms was very great...

All over the country applicants for forms attended at the post-offices in large numbers. Many of them appear to have been unable to fix their age more definitely than as 'between seventy and eighty' or 'about ninety'; and some were at a complete loss when they were asked to name the place of their birth. In Ireland and in the agricultural districts of England the Post Office officials had not only to give many applicants exhaustive directions as to how they should fill up their forms, but they had also frequently to do most of the writing as well. In the North and the Midlands it was observed that a large proportion of the applicants had acquired a sort of information with regard to pensions, and that they required no assistance.

One difficulty with regard to the furnishing of the proof of age would be immediately removed if all the custodians of church registers were to follow the example of the Rector of Montgomery, who has announced that he will make no charge for certified copies of extracts from his registers if they are required by persons qualified for pensions. Baptismal certificates are to be accepted as evidence of age. In view of the large number of aged persons already disclosed who are unable to state either the year or the place of their birth, it may be necessary to relax yet further the rules with regard to proving age. At Birmingham and other places, yesterday, the supply of forms was exhausted by the demand, and many old men and women, reluctant and sceptical, departed empty-handed upon the statement that there would be forms for them later.

In Lincolnshire and in other agricultural counties local funds are being started to maintain the aged poor until the pensions fall due, and so save them from disqualifying themselves by accepting Poor Law relief. Even in towns, such a measure might not be inadvisable. In London and other centres of population it was noticed that many old soldiers who were in extreme poverty were among the applicants. At Stratford, E Thomas Humphreys reported that he was a veteran of the Indian Mutiny campaign and had no income beyond his pension of 7s a week. He was in the 54th Regiment and was aboard the transport ship Sarah Sand when she caught fire in the winter of 1857. Mr

³² [Hhttp://www.dwp.gov.uk/mediacentre/pensioncentenary/H](http://www.dwp.gov.uk/mediacentre/pensioncentenary/H); *Old Age Pension Act 1908*, s 7 and 8

Humphrey's said 'I shall be very glad of the pension.' Another applicant at Stratford, who was being assisted to fill his form by the postmaster, when he was asked 'Have you lived in the United Kingdom for 20 years?' stoutly replied 'No, I have live all my life In Stratford'. At Leeds an old man who applied for a form declared he had lived in the same parish for 71 years.³³

The *Times* reported on 31 December 1908, the day before the first payments were expected to be made, that well over 600,000 were expected to be eligible. The cost was expected to be £7.5 million.³⁴

4 Subsequent developments

4.1 The introduction of national insurance

Howard Glennerster described that *Old Age Pensions Act 1908* as one of the "first anti-poverty measures to be financed out of central taxation and marked the beginning of the trail to the modern welfare state."³⁵ He argues that the Act posed dilemmas, some of which are still with us, and led to the development of a system of national insurance:

The pension was means-tested. It was a boon to those who had never had the chance to save. But what would it do to the saving habits of those in the next generation? Those who had saved, or been members of a friendly society or other scheme, lost any benefit as their state pension was docked pound for pound. Pressure grew to remove the means test or raise the income limit for the pension, lower the age at which it could be drawn and make it more generous, especially as the pension lost value with the inflation of the war years. The Treasury began to worry that it had let loose a tiger that would eat up its revenue.

One way out was favoured by many Liberals, the Treasury itself and the 'new' Conservatives led by Chamberlain. The strategy was to adopt the route taken for the sick and unemployed in 1911 – 'National insurance'. Calls on the Exchequer would be limited by making the worker and his employer responsible for the cost of pensions in the long term. Pressure for higher pensions would be tempered by the knowledge that this would result in higher contributions from existing workers. The costs would not be passed on the well-off income tax payer. On the other hand, rights to benefit would be earned by virtue of the contribution record, not a means test, which would have advantages for the elderly person. More than one committee began work on the issue and the failure of the minority Labour government of 1924 to come up with any alternative left the new Conservative government with the opportunity to take the decisive step towards a social insurance model – the 1925 *Widows', Orphans and Old Age Contributions Act*.³⁶

The insurance system introduced in 1925 had an "upper-income ceiling for contributors" which excluded the better off and thus encouraged the development of private pensions.³⁷ The 1925 scheme was made applicable to all in employment when, in the 1940s, the government enacted most of the proposals in the Beveridge report (1942). Michael Hill explains:

³³ *The Times*, 'Old Age Pensions. Application forms issued', 25 September 1908

³⁴ *The Times*, 'Old Age Pensions, the First Payments', 31 December 1908

³⁵ Ibid

³⁶ Ibid p 71

³⁷ Hill M (2007), *Pensions*, p24

That report proposed a system of flat-rate social insurance contributions to be paid by all workers (with additions from their employers and from the state) and by self-employed people. Benefits were to be flat rate, but supplemented by additions for the needs of dependents, with children and wives falling into the categories of dependents. Retirement pensions were included in these benefits...

Beveridge saw this system of social insurance as providing subsistence-level incomes to deal with the overwhelming majority of the income maintenance problems arising from worklessness, however, caused. He did, however, recognise that there would be circumstances in which it would not be comprehensive, therefore he suggested that there should be a system of 'social assistance' operating through means-tests to provide a safety net to cover needs which social insurance was unable to meet.³⁸

The key pieces of legislation enacting the Beveridge scheme were the *National Insurance Act* of 1946, the *National Insurance (Industrial Injuries) Act* 1946 and the *National Assistance Act* of 1948.

4.2 The current pension reform agenda

Figures produced by the Department for Work and Pensions show that since the introduction of the first state pensions, life expectancy has increased dramatically:

- In 1908, the average life expectancy at birth was 41 years (40 for men and 43 for women). Only around a quarter of people survived to State Pension age (SPA). Those who did lived for just nine more years on average.
- In 2008 average life expectancy is 77 years (75 for men and 80 for women). Four in five people reach SPA and live, on average for a further 24 years.³⁹

The Pensions Commission was set up by the Labour Government in 2002 to "review the evolution of the UK's system of pension provision and to advise on whether the existing system of voluntary private pensions would deliver adequate results." Its Second Report, published in November 2005, includes a brief account of the "unique development of the pension system in the UK":

Within this international comparative context, the UK's historical development was distinctive, and has left the UK with a system of unique complexity.

While most of Europe and the US developed state earnings-related pension schemes in the early and mid-20th century, the 1942 Beveridge Report and post-war governments established a flat-rate state pension scheme. This reflected the significant prior existence of private pensions provided by insurance companies and of occupational schemes provided by companies and by the government itself as an employer. The decision to keep the state system flat-rate in turn stimulated the further development of these alternative forms of provision. Occupational pension schemes voluntarily provided by companies and by the public sector as employer therefore grew in the 1950s and 1960s to perform some of the role which in other countries was fulfilled by the state system.

It was clear however that this voluntary system left many gaps, particularly among employees of small and medium-sized firms. It also provided poorly for people with interrupted work records (in particular women) or people who moved between jobs, who were disadvantaged by final salary schemes which provided limited leavers'

³⁸ Ibid, p25

³⁹ [Hhttp://www.dwp.gov.uk/mediacentre/pensioncentenary/H](http://www.dwp.gov.uk/mediacentre/pensioncentenary/H) (retrieved 4 August 2008)

rights. A variety of proposals for mandatory earnings-related schemes were therefore put forward, for instance in 1957 and 1969, and a minimal Graduated Retirement Benefit was introduced in 1961.

In 1978 a comprehensive State Earnings-Related Pension Scheme (SERPS) was finally introduced, but in a unique form. Rather than choosing to introduce either a tax-based PAYG scheme (as in much of Europe and the US), or a compulsory funded scheme (as in Switzerland and, subsequently, Australia), the UK introduced a scheme which could be PAYG for those not already enrolled in occupational schemes but compulsory savings in form for those employees whose employers chose to contract-out. This contracting-out option was subsequently extended, in 1988, to allow individuals to contract-out into personal pensions, i.e. to choose the compulsory savings rather than PAYG route on an individual basis.⁴⁰

The Pensions Commission concluded that “the current voluntary private funded system, combined with the current state system, is not fit for purpose looking forward.”⁴¹ It therefore proposed a new settlement for UK pension policy in the 21st century which combined two elements:

- A new policy for earnings-related provision which recognises the inherent inadequacy of a purely voluntary approach, but which stops short of full compulsion, relying instead on the automatic enrolment of employees into either a new National Pensions Savings System or into existing company pension schemes, but with the right to opt-out, and with a modest level of compulsion on employers to make matching contributions.
- A reform of state pension provision to make it simpler to understand and less means-tested than it would become if current indexation arrangements continued. This is essential to provide the clear incentives and the understandable base on which individuals and employers can build additional private provision: and it is desirable in order to address the existing problems with the state pension system today.⁴²

The Government announced in its May 2006 Pensions White Paper that it was taking forward most of the Pensions Commission’s recommendations, with some modifications. The first part of the Government’s package of reforms was legislated for in the *Pensions Act 2007*. The background is discussed in Library Research Paper RP 7/05 [Pensions Bill \[Bill 12 of 2006-07\]](#).

The second is currently before Parliament in the *Pensions Bill 2007-08*. For more on the background, see Library Research Paper RP 7/94 [Pensions Bill \[Bill 25 of 2007-08\]](#).

DWP has produced a [timeline of pension legislation](#) from 1908 to 2008:

⁴⁰ Pensions Commission, *A new pensions settlement for the twenty first century. The second report of the Pensions Commission*, November 2005,

<http://www.webarchive.org.uk/pan/16806/20070802/www.pensionscommission.org.uk/publications/2005/annrep/annrep-index.html>

⁴¹ Ibid, pix

⁴² Ibid, pix

5 Annex – Further reading

Accounts of the introduction of the first state pensions, from different perspectives and varying degrees of detail, can be found in:

James Bartholemew, *The welfare state we're in*, 2006, Chapter 7

Derek Fraser, *The evolution of the British welfare state*, 2003, Chapter 7

Howard Glennerster, 'Poverty policy from 1900 to the 1970s', in Howard Glennerster et al ed, *One Hundred Years of Poverty and Policy*, York, 2004

Michael Hill, *Pensions*, 2007, Chapter 2

Pat Thane, *The History of Retirement*, in Gordon L Clark et al, *The Oxford handbook of pensions and retirement income*, 2006

Pat Thane, *Old Age in English History: Past Experiences, Present Issues*, 2000