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State Pensions
The 100 Year Mistake

The Background and History

State pensions are a relatively new thing, in terms of our country's history, and were 100 years old in 2008, having been introduced by the old Age Pensions Act on 1st August 1908.

To understand a little about the background of our state pensions system and why we're in such a mess with it now, it's useful to go back and find out why the state pension was introduced in the first place.

And I'm afraid it comes down to politics and elections – now I won't harp on about this as basically it's not going to help us going forward but the Liberals got elected in the UK in 1906 with a large majority of 397 seats to the Conservatives 156, with labour coming in a distant 3rd with 29 seats



However as their electoral term progressed the Liberals realised that their political support was failing and they had a pretty good idea that they would struggle to win the next general election set for 1910.

And in fact they were right, they did win but only by 1 seat – they had 272 to the conservatives 271.

So that's an interesting frame work – a struggling political party who then embarked on a series of social reforms partly because that was their policy I guess but also to try to hold onto political power.

The Pensions Act 1908 was consequently passed in that difficult time and many commentators believe that it was passed as no more than a piece of electioneering propaganda.

It's easy to believe that because there didn't actually appear to be any real evidence that there was any intention at all to pay out on this new fangled benefit because it was introducing a pension for anyone over the age of 70 at a time when the average life expectancy for men was slightly less than 50 years and for women only just over 50.

In addition to that, the pension itself was means tested PLUS you had to be of sound character and couldn't claim a pension if you had:

- been in prison,
- been a drunkard under the Inebriate Act 1898 or had
- a 'habitual failure to work'.

So there were many hurdles – both financial and frankly judgemental - placed in the way of receiving this pension and as you can guess, not many people qualified!

So it does seem that this Act of parliament was only passed as a piece of propaganda, an electioneering promise, and there never was any intention ever to pay out on it. Oh dear.

In fact when the first pensions, of a maximum of 5 shillings, were actually paid in 1909, a mere 647,494 people were eligible to receive it.

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However 5 shillings represented 25% of average earnings at the time. So if you managed to receive it you were getting quite a considerable benefit.

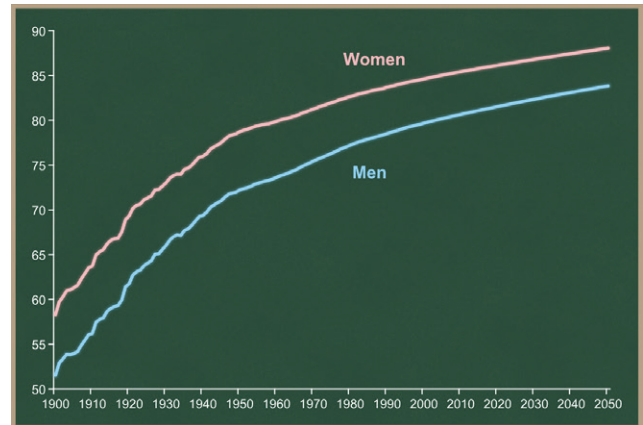
And subsequently, from 1908 until today a variety of governments have been pushed into furthering this 'election promise' into something that is now tangible and real – and unworkable.

The sad thing is that the State Pension was never intended to be payable on a large scale, it wasn't set up to be like that, neither the infrastructure nor the basic economics of a proposal were ever planned or expected – the idea of a pension that supported you in your old age was probably nothing more than a false hope and a huge piece of bluff!

The Current position

And from that inauspicious start we now find ourselves in the current day with a significant problem.

There are now 11 million pensioners, with more than 80% of the workforce living long enough to claim a pension. It is expected that there will be 12.5 million pensioners by the year 2025 when there will be only 3.5 working people for every pensioner compared to 4.5 now.



People are living longer - Life expectancy by birth year

Now that is fundamental because the state pensions scheme hasn't been set up like a normal private pension scheme where people pay in for a long period of time and the money gets invested and grows and that pot of money then provides a pension for the contributor.

Sadly the government state pensions scheme is set up to enable the government to rob Peter to pay Paul and the pensions for our current pensioners today are being paid for out of contributions in tax and national insurance being made by the workforce today.

So as the work force diminishes and the population ages, we have a widening gap between what comes in and what needs to go out – so no wonder the government are changing the pension's law.

Fundamentally there are two major and critical issues with our state pensions system because it doesn't work – for two reasons

Firstly Financial - We now know that the majority of people over the age of 65 have inadequate means to fund themselves into old age, and it is estimated that only 4% of the population can support themselves on the pensions they have and only a ridiculously low 1% of people have enough money to do as

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they please in retirement – which I assume is most people's objective.

Whilst the current State Pension provides a paltry sum to the individual recipient, the funding of this payment to so many people is bankrupting the government and the country. Too much of our country's resources are going into funding something that is fundamentally ineffective and fails to meet its prime objective.

And secondly there's the **Emotional challenge created** - because what Lloyd George did when he introduced this legislation was to indicate to the population that they didn't need to worry about their financial future and that there was a safety net for them

And as a consequence the majority of people have abdicated their financial responsibilities and don't save or plan for their retirement – or they don't save enough.

In order to fund yourself each person needs to be saving between 12% - 14% of their earnings throughout life. The UK populace overall falls far short of this target and saves less than 7% of its earnings per year.

By encouraging people to abdicate the responsibility for their long term financial affairs in this way, we do them a huge disservice, because it is only when we take responsibility for our lives and take appropriate action over the long term can we ever be financially free – and that's a lot more than the State Pension can ever hope to offer, or provide, for us as a nation.

So do yourself a huge favour and rely on yourself!



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