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Cambridge University Press
978-0-521-12155-2 - Inventing Retirement: The Development of Occupational Pensions in Britain
Leslie Hannah
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Part I The rise of pensioning

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1 *Savings, work and old age in Victorian Britain*

The practice of viewing the aged as a separate class is modern . . .
G. R. Porter and F. W. Hirst, *The Progress of the Nation*, 1912, p. 76

Behind contemporary man's age-old fears of personal ageing, behind the anger of social critics at our treatment of the old, or behind the sociologist's analysis of the decay of family mutuality, there often lies a mental image of the golden age past. In this picture, much favoured by politicians and the media, the old were revered; their wisdom and experience were shared with youth; family hearths extended generous welcomes to grandmothers and grandfathers; and, in rural society, especially, family support and household production enabled the old to adapt to increasing infirmity with dignity and at their own pace. In recent years, historians have been able to show that such rose-coloured views of old age in the world we have lost are largely myth. Over twentieth-century lifetimes, our typical experience of old age and our ideas about retirement have both undergone profound changes, and they are not uniformly happy innovations. If we are to analyse them, it will be as well to start off with an understanding of the social and economic experience of old age in the society which gave birth to them, rather than with myths of lost joys and innocence.

Pessimism about old age is not, of course, new. As long ago as 1776, Adam Smith was bemoaning the decline in respect for the old and observing that advanced nations treated their aged citizens badly.[1] Historical demographers have shown clearly that the residence of old people with their children was never in modern, recorded history the norm in Britain.[2] Financial support for the old by their offspring, though welcomed by the poor law authorities, was by no means universal.[3] Old people wishing to live

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with their children and grandchildren were as likely then as now to encounter resistance and emotional strains.[4] Poverty in old age was, then as now, likely to be blamed on the supposed long-run decline of filial piety.[5] Such reciprocity as existed between young and old in family life may have been developed in some pre-industrial villages, but it probably developed further in booming factory towns: where women could get jobs and welcomed a grandmother at home in the child-caring role.[6] Similar instrumental ties, reinforcing emotional attachments, were no less necessary in the higher reaches of society. Any man of means contemplating retirement in the nineteenth century was well advised to hold on to his fortune and position, remembering that wealth and power, not age as such, were the source of much of the respect he would enjoy, just as had been the case in pre-industrial England.[7] If there had been a golden age for the old, then, it was more in the realm of imagination than in the everyday experience of the old in the Victorian period.

Yet, undeniably, there was in nineteenth-century Britain less differentiation of people by age than has since become the norm. Sixty or sixty-five did not then mark the rite of passage for individuals which they have since become, and there was also much less contemporary awareness of the old generally as a social 'problem'. Why were the old less visible? In part it was that there were fewer of them: the population over sixty-five (now 15% of the total) never exceeded 5% of the Victorian population as a whole.[8] Victorian Britain was a youthful society, with the burden of dependent children taxing the incomes of families far more than the dependent old. The demographic transition to the small families of the twentieth century reduced that problem, while increased longevity has greatly increased the older population. In the last century, fewer people expected to survive to old age. The expectation of life of twenty-year-olds did not reach sixty-five years of age until the twentieth century:[9] most nineteenth-century Englishmen entering the adult work force thus might not expect to survive to the age recognized as a watershed marking old age.[10] Those who did reach sixty-five were, moreover, not likely to stop work on account of it: in the closing decades of the nineteenth century around two-thirds of people aged sixty-five and over who had been in the work force were still working.[11] The problem of financing old age – smaller though it was than present day problems – was, none the less, one of which Victorians of all social classes were well aware. Their perceptions and preconceptions produced a range of individual and collective responses which were profoundly to influence future developments.

Among the business and professional classes it was not uncommon to follow the classic behaviour posited in life-cycle theories of savings: people borrowing to establish a family in early adulthood, and then in their forties beginning to accumulate *rentier* investments by saving and inheritance (the

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latter coming earlier than it typically now does) to finance a slow withdrawal from business in their fifties and sixties.[12] Amongst the wealthy (to whom income tax was then confined), the tax reliefs introduced by Gladstone in 1853 on premiums for insurance policies increased the incentive to provide for widowhood and old age by this means, and the insurance companies assiduously courted this custom.[13] Only about a fifth of taxpayers availed themselves of the relief, but those who did commonly devoted 5% or more of their income to this form of saving by the turn of the century.[14] Gladstone also extended the system of government annuities to make small annuities available at post offices, but this failed to widen the annuity market beyond the affluent. Even they found that buying an annuity – at age sixty-five this typically meant exchanging a lump sum of £1,000 for an annual income of £100 ceasing on death – was unattractive given the tax discrimination against it. Most of the affluent preferred to manage their old age investments directly, spending capital (which, unlike the capital element in annuities, was not taxed) and income as they needed it. This could leave someone who lived a long time short, and those who were unwilling to take this risk stimulated the gradually growing market for both government annuities and insurance company annuities.[15] The affluent who had provided in these ways could afford to withdraw gradually from work if they were self-employed (or resign if they were employees), and enjoy in retirement those other pursuits which they found congenial. With continually rising living standards in the later nineteenth century more people were able to do so. The lower middle classes certainly aspired to building up a nest egg for old age, and those who succeeded accounted for part of the increase in the proportion of the aged who retired in the later-nineteenth-century decades.

There were, however, real limits to the extent of such savings. The industrial insurance companies, selling on a door-to-door basis to a mainly working-class market, made large advances in the late nineteenth century, but little of this was for old age saving, rather than for short-term contingencies and burial insurance. The savings ethos of the mass of the population remained quite sharply differentiated from the patterns established by the Victorian bourgeoisie,[16] and this severely constrained their retirement options. Smilesian critics pointed out that for threepence a week from age twenty – less than the cost of twenty cigarettes – a man could save enough to buy an annuity of five shillings a week (about a quarter of average wage earnings by the turn of the century) from age sixty-five.[17] There were, of course, still some people who could not afford even that,[18] but, more importantly, even the many who could probably felt (and if they did they were right) that a man of twenty was more likely to be dead than alive at sixty-five. For the poorer workers, moreover, life expectation was lower than for the population as a whole, so the disinclination to save for an

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uncertain eventuality could be quite rationally justified in the light of more real demands on the meagre budget. Household creation, and child rearing – not to speak of the enjoyment of beer or the benefits of gambling – all had higher priorities than retirement saving in the forty or so years of adult working life which the poor could expect.[19] Working-class thrift tended to take the form of friendly society or trade union subscriptions, designed more to deal with unemployment or sickness, both of which were more certain for the typical worker than old age, as well as more likely to occupy a larger portion of their lives. It was only among the better-off workers that such mutual savings funds developed far in the direction of financing old age pensions. Trade unions sometimes paid sickness and unemployment benefits to their older members which were in effect retirement pensions, and a few extremely well-paid trade societies, such as the London Compositors, had generous pension benefits, but these were exceptional; moreover, only a small minority of the working population were members of trade unions in the nineteenth century.[20] Friendly societies achieved more widespread coverage and also provided *de facto* pension benefits for long-standing members. However, these liabilities were already causing serious problems for the societies by the end of the nineteenth century and members were reluctant to increase their subscriptions to the level necessary to finance old age more securely.[21]

Only one such working man's society – the Northumberland and Durham Miners' Permanent Relief Society – appears to have developed successfully an adequate regime of provision for old age in the nineteenth century.[22] Its achievements have been curiously neglected by historians, though it was for many years the largest private occupational pension scheme in Britain in terms of the number of contributing members: there were 140,000 members at the turn of the century, and nearly 4,000 pensions were being paid. These benefits were popular among the members, and as the local coal industry expanded and wages rose, membership was still growing fast. The Society had started as an accident compensation fund in 1862 following the Hartley Colliery disaster, with some support from the employers, and developed its modest pension benefits gradually. The support from employers tailed off in the late nineteenth century, and the members' committee determined benefits and fixed subscriptions as was usual in friendly societies. The majority of miners in the prosperous north-eastern coal fields chose to join. In 1899, when coal hewers earned about thirty shillings a week, members paid 1½d. a week for superannuation benefits, and the total subscription of four pence, including the accident fund, absorbed little more than 1% of earnings. After ten years, those over sixty became eligible for a four shillings a week pension if they could produce a medical certificate of inability to work and were not earning more than five shillings a week from light work. There was no formal retiring age,

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and most miners preferred to work if they could (coming on the fund on average seven years after the minimum retiring age). This preference for remaining in employment (hardly surprising in the light of the severe drop in income which the pension represented for the high-earning miners), together with the low life-expectancy of miners, enabled the fund to honour its commitments and improve benefits, gaining the confidence of members for several decades.[23] The friendly societies organized by railway workers – though with rather more help in that case from employers – also provided explicit pension benefits for large numbers of railwaymen.[24] However, such collective initiatives by workers for explicit provision for old age were confined to relatively affluent groups such as miners and railwaymen, and were very much the exception rather than the rule.

For the mass of workers without such coverage (and indeed for many in these collective schemes providing only low levels of benefits), staying on the job was the normal, accepted practice in old age until incapacity intervened to force retirement. This did not mean that incomes could be maintained at a high level into old age. It was quite normal for older employees, whose productivity was reduced by declining physical strength or mental vigour, to have their pay reduced, or to be asked to leave strenuous employment and find lighter work elsewhere. The wage data and the practices of employers who did require retirement of ineffective workers both suggest that physical and mental powers declined at an earlier age than is now the case.[25] In many manual occupations earnings peaked at age forty-five and after that it was increasingly difficult to find new employment; from age fifty-five men frequently had to drop skilled occupations entirely. A minority were able to stay on with the same firm in lighter work: a furnaceman earning two or three pounds a week might be offered a position as a weighman at little more than a pound a week; miners would cease to work underground and take a lighter job at the pit head; a deserving employee 'past his job' at the Reading biscuit makers, Huntley & Palmer, could expect a light job at a reduced wage.[26] Frequent sickness absences and long periods of unemployment also reduced the incomes of the elderly, and technical changes in industry may have had the effect of reducing their job opportunities since employers preferred to train younger workers in new methods.[27] Some employers would keep on old, unproductive workers with long service for charity's sake,[28] but for many of the redundant old, the end of working life might involve menial work at very low wages. An old couple might finally work as night-watchman and self-employed washerwoman, or simply earn money on the side by growing vegetables or letting a vacant room.

When self-help failed, sons and daughters might provide assistance in kind or cash,[29] but the major recourse, particularly of the very old and the incapacitated, was the poor law. The tradition of community support for

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the elderly was unusually well developed in Britain; and, while the poor law had been tightened up in the nineteenth century to prevent malingering, the aged were usually subjected to rather less harsh treatment than the sturdier unemployed. These traditions did, however, come under increasing pressure, with attempts to force families to pay a larger share of the costs of maintaining the old, and a disinclination to offer 'outdoor relief' (rather than the deterrent compulsory residence in a workhouse). From 1870 onwards, some scholars are now suggesting, there was in many areas a conscious effort to make the relief unpalatable to the old, and to encourage them to rely on themselves or their families rather than the community for old age income.[30] The later Victorians may, then, have the distinction of being the only generation in Britain in modern decades which, though itself enjoying comfortably improving real living standards, refused to share them more than proportionately with the aged needy.[31] This was only possible in an underdeveloped democracy with an unusually acute sense of the virtues of self-help among the limited electorate. The overwhelming majority of the aged poor, even at the end of the nineteenth century, did not have the vote, and if they did, for many years lost it on entering the workhouse. But the growing power of organized labour, the widening franchise and the liberal populist tradition were eventually to coalesce and to demonstrate the political viability of a wider community conception of the responsibilities of the state towards the aged, on the national rather than local level on which the poor law operated.

In the Victorian period, despite increasing signs of these new possibilities, the central government kept out of income maintenance for the old. But there were other communities which had the organizational and financial muscle to provide some assistance to the old. There was a long tradition of employers, large and small, rewarding long-serving employees of all ranks with an *ex gratia* pension. Examples of this can be found as widely in modern industries as in the traditional rural communities with which such paternalism is usually associated.[32] Such payments were in the nature of a charitable gift, but the local employment nexus of which they were a culmination was, of course, strengthened by knowledge of their existence. In communities where the tradition was particularly well developed, the employer, though he had discretion in individual cases, could no more have generally and unilaterally stopped such pensions than he could have ceased contributing to the local church and reading room, or refused to sponsor public or works events. These pensions were part of a system of reciprocal obligations well understood by the members of the communities where the institution flourished. Indeed, local poor law guardians occasionally requested employers to pay such pensions,[33] and former employees themselves did not baulk at writing to request pensions.[34] The extent of *ex gratia* pension entitlement was undoubtedly small and the practice was

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explicitly outlawed by some firms.[35] Others argued that such provision discouraged private thrift,[36] though, in view of their selective and conditional nature, few could *reliably* count on such a pension. Many employers did, however, directly encourage thrift among their work force by sponsoring works savings banks, provident funds, or friendly societies: often covering administrative expenses, paying the interest (sometimes at privileged rates) on money deposited with the firm, or declaring bonuses on pay and encouraging employees to deposit them rather than spend them.[37] The origins of many modern pension funds can be traced back to the attempts of such paternalistic firms to encourage the habit of thrift among their employees. The amounts typically accumulated in these funds were inadequate to buy a reasonable pension annuity in old age. Nonetheless, they did offer employees a convenient way of building up a nest egg for periods of unemployment and sickness, and such a lump sum provided some supplement to declining income from employment as old age or incapacity approached.

One very large, bureaucratic employer – the state – had gone very much further than this in providing pensions for its employees, who then accounted for only a small proportion of the labour force (less than 3% in 1891). In the civil service, especially, various pension systems were already well developed by the early nineteenth century.[38] Some pensions were a survival from the days when Samuel Johnson had defined them as 'pay given to a state hireling for treason to his country': that is to say for political, sexual, or other favours.[39] In the army and navy, and the customs service, offices were sometimes bought from their previous incumbents by offers of a lump sum or annual payment by somebody wishing to succeed to the post. (This practice survived, and in some cases still survives, as a method of financing retirement well into the twentieth century in the sale of professional practices by, for example, architects, solicitors and doctors.) In the mid nineteenth century, reformers, building on earlier attempts to systematize state employees' pensions, introduced new schemes for both the civil service and the armed forces. The civil service scheme was to become an important model for the clerical and executive ranks in other sectors, offering, as it did, a particularly generous level of benefits.[40] In 1859 earlier civil service schemes were replaced by a non-contributory one providing pensions of one-sixtieth of final salary for each year of service (with a maximum of forty-sixtieths) from age sixty or later. (Compulsory retirement at sixty-five was not imposed until the 1890s.)[41] This generous level of provision became the target for other groups in the public sector, and by the end of the nineteenth century some teachers and local government employees also had won pension rights by statute or by local management agreement. The Treasury and local ratepayers were, however, cautious about extending schemes, and the few early local schemes involved a

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contribution from the staff and provided less opulent levels of pension than the civil service scheme.[42]

The largest organizations with bureaucratic features outside the state sector in nineteenth-century Britain were the railways, the nation's first big business. Their predecessors, the inland waterways, had produced the first examples of formal pension schemes in the private sector,[43] and the early railways soon developed savings clubs, employee friendly societies, and *ex gratia* pensions. The London and Birmingham Railway (later part of the London and North Western Railway) offered old age allowances in the 1840s of from five to twenty shillings a week, financing these, esoterically, from the sale of lost luggage and newspapers.[44] A more formal scheme for LNWR clerical staff followed in 1853, with the staff contributing $2\frac{1}{2}$% of wages and the company guaranteeing 4% interest on accumulating funds and additional company contributions.[45] Membership was compulsory and for those with ten or more years' service pensions could be drawn on retirement at age sixty or later. Pension levels were fixed at $22\frac{3}{4}$% of average salary after ten years' service and 109% of average salary after forty-five years' service. Other railway companies followed with similar schemes. Less popular variants were 'money purchase' schemes (in which the pensions depended on the accumulated contributions by employer and employee, and interest earned) and 'final average salary' (in which the pensions were related to salary in the last five or seven years preceding retirement rather than the average salary of a whole working life).

By the 1880s most railways had evolved well-defined pension schemes for their management and clerical staff. In the typical scheme the employee paid $2\frac{1}{2}$% of his salary into the fund, which was matched by the company; the company guaranteed the rate of interest, and the funds were placed on deposit with the firm, or in fixed interest securities. Membership was compulsory, and both employees and employer were represented on the committee of management, though with employer interests playing the leading role in determining policy. Pensions were based on years of service and average salary in that period: a typical level was 25% of average salary after ten years' service and 67% after forty-five years. The funds were usually administered by a staff of three to four clerks, though they increasingly relied on professional actuaries for advice on more complex questions of determining rates of funding and levels of benefits. The actuaries were usually moonlighting from or retired from insurance companies, whose business was based on similar actuarial problems.[46]

The railway funds were not quite like the pension schemes which came to dominate the private sector in the first half of the twentieth century: in particular, the special parliamentary acts required to set them up seemed unfamiliar and expensive to many businesses, whereas to railways (or municipalities which also regularly promoted private bills) it was a simple

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matter to tack a pension fund clause on to their bills. A parliamentary act provided a legal basis for a separately constituted fund, but did not guarantee the success of schemes unless they had a solidly established employer behind them. There had, for example, been a remarkably early statutory scheme for merchant seamen: the Act for the Relief and Support of Mariners and Disabled Seamen, and the Widows of Such as Shall be Killed, Slain or Drowned in the Merchants' Service was passed in 1749. It required most seamen to pay sixpence a month, and for over a century provided a modest level of benefit to large numbers of aged seamen. It was, however, underfunded, and ships' masters seem to have benefited from it more than ordinary sailors (perhaps because of their more stable employment and comparative longevity). Agreements on necessary reforms in funding proved impossible and the scheme collapsed in 1852, existing pensions continuing to be paid, but many contributors losing their accumulated rights. A voluntary scheme which replaced it was taken up by only 5% of those eligible, most of them ships' masters, but attempts to produce wider schemes for the industry failed.[47]

The statutory schemes for railways usually excluded the manual or weekly paid employees – 'servants' rather than 'officers' in contemporary railway parlance – but the companies did contribute generously to a variety of friendly society schemes for these workers. Sometimes membership in such schemes was made compulsory, and railway employers found it increasingly difficult to avoid close involvement in the management of the funds and the development of the benefit structure.[48] The LNWR inaugurated a scheme for manual workers in 1883, initially making only a small contribution, though in subsequent decades this substantially increased.[49] A major factor was the railways' desire to counteract the growing influence of trade unionism. The Great Western Railway Enginemen and Firemen's Mutual Assurance, Sick, and Superannuation Society had been founded in 1865, and the company had compelled workers to join. By the 1890s, however, the Fund, run by the men themselves, was paying benefits which could not be supported by the contributions and was hopelessly in deficit. Having compelled their workers to join, the company felt some responsibility. But they were unwilling to bail out the scheme without taking greater control. They employed an actuary, who not only computed a deficit of £1,250,000 in the scheme, but pointed out the benefit to the company of controlling pensions and improving their level to 'take the fire out of the Socialist cause'.[50] After years of negotiations with the men, the GWR agreed in 1901 to subsidize more generous pensions through a new statutory scheme for manual employees over which the company had greater control.[51]

Developments in railways were paralleled in the other large-scale Victorian public utilities, the gas companies. The largest, the Gas Light &

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