WHITHER SOCIAL RIGHTS IN (POST-) BREXIT EUROPE?

OPPORTUNITIES AND CHALLENGES

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UNCERTAIN FUTURES OF POST-BREXIT PENSIONS: THREE PARADOXICAL IMPLICATIONS

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In facing the pandemic, the state of healthcare has been foremost in the minds of the British public—in particular, many older people. The lockdown across the United Kingdom which began in March 2020 seemed to have pushed Brexit into the background, as if Brexit had 'got done' by the UK's formal exit from the European Union on January 31st. Just months ahead of the transition, to be completed on December 31st, the outcome of post-Brexit negotiations between the government and the EU however remained far from clear.

Yet one topic hardly mentioned during the last three years of Brexit negotiations is indeed among the most consequential—pensions. This is paradoxical because older British voters, who were more in favour of Brexit than other age groups, are likely to suffer most, as Brexit drives British social policy towards market liberalism and reshapes financialisation in the UK and indirectly across Europe, with considerable implications for pensions and inequality in old age.

Paradox I: pro-Brexit elderly and post-Brexit pensions

Older people, particularly in England and Wales, have been among the most ardent supporters of Brexit for many reasons. The future of their pensions, however, seems to have been neither a motivation nor a warning. According to the polling agency YouGov, the 2016 referendum showed that two-thirds (64 per cent) of voters aged 65 and older (and still 60 per cent aged 50-64) had voted for Leave, in contrast to a majority of voters below age 50 in favour of Remain (54 per cent, even 71 per cent aged 18-24). This striking age gradient betokens polarisation in value judgements about the UK's future—an imagined independent Great Britain of past glory *versus* an open European worldview in favour of free movement and transnational co-operation.

Older people are particularly fond of healthcare, while income protection follows closely in importance across Europe's senior citizens. The UK's national health system (NHS) has been hugely popular among older people and did play a salient role in the Brexit debates. The infamous Vote Leave bus slogan incorrectly promised a large Brexit premium, 'We send the EU £350 million a week, let's fund our NHS instead'. Since the referendum it has become clear, not least during the coronavirus pandemic, that the NHS is understaffed and that many European healthcare personnel, essential for the NHS to maintain its level of care, are leaving or no longer willing to come to the UK. In contrast, the rise in retirement age, equalising the age for men and women, was blamed on EU law, while the domestic debate was largely about increasing funded pensions by nudging British workers not to exit their workplace pension, instead of imposing a mandate as in many other European countries.

Surprisingly, neither before nor after the referendum were there any serious discussions of the potential consequences for UK pensions. Even among the expatriate communities of retired Britons in southern-European countries, such as Spain and France, concerns about health-care provision and pension receipt after the UK's exit from the EU were not taken at all seriously. In fact, many 'expats' are said to have voted Leave while ignoring the reality that their residency rights abroad, EU-wide healthcare access and retirement income would likely be in danger. In the case of a 'hard' Brexit, these social rights would be jeopardised. Although the Withdrawal Agreement safeguarded the rights of current pensioners, only favourable negotiations with the EU would secure similar rights for older people moving to Europe from 2021.

While the draft treaty on the future relationship with the EU published by the European Commission in March sought to maintain broad co-ordination of social security for pensioners, researchers, trainees and students, this would not include anyone in work and would also be subject to the Court of Justice of the EU. The UK's proposal, published a day later, covered old-age pensions but not other social benefits, leaving pensions the only common denominator between the negotiating parties. In the absence of a deal, the UK government would need to update bilateral agreements with individual EU member states to improve pensions as well as any other social benefits. While the Withdrawal Agreement would safeguard the benefits of current pensioners, the rights of future pensioners moving from the UK to the EU would depend on a negotiated agreement. This would also be true of health-care arrangements for future pensioners abroad. Although a 2018 House of Lords committee report, *Brexit: Reciprocal Healthcare*, had found that UK pensioners abroad received, on average, less expensive treatment outside Britain than through the NHS, continuation of such health coverage seems unlikely. In the years to come, pensions and healthcare policies for those starting their UK pension aboard will entail many uncertainties.

Paradox II: drifting apart from social Europe

From a European perspective, Brexit will change the pensions landscape across the EU, creating a larger gulf between the British and continental welfare states. This is paradoxical given the working-class vote in the Brexit referendum that sought to punish politicians for the decade of austerity. An unanticipated consequence will be a further divergence between neoliberal Britain and a more regulated social Europe. In respect to its 'liberal' welfare state, the UK has often been seen as a type of its own, if not a 'misfit' with respect to the European social model. With the postwar reforms following Lord Beveridge's liberal credo, the British pension system grew at odds with continental Europe, which follows the Bismarckian social-insurance tradition. EU calls for financial sustainability and social adequacy of pensions will cease to put pressure on UK pension policy-making.

Depending on the economic and fiscal impacts of Brexit, UK state pensions may well be adversely affected. Since 2010 a 'triple lock' has promised annual pension increases based on the highest of wage growth, inflation or 2.5 per cent. Yet this might be difficult to maintain in post-Brexit UK if inflation increases due to import duties while wages flatline due to limited economic growth. The coronavirus pandemic has already led to a proposition to pause the wage-growth component on the grounds that the crisis will lead to an unintended increase once the economy rebounds. Some may hope that British occupational or personal pensions will have higher returns due to more risky, post-Brexit investments in a non-EU regulatory context, yet the current pandemic will further increase uncertainty over pension-fund returns. Already, with a mixed public-private pension system, the UK has been among the western-European countries with the worst poverty rates among older people.

Moreover, it will no longer be an ally in the European Council for other European countries advancing a shift to a funded, multi-pillar system. Like the UK, the Nordic countries, Switzerland and the Netherlands, as well as Ireland, established basic pension systems funded by payroll or general taxes and provided flat-rate pensions. Within the single market and later the enlarged EU, with free movement of labour across the European Economic Area (and Switzerland), these citizenship-based basic pensions were criticised for providing transfers to migrants, although benefits were made contingent on residency or contribution years. Before the referendum, the EU had offered the UK to limit access to social rights via migration, but the Brexit referendum annulled this compromise for all EU countries.

Paradox III: pro-Brexit and post-Brexit financialisation

A third paradox is the fact that Brexit will serve the financial sector more than financialisation will benefit UK pensioners. The multi-pillar pension architecture had developed early in the UK, given the rather meagre basic pension (below 20 per cent of average wages) and coexisting private supplementary pensions. The governments of Margaret Thatcher ended much of Britain's 'ungrounded statism' (as Patrick Dunleavy put it) and introduced personal pensions with defined contributions in addition to occupational pensions. Funded pension capitalism became part of the UK's financialisation, further boosting London as a centre of asset management. Today, UK pension assets are greater than gross domestic product. 'New' Labour did not change this financialisation trend from 1997, and the post-crash austerity years under the Conservatives reinforced a liberal, residual welfare state, while promoting the funded private sector.

With regard to Brexit, not trade but services are of paramount importance to the UK economy. Releasing the UK in a Changing Europe report *Services and Brexit*, its director, Anand Menon, however observed: 'It is worrying that the biggest sector in the UK economy—accounting for more than 80 per cent of it—has been the subject of so little focus in the UK-EU negotiations. This serves to underline the largely political nature of the government's Brexit priorities, focussed on regulatory autonomy rather than any economic implications of this.'

The UK's financial interests have in any event been fractured by those in favour of deregulation and little discussion has ensued on the long-term consequences of Brexit.

Financial services contributed about 7 per cent of UK GDP in 2019, but only a quarter of this—less than 2 per cent of GDP—stems from EU-related transactions. Thus, the City of London represents a global financial centre with limited EU dependence. This explains the rather ambivalent stance of the City towards Brexit. While some financial actors would have preferred to continue EU passporting rights to directly approach EU customers, most sought work-arounds to operate in the EU at the end of the transition period. The UK's draft free-trade proposal assumed that equivalence decisions would allow UK finance institutions to conduct their transactions within the EU's single market without submitting to EU regulation—a non-starter for the EU.

A shift toward other European financial centres has been noted: Dublin, Luxembourg, Frankfurt, Paris and some other cities have profited from transfer of staff and assets to EU jurisdictions. In June 2020 Funds Europe reported that since the referendum vote over £1 trillion of assets had already been transferred from the UK to the EU27. And the sector anticipated that a transfer of a similar scale would likely follow if no deal were reached by the year end. In addition, according to PWC London asset wealth managers have set up their own management companies in Ireland, Luxembourg and other European investment centres.

The impact on UK pension funds and British personal investments will be rather indirect, depending on the divergence of financial regulation for UK assets compared with EU-based investments. Parts of the City welcomed Brexit as an opportunity to deregulate assets and maintain offshore investments without EU restrictions. While this may offer potentially higher returns, due to investments in emerging markets and global tax-regime shopping, it also entails substantial risks for such growth-oriented portfolios. This is anything but a prudent strategy for pension savings.

Within the EU, the political balance will shift away from Anglo-liberal financial-market interests. This is also felt by UK interest groups downgrading their involvement in PensionsEurope, the EU's main lobby for pension funds. Pension-fund capitalism will lose one strong voice within the EU, making it more difficult for the Netherlands (and Switzerland through bilateral agreements) and to an extent Nordic countries to advance their funded-pensions strategy. Ireland and Luxembourg both have interests in attracting pension-fund investment, yet Ireland's own voluntary occupational funds are dwindling and Luxembourg hardly relies on funded pensions for its own domestic workers. Although many eastern-European countries have introduced mandatory funded pensions, the financial crisis has led to a reorientation towards pay-as-you go public pensions, with Hungary even nationalising its funded pensions.

Paradoxes abound

Hence, post-Brexit pension futures in the UK and the wider Europe will change as a consequence of the UK having left the EU. Were a comprehensive trade and social-policy agreement not to be negotiated with the EU, this would jeopardise the social protection of older British people—the demographic most prone to voting for Brexit in the referendum. Although the Withdrawal Agreement has secured the rights of current pensioners abroad, this will no longer apply to those planning to retire in sunnier parts of Europe in the future. Moreover, British state pensions might be more negatively affected by the economic effects of a Brexit without a comprehensive trade agreement. For social Europe, the UK leaving the table will weaken the forces behind marketising pension reforms. Finally, the City's pro-Brexit financial interests will push further for less regulated financialisation of pensions, making a large share of British retirement income subject to more volatility. Departing from a social Europe that put more brakes on funded pension capitalism, Brexit has thus made UK pension futures less, not more, secure.