

**Changing political landscape for
pensions**

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Outline

- New Government, old problems
- Private Pension Trends
- Radical reforms
- Role of accountants and auditors
- The future ...

New Government, old problems

- State and private pensions too low
- Mass means-testing undermined pension saving
- Reliance on private pensions + stock market has failed
- Pension provision crumbling as employers retreat
- Pensions crisis leading to pensioners crisis

Private Pension Trends

- Final chapter for final salary schemes
- But still need to manage run-off
- Buy-outs or buy-ins will increase – cost?
- Record low rates damage deficits and buy-outs
- Large deficit = problems for trustees and employers
- New LDI investment approaches add complexity

Pensions Regulator

- Regulator encouraging professionalism and accuracy
- Expect careful assessment of employer covenant
- More complex investment approaches
- Pension deficits could increasingly damage sponsors
- Risks rising as mature schemes close
- But PPF so far managing well

What's next?

- Ensure investments well managed
- More independent trustees
- Scheme mergers or buyouts?
- Employers recognising new realities
- Bolting stable doors

Political change – pension policy revolution

- Recognising reality – pensions too expensive
- Whole new system emerging
- Lots of initiatives on pensions in few months
- Hutton signalled end of final salary for public sector
- Moving to career average [+ DC for some?]
- Cpi vs. rpi uprating cuts costs

More changes from the Coalition...

- Tax relief restrictions - £50,000pa + £1.5m lifetime
- End compulsory annuitisation
- End Default Retirement Age
- Increase State Pension Age
- Auto-enrolment and NESTs to go ahead

Dangers of NESTs

- Levelling down a huge risk
- 2% initial charge
- Individuals struggle with debts, cost, complexity
- Advice: who will help assess suitability and risk?
- Pensions too inflexible
- Decumulation – annuity rates worsening

Radical state pension reform

- State pension at least £140 a week if full NI record
- Flat rate, fair, simple, but from later age
- Only for future pensioners
- End means-test penalty for most people
- State pension not undermining private pensions
- Sharp increase in pension coverage expected

Further policy measures needed

- Saving does not have to be just pensions
- ISA-pensions or pay back student debts first
- Early access
- Financial education and advice
- National pre-retirement planning
- Alternatives to lifetime annuities

Future for pension schemes

- Contract based growing
- Regulatory changes may diminish attractions of trusts
- Final salary schemes wind down
- Corporate Governance issues remain for many
- FRC encourage AAF 01/06 reporting
- Independent audit opinion on engagement and voting

Role of accountant or auditor

- As investments become more complex, role harder
- Extra burdens for accountants and auditors
- Costs increasing, trustee resistance to be overcome
- Annual Reports and pension accounts take longer
- SORP -true and fair view, fair value accounting
- Last traded price open to debate for illiquid assets

Conclusions

- Future pension provision changing with new politics
- But huge pools of assets in legacy run-off
- Burdens on trustees rising
- More complex investment approaches
- Need careful monitoring and competent valuation
- Still important roles for accountants and auditors