



# Future Challenges for Savings, Pensions and Investments

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# Outline

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- Policy mistakes
- Demographic dangers
- Pension and savings reforms so far
- Radical new thinking
- Future challenges



# Today's challenges for savings industry

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- Confidence and savings ratio plummeted
  - Mass market not saving – don't understand investment and risk
- Risk/difficulty of saving exceeds risk/difficulty of not saving
- UK State pension too low, too complex
  - BSP, S2P, PC, SHP
- Policy undermines private provision – no joined-up thinking
  - Savings gateway, ISA, personal accounts - all incompatible
- Annuities not working properly

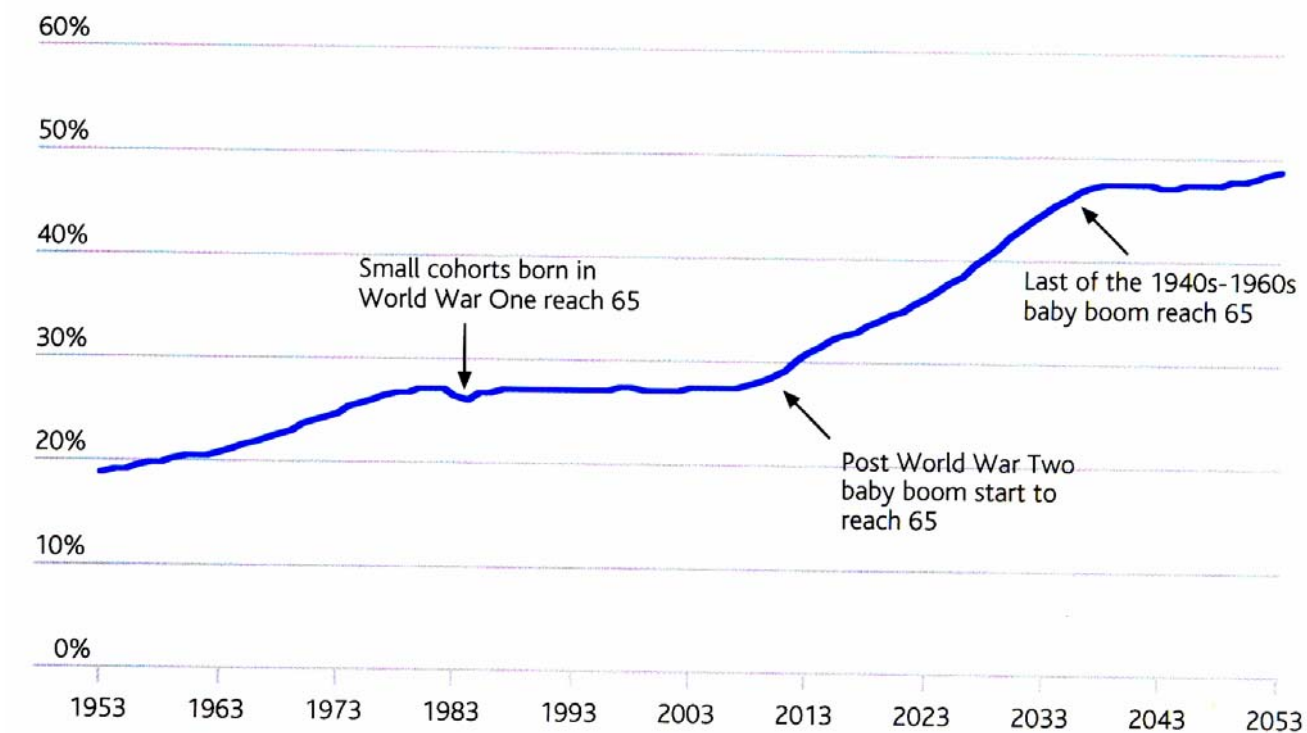


# Policy mistakes

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- Culture of self-reliance and saving->debt and dependency
  - Policy encouraged both private and public borrowing
- FSA regulation asymmetry: easy to borrow, hard to save
- Official view: no pensions crisis now but may be in future
- Wrong: pensions in crisis now, **pensioners** in crisis soon
  - Social unrest and economic decline
- Reviews and policy changes have not worked
  - Latest reforms inadequate or dangerous
- Demographic boost ending – demographic drag coming

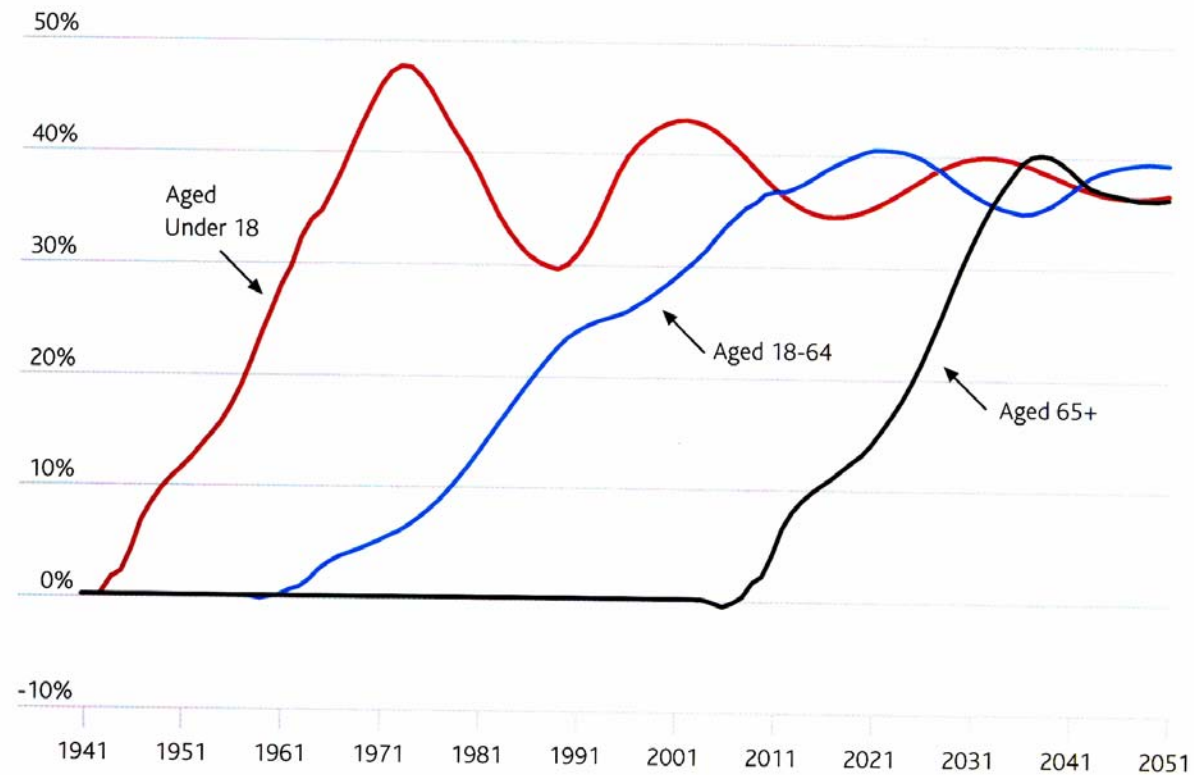
# UK Population old age dependency ratio



Source: GAD 2002-based population projection, GB  
Population Estimates Unit, ONS

# Demographic dangers huge

(% change in UK population size)



Source: Pensions Commission analysis based on a synthetic model of the England and Wales population



## Ongoing reforms but no solution

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- Latest State pension reforms – Titanic and deckchairs?!
- Still lowest, most complex state pension
- Give with one hand, take back with the other
  - Keep BSP, S2P, PC, contracting out, NI credits...
  - BSP earnings link not restored before 2012, fall further
  - And S2P then tied to prices!
  - Raise state pension age for everyone!
  - ‘Targeting’ of Pension Credit destroys incentives and undermines private pensions or other savings



# Assessment of private pension reforms

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- Opportunities – better than stakeholder?!
  - Politicians can claim lots more people are saving
  - Government will save money on means testing
  - Employers can cut costs by reducing to 3% of band
  - Industry may have more assets to manage
- Threats – more savers, but worse pensions per person
  - Level down: 3% minimum becomes maximum
  - Suitability: just replace pension credit? 40-100% tax!
  - Generic advice can't address suitability, investment risk
  - Low costs not the most important issue – annuities?





# Radical new thinking for the future

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- State pays flat-rate e.g. £140pw to all – age 75?
  - Social welfare, basic minimum, fair, no annuity
- Clear message: without private income you get £140pw
- Private pensions or lifetime savings would be suitable
  - Not just the 'locked box' of pensions
- BUT higher savings alone won't solve **pensioners** crisis
- Most can't save enough for decent 30 year retirement
- Policy lagged behind improved life expectancy, health, working practices

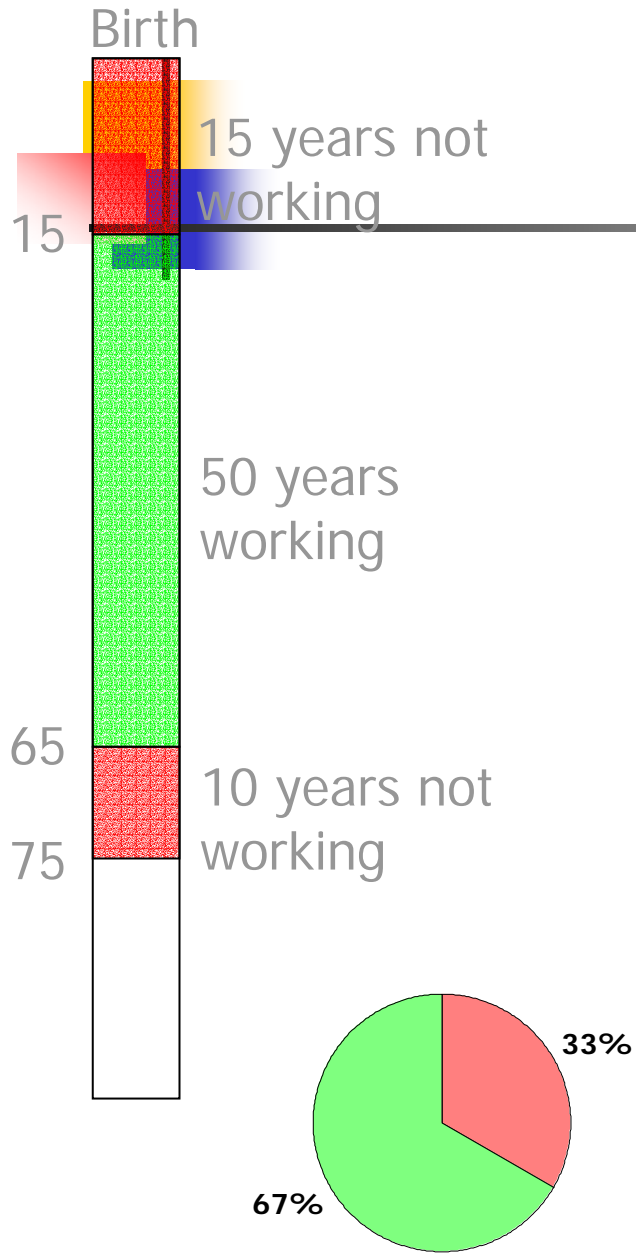


## Reinventing retirement – ‘bonus years’

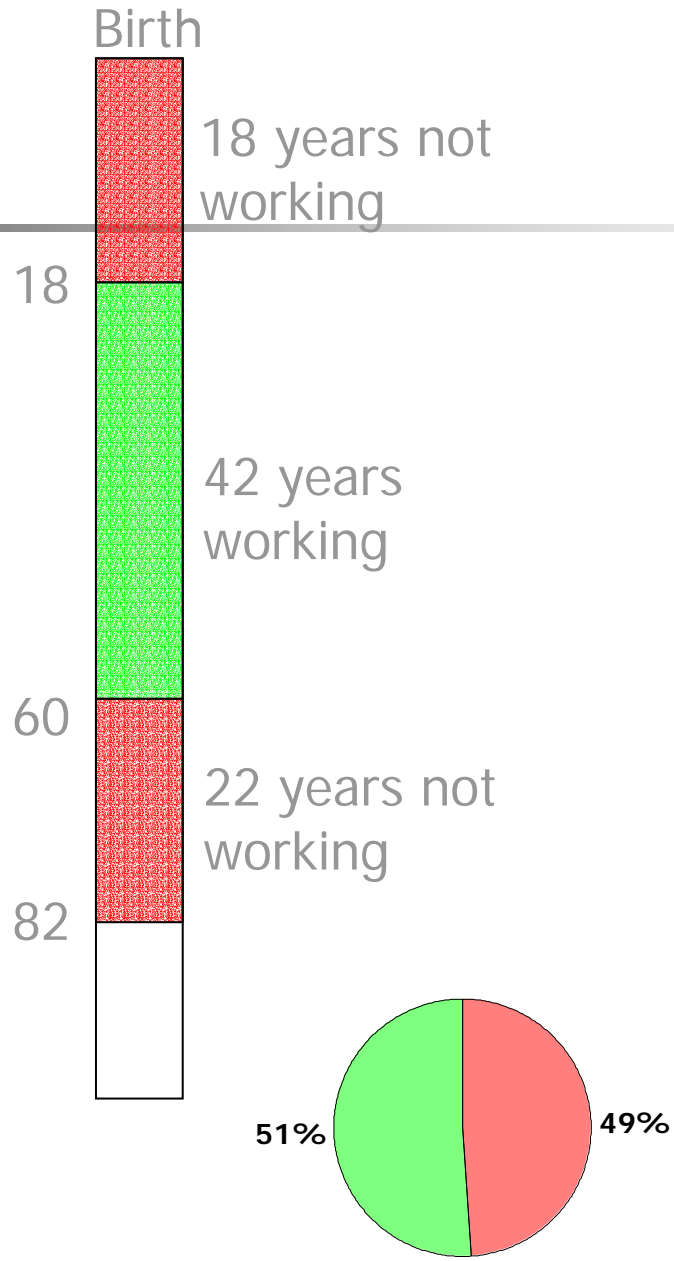
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- New phase of life waiting to be enjoyed – ‘bonus years’
- Cut down gradually - part-time working, job sharing
  - Precedent: working mums with young kids
- Retirement should be a process not an event
  - 2-3 days working, 4-5 days off, sabbaticals, retraining
- More leisure and more money to enjoy the leisure
- Private savings supplement income, not total replacement
- Better for individuals, employers and the economy
  - Demographic inevitability should be planned for

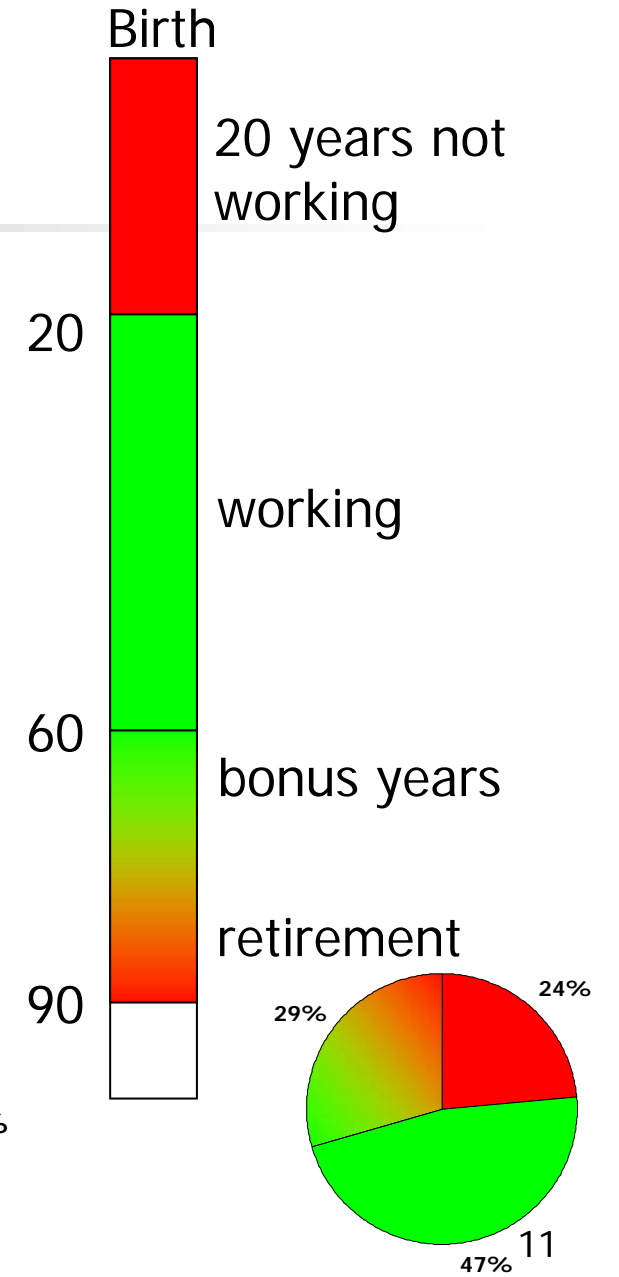
# 1950's



# Now



# Flexible Working





# Savings, pensions, investments in future

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- Remove disincentives and minimise means-testing
- Challenge of providing savings vehicles for mass-market
  - Savings gateway vs. ISA vs. pension vs. bank account
- Lifetime savings accounts, manage savings over life-cycle
  - Start with Child Trust Funds?
- Better investment options
  - Structured, guaranteed, age related, green, ethical...
- Improve annuities and flexibility
  - Government issue mortality/longevity bonds
- Big role for advisers – RDR? Workplace advice?



# Challenges ahead - Conclusions

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- Reform regulation
- Rebuild confidence
- Restore savings ethic
- Restructure pension system
- Reinvent retirement products
- Rethink retirement