



# UK Government Pension Reform Strategy

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# Overview

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- Pensions in crisis
- Government reforms – will they work?
- Personal Accounts - Opportunity or Threat
- Future for long-term savings - radical new thinking?
- Conclusion



# So what are pensions? 2 different things

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1. **Social welfare** (Original state role)
  2. **Long-term savings vehicle** (Later private role)
- Same name, but not the same
  - 20<sup>th</sup> Century employer paternalism caused confusion
    - Final salary schemes to look after loyal lifelong workers
  - But 21<sup>st</sup> Century employment doesn't fit this model
  - Final salary schemes going, DC becoming the norm
  - UK pensions policy prolongs the problems and confusion
    - Still relies on employers too much and state too little



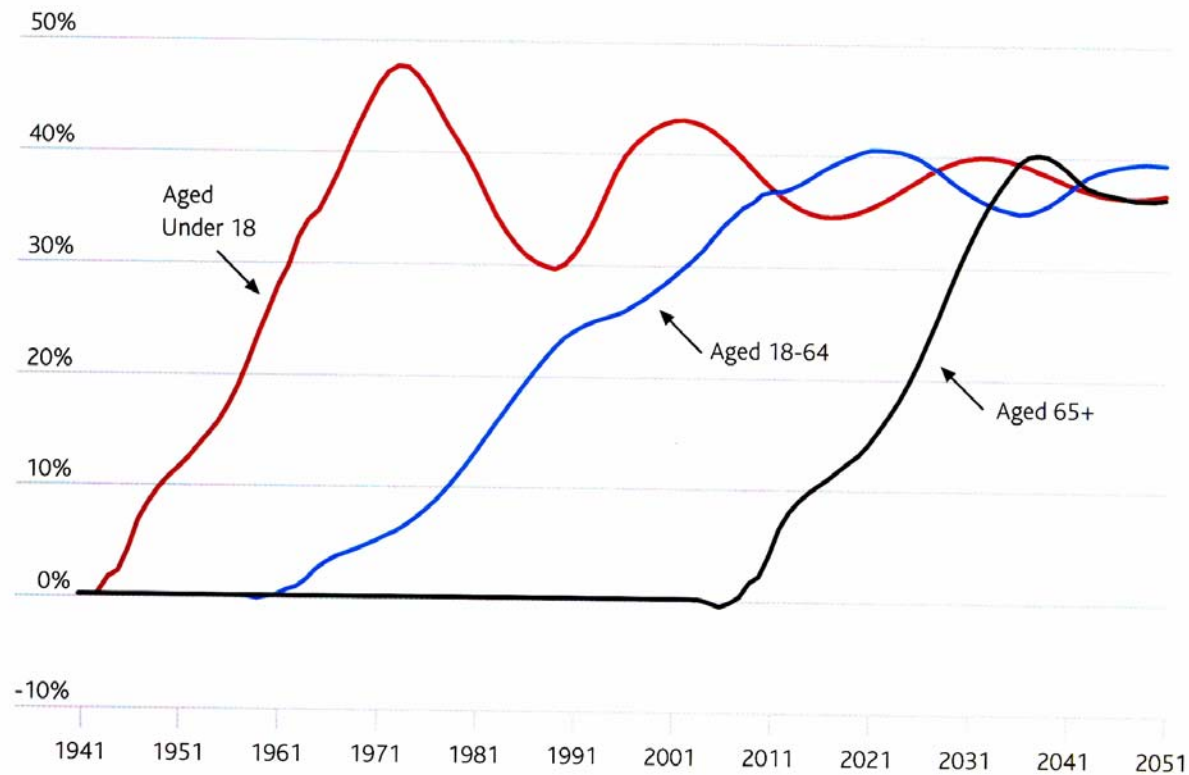
# Pensions, policy and crisis

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- Culture of self-reliance and saving->debt and dependency
- Asymmetrical regulation – easy to borrow, difficult to save
- Short-sighted policies promoted unsustainable growth
- Official view: pensions not in crisis now but may be in future
- Wrong: pensions in crisis now, **pensioners** will be in crisis in future
  - Social unrest and economic decline
- Demographics demand urgent action

# Demography: sharp rise in over-65's

## % change in UK population size



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



## Problems to sort out

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- UK State pension too low, too complex – who understands?
  - BSP, S2P, NI credits, contracting-out
- Means-testing of around half of all pensioners in pension credit undermines private pensions
- Mass market in trouble
  - employers cut back, scandals, need to restore confidence
- Risk/difficulty of saving worse than risk/difficulty not saving
- Umpteen reviews and policy changes haven't worked



# Government pension reforms so far

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- State pension reforms – tinker with current system:
  - keep BSP, S2P, Pension Credit, but tie BSP to earnings
  - reform contribution rules
  - raise state pension age
  - keep contracting-out for DB schemes
- Private pension reforms – new personal accounts:
  - 3% employer compulsion, 8% total
  - auto-enrolment
  - PADA to oversee admin and investment options
  - generic advice



# State Pension reforms not much use

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- Con trick? Titanic and deckchairs?!
- Still lowest, most complex state pension
  - BSP earnings link not restored before 2012, fall further
  - And S2P then tied to prices!
  - Raise state pension age for everyone!
  - Give with one hand, take back with the other
  - 'Targeting' of Pension Credit destroys incentives and undermines private pensions
- Not a long-term solution





# Personal accounts-opportunity or threat?

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- Opportunity
  - Industry may have far more assets to manage
  - 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
- Threat
  - Level down: 3% minimum becomes maximum
  - Increase number of savers, but reduce overall savings
  - Suitability: PAs may just replace pension credit!
  - Pensions will be taxed at least at 40%, maybe 100%!



## Personal Accounts to make crisis worse

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- Those currently in pension schemes will end up worse off
  - Employers currently contribute well above 3%
- 8% of 'band earnings' not enough, but people won't know
- Many non-savers will opt out, but those who don't will be very disappointed if means-testing penalties hit PAs
- How will generic advice cope with suitability, investment risk and annuities?
- Putting money in is important to politicians today, but getting pensions out is vital to individuals years later!



# The future? Rethinking pensions

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- State pays everyone at pension credit level £130pw
  - Social welfare, basic minimum, fair, no annuity
- Clear message: without private income you get £130pw
- Private pensions would be suitable again but new name
  - e.g. 'bonus years funds'
- BUT higher savings alone won't solve **pensioners** crisis
- Must also rethink retirement
  - New employer role - part-time work for older people
- New phase of life in future – 'bonus years'!



# Conclusions

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- Rethinking pensions and retirement for 21<sup>st</sup> century
- Current reform strategy won't work – crisis will remain
- Need radical state pension reform
- Personal accounts dangerous and could make things worse
- Industry should refuse to co-operate – remember stakeholder?!
- Suitability and levelling down are real dangers, don't sleepwalk into another mess