



# Pensions Reform and Reality

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# Overview

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- Pensions crisis
- Demographic realities
- Pension reform con trick
- Radical new thinking?
- Conclusion



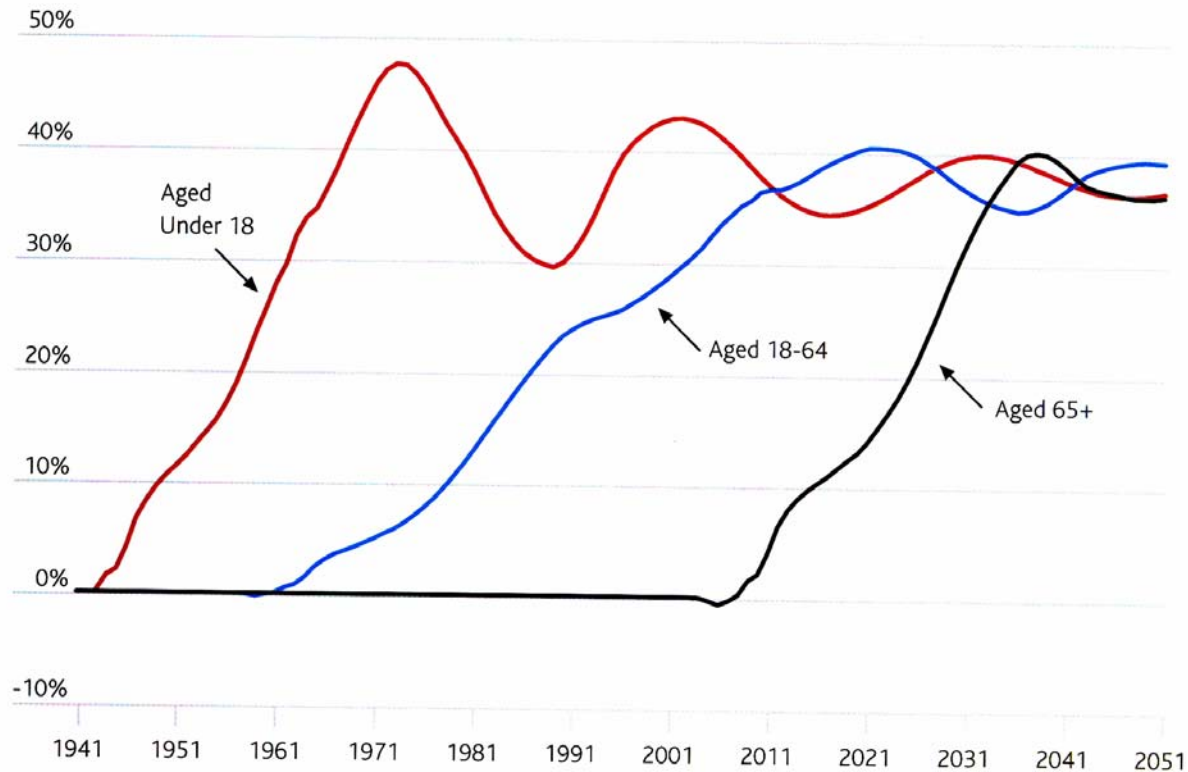
# Pensions crisis, what's the problem?

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- Government says no pensions crisis now - WRONG
- Then we'll have a ***pensioners*** crisis soon
- Culture of self-reliance and saving->debt and dependency
  - Short-sighted policies promoted unsustainable growth
- Demographic boost running out soon
- Demographic drag risks long-term economic decline
- Radically rethink retirement – save more ***and*** work more?

# Demography: threats+opportunities

% change in UK population size



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



# Demographic realities

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- Opportunities for advisers
- Sudden surge in numbers of over 65's
- More females working
- Boost to growth from higher working population will end
- Pensions *and* other savings or keep working part-time
  - Mass poverty will impact everyone – dangers for HNW
- Public sector pensions a huge looming liability
  - Ostrich approach to public accounting



# What is a pension? 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
- UK state pension cut as employer schemes grew
- But 21<sup>st</sup> Century employers won't do social welfare
  - Lifelong employment rare - final salary schemes going
- Government policy totally misguided
  - State pension penalises 40% private savings – crazy!



# Pension reforms inadequate

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- State pension reform con trick – Titanic and deckchairs?!
  - Still lowest and most complex state system
  - Keep BSP, S2P, Pension Credit – undermine private pensions
  - Tie BSP to earnings – but S2P to prices!
  - BSP still to fall further before being raised!
  - Raise state pension age
  - Give with one hand, take back with the other
  - Irrelevant to HNW





# Private pension reform con trick

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- Personal accounts give means-tested benefit not pension!
  - Employers NI increase
- Increase number of savers, but reduce overall savings
  - Levelling down – 3% minimum to become maximum?
- Suitability a big potential problem if pension credit stays
  - Generic advice hopeless
- Pensions can't be 'undone', ISA's may be better?
  - Why doesn't industry refuse to co-operate?!
- Pensions is not the only answer – irrelevant for HNW, inadequate for mass market!!



# Some radical proposals

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- Abolish private pensions – it's all just lifetime savings
- State pension is only 'pension'
  - paid at pension credit level from age 70
  - End annuity requirement, fuel allowance, TV, bus pass
  - Clear message: if you don't save you get £130pw
- BUT pension savings alone won't solve ***pensioners*** crisis
  - Gradual flexible retirement – new phase of life
- How about a National Wealth Service? Advice for all
- Oh well, back to reality...



# HNW Opportunities

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- Many more older people
- More women of means
- Lifetime planning, need much more than £1.6m
- Need for advice, especially when younger
- Differentiated and personal service
- Capital guarantees, overseas property, offshore protection – manage and control both risks and returns



# Conclusion

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- If we ignore the demographics we are in big trouble
- Investment industry needs more for HNW
- Capital protection and managing risks
- Abolish private pensions – people need far more than this
- Encourage lifetime savings – target younger professionals
- Opportunities and threats – that's life!