



Henry Stewart SIPPS Conference

The Government's Pensions Reform Proposals

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Outline

- Pensions crisis
- Problems to address
- Pensions Bill Reforms - state pension
- Pensions Bill Reforms - personal accounts
- The future
- Conclusions



Pensions Crisis

- We have a **pensions** crisis – Government in denial
- If we ignore this, will have a **pensioners** crisis
- UK's strong retirement savings culture disappearing
- Government has been destroying private pensions
- Demographic boost squandered since 1997
- Long-term economic decline



What is a pension? Two roles confused

- **Social insurance** to prevent poverty: Government role
- **Long-term savings vehicle**: individual role
- 20th Century employer final salary schemes took on social insurance role – paternalism, lifelong workers
- Muddled thinking
- Led to expectations that employers help long-term saving
- UK Government relied on employer and personal pensions
 - Kept cutting state pensions



Problems to sort out

- State pension far too low, much too complex
 - BSP, S2P, NI credits, contracting-out
- Pension credit means-test undermines private pensions
- Employers cutting pension provision – company cost
- Lack of confidence – scandals
- Risks/difficulties of saving seem greater than risks/difficulties of NOT saving
- Need to encourage new retirement savings culture



Proposed Pensions Bill reforms

- State pension:
 - Keep BSP, S2P, Pension Credit
 - Tweak contribution and indexation terms
 - Raise state pension age
- Private pensions – personal accounts:
 - 3% employer compulsion (8% total) on ‘band’ earnings
 - Auto-enrolment
 - No advice on ‘suitability’ or investment risk



State pension reforms illusion

- Tie BSP to earnings, but S2P to prices!
- NI pension below Pension Credit for millions of people
 - Invalidates contributory principle, c.40% means-tested
- Still lowest and most complex state system
 - Basic state pension to fall further before rising after 2012
- Still unfair to many
- State system will still undermine private pensions



Private pension reform could be disaster

- Levelling down existing pensions
- No serious consideration of suitability
- Administration nightmare
- Delivery Authority – how will this protect individuals?
- Contributions provide means-tested benefits not pension!
- Should industry refuse to be part of this?



Personal account dangers: level down

- 3% employer contribution to become maximum
 - Employers now contribute well over 3% (DB > 20%)
- Employer compulsion is just a tax – what rationale?
- Pensions are part of pay – mortgages next?
- Big risk pensions will end up worse overall
 - 8% not enough – people will think it is
- Those with pensions now will be worse off in long-term
- Those without more likely to opt out



Personal account dangers: suitability

- Auto-enrolment tackles some of the inertia
- But what if auto-enrolled into something not suitable?
 - 600,000 may get nothing from personal accounts
- Putting money in is important to politicians today, but getting pensions out is vital to individuals years later!
- Low costs not the most important factor
- Regulation and advice
 - What protection if things go wrong?
- Distance Marketing Directive



Investment and annuity risks

- Pensions different from other investments –
 - Money locked in, annuities risk
- Low state pension means private pensions vital
- Most people's idea of risk is 'Will I lose money?'
- Need good default options – capital protection?
 - Will Delivery Authority be able to protect members?
- What annuity safeguards in personal accounts?
- Education and advice – people should know the risks



So will Pensions Bill reforms work?

- Biggest reforms since Beveridge - Spin!
- Old-fashioned thinking
 - Rearranging deckchairs on the titanic
- More concerned with short-term headlines
- State pension still too low and too much means testing
- Private pensions still under pressure and not suitable
- Not a long-term solution, will need more radical changes



Can we expect better under PM Brown?

- Chancellor's solution so far is means-testing and gimmicks
 - Winter fuel allowance, free TV licences – not targeted
- Culture of dependency – not rewarding thrift
- Doesn't understand or care about private pensions
 - Been good for higher rate taxpayers, not mass market
- What about public sector pensions – huge problem looms
- Simplification?!



More radical reform needed

- Citizens pension (join BSP and S2P, end pension credit)
 - At least £120 per week, simple
- Need clear separation of state and private roles
- State pension to provide basic social welfare
- Re-name private pensions – long-term savings
 - Only 'pension' comes from Government
- Abolish annuity rules – insufficient volume in future
- Clear message for individuals and financial companies
 - If want more than minimum, safe to save, up to you



The future?

- State can only provide basic minimum
- Radical state pension reform could free up the market for providers to sell long-term savings to mass market
- Wake up to pension reality - rethinking of pensions **and retirement** urgent - promote better understanding
- Pensions alone cannot solve the 'pensions crisis'
- New phase of life waiting to be grasped – in future most people in their 60's and 70's will work **part-time**



Conclusions

- Current reforms could make things worse – crisis remains
- Can't reform private pensions without radical state reform
- Citizens pension for private savings to flourish again
- Personal accounts dangerous
- Industry could refuse to co-operate – distribution not safe
- More change is inevitable I'm afraid!



Thank you for listening

Any questions?

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