



Pensions Policy Isn't Working

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Overview

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



'Pension' confusion

- 1. Social welfare** (Original state role)
 - 2. Long-term savings vehicle** (Later private role)
- Both things called 'pension', but not the same
 - 20th Century employer paternalism caused confusion
 - Final salary schemes to look after loyal lifelong workers
 - But 21st Century employment doesn't fit this model
 - Final salary schemes going, DC will be the norm
 - UK pensions policy prolongs the problems and confusion
 - State pension too low, relies on employers too much



Demography and pension history

- Pensions helped baby boomer employment 1970's/1980's
- Industrial restructuring, early retirement, generous pensions led to unrealistic expectations
- Baby boomers now reaching pension age after 2010
- Policy focused on pensions but confidence collapsed
- Inadequate pensions lead to long-term economic decline
- Not enough thought for retirement policy and lifestyles

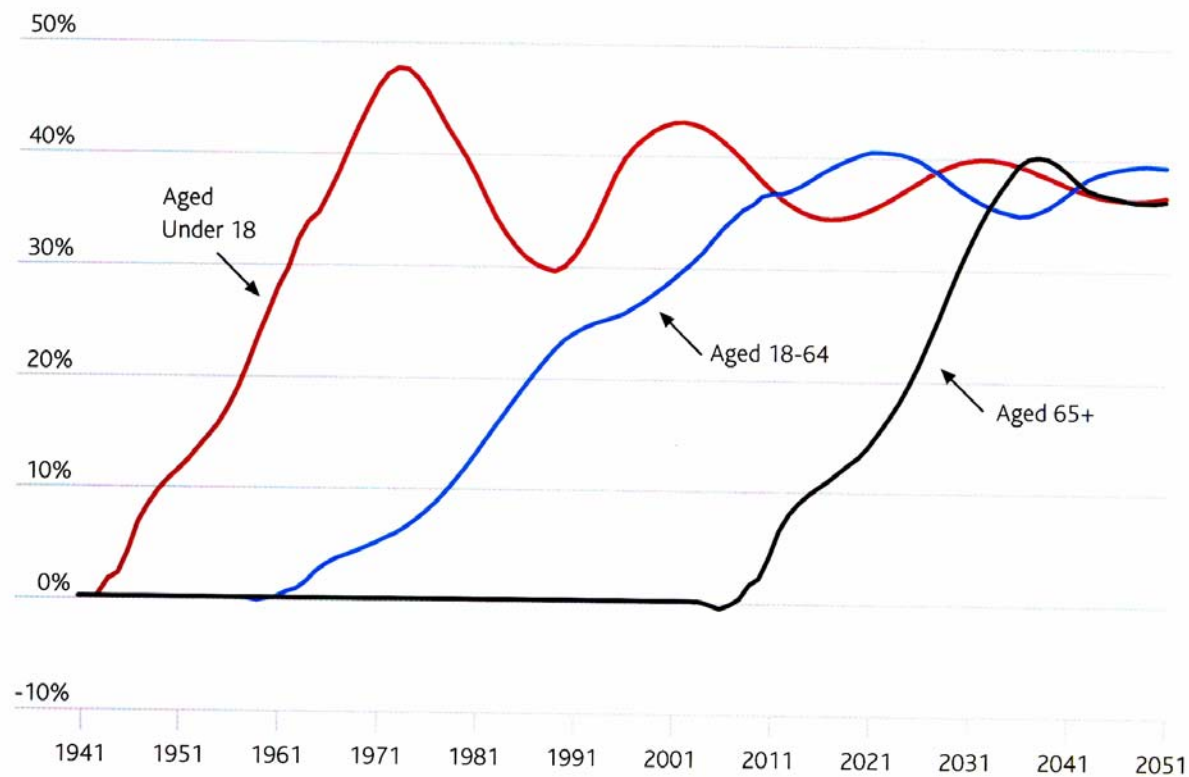


Policy mistakes

- Culture of self-reliance and saving->debt and dependency
- FSA regulation asymmetry: easy to borrow, hard to save
 - Short-sighted policies promoted unsustainable growth
- 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
- Short-sighted policies promoted unsustainable growth
- Demographic boost ending – demographic drag coming

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

- UK State pension too low, too complex
- Means-testing of around half of all pensioners in pension credit undermines private pensions
- Private pensions in trouble – don't trust a 'locked box'
- Mass market not saving, especially not in a pension
 - Employers cut back, scandals, need to restore confidence
- Risk/difficulty of saving exceeds risk/difficulty of not saving
- Public sector immune – ostrich approach to accounting



State Pension reforms 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



Private pension reforms

- New personal accounts – low cost!
- 3% employer compulsion
- 8% total of 'band earnings'
- Auto-enrolment
- PADA to oversee admin and investment options
- Generic advice



Personal accounts opportunities

- Politicians can claim lots more **people** are saving
- Employers currently offering pensions can cut costs by reducing to 3% of band earnings
- Financial industry may have more assets to manage
- Harness inertia
- Lower costs from economies of scale
- Treasury will save money on means-testing



Personal accounts threats

- Those currently in pension schemes will end up worse off
 - Employers contribute well above 3%
- Admin nightmares with auto-enrolment and small sums
- Suitability: personal accounts just replace pension credit
 - 40%-100% tax – pensions locked, maybe ISA's better
- False sense of security: 8% of 'band earnings' not enough
- Generic advice for suitability, investment risk, annuities?!
 - Groups at risk e.g. young, indebted, renting, older
- Putting money in is important to politicians today, but getting pensions out is vital to individuals years later!



But are we thinking correctly?

- This is not really a 'pensions' problem
- It is a 'retirement' problem
- Can't sort out pensions without rethinking retirement
- Pensions are now too expensive because last too long
 - Most can't afford 30 year pensions and not healthy!
- Pension and retirement policy lagged behind improved life expectancy, health, working practices



The future? Rethinking pensions

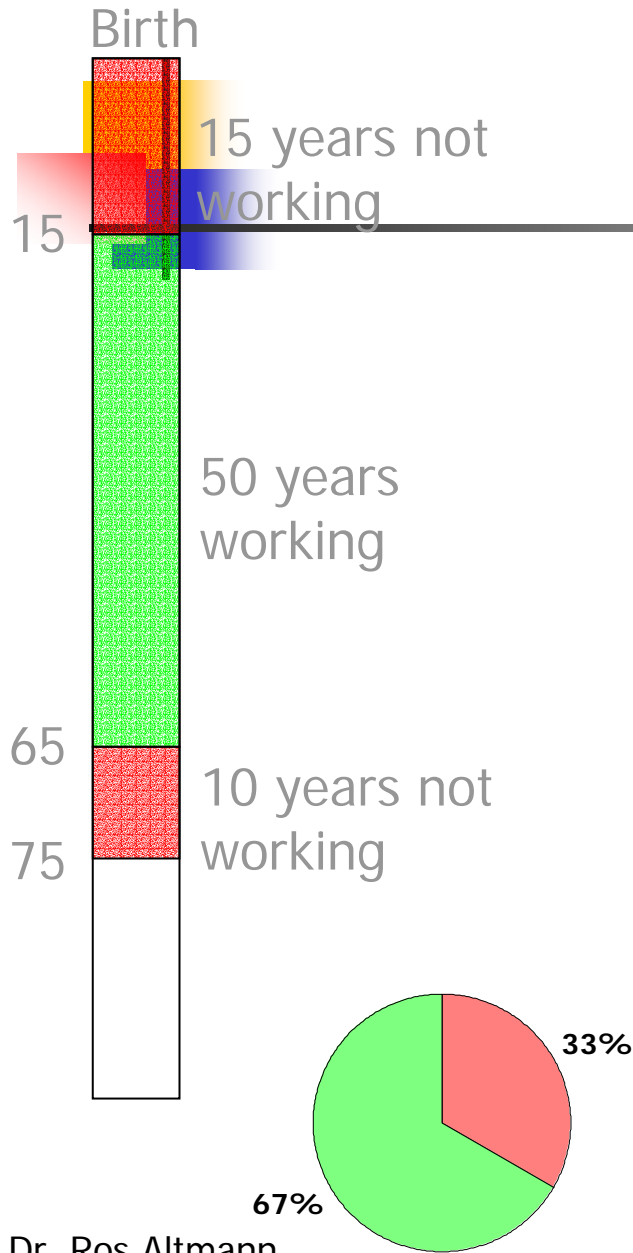
- State pays pension credit level £130pw to all – age 75?
 - Social welfare, basic minimum, fair, no annuity
- Clear message: without private income you get £130pw
- Private pensions would be suitable again, re-name them!
- BUT higher savings alone won't solve **pensioners** crisis
- Must also rethink retirement – a process not an event
 - New lifetime model - part-time work for older people



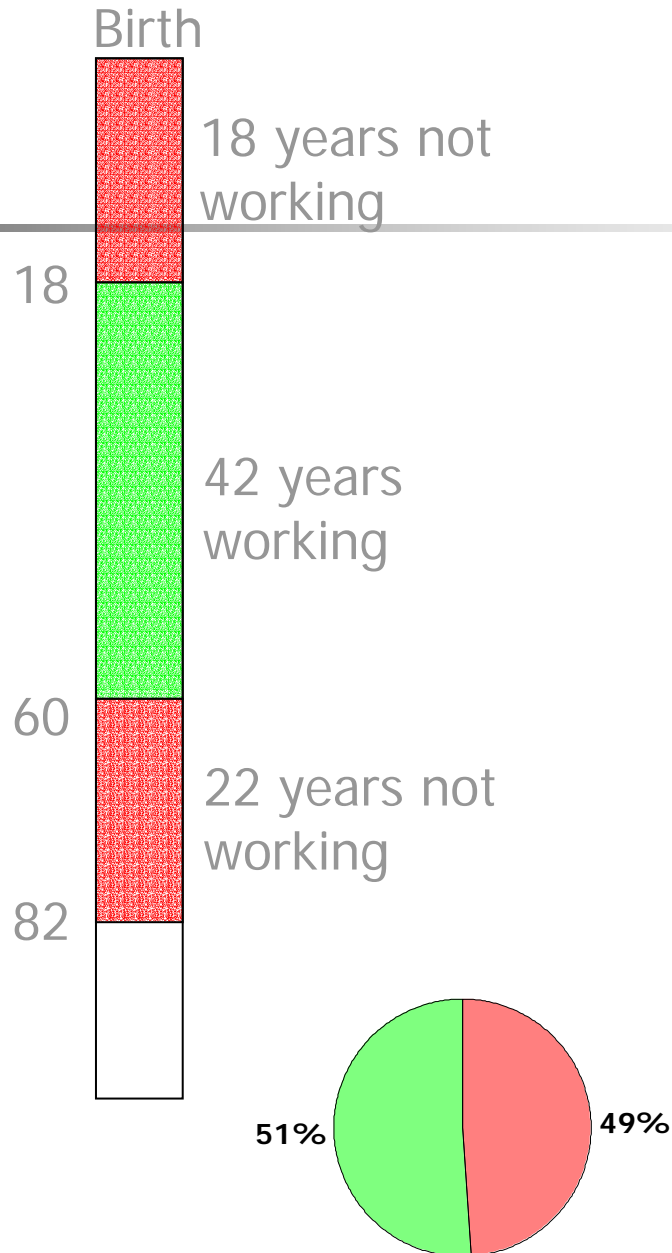
Pensions alone can't solve the pensioners crisis

- New phase of life waiting to be enjoyed – ‘bonus years’
 - 2-3 days working, 4-5 days off, sabbaticals, retraining
- Cut down gradually - part-time working, job sharing
 - Precedent: working mums with young kids
- More leisure and more money to enjoy the leisure
- Better for individuals, employers and the economy
- This is the employer role in 21st century
 - Age discrimination should not stop at 65

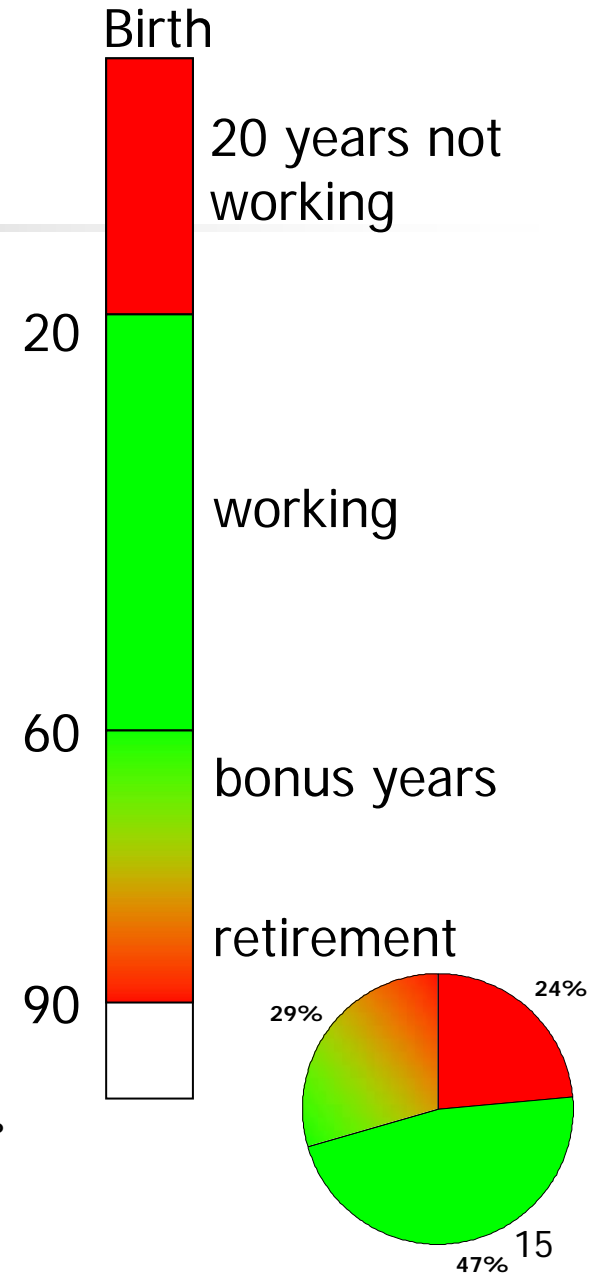
1950's



Now



Flexible Working





Ideas for the future?

- Can private sector in UK rise to the challenge of providing attractive savings vehicles for mass-market?
- Lifetime savings accounts, manage savings over life-cycle
 - Start with Child Trust Funds?
- Better investment options for DC pensions
 - Structured, guaranteed, age related, other assets etc.
- Government write annuities + mortality/longevity bonds
 - More natural place for longevity and inflation risk



Conclusions

- Current reform strategy won't work – crisis will remain
- Need radical state pension reform
- Personal accounts dangerous, could make things worse
- Industry refuse to co-operate – remember stakeholder?!
- Rethinking pensions and retirement for 21st century
- Lifetime savings, longer and different work patterns
- THIS IS GOOD NEWS IF EXPLAINED PROPERLY!



Thank you for listening

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