

The future for pensions and retirement

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Outline

- The past: history of pensions and retirement
- The present: demography and policy mistakes
- The future: rethinking pensions and retirement

The past – UK pensions

- Up to 1990's - used to be a model for others
- Strong retirement saving culture
- Very low state pension
- Good private pension provision
- Employer final salary scheme or personal pension
- Ageing population all sorted!

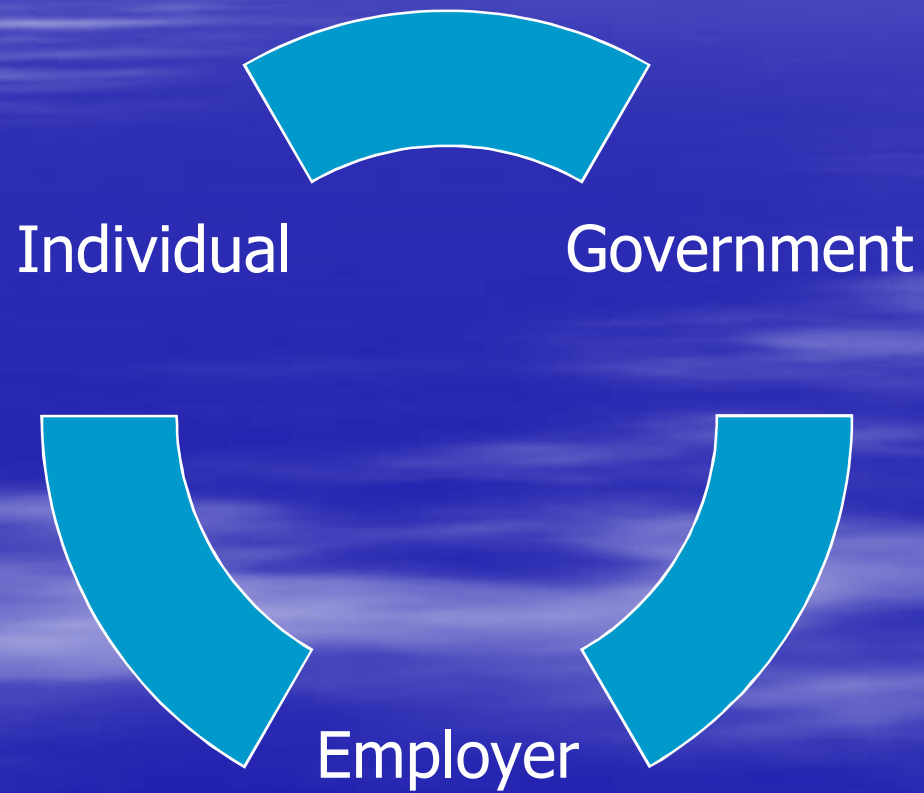
What is a pension?

- Pensions are two different things:
 1. Social welfare
 2. Long-term savings
- Confusion
- Employer final salary schemes offered both
- Heavy reliance on stock market returns

The present

- Falling social welfare
- Falling private savings
- Final salary giving way to money purchase
 - 21st Century employers won't do social welfare
- Employer contributions falling
- Individuals on their own – facing poverty

Whose responsibility?

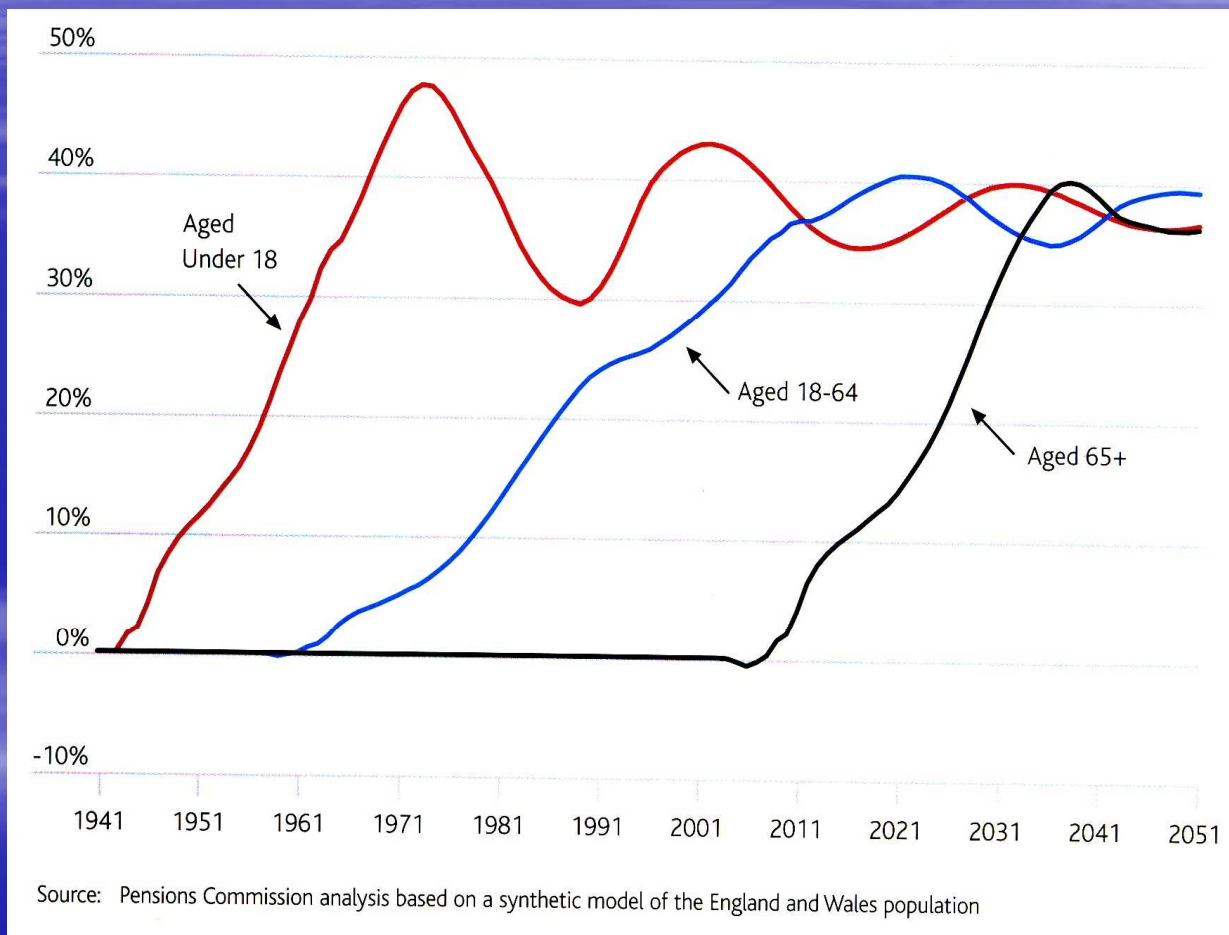


This is a crisis

- Government: no pension crisis now, maybe in future
- Nonsense! pension crisis now, pensioner crisis soon
- What will retired baby boomers live on?
- Didn't build up enough savings in the good years
- Demographic realities

Demographic dangers

% change in UK population size each year



Policy mistakes undermined saving

- Initiatives supposed to help
 - FSA; Simplicity, security & choice; decision trees; stakeholder; A-day; personal accounts
- None of this is working – advisers know it
- Demand side vs. supply side
- Asymmetrical regulation, easy to borrow, hard to save
- Did Government really want people to save?!

Don't politicians understand?

- Pensions Ministers – blink and you miss them
- Short-term spin is no long-term solution
- No incentives, major new disincentives
- 2006 reforms already out of date
- Turner admits this before they even start!

Current state pension reforms

- Still inadequate, low, complex
 - BSP + S2P + Pension Credit
- Link BSP to earnings, but S2P to prices
- Increase pension age
- Give with one hand, take back with the other
- Still around half of pensioners on means testing
 - State pension still undermining private provision

Personal accounts - opportunities

- Politicians: claim success if more people contribute
- Treasury: watch people save to replace means-test
- Financial industry: earn fees each year on assets
- Employers: cut contributions substantially
– > 20% -> 7% -> 3% or 1%!!

Personal accounts - threats

- Levelling down: make pension provision worse
- Suitability: auto-enrolled individuals could lose out
- Inadequacy: investment or annuity forecasts wrong
- Admin nightmares
- Politicians only concerned people put money in
- But what matters is getting good pension out
- Today's policymakers won't be around by then

Generic advice hopeless

- Individuals struggle with cost, risk and complexity
- Who will assess suitability?
- Who will address investment risk?
- Who will address decumulation?

Annuitisation needs revisiting

- Annuity rates worsening
 - Final salary schemes buy out, Solvency II
- 10,000 annuities each week – rising fast
- 90% buy level annuities
- OMO not working – wrong product, bad rate
- Mandatory annuitisation should end

Confused pension objectives

1. To deliver security in retirement?
2. To maximise potential investment returns?

- Need to separate the two
- Employers finding social welfare unaffordable
- Private pensions assumed equity risk premium
- Gambling future retirement security on the stock market has failed millions

Investment risk misunderstood

- No guarantee that equity risk will be rewarded
- There's no loyalty bonus!
- Private pension forecasts - everyone a winner!
- Theory just says 'on average' 'over the long-term'
- What if below average and how long is long-term?
- State pension cuts relied on equity returns to deliver social welfare

Do equities meet pension liabilities

- Need to keep up with inflation
- Need to keep up with longevity
- Need to outperform interest rates
- Manager underperformance
- Charges
- Employers can't handle risks, how can individuals?

The future: reform social welfare

- Start with state pension – resident's pension
- State pays non-means-tested social welfare
- What age?
- State must provide basic minimum, not employer
- Build private income safely on top

The future: reform long-term savings

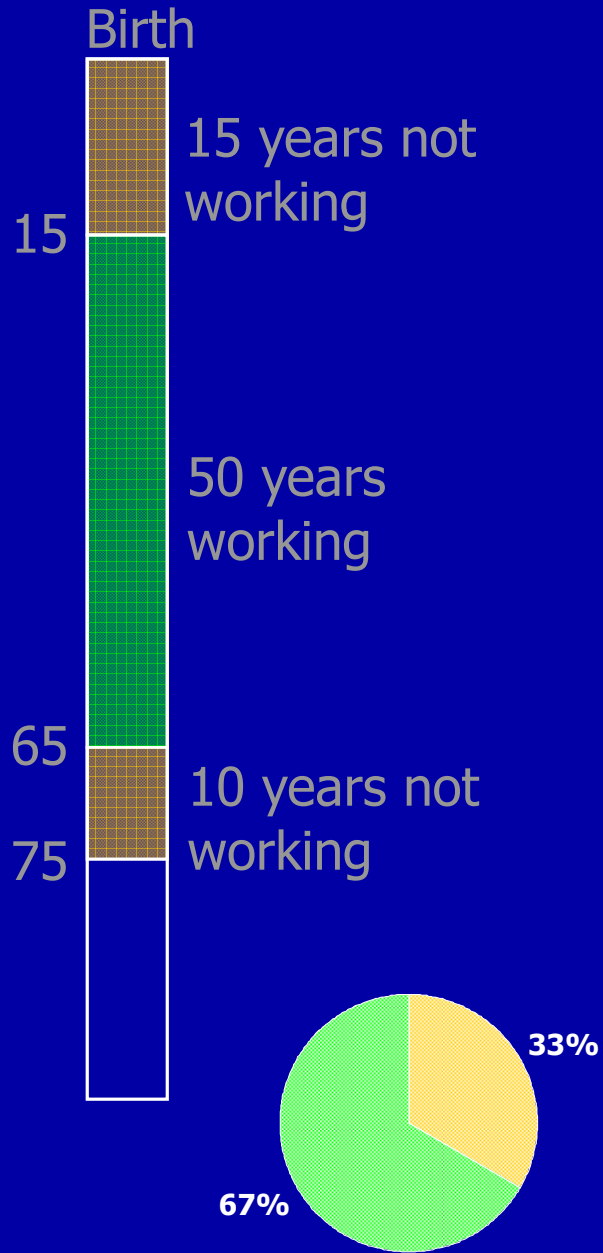
- Don't use the word 'pension' for private savings
- Lifetime Savings Accounts – LifeSaver?
- More flexibility, not just locked box
- Accept uncertainty
- Better investment options
 - Guaranteed capital and income? Diversification
- Encourage more savings

BUT...

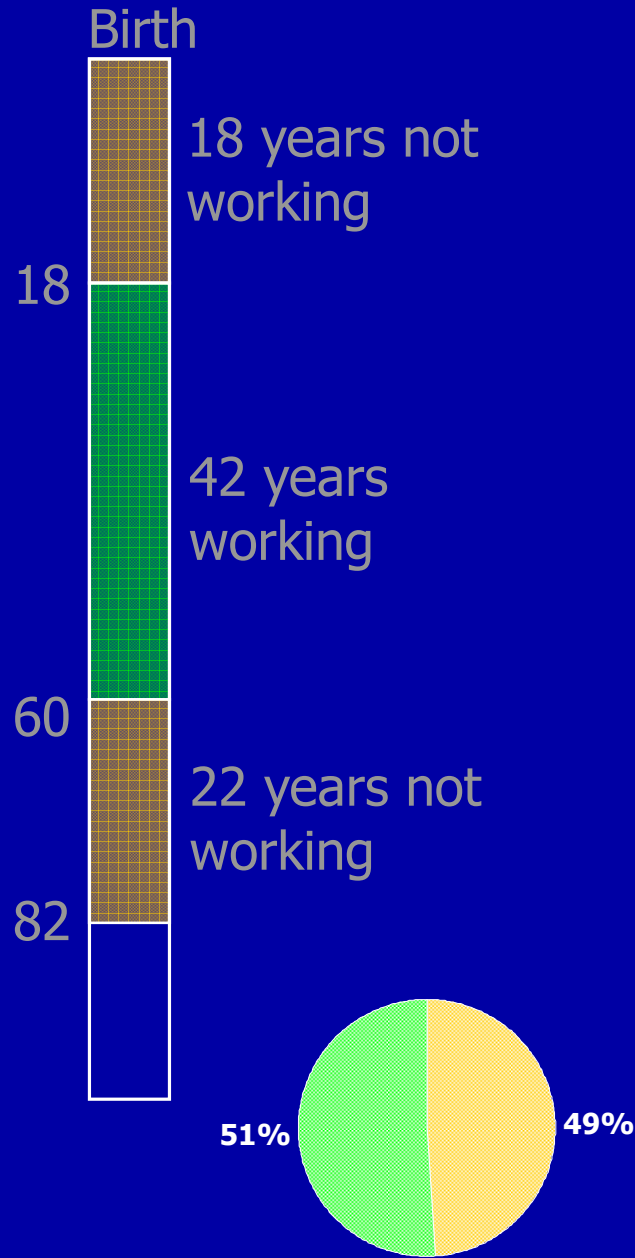
Pensions alone can't solve pension crisis

- Must rethink retirement
- New phase of life – ‘bonus years’
- Cut down gradually, part-time work, job sharing
 - 2-3 days work, 4-5 days off, more money
- Better for individuals, employers and economy
- Advisers to help clients with lifestyle planning

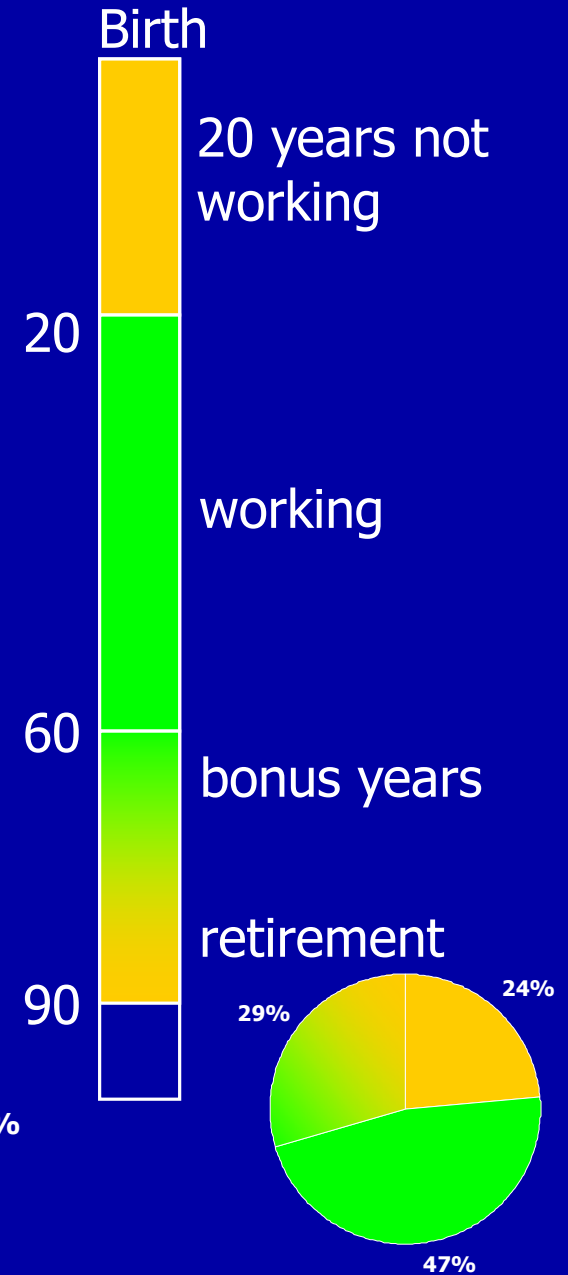
1950's



Now



Future?



Advisers essential

- Government undervalues advisers
- UK system exceedingly complex
- Public sector doesn't face these problems
- People cannot manage well on their own
- Huge opportunities as older population rises
- Honesty and reality

Conclusions

- Minimum security from state pension
- Encourage private lifetime savings
- More flexibility on way in and out – not annuities
- Later life working inevitable
- Advisers to help individuals plan realistically

Thank you for listening

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