



THE PENSIONS REPORT

**UK pensions – crisis of confidence
Radical reform urgent**

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Outline

- Current problems
- Confidence
- Consumer understanding
- White Paper proposals
- Radical reform required
- Future



Some basics...

- Pensions have two functions
 1. Social insurance – state role
 2. Savings vehicle – private role
- Confusion – we use same name, but not really the same
- In the past, paternalistic employers offered social welfare
 - Now average job tenure 5 years, employers cut back
- Unrealistic expectations by individuals – need education
 - work less, save less, live longer, more pension - impossible



Problems to sort out

- Lack of confidence – scandals, employers pulling out
- Risks/difficulties of saving seem greater than risks/difficulties of NOT saving
- Complexity of our system
- Policy of means testing makes pensions unsuitable
- Independent advice can help encourage saving
 - Most people don't understand and don't get advice



Origins of UK pension problems

- Current system dates back to last century
 - Idea to support people for last few years of their life
- Citizens encouraged to have private pensions - strong retirement savings culture until late 1990's
- Governments kept cutting state pension – relied on final salary/personal pension equity investments to supplement
- Burdens on employers and individuals too great
- State pension cut too far – led to pension credit but this undermines private pensions – pensions 'unsuitable'
- Survey shows people don't trust pensions or Government



The Pensions Report findings

- Public does not understand pensions
- Confidence and trust evaporated
 - Scandals, poor performance, prefer property
- Need more incentives – people don't value tax relief
- Individuals lack skills needed to prepare for retirement
- Government and industry ignored consumer attitudes
 - Risk, losses, suitability
- Annuities remain a mystery to most – need advice



Annuities are not understood

- Most people don't know about annuities
 - Once bought, can never change
- Pay >1% commission, but don't usually get advice
 - Compulsory basic 'advice' find right annuity, good rate
- People think annuities unfair
 - Inheritance issues important - money-back guarantees
- Urgent need to look at annuities in DC world
- Annuitisation risk can be as important as investment risk



Investment risk

- Most people's idea of risk is 'Will I lose money?'
- Not outperforming market or industry benchmarks
- Need to understand investor concerns
- Pensions different from other investments – locked in
- Low state pension means private pensions vital
- Pension reform needs to bear this in mind



White Paper reforms

- Not a long-term solution, will need more change
- More concerned with short-term headlines
- Won't restore confidence - trust still lacking
- Some changes to state pension – reform contribution tests, but keep BSP, S2P, different rules
- Personal pension accounts, auto-enrolment, 8%, no advice on 'suitability' or investment risk



Problems of White Paper reforms

- State pension still too low and complex
 - Still around 40-50% of pensioners on means testing
- Personal pension accounts could dumb down provision
 - 8% not enough, 3% employer contribution dangerous
- Key criteria: minimise cost, maximise competition
 - Low cost won't ensure good pension – industry beware
- We've seen this before – Governments desperate to increase pension contributions, reluctant to explain risks
 - Final salary fiasco - Financial Assistance Scheme 'spin'



Biggest pension scandal

- Parliamentary Ombudsman report highlights Government responsibility for biggest social injustice of our time
 - At least 85,000 lives destroyed, final salary wind-ups
- Government denies any wrongdoing – unbelievable
 - Parliamentary democracy, PASC, Judicial Review
- Government said these pensions were ‘guaranteed’ ‘safe’ ‘protected by law’ – what more could they have said?
 - Who will trust pensions in future? Worse than Maxwell
- If you care about trust in pensions, please support calls for compensation – write to your MP
 - Pensions confidence and natural justice



More radical reform needed

- Citizens pension (join BSP and S2P, end pension credit)
 - At least £114 per week, simple
- Funded by reassigning current spending – no new money
 - Contracting out rebate/women pension age...
- State pension to provide social welfare
 - Minimise means testing, end poverty, fair for women
- Private pensions could change in future
 - A-day reforms make pensions a short-term exercise
- Clear message for individuals and financial companies
 - If want more than minimum, safe to save



The future?

- State can only provide basic minimum
- Pensions alone cannot solve the 'pensions crisis'
- Wake up to pension reality - rethinking of pensions and retirement urgent - promote better understanding
- New phase of life waiting to be grasped – in future most people in their 60's and 70's will work part-time
- Radical state pension reform could free up the market for providers to sell pensions to mass market
- Challenge financial services to design products for lifetime saving, accounting for 'risk' attitudes (capital protection?)



Summary

- Can't reform private pensions without radical state reform
- Citizens pension for private savings to flourish again
 - No compulsory annuities, minimal means-testing
- Rethink pensions and retirement
 - Individuals responsible for savings/part-time work
- Auto-enrolment in personal accounts could end up worse
 - Industry be very wary of the dangers here!
- The Pensions Report highlights deep problems
 - Consumer understanding, recognise their concerns
- Current reforms not radical enough – crisis will remain