



Pension reform will do nothing for those who need it most

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Who needs pension reform most?

- 60-70% of the population – mainly basic rate taxpayers
- Those not yet contributing to pensions
- Those not contributing enough
- Women
- Those who lost 'guaranteed' pensions in company scheme wind-ups
- Employers



Two roles of pensions

1. **SOCIAL INSURANCE – avoid poverty – State**
 2. **SAVINGS VEHICLE – deferred wages – private**
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- **Two roles have become confused**
 - **State passing social welfare costs to private sector which can't afford it**
 - **Contracting out**
 - **Final salary schemes**



What are the Problems?

- UK pension model not working
- Governments have relied on private sector pensions to offset state pension cuts
- State pension now too low and system too complex
- Private sector coverage falling
- Mass market lost confidence in pensions
- Poverty and long-term economic decline



What reforms have we had?

- State pension
 - pension credit
 - Reward for delayed pension
- Private pensions
 - Stakeholder pensions
 - Informed choice agenda
 - A-day tax simplification
- Occupational pensions
 - Pension Regulator
 - PPF/FAS



State pension reforms

- Pension credit makes pensions 'unsuitable' investment
 - Today's pensioners OK if they claim, but undermines future
- Major disincentive for middle income groups
- Poorest probably shouldn't save anyway, but penalises moderate earners
- Reward for delayed pension - benefits those who can afford to wait to draw their pension
- Age discrimination legislation not protecting over 65's and not encouraging gradual retirement



Private pensions

- Stakeholder pensions
 - No new incentives to contribute – empty shells
 - No advice – if pensions unsuitable, get mis-buying worse than mis-selling
- Informed Choice agenda
 - Decision trees and leaflets too difficult to understand
 - Too much choice can just lead to confusion – need adviser
- A-day tax simplification
 - No improvement for most – changes nature of pensions to become short term exercise later in life
 - Brilliant for higher rate taxpayers



Occupational pensions

- Pensions Regulator (TPR)
 - Only helps those who already have pensions
 - Employers will be less likely to continue providing pensions
- Pension Protection Fund (PPF)
 - Protects those in pensions already, do they need most help?
 - Very welcome, but doesn't help encourage provision
- Financial Assistance Scheme (FAS)
 - Helps < 80% of those affected, only gives part of pension
 - Nothing for many 50-60 year olds who've lost everything, even state pension rights!



Who will benefit from pension reform?

- Top earners and top-rate taxpayers
- People who already have pensions
- Today's pensioners via pension credit
- People who can afford to wait till later for state pension

- ARE THESE THE ONES WHO NEED MOST HELP?



Who will not benefit from pension reform?

- Those without pensions
- Those on basic rate tax
- Most of those who lost pensions in scheme wind-ups
- Women
- Employers

- SURELY THESE ARE THE ONES WHO NEED MOST HELP



Pension reform not tackling main problems

- State system reform essential
 - abandon pension credit – disincentives must be removed
 - End contracting out – more clarity, no-one understands
- Pension reform only addressing 'supply side'
- What about demand?
- Need new incentives for employers or individuals
 - Need economies of scale but employers pulling out
- Urgent need to restore confidence
- Encourage gradual retirement



Employers need urgent help

- Pensions seen as company 'cost', not company 'benefit'
- If staff don't value, why should employers offer them?
- Final salary schemes often too costly (>25% salary)
 - Huge deficits, mature schemes, open-ended liability
 - Average job tenure 5 years – is lifelong support reasonable?
- Moving to money purchase (DC)
 - More modern, more certainty of cost, lower contributions
 - Better suited to gradual retirement



DC problems not addressed by reforms

- Big change – needs to be managed
 - can't rely on employer any more, but DC not working well yet
- Four crucial areas not working properly
 1. **Contributions** – being cut, no new incentives
 2. **Investment profile** – not well structured, consumer education, diversification, capital protection?
 3. **Costs** too high – individual vs. pooling, economies of scale
 4. **Annuities** – need reforms – basic advice, money-back guarantees



Policy response required

- Reform State pension system - £110 per week social welfare, regardless of waged work history, no complicated crediting in, no pension credit, no compulsory annuities
- End contracting out – save £11bn a year
- Clear distinction between state and private pensions
- Open way for private sector to safely supplement state
- Improve incentives
 - higher rate tax relief for all as matching scheme
 - Incentives for employer-provided pensions and advice



Conclusions

- Top earners do very well from pension reform
- The poorest will not manage to save
- The middle 60-70% of population not helped
- Women still fare poorly in both state and private
- Employers need more help too, but not getting
- Those who need most help are not benefitting from pension reforms



Thank you for listening

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