



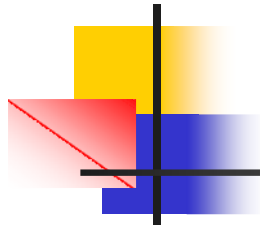
What now for pensions and long-term savings?

Financial Services Research Forum

17 March 2009

Dr. Ros Altmann

www.rosaltmann.com



Overview

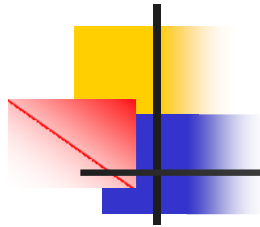
- Pensions history
- Pensions crisis
- Latest reforms – sustainable solution or con trick?
- Radical new thinking for pensions and long-term savings
- Conclusion



What is a 'pension'?

- 1. Social welfare** (Original state role)
- 2. Long-term savings vehicle** (Later private role)

- Both are called 'pension', but are not the same
- Employer paternalism caused confusion between pensions and long-term savings
- Government relied on employer provision and equity investing for future income needs of ageing population
- To offset substantial cuts in UK state pension

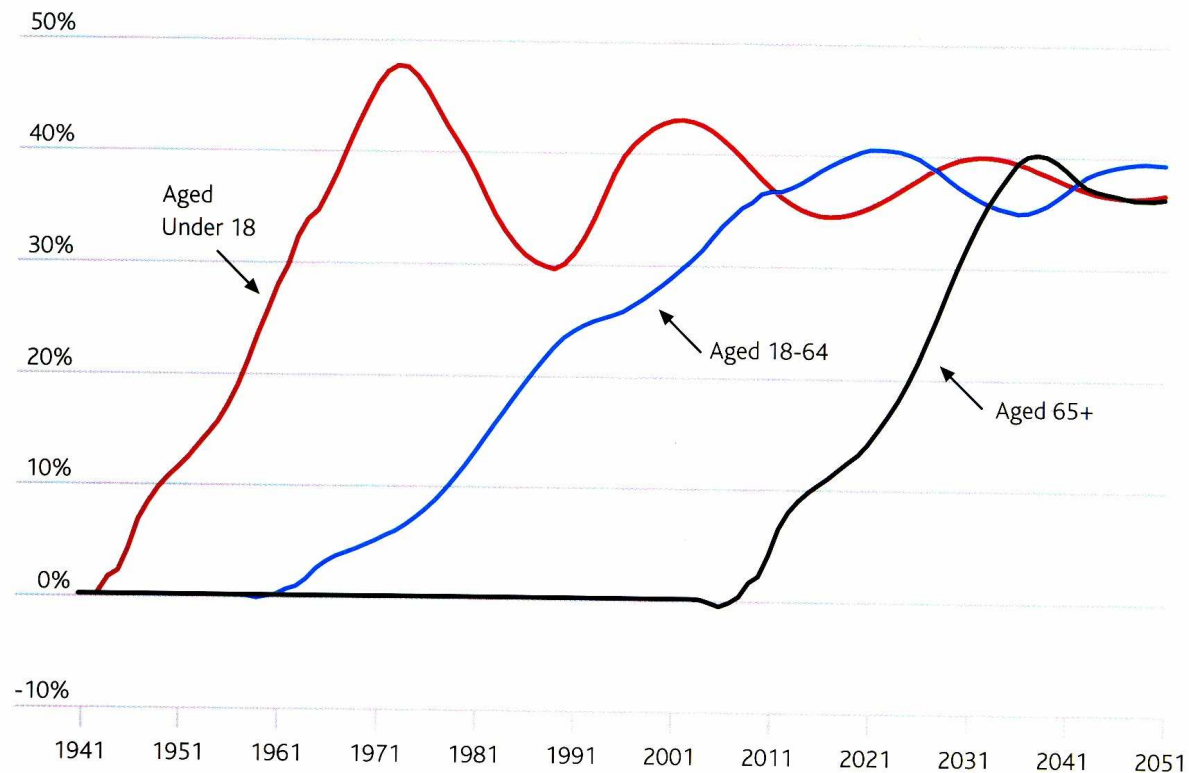


Pensions crisis

- Official view: no pensions crisis now but may be in future
- Wrong: pensions in crisis now, **pensioners** in crisis soon
- Pensions and savings hit by scandals, regulation, poor investment returns, longevity, credit crisis
- Over-reliance on equities and investment risk
- Demography boosted economy, but now reversing
- Demographic drag from 2010 - huge growth in age 65+

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



Policy mistakes

- FSA regulation asymmetry: easy to borrow, hard to save
- Culture of self-reliance and saving->debt and dependency
 - Short-sighted policies helped growth, now credit crisis
- State pension too low, complex, too much means-testing
- Lack of incentives, too many disincentives, locked box
- Short-term political time horizons a problem for policy
 - No joined up thinking – ISA, savings gateway, PA
- Constant reforms – still ongoing



Latest reforms: con trick or solution?

- State pension reforms said to be radical, they are not!
- By 2050 we may be back to 1980s!
- 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
 - Pension Credit still undermines private pensions



Are personal accounts the solution?

- Personal accounts - Opportunities
 - **Politicians** can claim lots more people are saving
 - **Government** will save money on means testing
 - **Finance industry** may have more assets to manage
 - **Employers** can cut back to 3% of 'band earnings'
- Personal accounts - Threats
 - Levelling down: 3% minimum becomes maximum
 - Just replace pension credit - 40-100% tax! Suitability?
 - Generic advice can't address suitability, investment risk
 - Admin nightmare, small pots to track, annuities?



What next for pensions

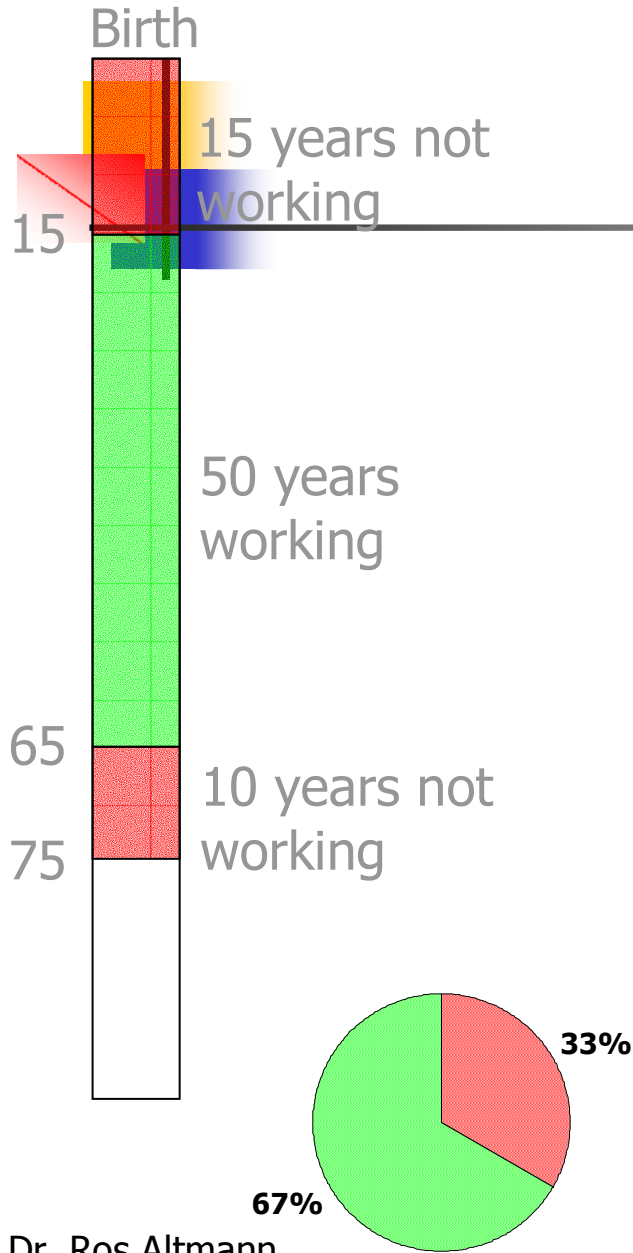
- Personal accounts will make pension provision worse unless reformed
- We need a new name for private pensions!
- State pays the pension: a flat-rate social welfare minimum
 - £150pw to all, from age 75? Fair, no annuitisation
- Clear message: with no private income you'll get £150pw
- Make long-term savings suitable for all
- Lifetime savings accounts, manage savings over life-cycle
 - Use Child Trust Funds? Not just pension 'locked box'



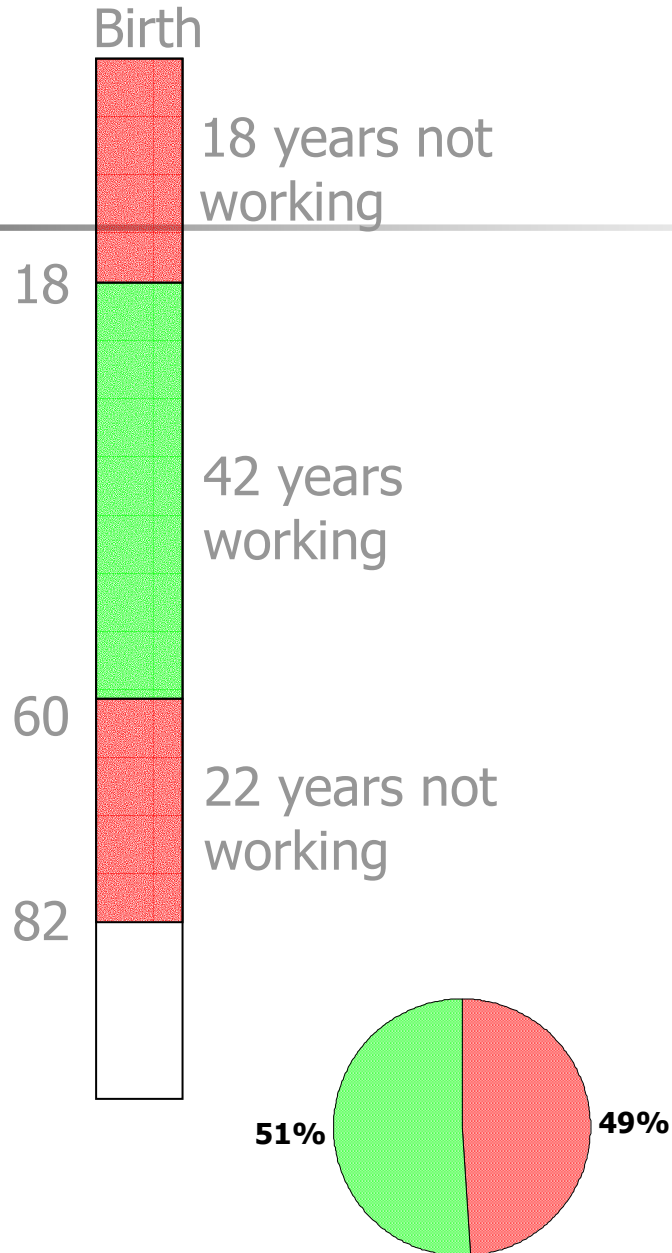
New thinking urgently needed

- Getting money **in** short-term helps politicians and industry, but getting good pensions **out** long-term is vital!
- This is not just a 'pensions' issue – it's a retirement issue
- Can't sort out 'pensions' without rethinking retirement
- 'Pensions' are trying to last too long
 - Most people can't save enough to last 25-30 years
- Policy lagged behind improved life expectancy, health, working practices
 - What a waste of resources!

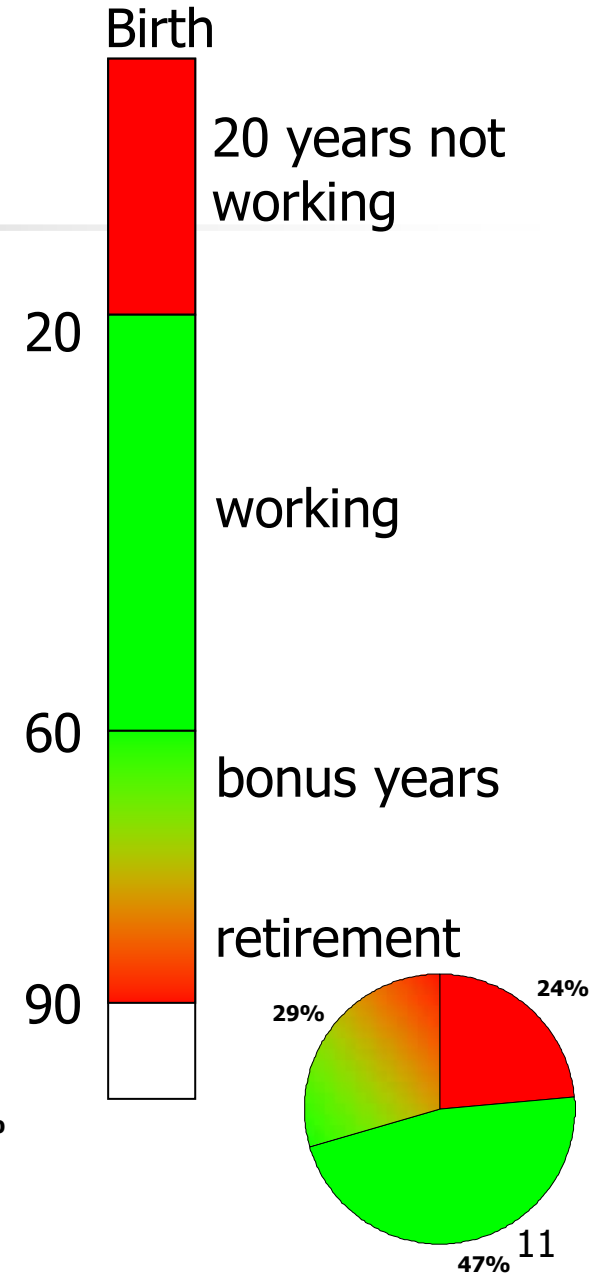
1950's



Now



Bonus Years





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
- Lifetime savings and longer working life will help solve support for older citizens in future



Challenges ahead

- Can industry provide attractive mass-market savings vehicles to supplement state pension and/or earnings?
- Can advisers restore confidence and savings ratio
 - Mass market don't understand investment or risk
- Lifetime savings accounts with better investment options
 - Guarantees, age-related, other assets etc.
- Annuities not working properly – a disgrace
- Government issue annuity/pension gilts
 - More natural place for longevity and inflation risk



Conclusions

- 21st Century pensions to be called something else
- State pension is the only pension: flat rate and fair to all
- Lifetime savings supplement, not replace, later life income
- Rethinking both pensions and retirement
- Longer but different work patterns are inevitable
- UK could show others how to overcome pensions crisis

THIS IS GOOD NEWS IF EXPLAINED PROPERLY



Thank you for listening

Ros Altmann

www.rosaltmann.com