

# Pensions – what a mess

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# Outline

- Policy mistakes
- Inadequacy and demography
- Radical change required
- Rethinking retirement
- Advice is crucial

# Policy mistakes have led to crisis

- Up to 1990's – strong retirement savings culture
- Since 1997 – it's all fallen apart
- No incentives – major new disincentives
- Asymmetrical regulation: easy to borrow, hard to save
- Did Government ever really want people to save?!

# Short-term political horizons

- Pensions Ministers – blink and you miss them
- Politicians worry about now, not many years hence
- Umpteen initiatives:
  - FSA – new regulator
  - Simplicity, security & choice – informed choice
  - Decision trees
  - Stakeholder
  - A-day
  - Latest reforms

# What is a pension?

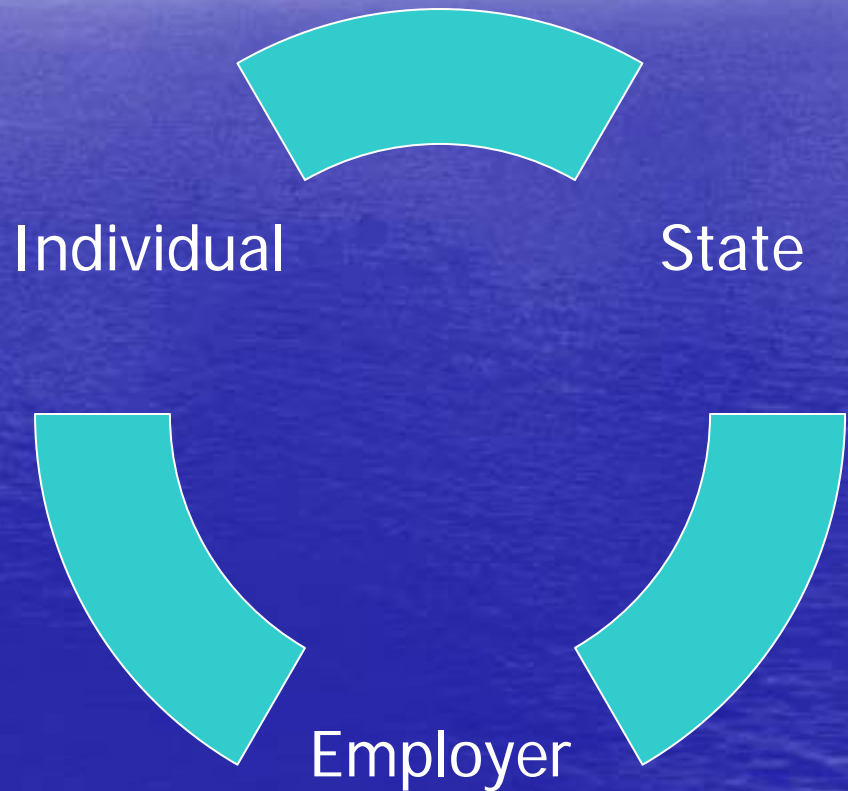
1. Social welfare insurance
  - basic minimum to prevent poverty - state role?
2. Long-term savings
  - extra money for better life later - private role?

Two very different concepts, but given the same name

Confusion and muddled thinking

# State, employer or individual responsibility

- State pensions cut
- Rely on employers
- Employer pensions cut
- Rely on individuals
- Too complex to manage alone
- Need advice and planning



# Huge retirement disappointment ahead

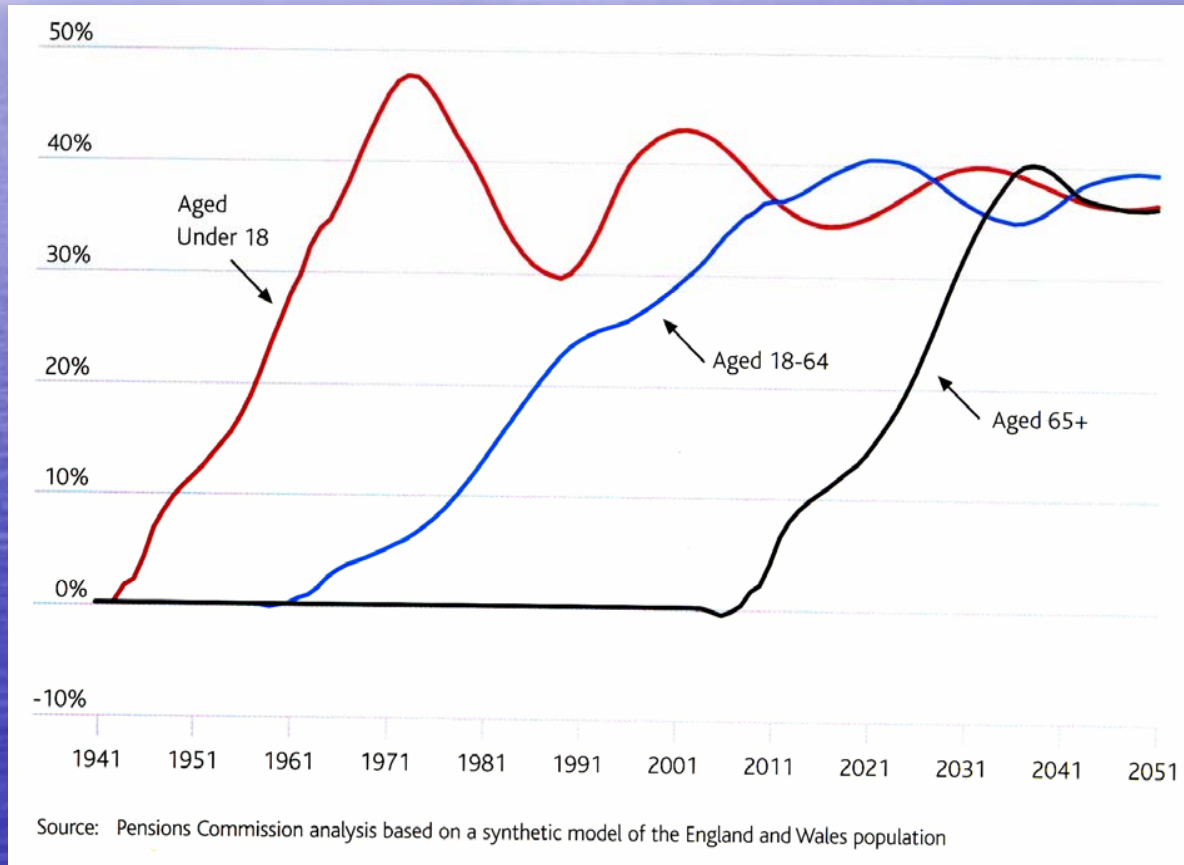
- Employers cutting back => higher risk, smaller pensions
- State pension undermines private income
- Longevity rising
- Unrealistic expectations and disappointment
- Credit crisis hugely damaging for pensions

# Missed opportunities

- 2005 Pensions Commission:
  - pensions not in crisis, may be in future
- Nonsense! pensions crisis now, **pensioners** crisis soon
- Demographic boost ending – demographic drag coming
- We have not built up enough during the good years

# Demographic trends

## % change in UK population size



# Latest state pension reforms – con trick

- Titanic and deckchairs?!
  - Still lowest, most complex system: BSP, S2P, PCredit
  - Tie BSP to earnings
  - But S2P only tied to prices – and already being cut
  - Both from a later age!
  - Give with one hand, take back with the other
  - Still around half of pensioners on means testing
  - State pension still damages private provision

# Personal accounts will make things worse!

- Big opportunities and threats
- Opportunities
  - Government, industry and employers
- Threats
  - levelling down, suitability, decumulation, admin nightmares, only generic advice
- Putting money in is important to politicians today, but it's getting good pension income out that really matters!

# Decumulation

- 10,000 annuities each week – numbers rising
- OMO not working, rates worsening
- Final salary schemes buying out - not enough volume
- Solvency II
- Mandatory annuitisation will end
- Fixed term annuities

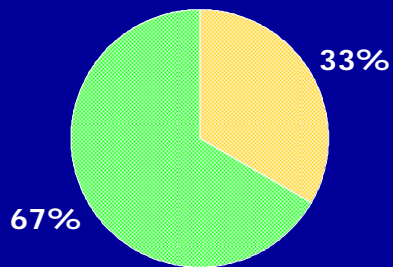
# Proper radical reform

- Abandon the word 'pension' for private savings
- State pays 'pension', rest is lifetime savings
  - No mandatory annuitisation, minimal means testing
- More flexible long-term savings, not just locked box
- Income supplementation not just total replacement
  
- BUT...

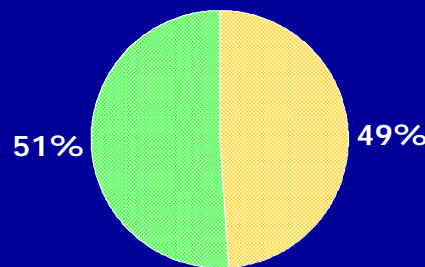
# Pensions alone can't solve pensions crisis

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

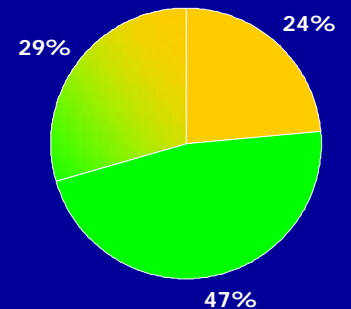
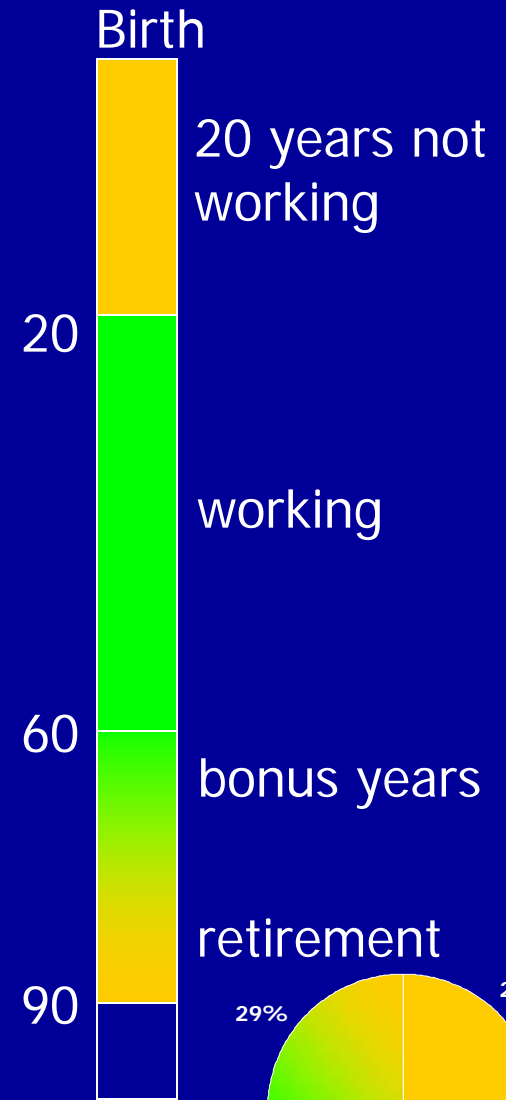
# 1950's



# Now



# Future?



# A better way forward...

- State pays basic minimum in old age – what age?
  - No means test, no annuity, fair, suitable
- Save or work to get more than minimum
- Lifetime savings, flexible withdrawals, cater for women
- Supplement work income, maybe not replace
- Better investment options
  - Diversified assets? Guarantees?
- Advice

# Future roles

- State
  - basic minimum citizen's pension, simple
  - Encourage advice, savings, workplace reform
- Employer
  - Jobs for older workers, facilitate savings
- Individual
  - Saving more, working longer

# Advice is essential

- UK system exceedingly complex
- Number of pensioners rising sharply
- People cannot manage well on their own
- Need radical new thinking
- Honesty and reality
- Government undervalues advisers

# Conclusions

- Re-name private pensions!
- Reform state pension properly
- Flexible withdrawals to supplement not totally replace income - not just annuities
- Later life working inevitable
- Advisers to help individuals plan realistically

Thank you for listening

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