

**IMMEDIATE RELEASE**

Dr. Ros Altmann

13 August 2010

**Response to Government pension consultation on auto-enrolment and NEST**

1. Just getting people to contribute small amounts to a pension arrangement does not solve the problem of inadequate retirement income.
2. Automatically enrolling everyone into workplace pensions, as currently proposed and in the current UK pension system, may even lead to future litigation from pensioners who were not given adequate risk warnings about the dangers.
3. A pension may not be a suitable product for low to moderate earners, they may be better off with an ISA to avoid means-testing penalties. Increasing the trivial commutation limit could help here, but may not be sufficient.
4. Without radical reform of our state pension system, I believe it will be almost impossible to ensure private pension savings are safe for average earners. Indeed, there is also a risk of lulling workers into a false sense of security, whereby they believe their pension problems are sorted, but we know that 8% of earnings is very unlikely to deliver much pension income.
5. Pension saving cannot quickly reduce pensioner poverty, since pensions take many years to build up. From 2011, millions more pensioners will reach pension age and automatic enrolment will not address the looming pensioners crisis.
6. The best way to tackle pensioner poverty quickly, especially for women, is to pay a decent universal state pension, as of right, to all citizens. Even if that is paid from age 70, 72 or even 75, at least there will be a particular age beyond which private income will be free from means-testing penalties.
7. Perhaps the pensions vehicle could be redesigned to be more like an ISA/pension hybrid, or a lifetime savings account, so means-testing penalties can be avoided, by allowing withdrawals.
8. Auto-enrolment should not start with a 'big bang' approach. We should first enrol into existing pension schemes which are almost all better than the statutory minimum.
9. Auto-enrolling into existing schemes first will reduce the threat of levelling down, as current employer contributions average 6-7%, rather than the statutory proposed minimum of 1% or 3%. Starting with existing schemes will also give better information on likely levels of opt out in practice.

10. The current automatic enrolment rules are a classic example of over-regulation - exemplifying the traditional UK approach 'if it's pensions, it must be complicated'.
11. The rules should be relaxed by:
- abolishing the band earnings concept
  - only auto-enrolling people with earnings above £15,000
  - allow a three-month waiting period
  - allow workers who know in advance they definitely do not want to be enrolled to chose to stay out before being put in (for example overseas workers or those with other pension arrangements)
12. The idea of NEST is good, but the risks and costs to the Exchequer and to workers of introducing it, as currently designed and into the current UK pension system are too high.
13. A 2% initial charge makes NESTs cost advantage relatively weak, at least for the coming few years. That makes NEST a less attractive proposition for all concerned.
14. Investment and annuity risks have been significantly underestimated. The Review needs to re-evaluate the 'pays to save' analysis. The previous conclusions ignored annuity risks but if annuity rates continue to fall, then pension income will be hit, even if investments do well. Perhaps Government should issue or underwrite annuities for NEST.

I believe this Review needs to be considered as part of an overall review of our entire pensions framework. This is an opportunity to rethink retirement saving in the context of our overall pension system, most particularly whether and how encouragement of private pension saving fits in with existing private pension provision and the present state pension system.

If the objective of current policy is - as suggested in the Review's remit - to tackle pensioner poverty as quickly as possible, disturb existing provision as little as possible and maximise voluntary private savings while minimising administrative burdens on employers, as well as delivering value for money at low risk for the Exchequer, then the policy will fail.

The fundamental problem that requires attention is the inadequacy of our State Pension and the excessive complexity, as well as mass means-testing, which prevents our state pension from providing a clear and adequate social welfare minimum on which private savings can be safely built.

**ENDS**

**Dr. Ros Altmann**  
**13 August 2010**

**Notes for Editors:**

The following link will take you to my full written response to the Review Team:  
<http://tinyurl.com/36exp37>