

Saga

**The Pensions Crisis
– Financing an Ageing Population**

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Some great news...

- We're living much longer, healthier lives
- Most of us not 'old' in our 60s
- Huge medical advances give decades more life
- Employment entails less physical toll on workers
- Opportunity for much better quality of life

1950's

2000's

15 years not working

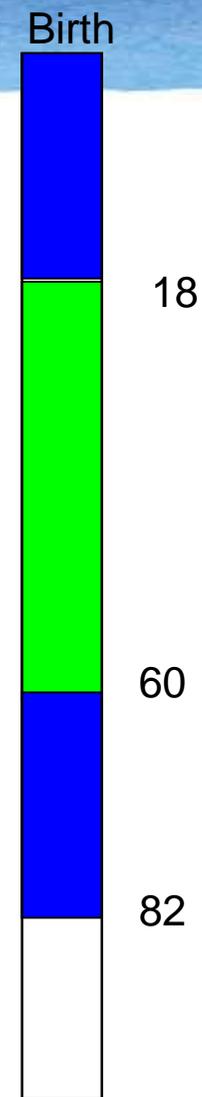
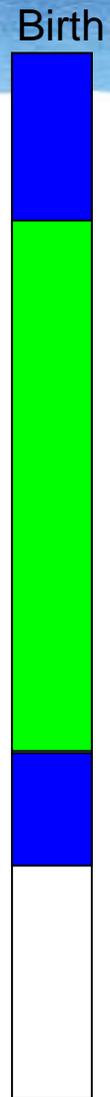
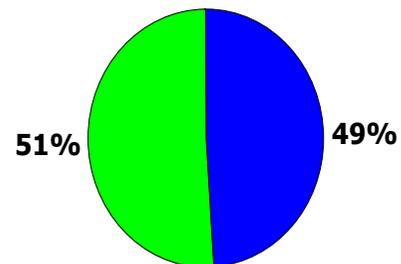
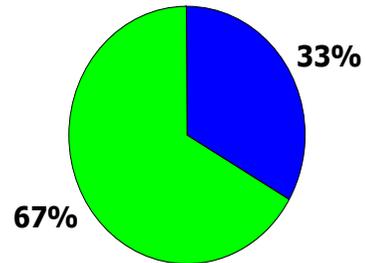
18 years not working

50 years working

42 years working

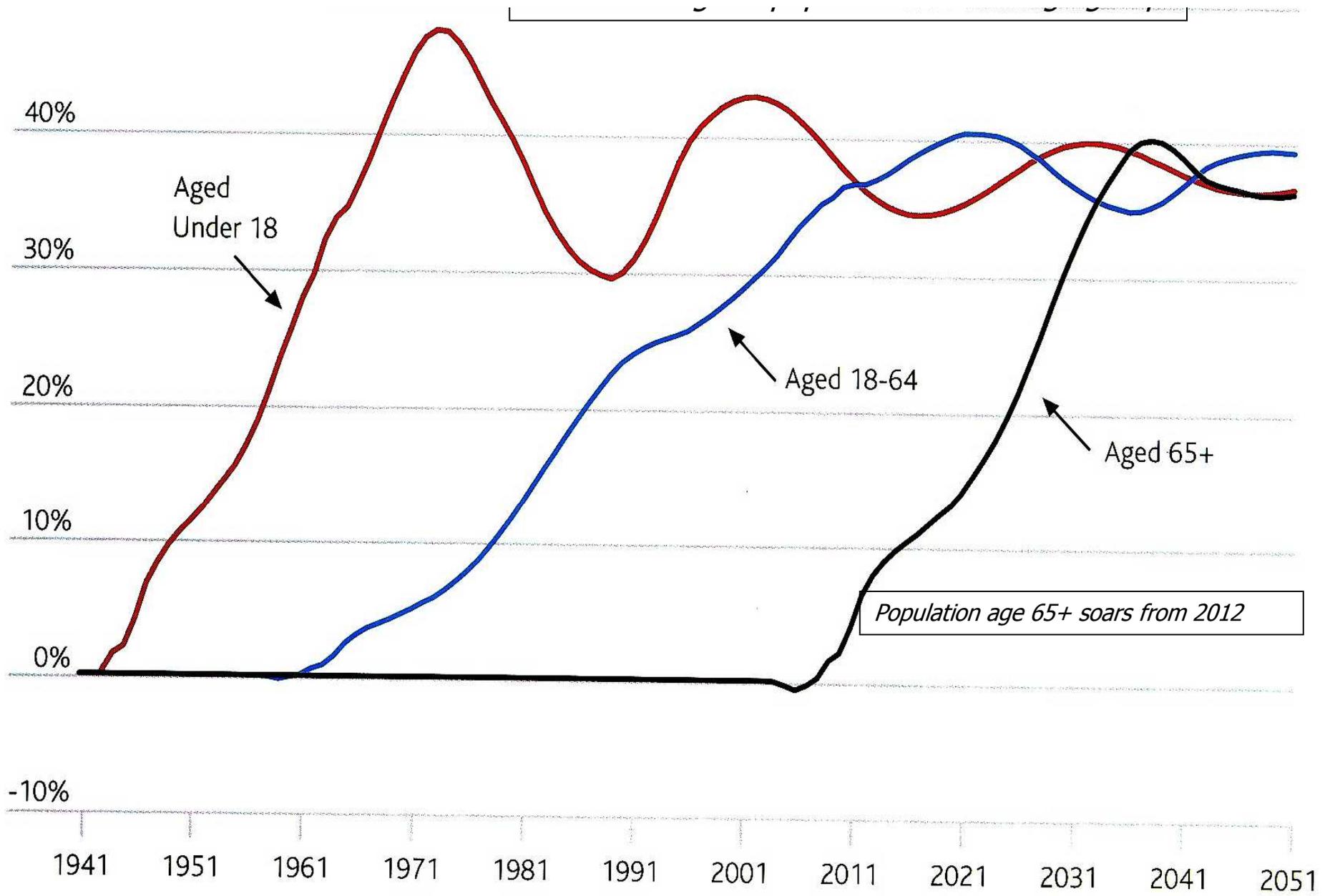
10 years not working

22 years not working



So what went wrong?

- Pension, employment & retirement lagged behind our lives
- Retirement lasting too long – we even had early retirement!
- Increasing numbers not working damages long-term growth
- Pensions ignored risks and demographics
- Pensions crisis



Source: Pensions Commission analysis based on a synthetic model of the England and Wales population

What is a pension...muddled thinking

1. Social welfare: state support?
2. Long-term savings: private sector?

- Final salary schemes ended up doing both
- State shifted social welfare burdens onto employer schemes
- Schemes must cover spouse, deferreds, inflation – huge cost
- Government cut state pension
- Ended up with pensions crisis and mass means-testing

Final salary schemes finished

- Risks on employers too high:
 - Longevity, investment, salary inflation, price inflation, regulation, investment charges, administration costs, interest rates, annuities
- Employers relied on the stock market to meet all this
- It didn't work – no loyalty bonus for holding equities
- Defined Benefits don't fit with 21st Century capitalism
 - End of lifelong employment, employers don't last 80 years!
- Switching to DC – with all risks transferred to employees

Pensions don't grow on magic trees

- Individuals not prepared
- Pensions can't just keep lasting longer and longer
- Lack of understanding about pension costs and risk
- Unrealistic expectations – didn't budget for poor returns
- Financial reality assumed away
- And QE has undermined pensions further

Pension reform on the cards

- Radical change to state pensions perhaps?
 - Simple, flat-rate £140pw state pension, end mass means-testing
- So state pension won't penalise private pensions or earnings
- Auto-enrolment into workplace pensions starts 2012
 - Massive change
- But this won't be enough to solve the crisis in old age funding
- Later life income needs more than just pensions 'locked box'

New thinking for an ageing population

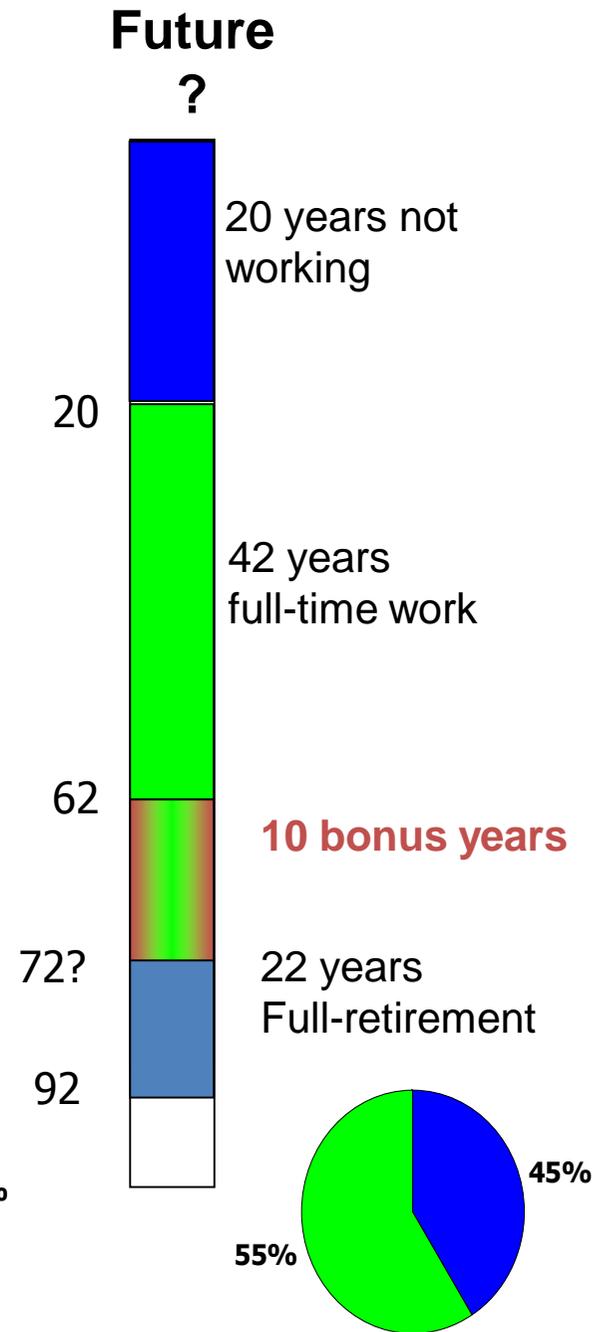
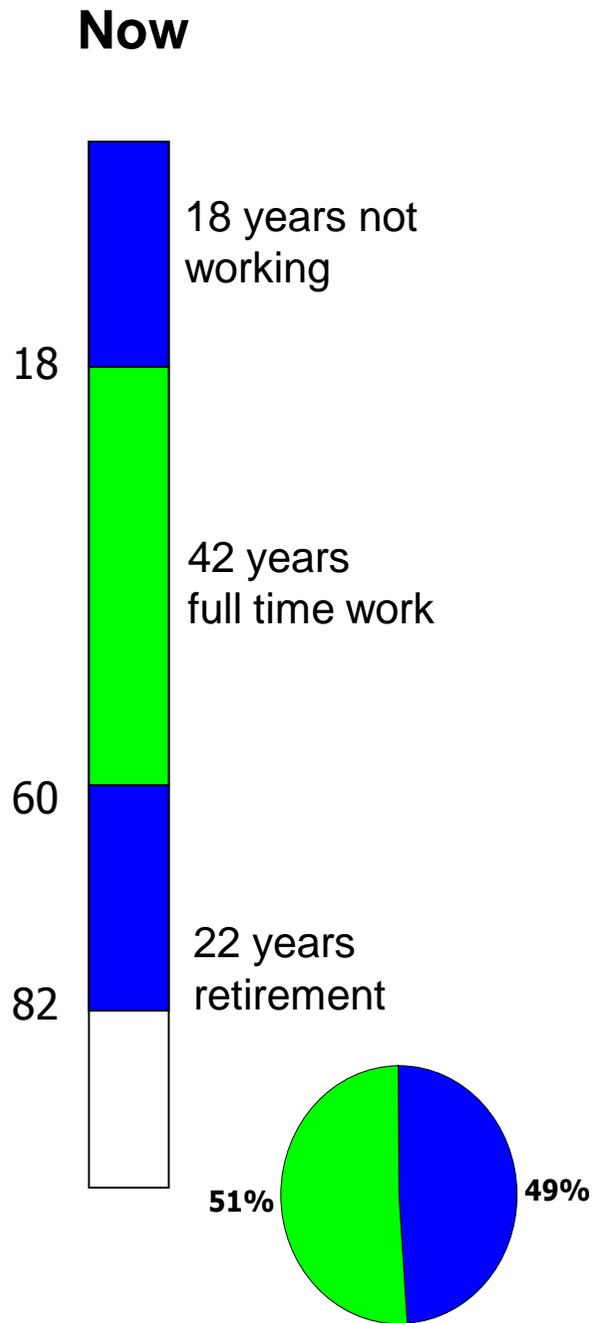
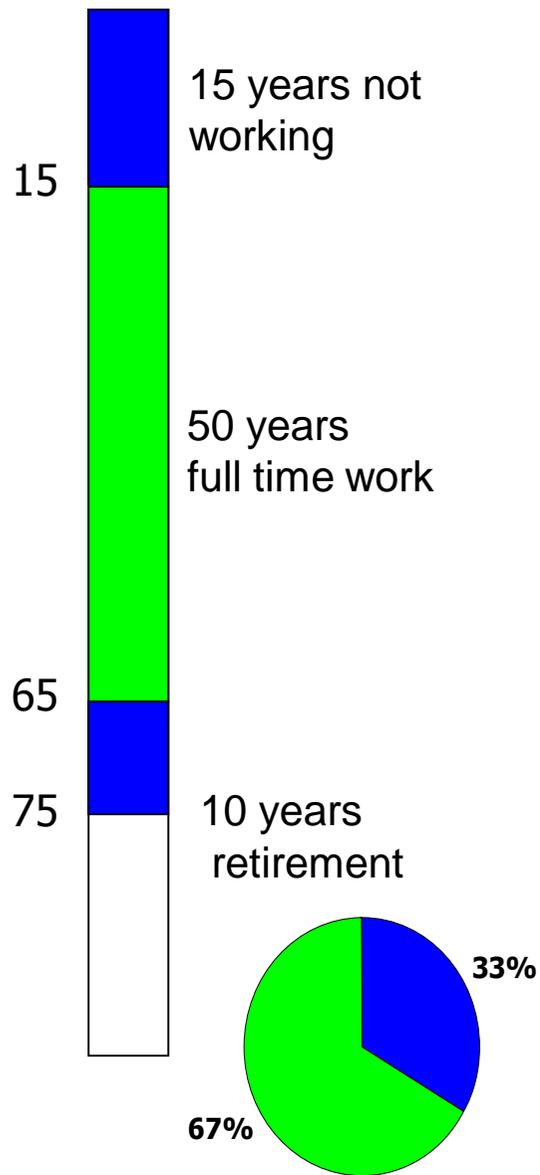
- Pensions alone can't solve the crisis of inadequate income
- Abolish the word 'pension' if not from the state
- Keep planning flexible – ongoing review, lifetime savings
- Ageing population needs to pay for care too
- Incentives for care saving and maybe equity release
- Cap care costs so people won't lose everything - Dilnot

It's not just about saving more...

- Where will later life income come from?
 - State Pension – only a low base
 - Another Pension (employer or private, uncertain for private sector)
 - ISA
 - Care saving plans
 - Housing – equity release
 - Business
 - **Working longer**
- No fixed future – reassess regularly
- No magic age

Rethinking Retirement

- Must have more flexible later life planning
- Individuals must take responsibility: advice, financial planning
- Need more than just pension, consider care
- Social revolution with a whole new phase of life
- ‘Bonus Years’
- Cut down gradually, work part-time
 - 2-3 days work, 4-5 days off, more money



Conclusions

- Traditional reliance on state + employer pensions ending
- No guarantees, we're on our own – plan for our future
- Diversification, flexible plans for pensions and other income
- Pensions and saving is only one part of the solution
- Rethinking retirement – bonus years
- Understand reality and welcome new opportunities