

Technical Connection Conference

Policy impacts on investment, savings and pensions landscape

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Radical Pension Policy Reforms

- Reforms to both State and Private pensions
- New State Pension to give c.£22 a day state pension base
- Those who want more need other income
- Auto-enrolment to ensure employers help workers build private pension
- New pension freedoms change private pension landscape – more user-friendly
- Brilliant opportunity for financial advisers



Pension freedoms

- Flexibility and choice – to help pensions fit increasingly flexible lives
- Pensions are most attractive form of saving – like ‘free’ money
- 25% bonus for basic rate taxpayers, 66% bonus for 40% taxpayers

KILLICK & Co



But Beware Net Pay Pension Schemes

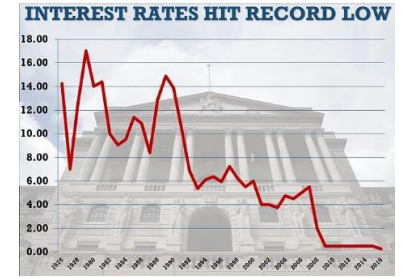


- Two types of administration for pensions tax relief – Net Pay, Relief at Source
- Net Pay schemes automatically pay contributions net of tax
- Relief at Source scheme just adds basic rate relief, h
- Higher earners have to reclaim higher rate relief
- BUT those earning <£11,500pa in Net Pay scheme can't get relief they're due
- Lowest earners lose 25% taxpayer bonus – pay more for same pension – blame?
- Net Pay scheme is not suitable for low earners

Pensions Are Hard to Beat

- Don't underestimate the power of freedom reforms
- Last money you should spend
- Tax breaks: tax-free dividends, capital gains, lump sum, no IHT
- Tax 'brake': marginal tax on withdrawals
- End of 55% 'death tax' means safe to keep pension for your 80s
- If die before 75, totally tax-free, if after 75 tax-free till spent

QE has had a big impact



- QE distorted investment markets – what is ‘risk-free’ rate/low risk?
- Both DB and DC now riskier
- QE increased annuity costs hitting both DB and DC pensions
- QE hugely increased CETVs: £20pw pension = £40,000 or more
- Likely to see more demand for DB to DC transfers
- Big challenge for advisers

Some Cons: Don't transfer if...

- This is your only private pension
- You want regular income, maybe with some inflation protection
- You don't want to make investment decisions
- You don't want to pay fees
- You might exceed Lifetime Allowance
- You might lose 'protection' of LTA

Some pros: Maybe transfer if...

- You have several DB schemes and just want to transfer some
- You're health is poor and you have short life expectancy
- You're single, don't need a spouse pension
- You want to pass money on IHT-free
- You want to try to get future returns to grow your fund
- You can manage your money or have a trusted IFA to help
- If you need to pay off mortgage or other debts
- If you want a fund to help pay for any future care costs
- If you plan to keep working and don't need pension soon

Where are the new products?

- So far, focus on old products:
 - Annuities: secure income but very low, inflexible
 - Drawdown: uncertainty of returns and duration
- Lifetime Pension Accounts – growth phase, income phase
- New designs for decumulation – maybe 3.5% a year?
- 20 year drawdown fund + Advanced Life Deferred Annuity
- Pensions to fit people's more flexible needs

Advisers' Role



- Help customers plan later life with pensions, savings and earnings
- Pensions, ISAs, equity release, insurance can all have a role
- Make the most of IHT breaks
- Family pension plans?
- Some clients want to help grandchildren – pension/LISA/ISA

Further Changes in the pipeline?

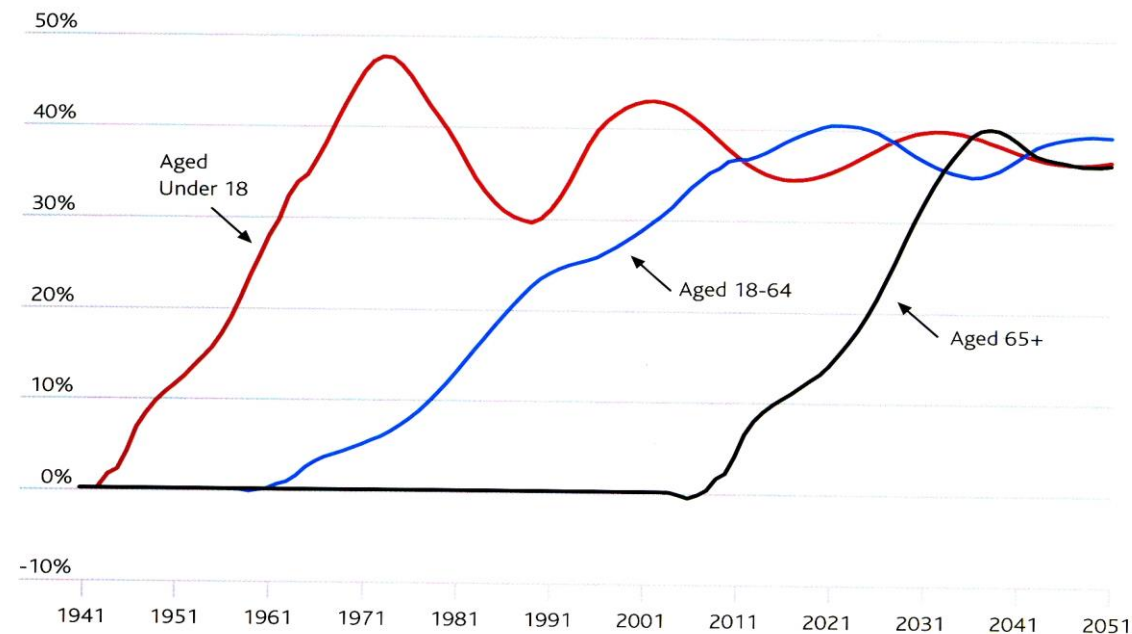
- What happens to LISA? Help to Buy?
- Pensions Dashboard – will it be on time?
- Standardised forms to help customers understand?
- Age 50 wake-up pack
- Mandatory guidance?
- Help families consider funding for care

Demographics demand action Now!

- Worse than pensions crisis – massive policy failure
- Fastest-growing segment of population is the over-85s - set to triple
- No money set aside at national, local or individual level – massive policy failure



Rate of change of population in each age group



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

How can we improve funding?



- There is no single solution
- Care Annuities/Equity release only help at point of need
- To prepare in advance, savings-based solutions may need incentives
 - Pension withdrawals tax free if used for care
 - Care ISAs – IHT-free if not used for care
 - Workplace Savings or Insurance Plans - auto-enrolment, vouchers?
- Insurance-based solutions for younger workers

Future policy developments?



- Most focus will be on Brexit – not much room for other issues
- But Government needs to raise money to pay for political promises
- Will pensions tax relief changes come back on the agenda?
- Lifetime Allowance? Annual Allowance? Government bonus instead of tax relief
- Change to pension flexibilities – abandoned secondary annuities, consumer protection
- Consultation on social care – action?

Conclusions



- Pensions policy likely to continue to develop
- Make pensions work better for people
- Direct some pension savings to invest in infrastructure
- Use auto-enrolment and freedoms to kick-start care savings
- Advisers have huge role to play

...THANK YOU FOR LISTENING

QUESTIONS...

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