

The future of pensions and retirement

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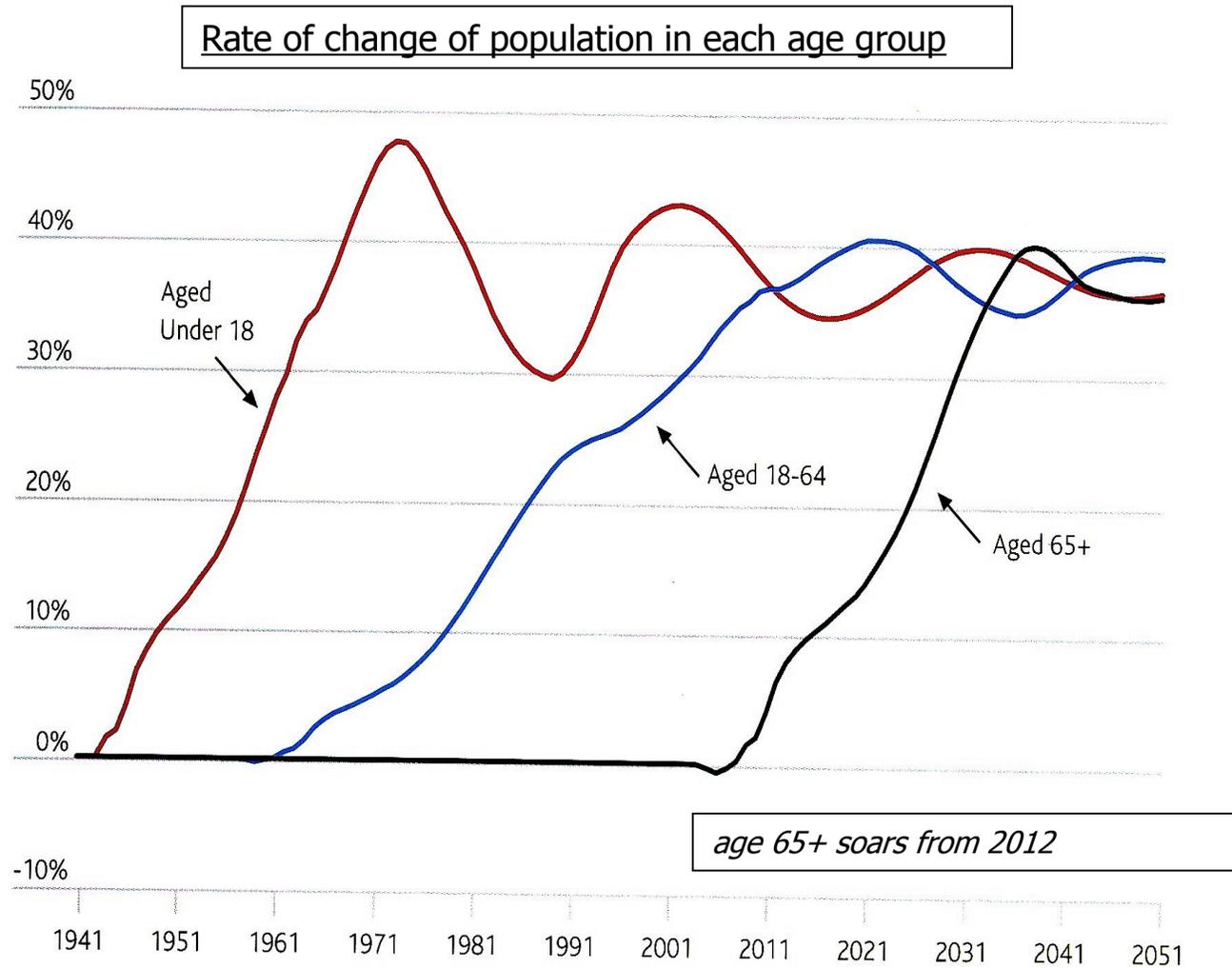
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Ageing society is great news...

- Most people living longer, healthier lives - not 'old' at 65 nowadays
- Huge medical and employment advances
- Should give more people the chance for better later life
- Need to improve engagement with long-term savings and investment
- And create environment conducive to longer working life
- Great challenge but also great opportunity



Demographics demand urgent action



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

Relevant Issues

- Labour market policy
- Pension policy
- Improved financial engagement, products and services
- Lifelong education and skills training
- Employer-employee relationships
- Individual responsibility



Pensions crisis

- Pensions lagged demographic/health/employment trends
- Post-war trend to 'early retirement' led to unrealistic expectations
- Baby boom => demographic boost to growth in late 20th Century
- But baby boomers didn't have enough babies
- Demographic boost ending – demographic drag on growth now?
- Who will fund future pensioner support?

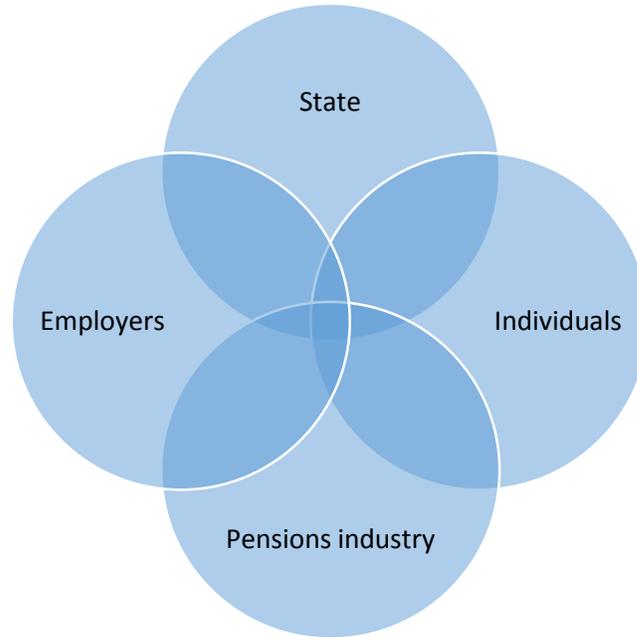


Why do we need pensions?

- Social needs
 - Support those too old to work, alleviate poverty in society
- Economic needs
 - Boost later life income to maintain spending power
 - Reward people for work and contribution to economy
 - Pool of long-term investment funds
- Political needs
 - Votes of ‘greying population’



Pensions: Whose responsibility?



- What is right balance of responsibility between each group?

Pensions potential to increase growth in aging society

- Long-term pool of assets can improve growth
- QE has driven pensions to move towards bonds
- Is this 'low risk'? Nobody knows
- Protect future purchasing power with alternative assets
- Invest in infrastructure, housing, growth assets
- Pooling funds for economies of scale

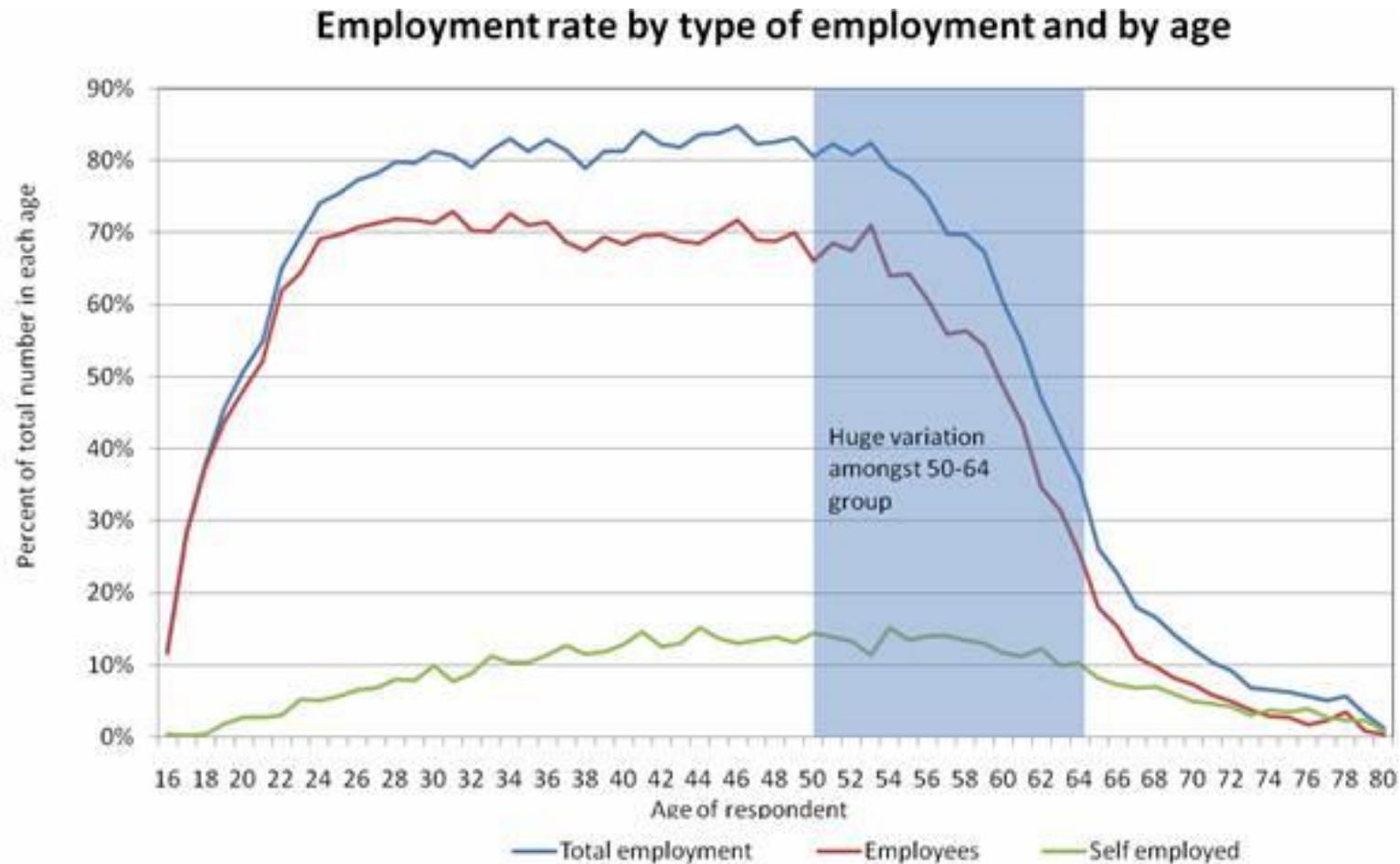


But pensions won't solve the pensions crisis!

- Yes, must help more people save for their long-term future
- But can't keep trying to make pensions last ever-longer
- Financially unsustainable - and need even more money for elderly care
- Have to rethink retirement
- Longer, healthier lives, less physical strain at work
- Age 50 is just the start of the second half of adult life!



UK Labour force participation by age



Source: ONS Labour Force Survey (Q1 2014) with thanks to Business in the Community/ILC-UK

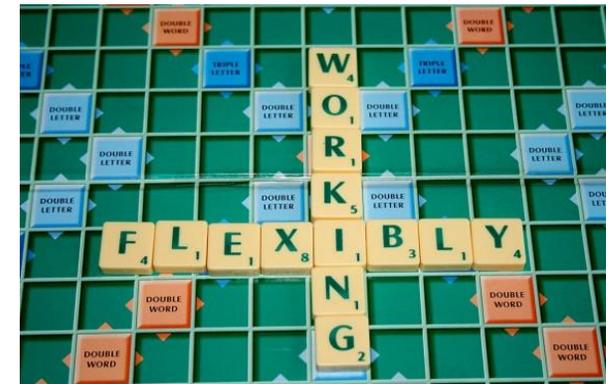
Re-thinking Retirement

- Despite living longer people leave labour market earlier than in 1950s
- 1950s average exit age for men was >67, for women just < 64
- Early exit has significant impact for economy, business and individuals
- Businesses and HR catching up – better line managers training
- Champion older workers – skill, experience, reliability



21st Century retirement can be a process not an event

- Whole new phase of life – part-time work before stopping altogether
- New phase of life – ‘pretirement’
- No Default Retirement Age – manage by merit not age
- Active aging – better quality of life, not just quantity
- Singapore, Japan already ahead with fairer, more gradual transition
- Changing societal mindsets to create new social norms



Benefits to Business

- Retain knowledge, firm-specific skills and experience, improve staff loyalty
- Max Planck Institute research – older workers more productive and reliable
- BMW found older workers produce same number of parts but fewer faults
- Larger pool of talent to choose from, especially if part-time
- Use expertise, experience and oversight abilities
- Increase customer satisfaction and profitability



Boost for economy and society

- Higher output and long-term growth if more people work longer
- If people work one year longer on average, could boost GDP by 1%
- Older and younger workers are not substitutes
- More older people in work, creates more jobs for the young
- Reduced benefit spending
- Intergenerational cohesion



Older women often lose out

- Biggest risk of premature labour market exit
- Ageism or unconscious bias
- Specific issues around caring may require flexibility
- Employers can offer support networks, information, discussions
- Managing the menopause - the last workplace taboo
- Little support for this temporary health issue – loss of confidence



Employer role – 3'R's: Retain, Retrain, Recruit

- Encourage and facilitate later life working and flexibility
- Ongoing training – don't overlook older workers
- Mentoring, keep in touch, part-time roles
- Innovative workplace reforms – like for mothers with young children
- Workplace savings schemes for pensions - and care
- Financial education - help plan pensions and work income, SMART



Challenges for individuals

- Responsibility moving from firms to individuals
- Saving more and rethinking retirement are vital
- Financial planning for whole of life
- Includes human capital as well as financial capital
- Richer later life means more than just pensions



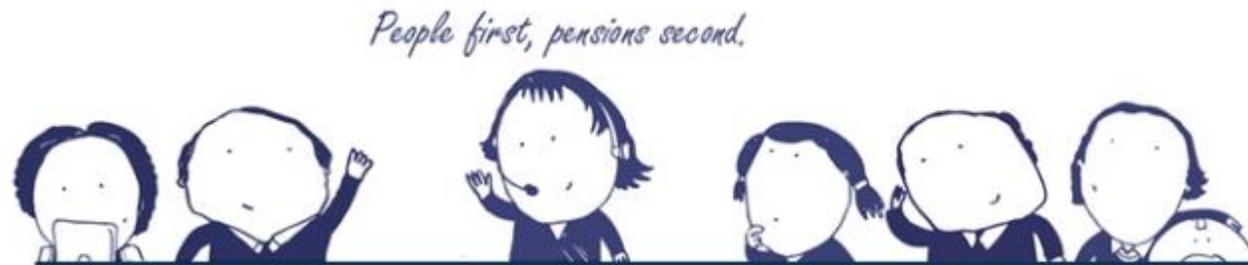
Challenges for financial firms

- Make pensions attractive to customers – behavioural insights
- Devise exciting new products - and services
- Multiple channels of communication
- Educate and entertain future retirees - apps, gamification
- Pride in owning and managing investments with interest
- Emotional engagement, not just logic and information
- Lifetime Retirement Funds for each person



Pensions aren't just about money, they're about people

- To improve people's lives
- Pensions are vital for an ageing society
- Providers, employers and Government must adapt policy in light of people's changing, more flexible, lives
- Long-term saving and longer working life can boost individual and national wellbeing
- Improve pensions and rethink retirement for 21st Century



Thank you for listening – let's discuss...

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