

New thinking for retirement and pensions

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Outline

- History of retirement and pensions
- Short-sighted policy mistakes
- Modernising pensions
- Rethinking retirement for 21st century

The history of retirement

- Most people used to work till they were unable to go on
- Without other income they would be in poverty
 - 1908: pensions introduced to avoid destitution
- Pensions led to expectations of a 'normal' retirement age

The two concepts of 'pension'

- 1. Social welfare insurance: state role?
- 2. Long-term savings: – private role?
- Confusion as 20th Century employers offered both
- Increasing private pensions supposed to offset state cuts
- Final salary pensions giving way to money purchase
 - 21st Century employers won't do social welfare
- Employers now pulling out of pensions, contributions cut
- Individuals on their own!

'Early retirement' and pensions

- 1970's/1980's industrial restructuring via early retirement
 - Older workers made way for baby boomers
- Led to unrealistic expectations
 - Over-reliance on equity returns
- Policy has lagged way behind health, longevity
- Not enough thought for retirement
- Must modernise – Facing Retirement Forum debates

Short-term political time horizons

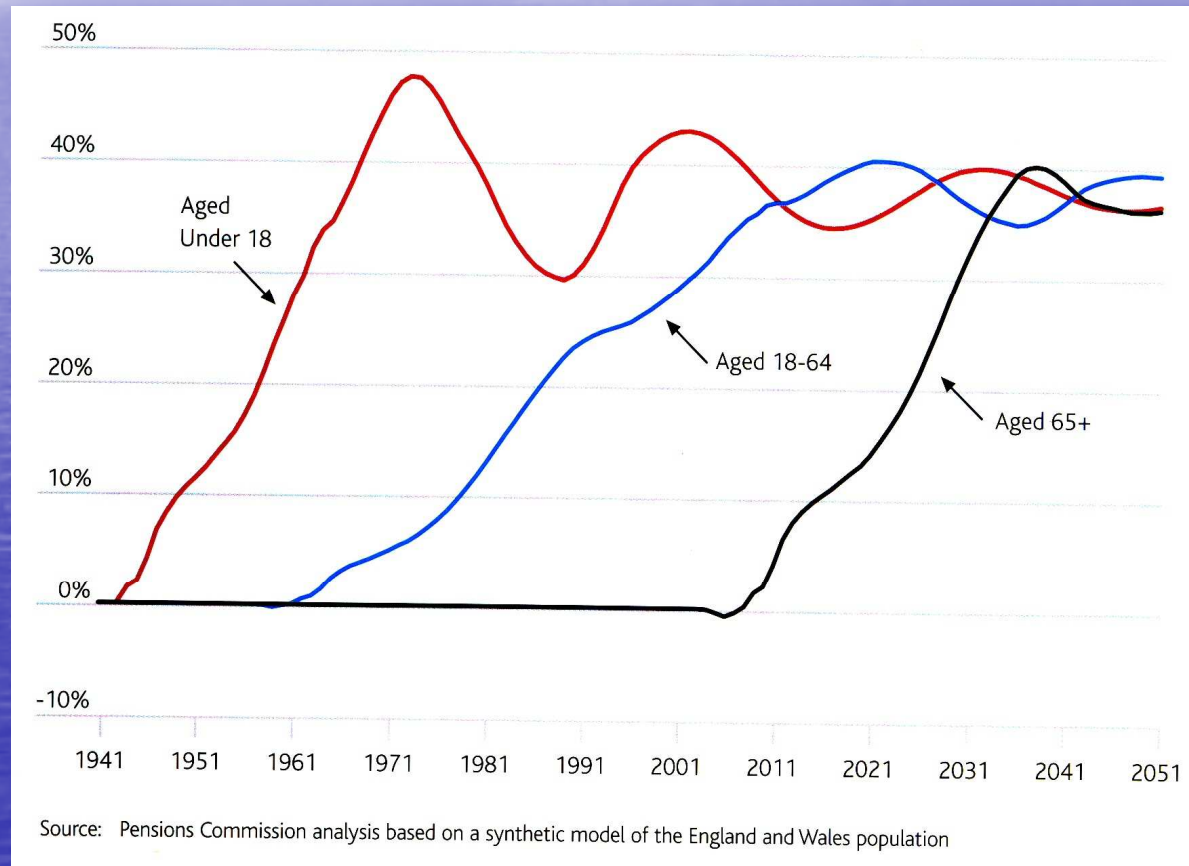
- Politicians worry about now, not many years hence
 - Need radical new thinking and leadership
- Pension savings hopelessly inadequate for the task
- Industry needs to help lead the debate before it's too late
- Putting money in is important to politicians today, but it's getting good pension income out that really matters!

Policy mistakes and crisis

- Official view: pensions not in crisis now, may be in future
- Wrong: pensions in crisis now, pensioners in crisis soon
- Asymmetrical regulation: easy to borrow, hard to save
- Credit crisis damaging pensions
- Not enough young people born to fund future pensioners
 - What will retired baby boomers live on?
- Demographic boost ending – demographic drag coming

Demographic trends

% change in UK population size



Huge retirement disappointment ahead

- State pension low, complex, undermines private income
- Risk/difficulty of saving > risk/difficulty of not saving
- State and private pensions both falling, longevity rising
- As employers cut back => higher risk, smaller pensions
 - Pension savings far too low for 20-30 year retirement
- Risk of huge retirement disappointment

Latest reforms - no long-term solution

- State pension reform con trick – Titanic and deckchairs?!
 - Still lowest, most complex system: BSP, S2P, PCredit
 - Tie BSP to earnings, but S2P to prices, later age!
 - Give with one hand, take back with the other
- Personal accounts – opportunities but big threat
 - Government, industry and employers could benefit
 - Levelling down, suitability make many worse off
 - Proper advice essential but absent – generic no good

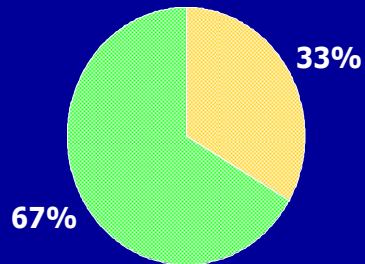
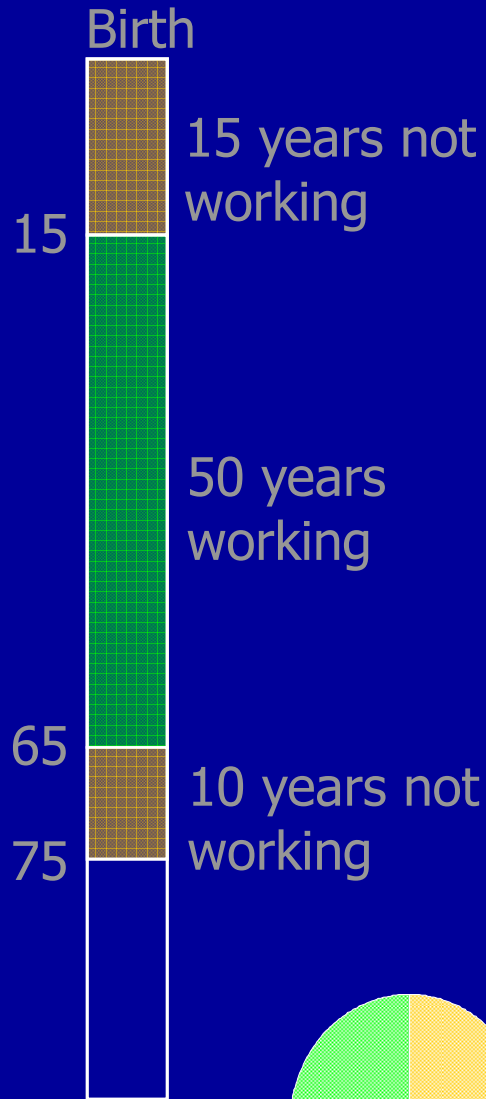
Modernising long-term savings

- Think differently about lifetime savings
- Re-name private 'pensions'
- State pays 'pension', rest is lifetime savings for old age
 - No annuitisation, minimal means testing, use CTF?
- OMO not working, annuities misunderstood, unpopular
 - Government needs to issue longevity/mortality bonds

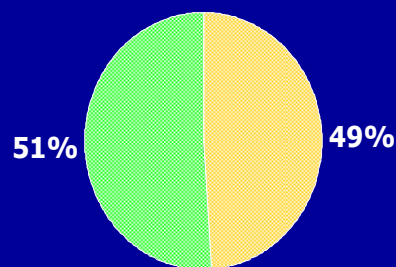
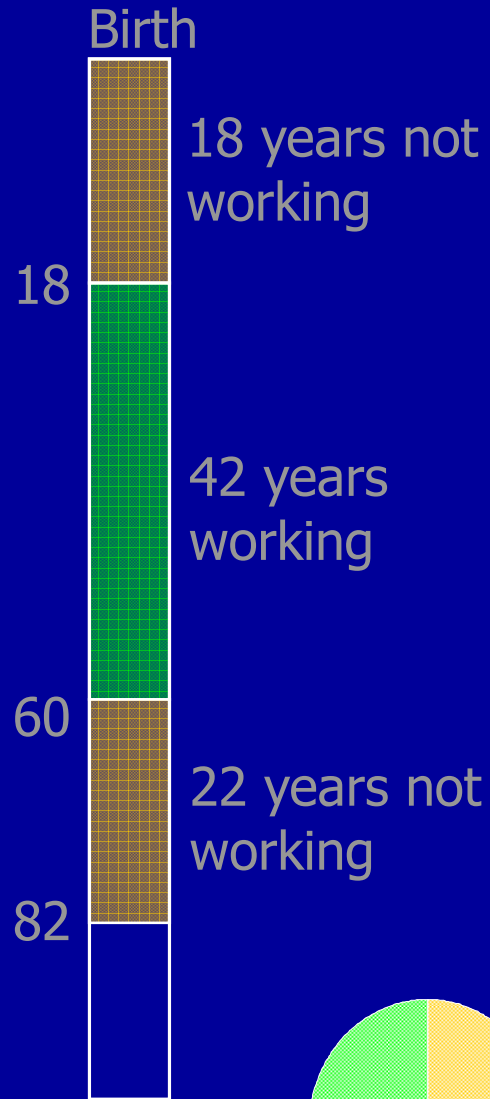
Rethinking retirement

- Pensions alone can't solve the pensions crisis
- 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

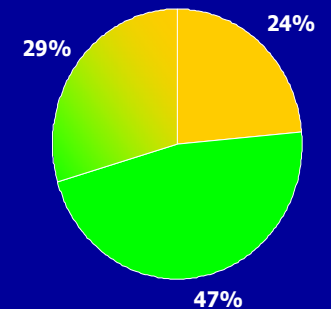
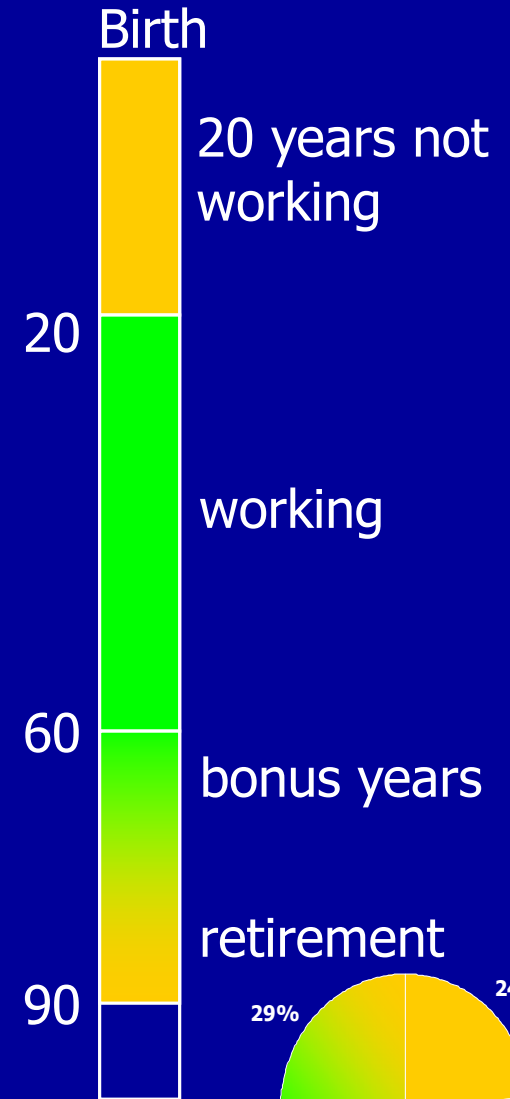
1950's



Now



Future?



The future? Radical rethinking

- State pays basic minimum in old age – what age?
 - No means test, no annuity, fair, suitable
- Must save or work to get more than minimum
- Lifetime savings, flexible withdrawals, cater for women
- Supplement work income, maybe not replace
- Better investment options
 - Guaranteed capital and income? Diversified assets?
- Wake up to reality

Conclusions

- Need radical state pension reform
- Re-name private pensions!
- Reconsider investment options for long-term savings
- Later life working inevitable
- Flexible withdrawals not just annuities
- New thinking for 21st century



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