

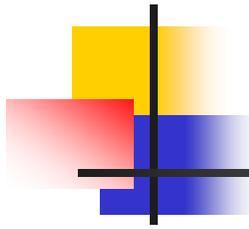
# Pensions in Crisis

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APCIMS Conference

**5<sup>th</sup> March 2004**

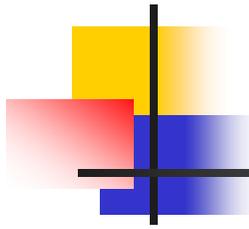
**Dr. Ros Altmann**



# Pensions in Crisis

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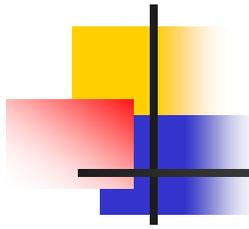
- What are the problems?
- Government policy
- Challenges of money purchase (DC) pensions
- Gradual retirement
- Conclusions



# What are the Problems?

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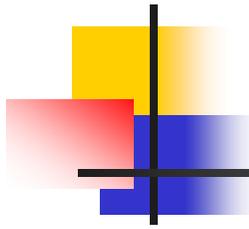
- Confidence shaken
- State pension too low and system too complex
- Governments have relied on private sector pensions
- Private pensions not trusted any more
  - Most people not putting enough into pensions
  - Majority don't get advice or help
- Poverty and long-term economic decline



# Is Government Policy Heading in the Right Direction?

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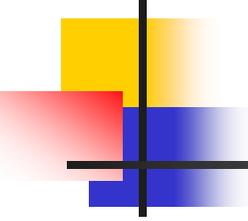
- NO!
- Desire to increase take-up of pensions: 60/40 -> 40/60
  - State wants to offload pension costs to employer/individuals
- Stakeholder and Sandler won't work – 1% no chance
- Supply side policies – informed choice, caveat emptor
- What about demand?



# Problems with Current Policy

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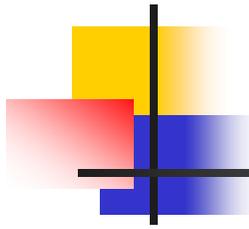
- Too many disincentives – especially pension credit
- Not enough incentives – tax relief, big deal!
- Low charges and simple products not enough
- Lower charges have benefited wealthiest investors
- Target group locked out of advice



# Barriers to Saving and Pensions

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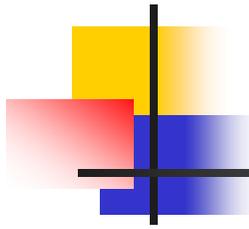
- Risks/difficulties of saving seem greater than risks/difficulties of NOT saving
- Complexity of system
- Lack of understanding and education
- Lack of confidence – scandals
- Policy of means testing makes pensions unsuitable



# Are Pensions Suitable?

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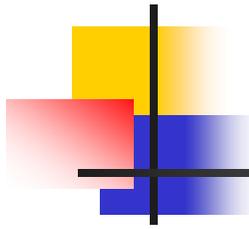
- 75% entitled to pension credit by 2050
  - Pensions often unsuitable – inflexible, lose 40% at least
- ISA's may be better
- Debt levels
- Financial planning as well as products
- Government claims stakeholder success. (No, really!)
  - But not reaching target market, contributions falling
  - This may be entirely rational



# Mis-Buying, Mis-Selling and Means-Testing

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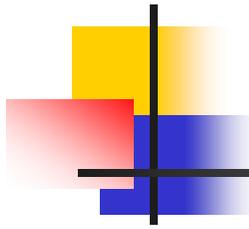
- Suitability is crucial for long term success
- Majority of population need advice, but don't get it
- Sandler solution worse – no advice, 'simple' products
- Proposed products are not 'safe'
- People don't understand - it is not simple for them
- Will go from mis-selling to mis-buying, no comeback



# Government Policy-Pensions Bill

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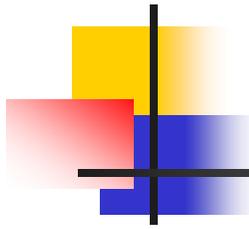
- Pension strategy not addressing pension problems
- No new incentives for employers or individuals
- Urgent need to restore confidence
- Lack of compensation for people let down in the past
- State system needs reform



# Moving away from Final Salary

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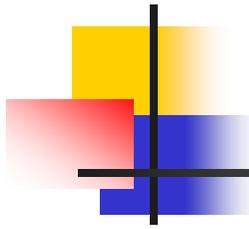
- Final salary schemes too costly
  - Huge deficits, assets and interest rates fallen, rising longevity, mature schemes
- Money purchase (DC) much better for employers
  - More modern, more certainty of cost, lower contributions
- Average job tenure 7½ years – is lifelong support reasonable after this?
- Better suited to gradual retirement



# DC Problems to be Addressed

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- Big change – needs to be managed
  - can't just rely on employer any more
- Four crucial areas not working properly
  1. Contributions – being cut
  2. Investment profile – not well structured
  3. Costs too high – individual vs. pooling
  4. Annuities – lack of confidence, need reforms

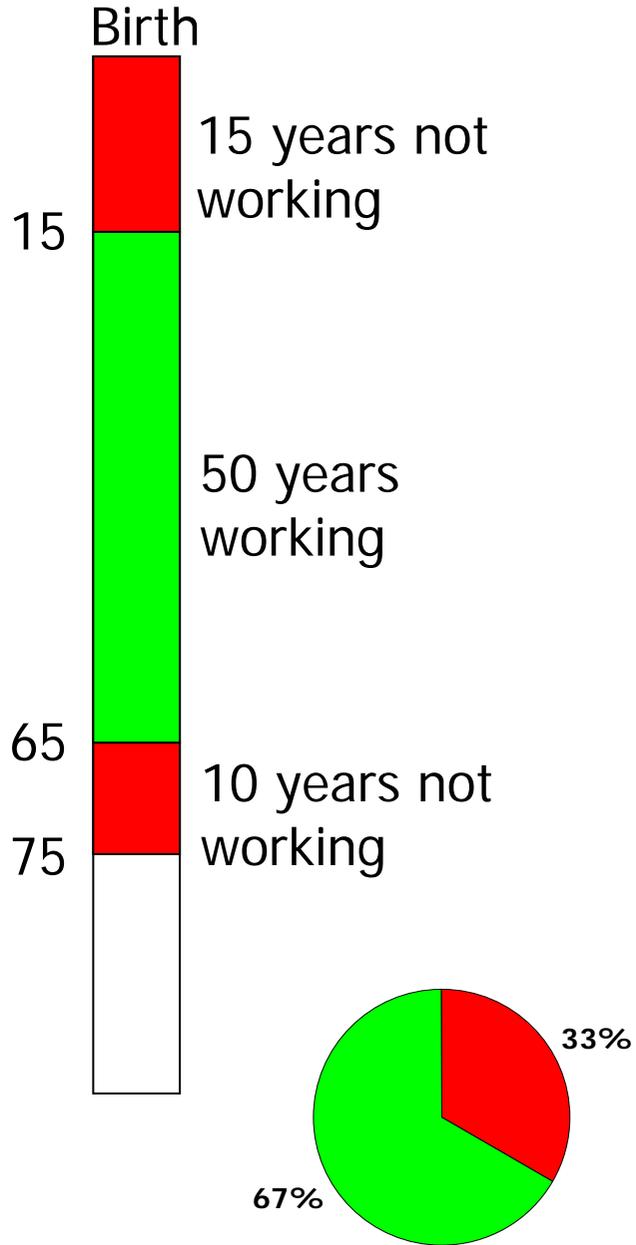


# Policy response required

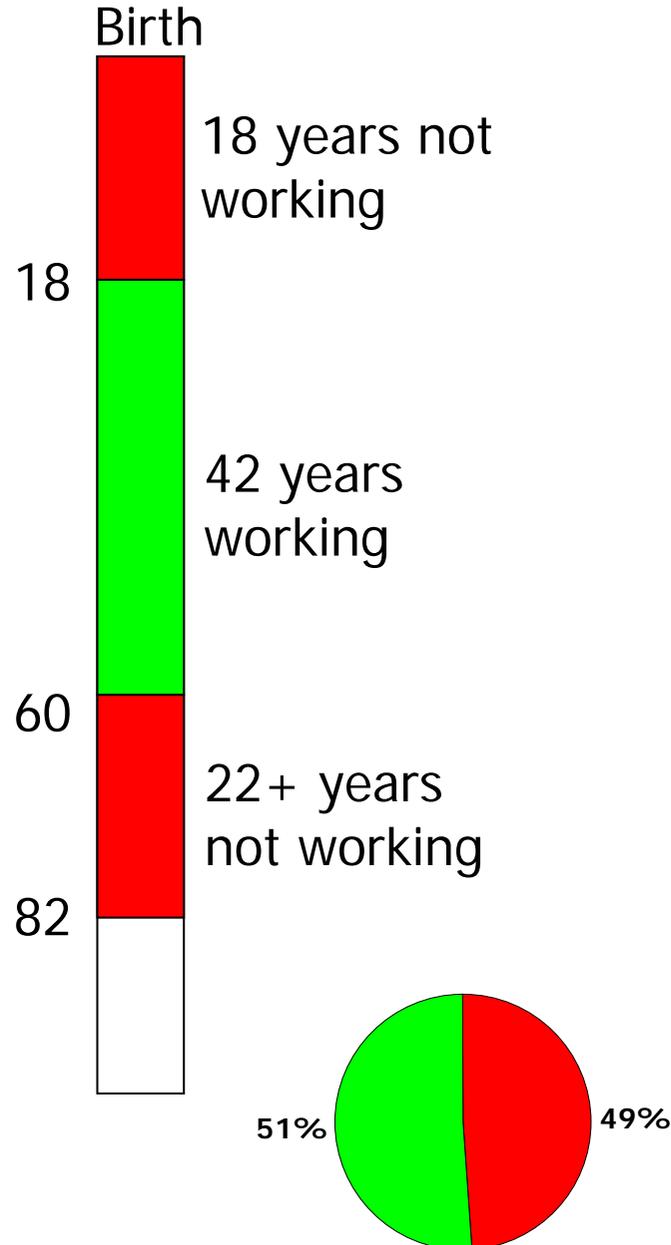
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- Improve incentives
  - higher rate tax relief for all, lottery stakeholder
  - Incentives for employer-provided pensions and advice
- Encourage pooling for economies of scale
  - Advice in workplace
- Reform State pension system
- Improve annuity regulations and advice
- Require providers to simplify procedures/forms
- BUT – pensions alone can't solve problems of ageing population

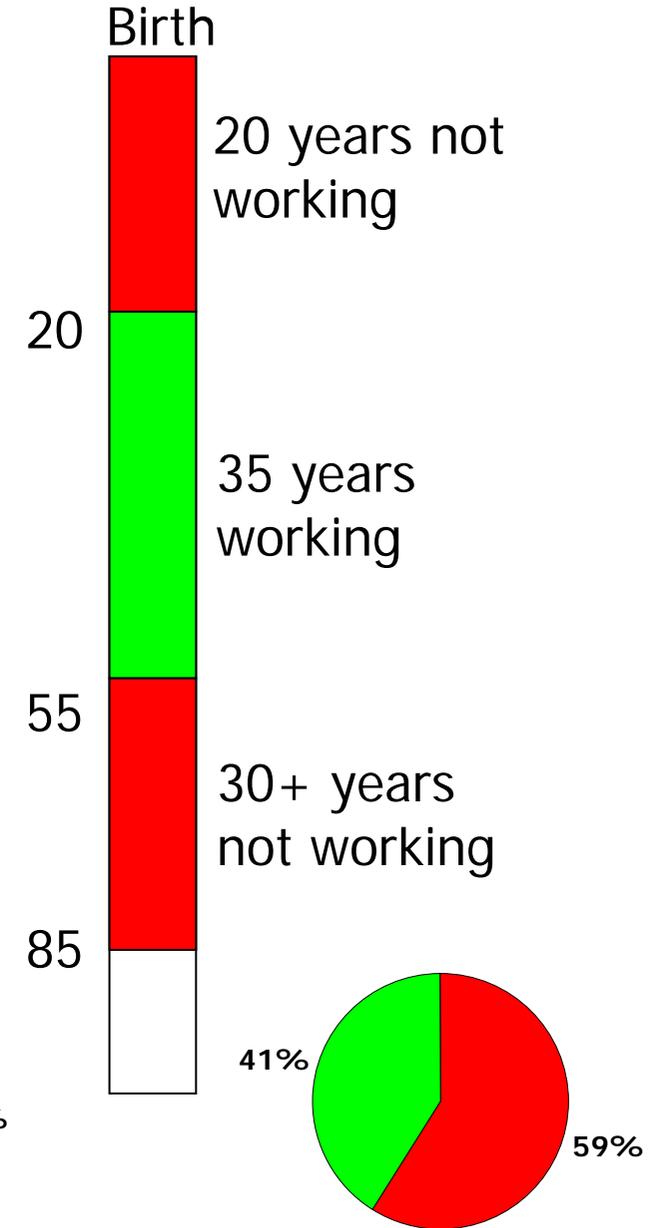
# 1950's

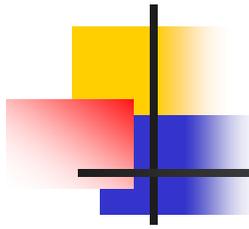


# Now



# Future?



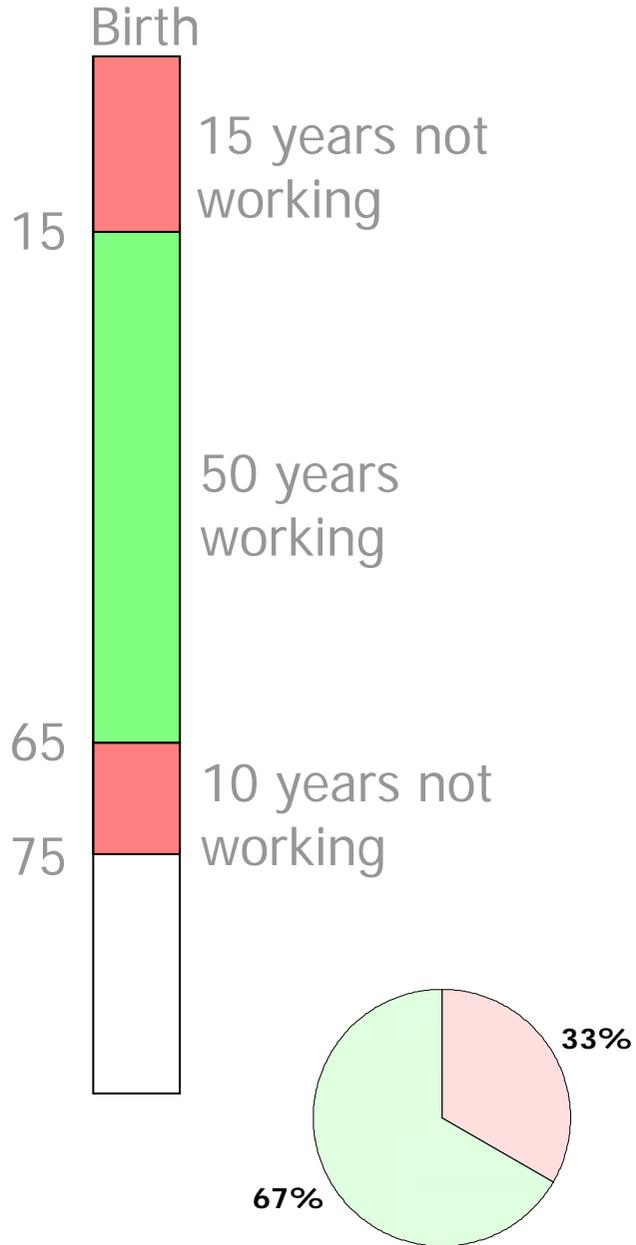


# Gradual Retirement

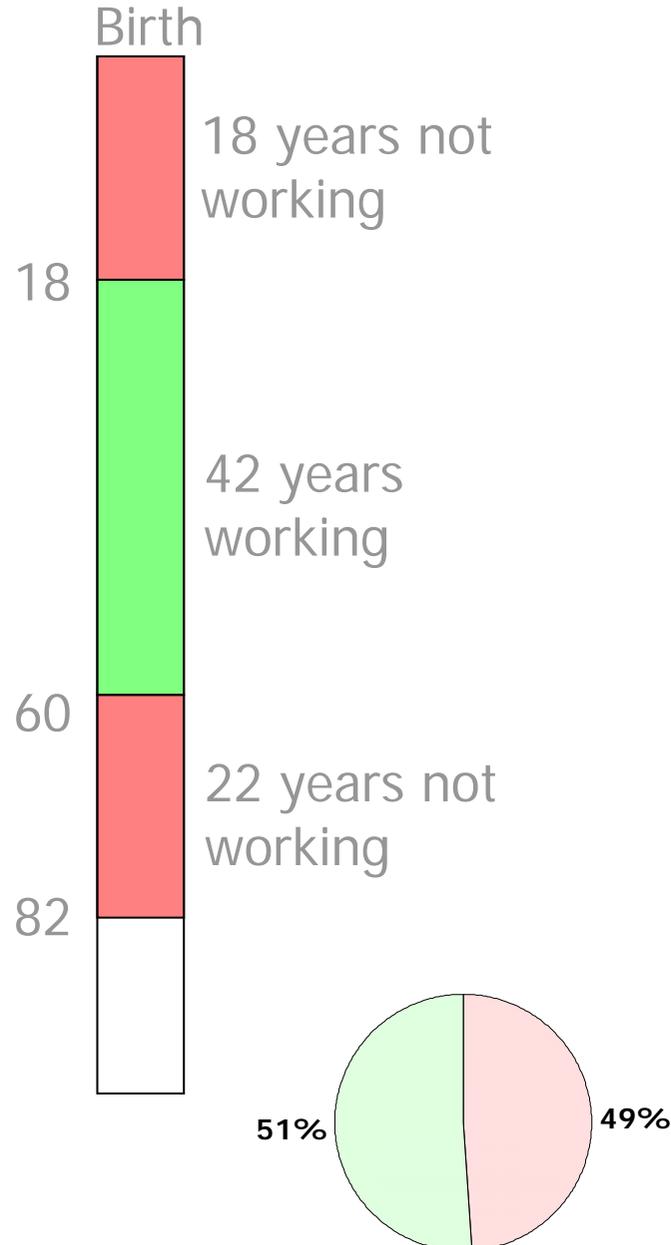
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- Change concept of retirement
- A 'Journey' not a 'Destination'
- New phase of life
- Continue earning and contributing
- Benefit individual, society and economy
- Old age support more affordable, higher living standard

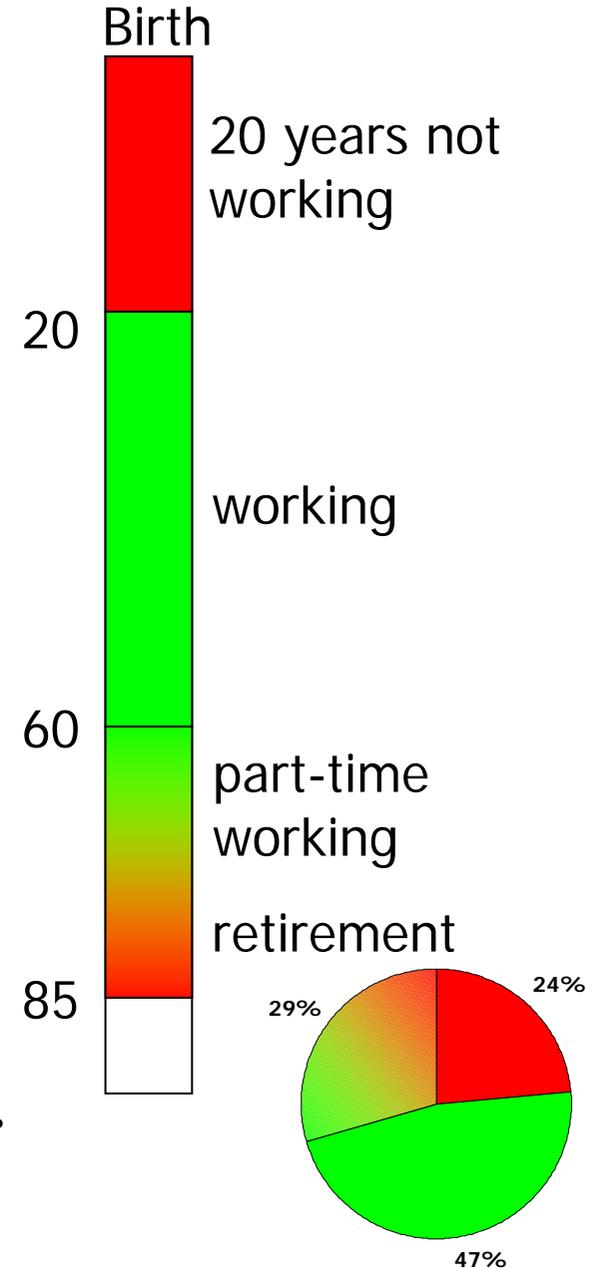
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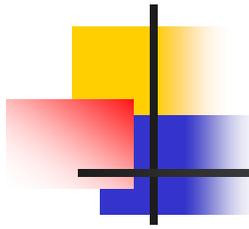


# Now



# Flexible Working

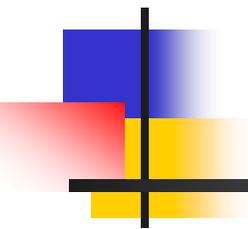




# Conclusions

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- Restore confidence - policy to address demand
- Reform State system to provide stable base
- DC structured better
- Make advice process cheaper for mass market
- Gradual retirement
- Wake up to reality!



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Thank you for listening

Dr. Ros Altmann

[www.rosaltmann.com](http://www.rosaltmann.com)