



Pensions ARE in Crisis

ASIM Winter General Meeting

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Pensions ARE in Crisis

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



What are the Problems?

- UK pension model not working
- State pension too low and system too complex
- Governments have relied on private sector pensions
- Private sector contributions falling
- Mass market lost interest in pensions
- Poverty and long-term economic decline



Is Government Policy Heading in the Right Direction?

- NO!
- Stakeholder and Sandler won't work
- Supply side policies – informed choice, caveat emptor
- What about demand?



Problems with Current Policy

- 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

- 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?

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



Mis-Buying, Mis-Selling and Means-Testing

- 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

- 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 reform essential



Moving away from Final Salary

- Final salary schemes often too costly
 - Huge deficits, assets and interest rates fallen, rising longevity, mature schemes
- Moving to money purchase (DC)
 - More modern, more certainty of cost, lower contributions
- Average job tenure 5 years – is lifelong support reasonable after this?
- Better suited to gradual retirement



DC Problems to be Addressed

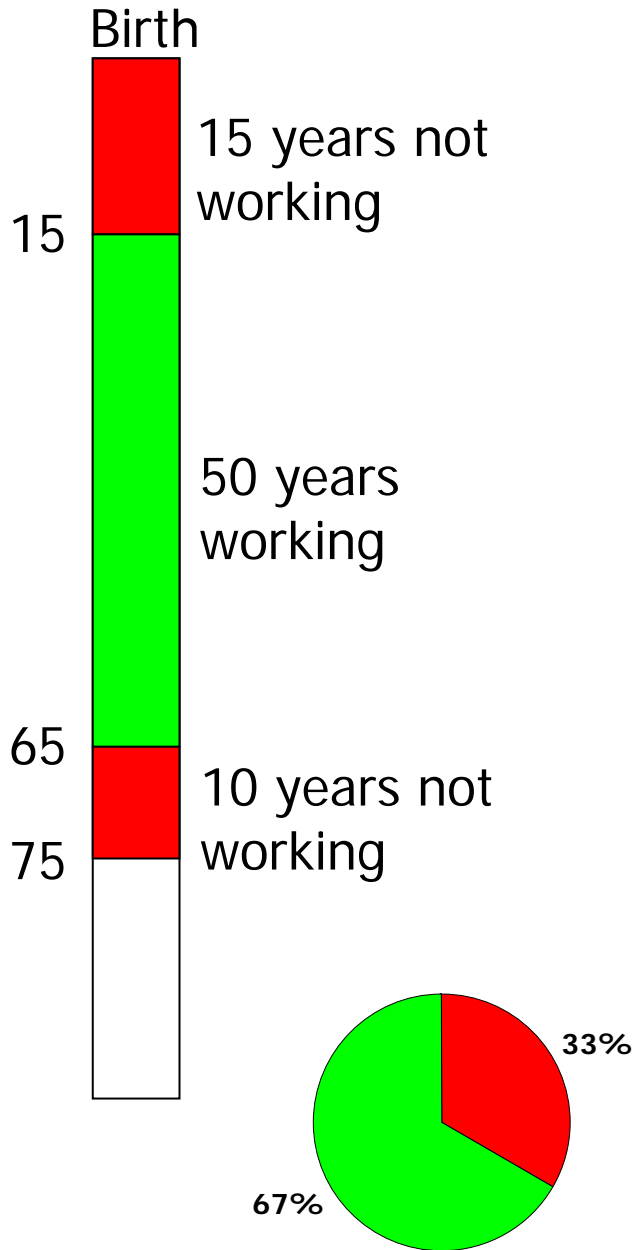
- Big change – needs to be managed
 - can't just rely on employer any more
- Four crucial areas not working properly
 1. Contributions – being cut
 2. Investment profile – not well structured
 3. Costs too high – individual vs. pooling
 4. Annuities – lack of confidence, need reforms



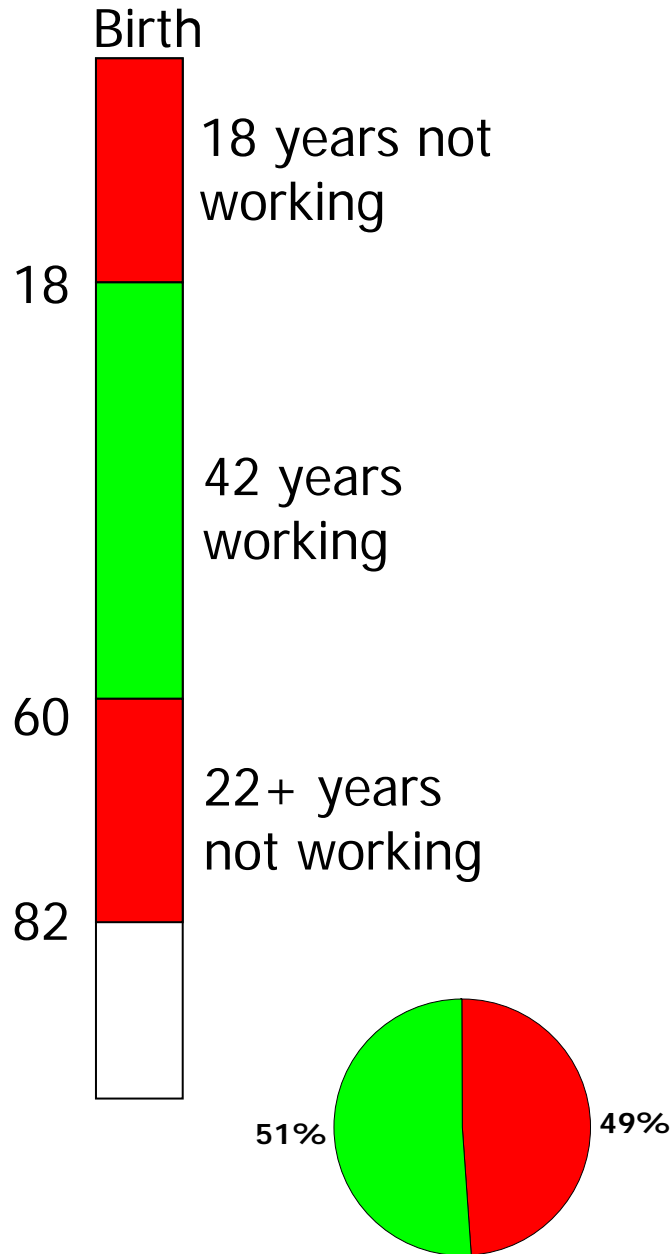
Policy response required

- Reform State pension system - £105pw to all over 65's
- End contracting out - £11bn a year for higher pensions
- Clear distinction between state and private pensions
- Open way for private sector to safely supplement state
- Improve incentives
 - higher rate tax relief for all as matching scheme
 - Incentives for employer-provided pensions and advice
- BUT – pensions alone can't solve problems of ageing population

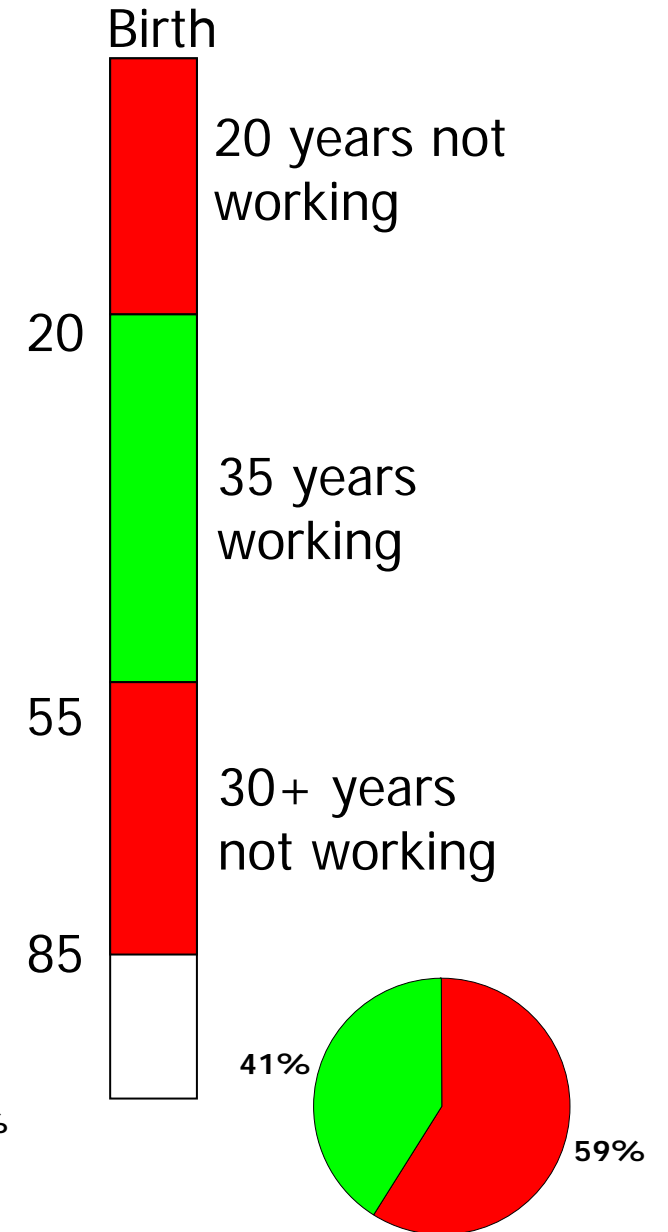
1950's



Now



Future?

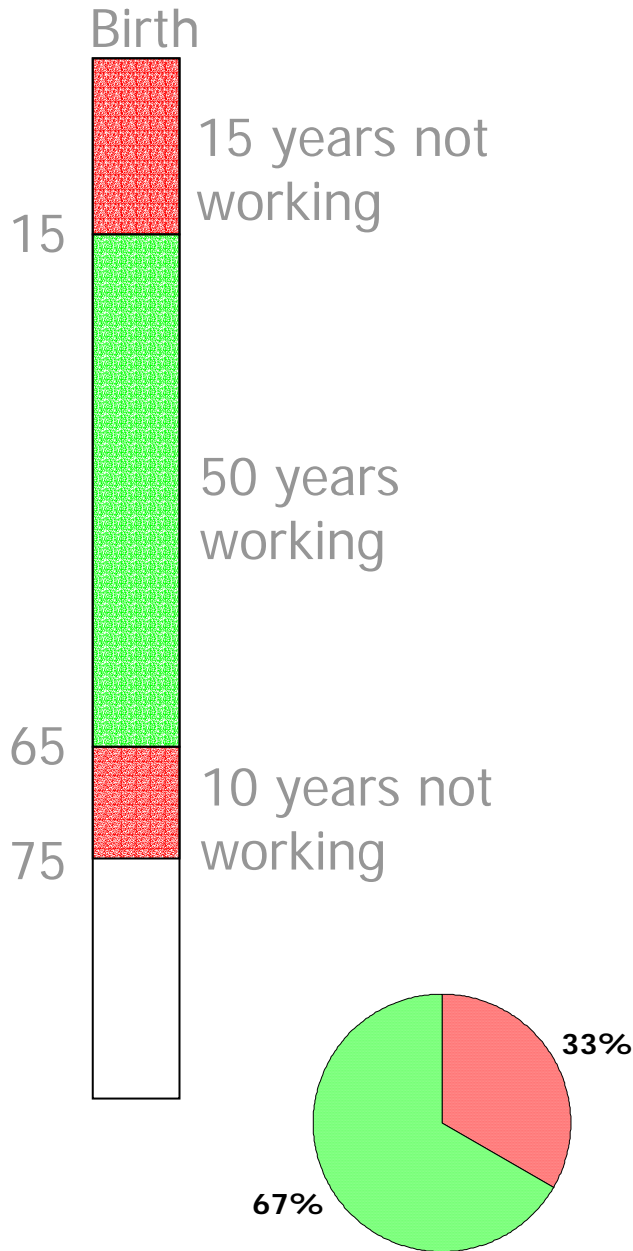




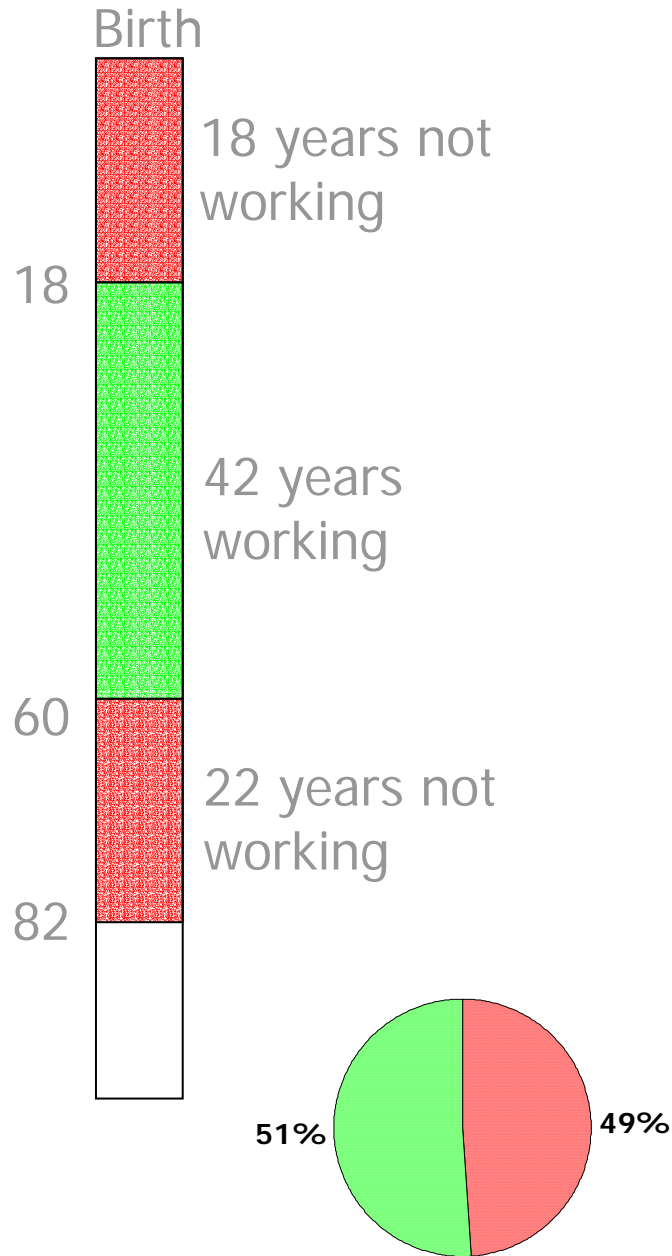
Gradual Retirement

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

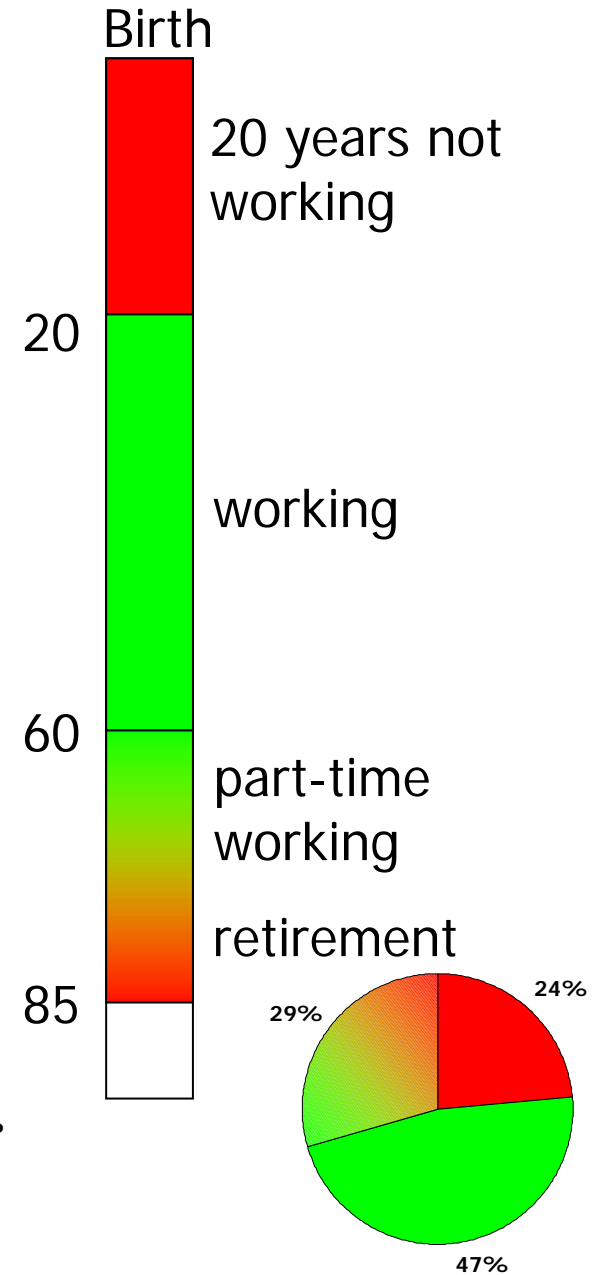
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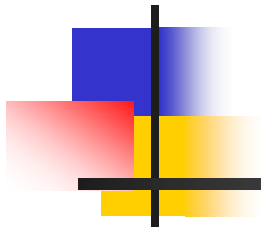
Flexible Working





Conclusions

- Reform State system to provide stable base
- Clear division between state and private pensions
- Improved incentives - policy to address demand
- Make advice process cheaper for mass market
- Gradual retirement
- Wake up to reality!



Thank you for listening

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