



Pension Reform - joined-up thinking

FT CONFERENCES
PENSION SIMPLIFICATION
6th December 2002
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Outline

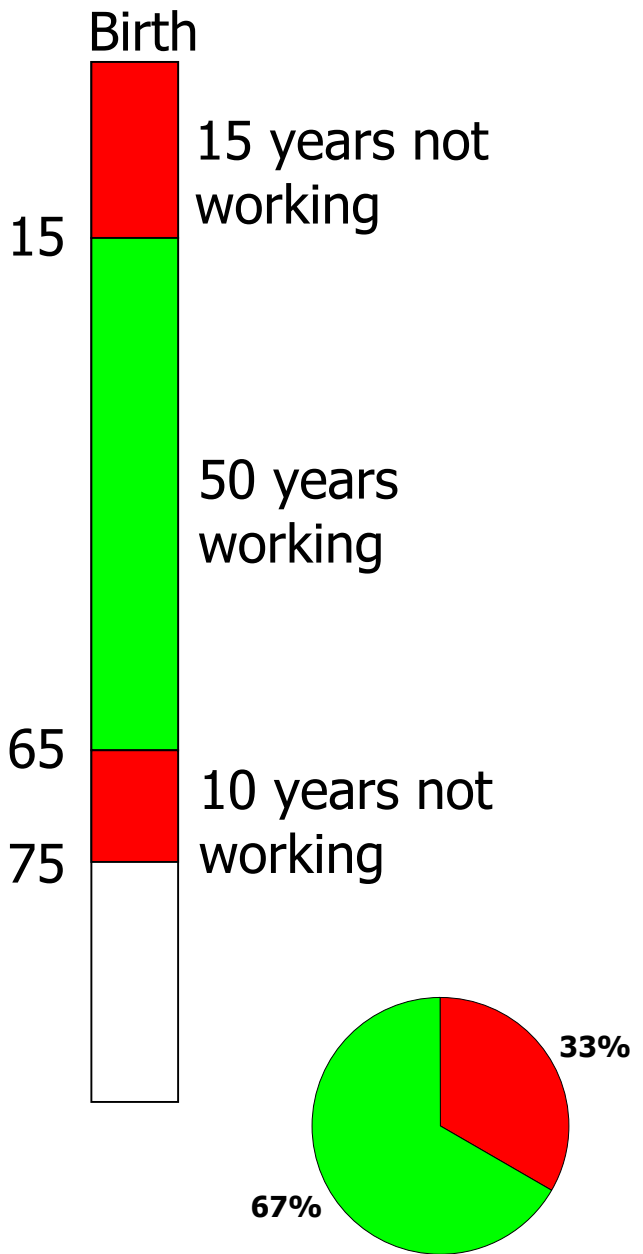
- Why do we need reform?
- The future for retirement and pensions
- Is current policy framework sustainable?
- Improving incentives
- Challenges for Advice
- Challenges for DC Pensions
- Green Paper



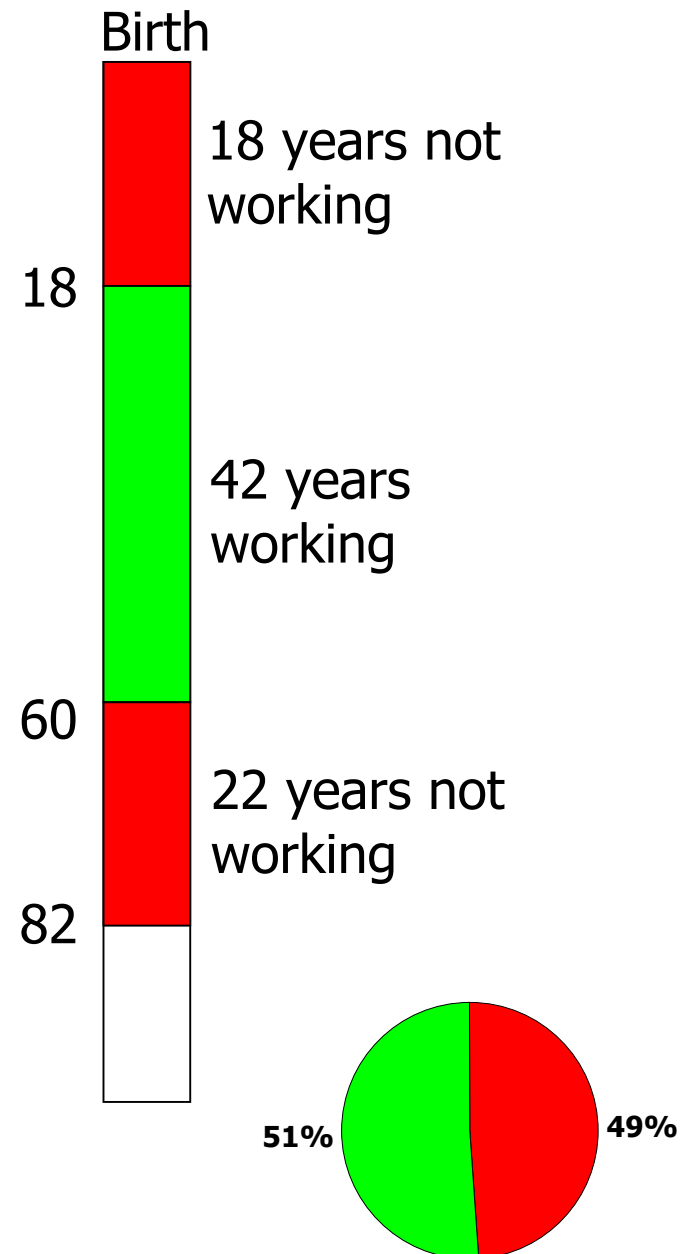
Why do we need reform?

- Pension policy designed in 1950's
- Not suited to 21st Century
- Government policy not coherent
- Trend away from collectivism to individualism has to be managed carefully
- More older people in poverty - social costs
- Current trends unsustainable

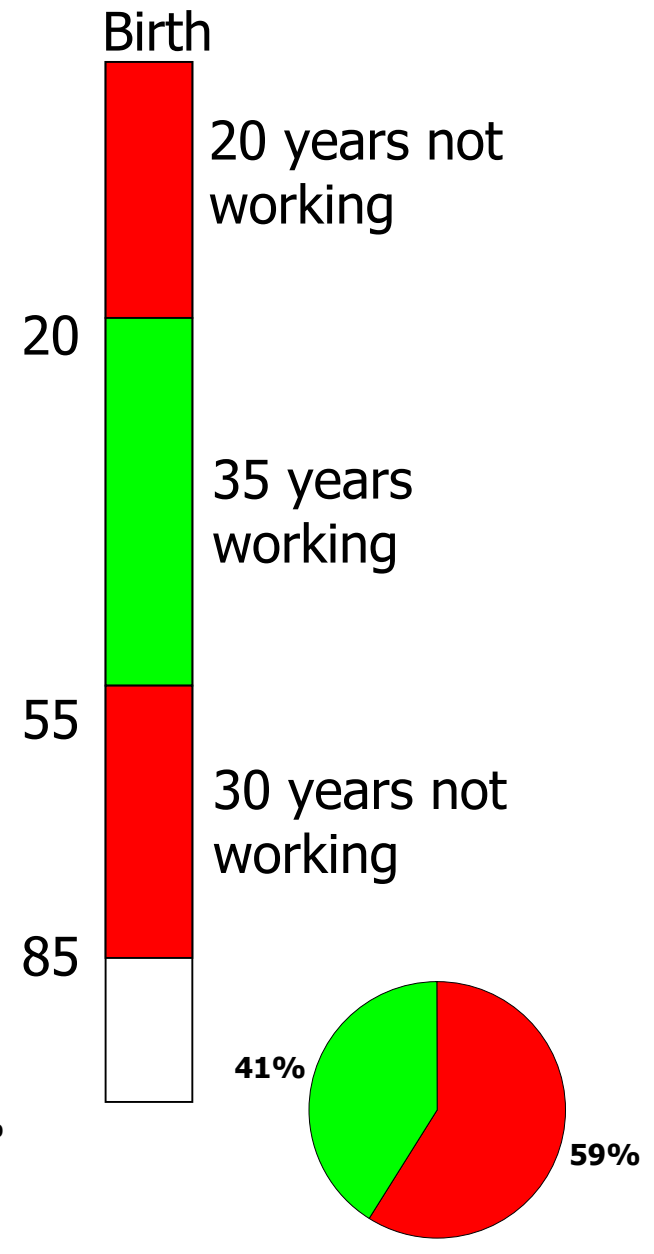
1950's



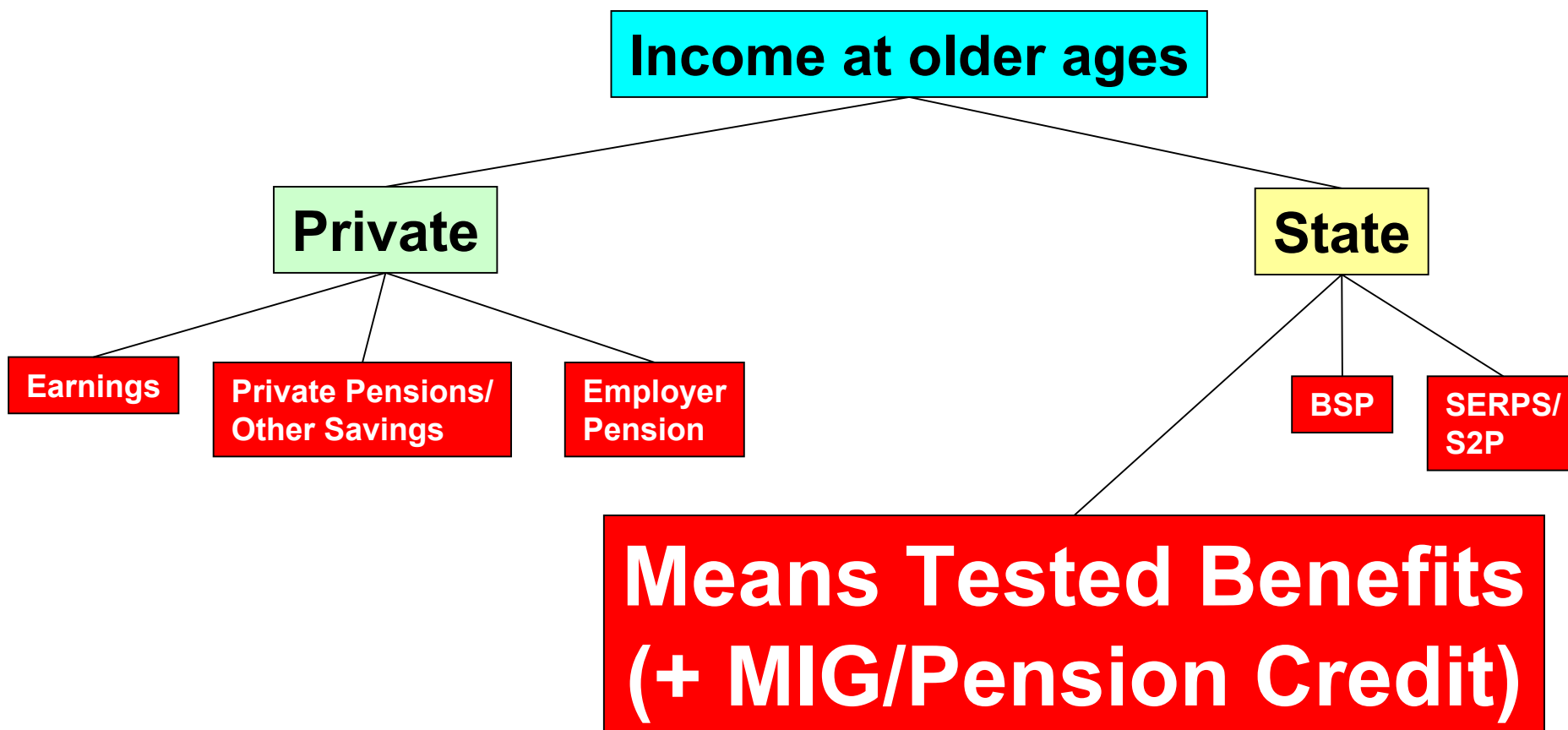
Now



Future?



The Future with Current Policy





New Concept of Retirement

- Wake up to reality - change social attitudes
- Don't just raise retirement age - not 'one size fits all'
- Gradual retirement - a 'process' not an 'event'
- Just saving more not enough - more work too



Costs of pensions today

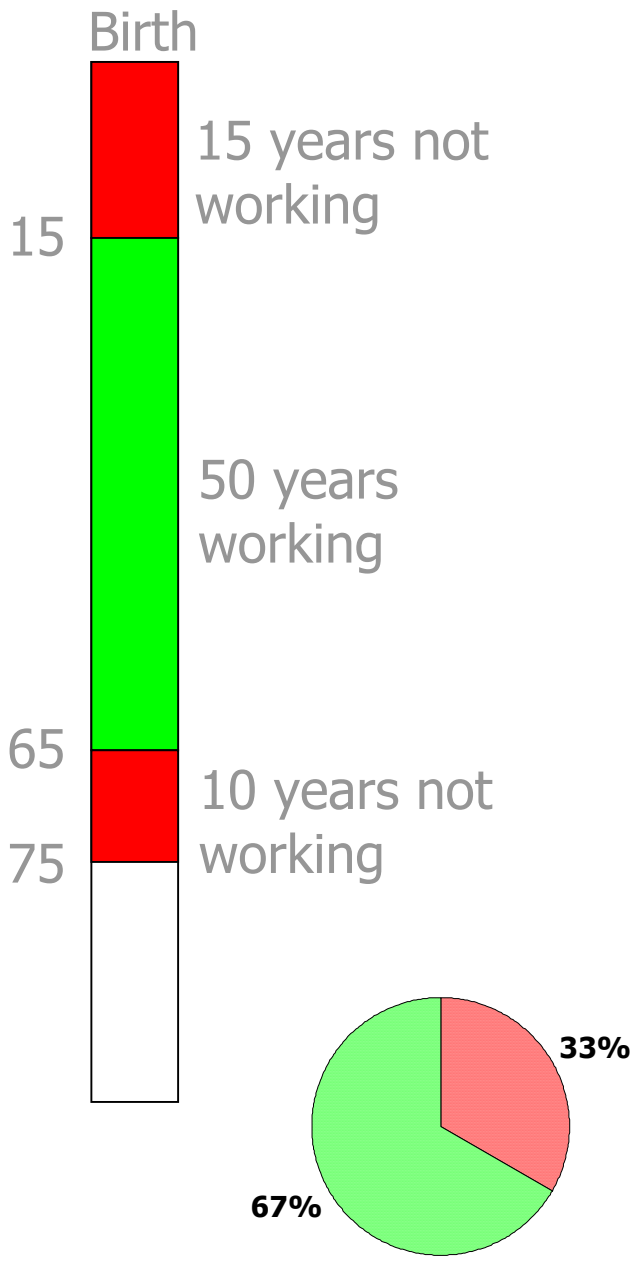
- For a £10,000 a year pension need over £200,000
 - (age 65, couple, index linked)
- From age 20 - save £60 a month
- From age 30 - save £120 a month
- From age 40 - save £280 a month
- Who can afford this?
- Many will need to work more and save more



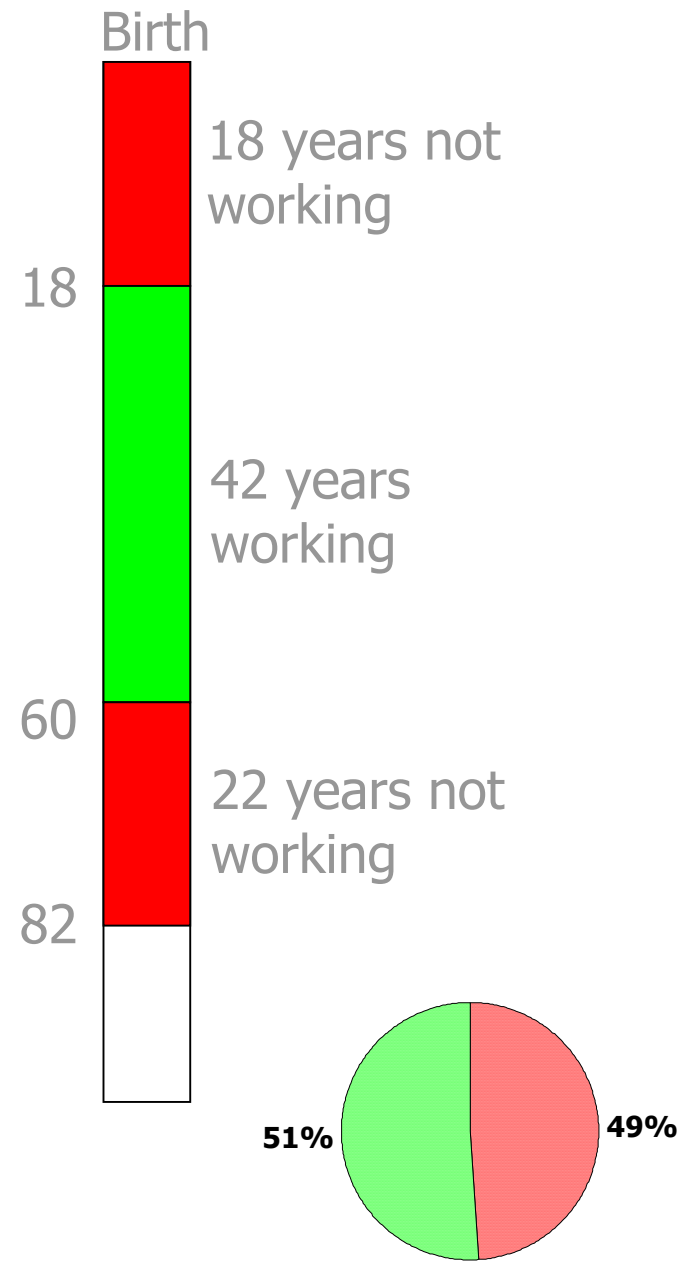
Retirement Policy Changes

- Allow part-time work, part pension, same employer
- Attractively higher pension for delayed retirement
- Improve job opportunities for older workers
- Set example with public sector

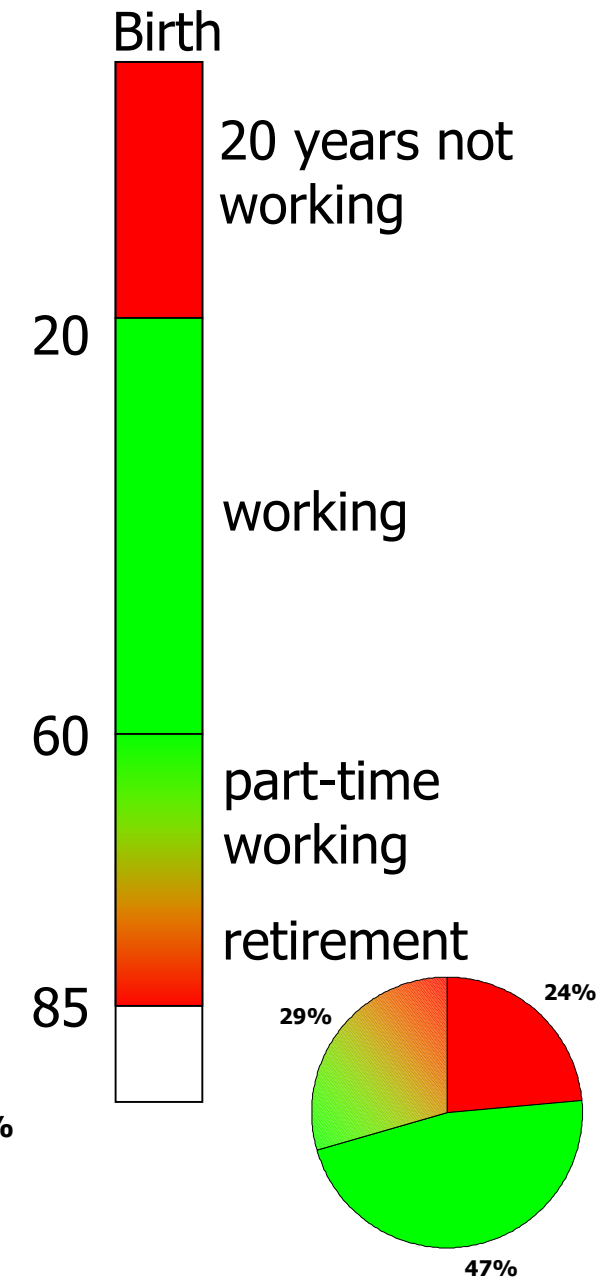
1950's



Now



Flexible Working





What do we need to do?

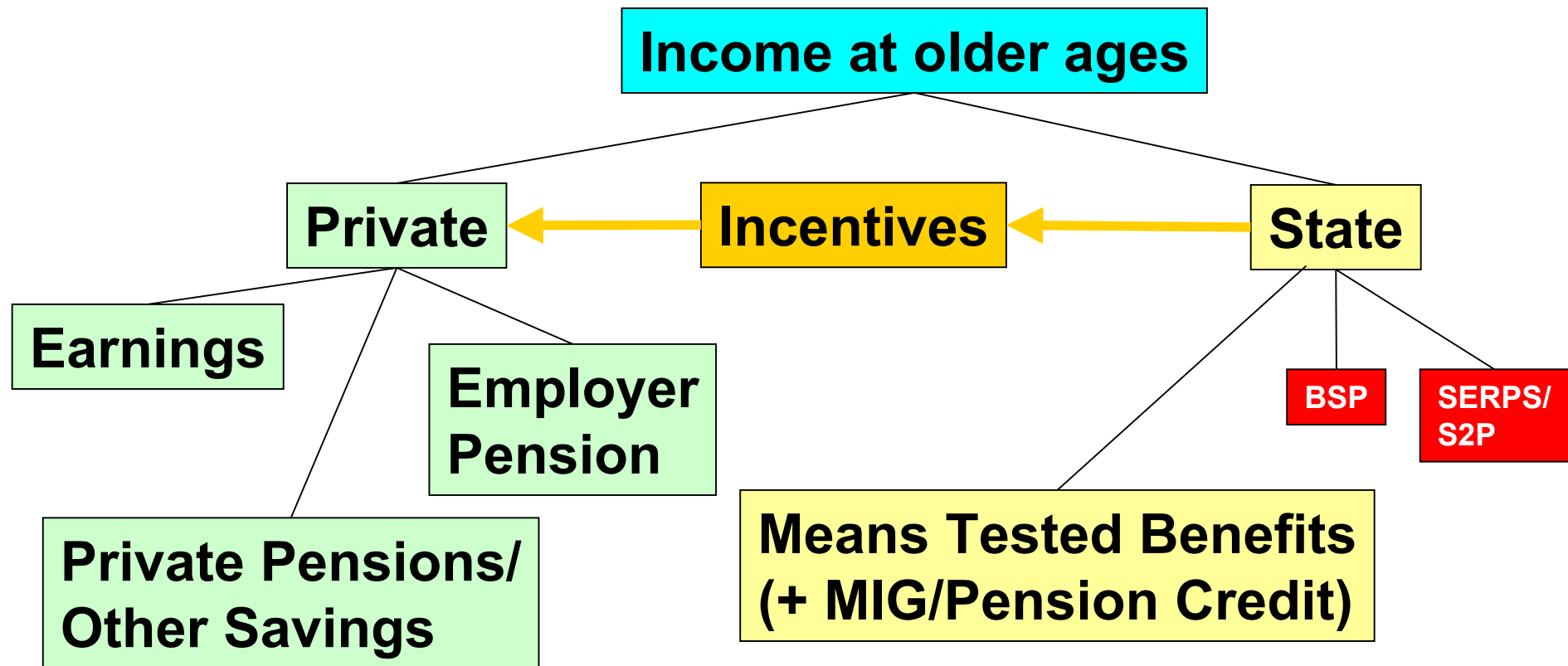
- Give incentives for people to provide more for themselves
- Give incentives for people to work longer
- Change social attitudes to work and retirement
- Clarify role of State for long-term



Role of State Pensions

- Flat rate or earnings related?
- Current system too complex
- Provide basic minimum - individual choice to top up
- Contracting out - is complexity and cost worthwhile?
- State pension policy should not deter private savings

We Need Better Incentives - Bigger Pensions, Less Means Testing





How to Improve Incentives

- More incentives for longer working lives
- Bigger incentives for basic rate taxpayers to save
- Better incentives for employers to provide pensions and advice
- Improve confidence
- Lottery stakeholder?



What about Stakeholder Pensions?

- Government must admit stakeholder has failed so far
- Not reaching target market
- Need better incentives - demand side
- Can 1% work?
- Need simplification of advice and regulatory regime
- FSA to recognise
- Time based fees vs. commission? Cross-subsidies?



Sandler, Supermarkets and Suitability

- Majority of population need advice, but don't get it
- Sandler solution worse
- Don't give advice, just simple products/decision tree
- People don't understand - it is not simple for them
- 'Cheap and simple' - but what type of product best?
- What about suitability?
- Will supermarket checkout person advise on pension versus ISA?



Opportunities for Advisors

- Planning for older ages
- Lifetime savings - retirement accounts?
- Help plan to make part-time work affordable
- Workplace courses for flexible retirement planning
- Incentives for employers



Advice in the Workplace

- Employers should pay if changing to DC
- Basic independent financial planning/pensions advice
- Incentivise employers, or require them to provide



Financial Advice - Challenges

- Deliver advice to mass market
- Workplace economies of scale
- FSA
- Simplification of regulation to improve economics
- Basic and specialist advice - suitability
- Advice for lifetime savings and pensions



Future for Pensions

- Moving to DC
- Need more advice than DB
- Help people understand
- Simplification (one regime)



DC Not Working Properly

- Contributions too low
- Investment products and returns not optimal
- Annuities



Problems of DC - Contributions

- Need more incentives for more people
- Tax relief unfair, inflexible, unintelligible and inefficient
- For every £3, higher rate taxpayers get £2
- For every £3, basic rate taxpayers get < £1
- Need to give basic rate taxpayers more incentive
- Matching grants, not tax relief
- Levelling up, not levelling down



Problems of DC

- Investment Options

- DC requires specialised products
- Guaranteed funds
- Asset allocation
- Diversification and risk
- Education and advice



Problems of DC - Annuities

- People just don't understand
- Everyone should have advice
- Right type of annuity
- Top rate
- Money-back guarantees
- Simplify procedures



Summary

- Living longer is a good thing, but how can we afford it?
- Either we do it ourselves, or we rely on the Government
- Just saving more is not enough
- Retirement to be a 'process' not an 'event'



Advisers to Help With Choices

- People to choose combination of income from earnings and savings to suit their circumstances and preferences:-
 - Save earlier and save more if you want bigger pension or earlier retirement
 - Work longer, not necessarily full time, if you want better standard of living
- Some can, some can't. Some want to, some don't
- Policy and products to account for individual differences



Conclusions -

What the Green Paper Should Do

- Set out a sustainable framework for 21st Century
- Simplification - better environment for advice
- State and non-State provision clarified
- Protection and confidence
- Remove disincentives - pensions and work
- Improve incentives - pensions and work



Pension Policy Reform

Joined-up thinking for Retirement and Pensions

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