WHAT I WOULD LIKE TO SEE IN THE GREEN PAPER

The Green Paper needs to announce radical changes to bring our retirement and pensions rules into the 21st Century. The present system, devised in the 1950's, has not kept up with demographic and social changes.

It's good news that we're living longer than before – but how can we achieve a decent standard of living in later life? Just saving more will not be enough, we must consider working longer too. What changes do we need?

1. Concept of retirement:

Retirement was never meant to last for 30 years or more. The current situation is not financially sustainable. Starting pension contributions in your 20's and retiring in your 50's, means trying to live on 30 years' worth of contributions for another 30 or 40 years! It can't be done.

I hope the Green Paper will introduce the idea of 'gradual retirement'. Move away from a 'one size fits all' approach and **help people to carry on working for longer, *but not necessarily full time*, to give them a better standard of living later. Retirement should be a 'process', rather than an 'event'.** A whole new phase of life, which never existed before, in which people gradually withdraw from work. This is much healthier for everyone and would be a tangible benefit from the advances of recent decades.

We need the following:

- allow part-time work with same employer, while drawing part pension
- Government take lead - introduce flexible band of retirement ages, rather than age 60 or less – for public sector workers
- age discrimination legislation
- end mandatory retirement ages, protecting older workers rights
- make State pension increases for delayed retirement financially worthwhile

2. Protect final salary schemes:

The Green Paper *must* address 'wind-ups'. The current situation makes a mockery of our pensions laws and regulations. We have the most amazingly complex legislation, because of successive changes added to existing rules, rather than replacing the old ones each time. This is guided by the principle of 'no retrospection' - existing pension rights must not be damaged, even marginally. Member Nominated Trustees look after pensions, OPRA fines employers if every penny of contributions isn't paid on time. But what is the point of all this, when members who have paid in loyally for over 30 years can actually lose their *whole* pension! Even a solvent employer, complying fully with the law, can wind-up the scheme, leaving members with only 40% of promised pensions. **Effectively, the law protects the pennies, while the pounds disappear out of the door. In focussing on tiny details, the regulations have lost sight of the big picture!**

Neither Myners', nor Pickering's proposals provide proper protection. But Government must accept some responsibility, since pension rules did not allow people contributing to an employer's scheme to diversify their investments and contribute to any other pension. Without protection, this is like financial advisers recommending clients to invest only in one share - and also betting their job on this too. If the company fails, they lose their pension and their earnings. It's completely wrong. There is no such thing as a totally safe private sector pension scheme, just as there is no such thing as a safe share on the stock market. Nobody knows whether a particular company will collapse.

So the Green Paper must:

- introduce mutual insurance to protect final salary schemes
- bring forward 2007 priority order
- allow full concurrency
- legislate maximum time for wind ups (2 years?)
- protect Directors' pensions last(?).

3. Simplification

The Green Paper must **simplify the current pension regimes – just one for DC** (with the same restrictions on contributions, benefits and investment profile for all money purchase schemes) **and one for DB** (with simpler and safer rules). This *can* be done. The wind-up fiasco should pave the way to allow small changes in retrospective rights, in the interest of proper simplification going forward.

4. State pensions

I think the Green Paper should completely overhaul the State scheme, removing many of the current complexities. It should:

- **end contracting out**, giving a clear distinction between State pension and private provision.
- **merge Basic State Pension and SERPS/S2P**, giving people a proper base on which to build private provision, from age 75 perhaps
- **end means testing for those over age 75**
- announce **Pension Credit is temporary or disregard first £20 per week**, to end the major savings disincentive it entails.

5. Incentives for pensions and savings

We should **stop using tax relief for incentivising savings**. Tax relief is unfair and illogical (giving most incentive to highest earners, who can afford to save more anyway); it's inflexible -the amount of incentive you can give depends on tax rates – just 22% or 40%; it's also hard to understand – people don't know how much they receive from Government for their contributions.

My recommendations are:

- separate savings incentives from the tax system
- **introduce a simpler system, giving more people better incentives**. Perhaps £1 for every £1 contributed up to a certain limit, then perhaps £1 for every £2 after this.

- introduce better incentives for employers who contribute generously to their schemes.

5. Improve working of DC.

The pension schemes of the future are likely to be defined contribution, but none of the three elements of DC, which are crucial to ensuring a decent pension,is working well.

The Green Paper needs to address them:

- Contributions: When switching from DB to DC employers usually cut contributions, often substantially. We should make this harder by **requiring employers to properly consult and inform the workforce beforehand, and offer members access to independent financial advice.**
- Investment profile: DC schemes often fail to offer sufficient investment options. The financial services industry should be encouraged to provide products designed specifically for DC – wider choice and perhaps guaranteed funds, to help provide some certainty about final pension fund size.
- Annuities: Reform is urgently needed. People just don't understand annuities.

6. Annuity Reform:

- Make OMO work properly. Since the annuity can never be changed, it should be **mandatory for people to receive basic specialist annuity advice**, going through the few fundamental questions they need to consider, to find the right type of annuity *before* buying. This advisor should also help purchasers find a top rate.
- **Allow money back guarantees**. People will feel annuities are fairer, if they can pass on any balance of their original fund not received in pension income, if they die unexpectedly early.

7. Advice:

The Green Paper should address financial advice by proposing:

- **incentives for employers to provide workplace financial advice**
- a **new class of 'specialist' advisers**, FSA approved, to help people plan their finances and choose 'suitable' products. Not Sandler's simple products, without advice, but a more economical type of advice that will check suitability for particular products only. **However cheap and simple a product is, if it's not suitable, it's not suitable. If an ISA is more suitable than a pension, will the check-out lady at Tesco's tell them this?**

8. Education

We need **more resources provided for financial planning and education for everyone** –schoolchildren, those at work, even the retired. Current levels are woefully inadequate.