



Solving the Pensions Crisis

Will it be different this time?

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What is a pension? 2 different things

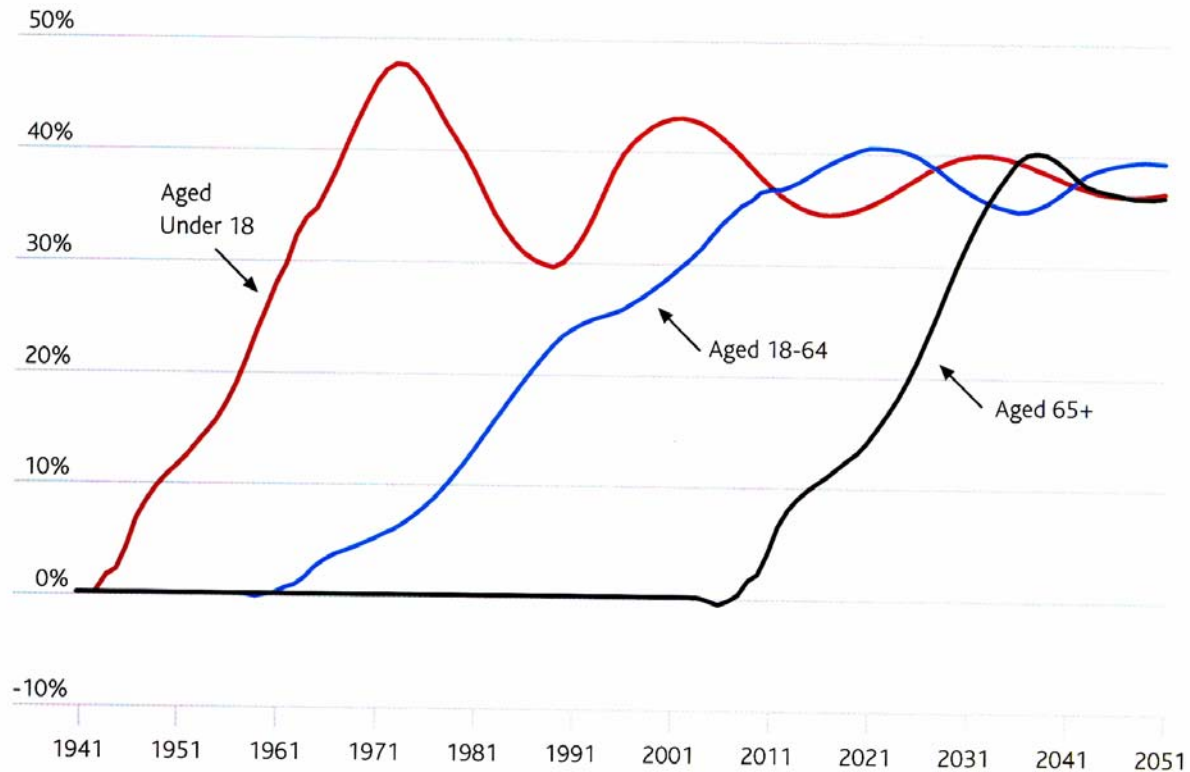
1. Social welfare (Original state role)

2. Long-term savings vehicle (Later private role)

- Same name, but not the same
 - 20th Century employer paternalism caused confusion
- UK state pension cut as employer schemes grew
- But 21st Century employers won't do social welfare
 - Lifelong employment rare - final salary schemes going
- What about demographics?
 - Pensions crisis now, lead to *pensioners* crisis soon

Demography: boost turns to drag

% change in UK population size



Source: Pensions Commission analysis based on a synthetic model of the England and Wales population



State Pension reforms inadequate

- Titanic and deckchairs?!
- Still lowest, most complex state pension: BSP, S2P, PC
 - BSP fall further before being tied to earnings
 - Then S2P tied to prices!
 - Raise state pension age
 - Give with one hand, take back with the other
- Pension Credit still undermines private pensions
- Not a long-term solution – ‘targeting’ destroys incentives



Personal accounts dangerous

- Suitability a big potential problem if pension credit stays
 - Generic advice cannot cope, who will explain the risks?
- Pensions can't be undone, ISA's may be better
 - Who will advise not to save in a pension?
- Levelling down danger: 3% minimum becomes maximum
 - Increase number of savers, but reduce overall savings
- Personal accounts often just replace pension credit!
 - Employer role? Compulsory contributions = NI increase
- Is there a better way?



Alternative radical reform

- State pays pension credit level, age 70: the only 'pension'
 - End NI myth, no take-up problem, all women treated equally, no annuity requirement
- Private 'pensions' just another form of savings
- Clear message: without private income you get £130pw
- BUT higher savings alone won't solve *pensioners* crisis
- New employer role - part-time work for older people
- Radically rethink retirement – a journey, not a destination
 - A whole new phase of life to be enjoyed in future!