



Radically Rethinking Retirement New approaches for the 21st Century

The Savings Market Conference
8th December 2005

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Outline

- Background to pensions crisis
- Rethinking retirement – COOL
- What will we live on otherwise?
- Policy challenges
- New savings products
- Summary

Where do we begin?

- The UK Pensions System

- Current system dates back to middle of last century
- Idea was to support people for the last few years of their life
- People were happy to save for their future
- Strong retirement savings culture
- We have more retirement savings in the UK than the rest of Europe put together
- This is at risk!



Two roles for pensions

SOCIAL WELFARE:

To alleviate poverty among elderly

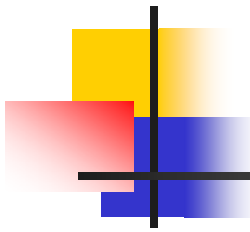
State pension?

+

SAVINGS VEHICLE:

To put money aside while working to use in later life

Private pension?



Pensions alone can't solve the pensions crisis!

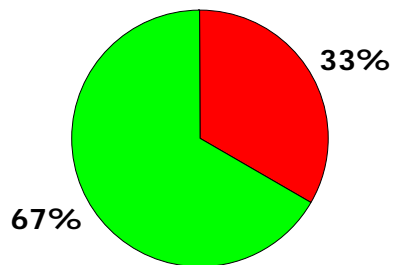
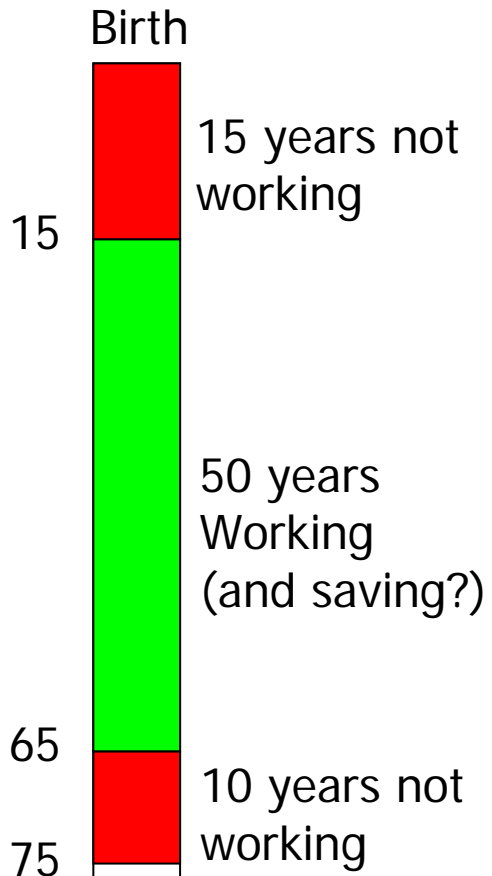
- Pensions designed to last 5 years or so
- Trying to stretch them out over 20 years or more
- Would need to save over 20% of salary
- Not possible to save enough if not earning high income
- Debts?
- Need to rethink role of retirement and pensions



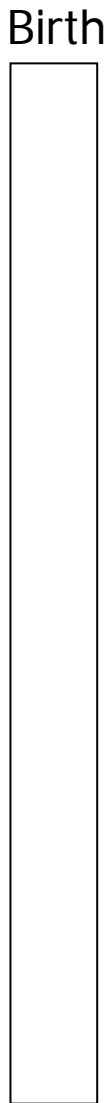
What's going on?

- Working years falling
- Saving years falling
- Retirement years rising
- Less time to save and expect savings to last longer!
- Doesn't add up
- What will all these people live on?

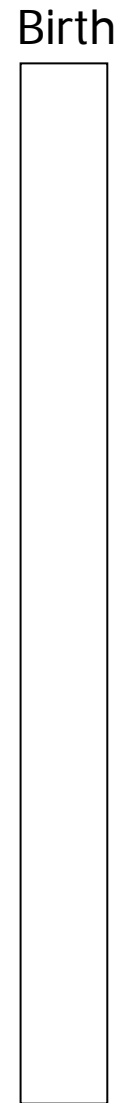
1950's



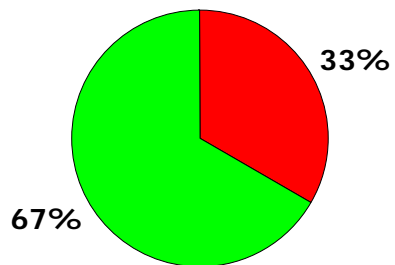
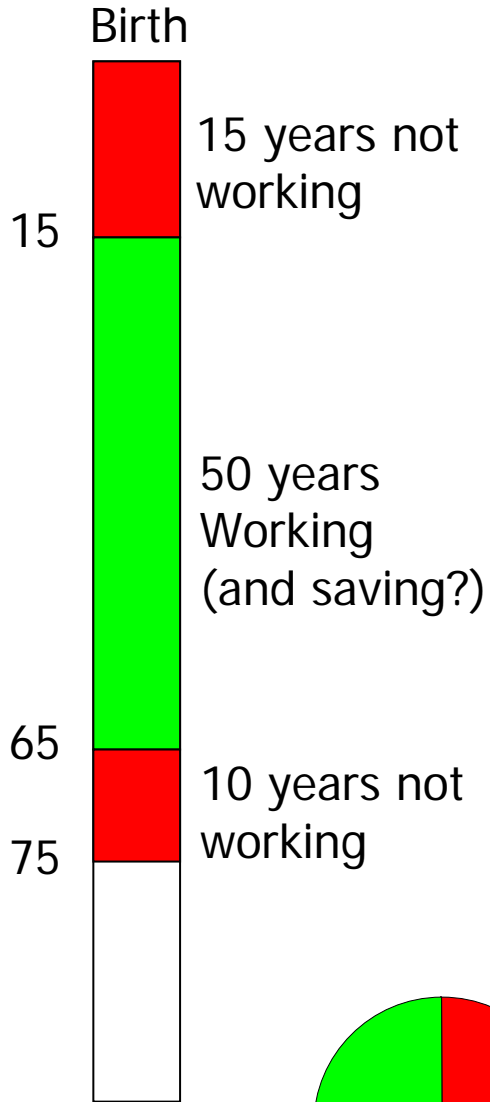
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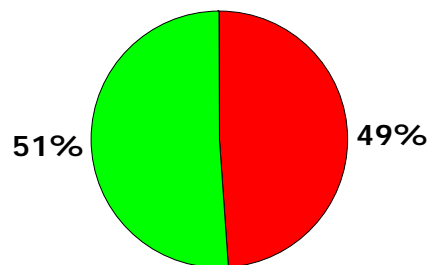
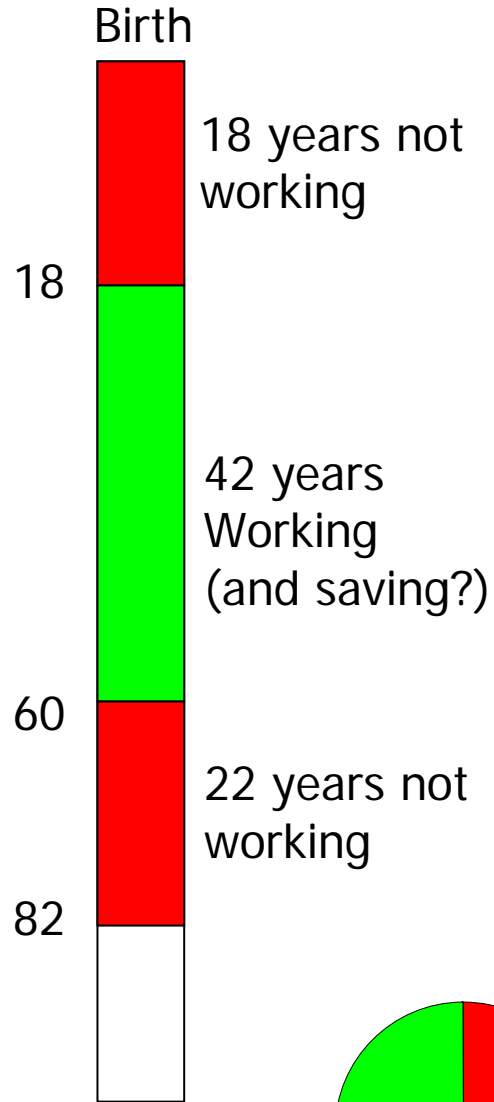
Future?



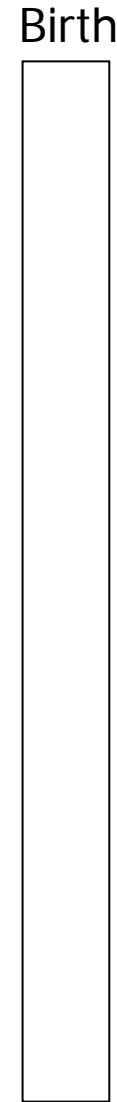
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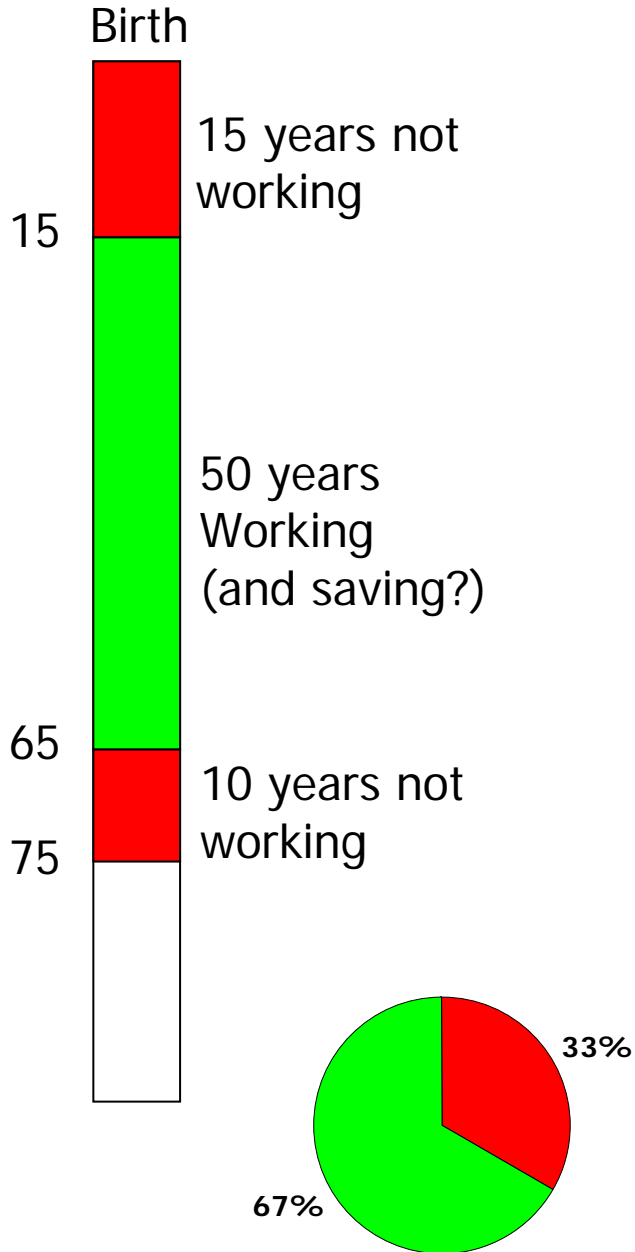
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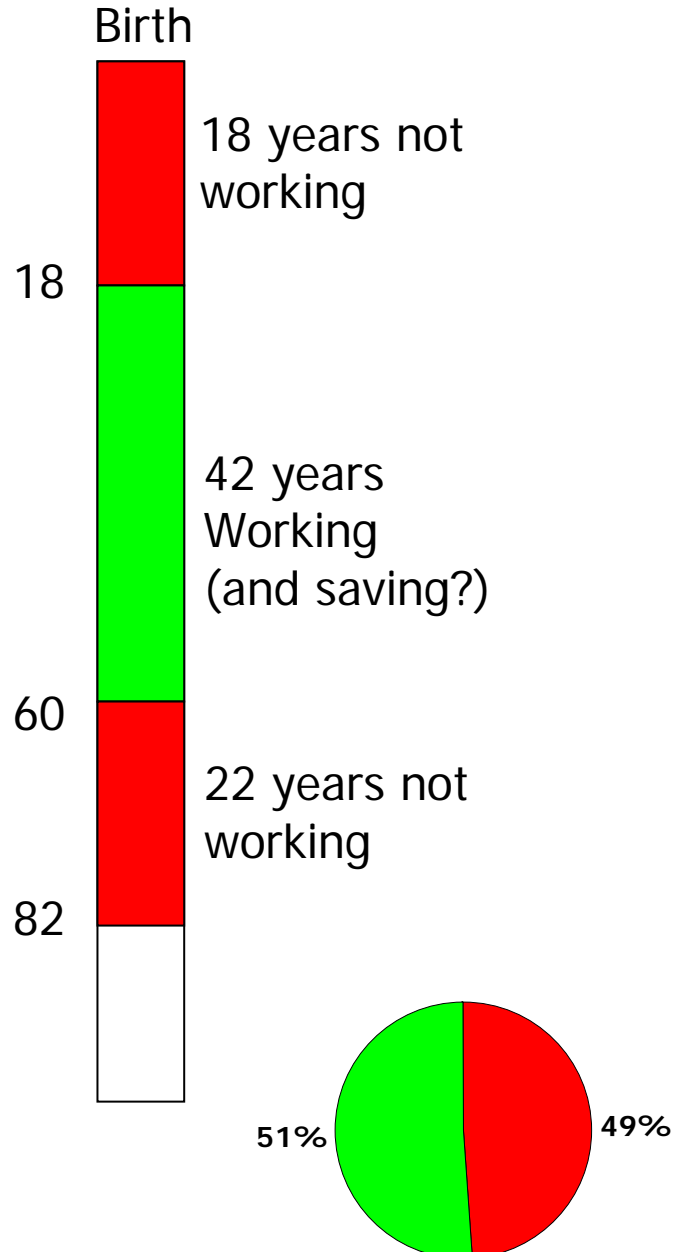
Future?



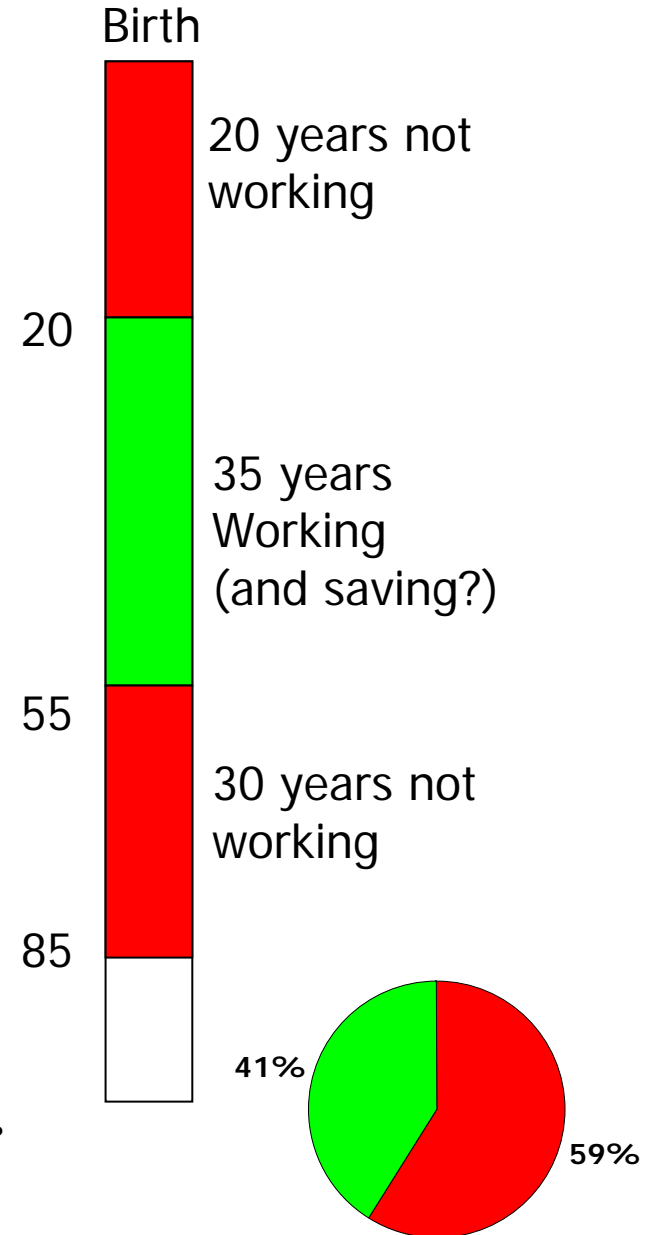
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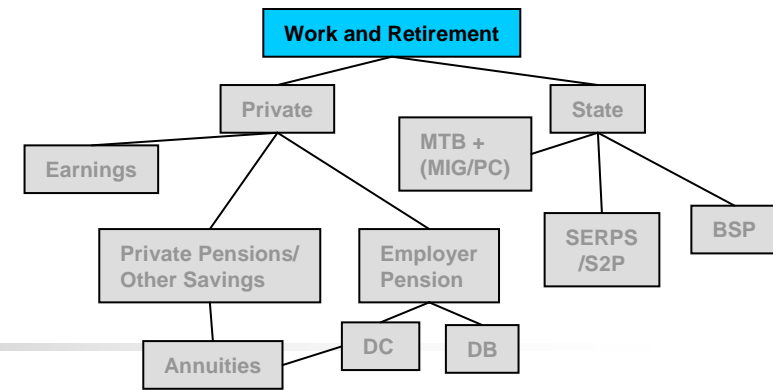
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Future?

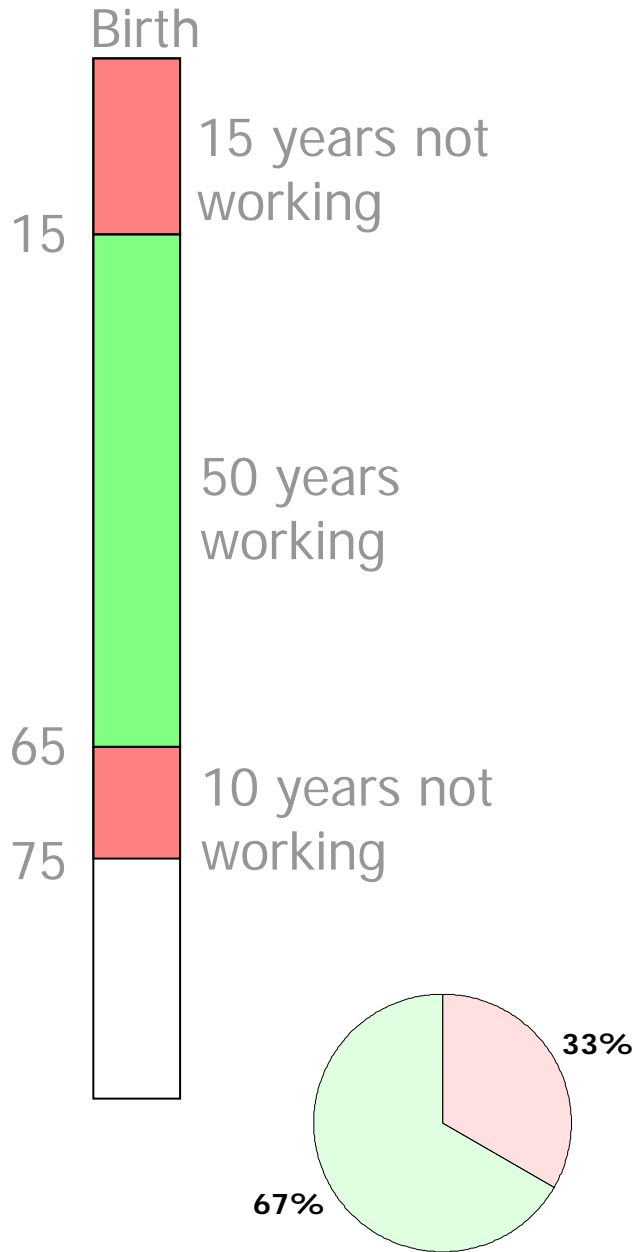


Retirement Issues

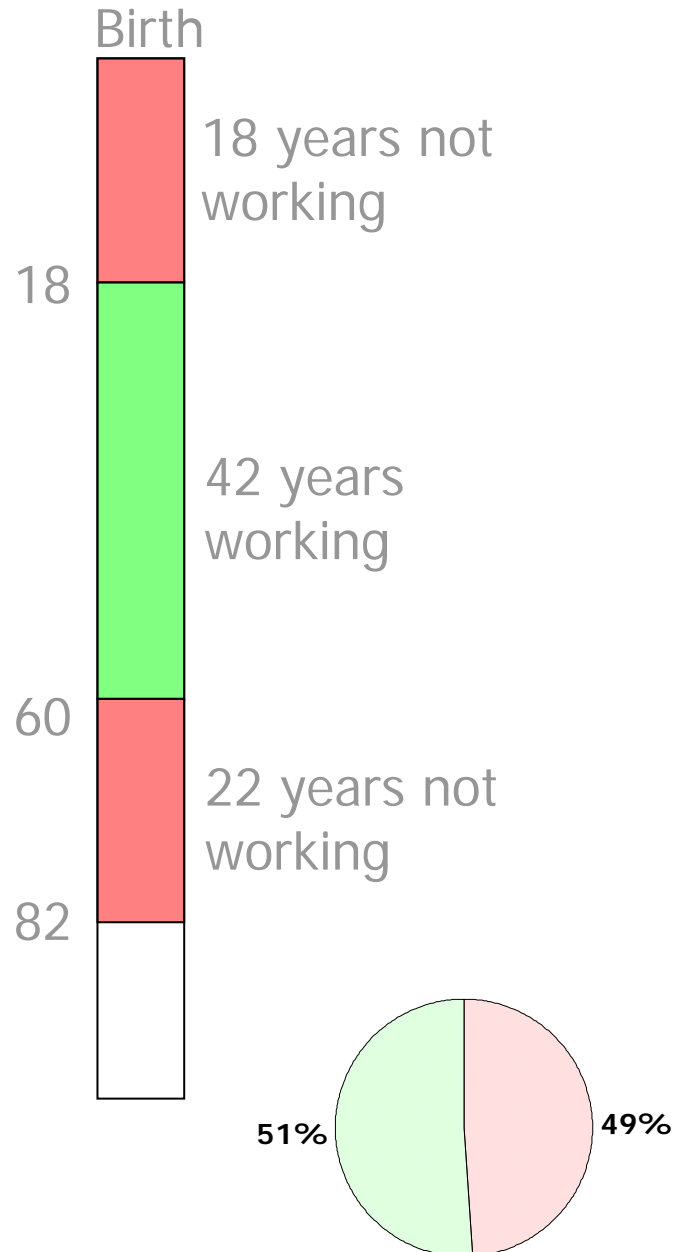


- Retirement lasting too long - never meant to be for 30 years or more!
- Waste of resources - paying people not to contribute to economy
- Long-term economic decline, huge rise in poverty
- Encourage later and more gradual retirement
- Age discrimination legislation
- Retirement a 'journey' not a 'destination'

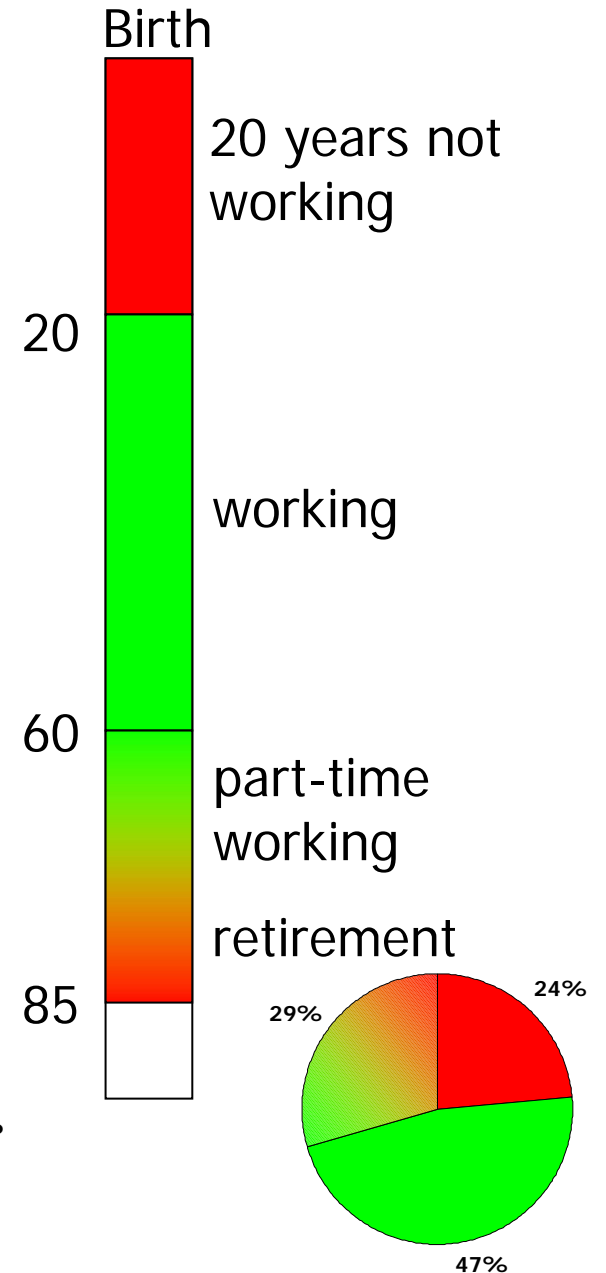
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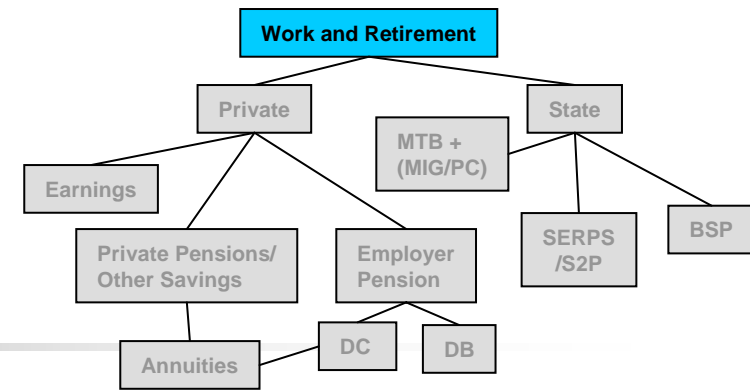


Flexible Working



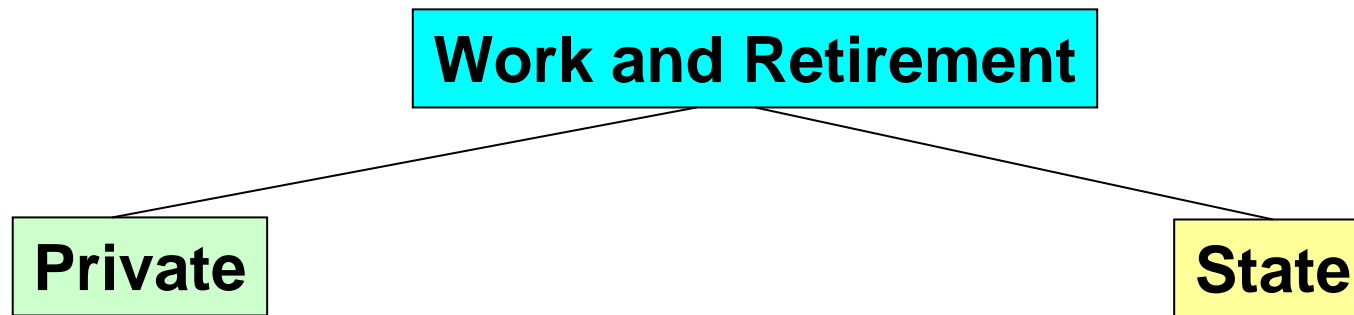


COOL phase



- Challenges Of Older Life – new phase of life we never had before
- Cut down gradually - part-time working, job sharing
- 2-3 days working, 4-5 days off
- More leisure and more money to enjoy the leisure
- Good for individuals and employers
- Good for the economy

Income in Later Life - Can only come from two places





Income in Later Life

Work and Retirement

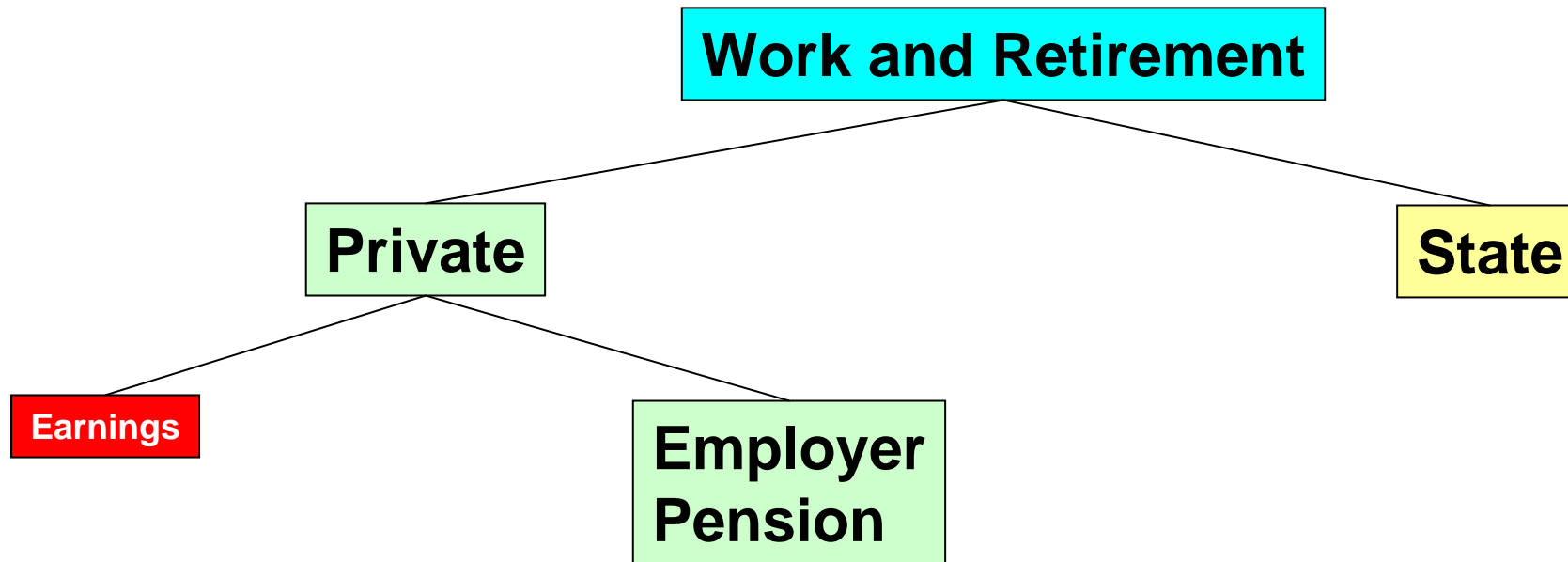
Private

State

Earnings

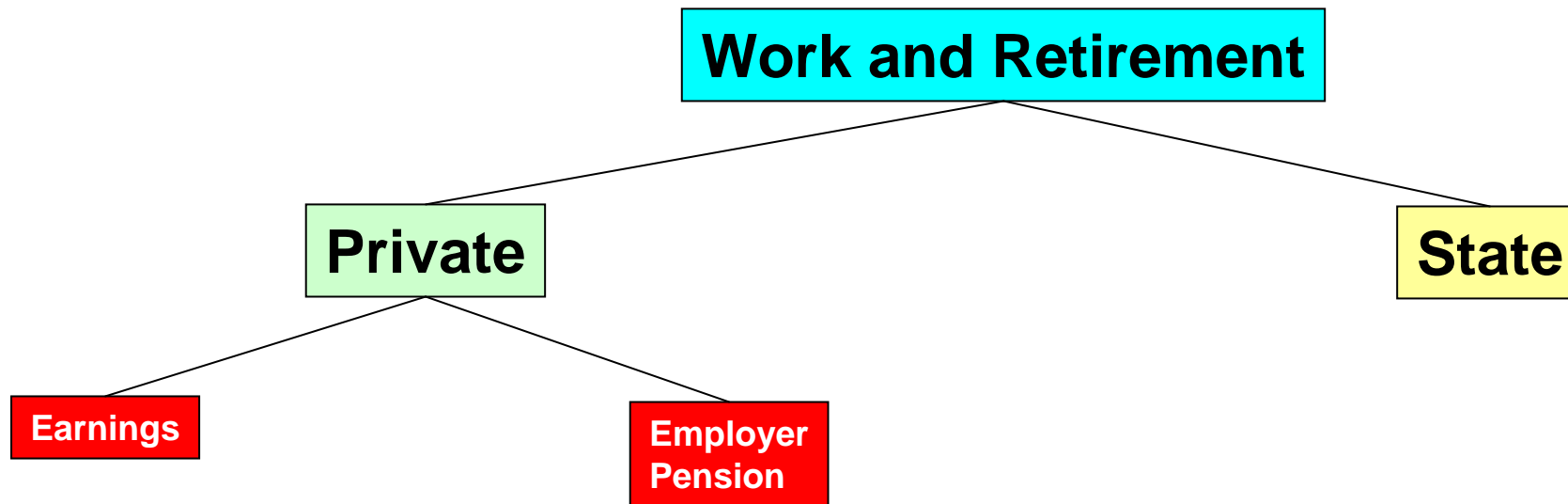


Income in Later Life



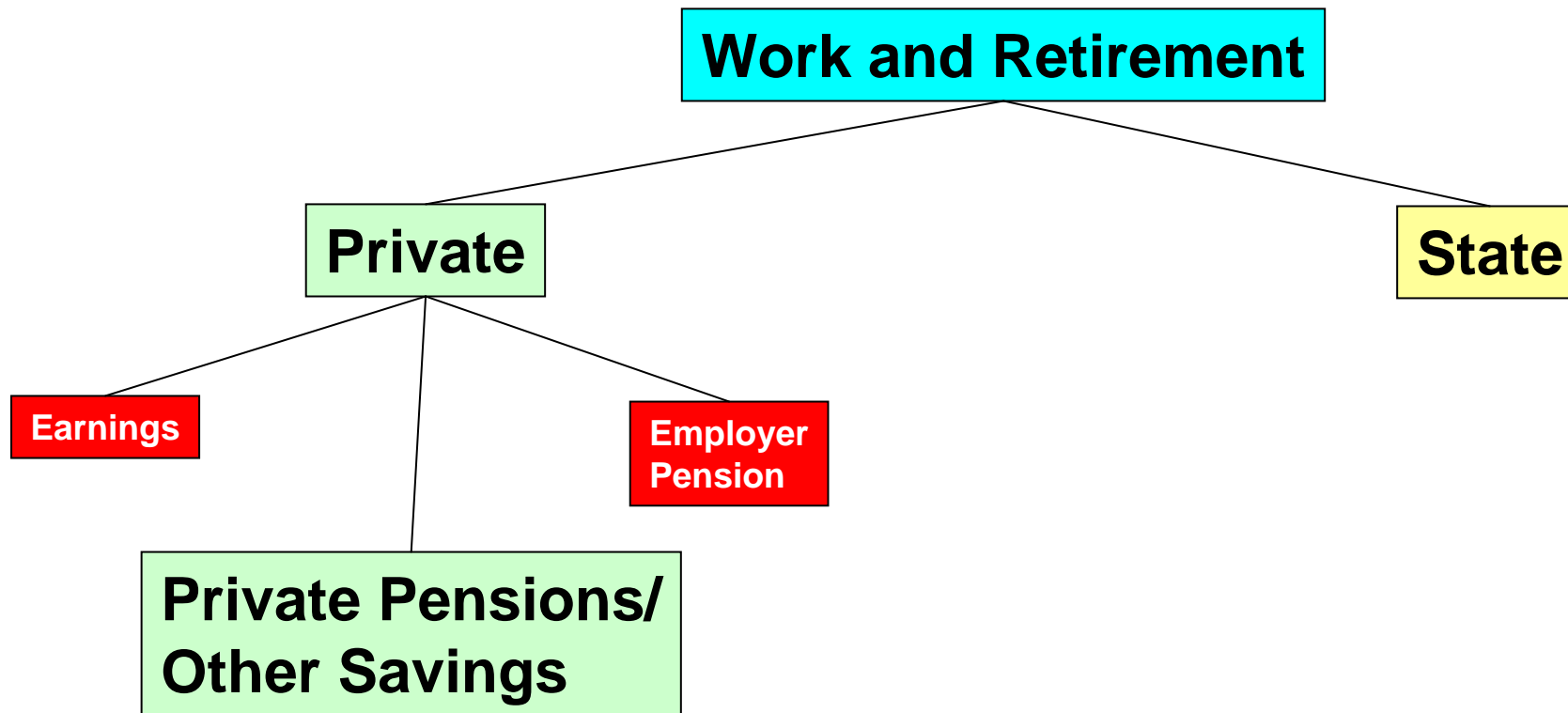


Income in Later Life



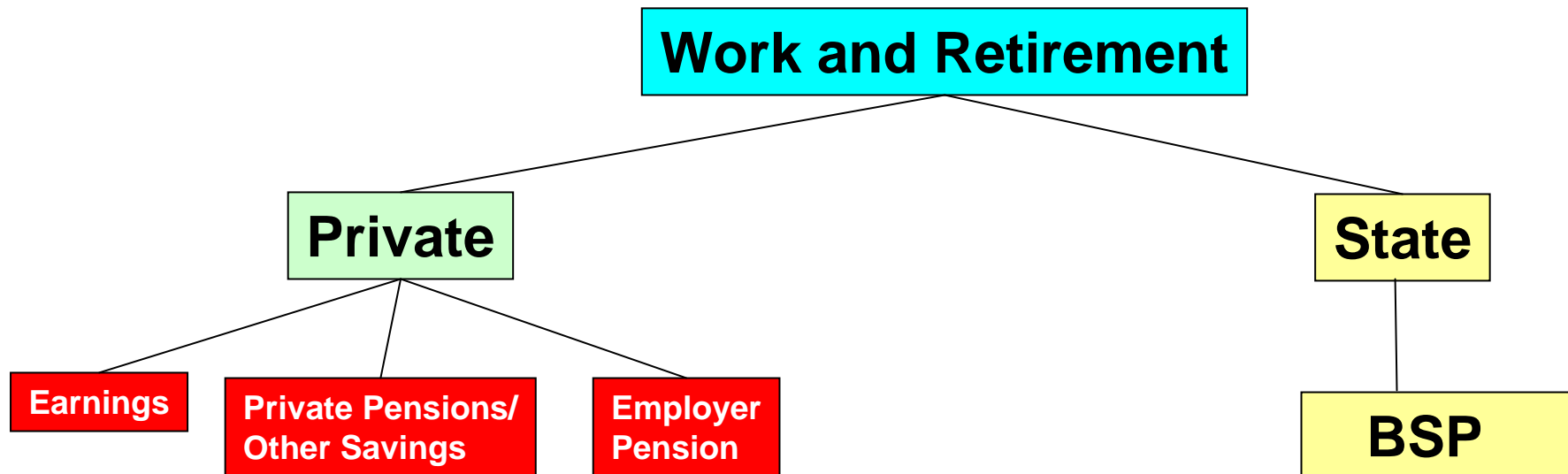


Income in Later Life



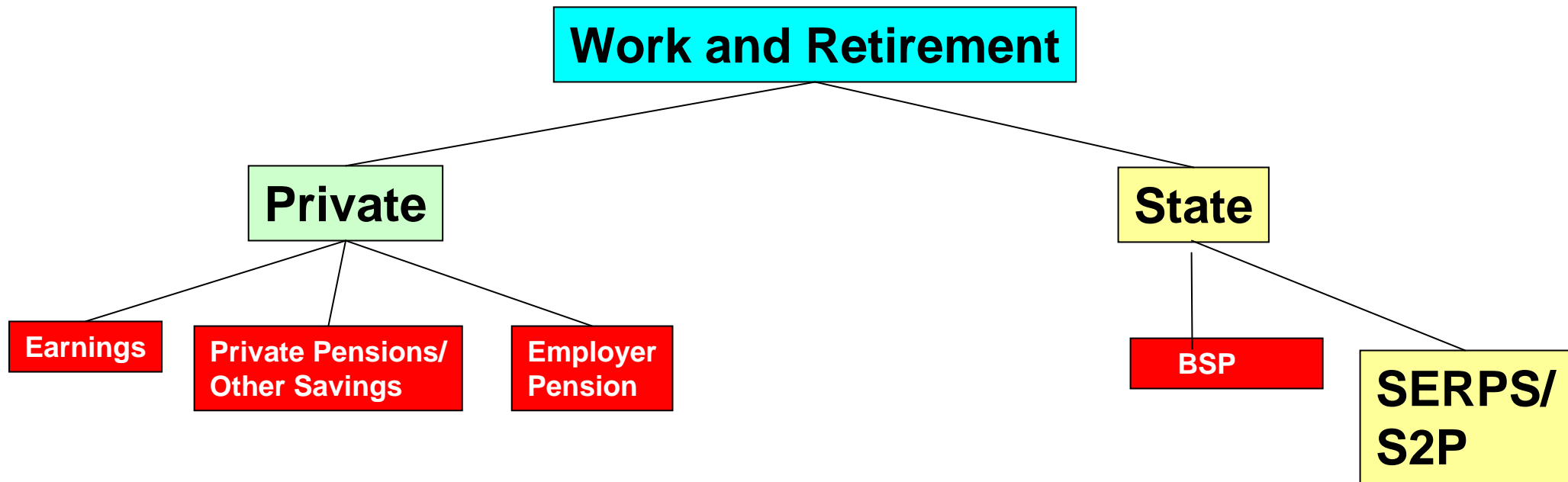


Income in Later Life



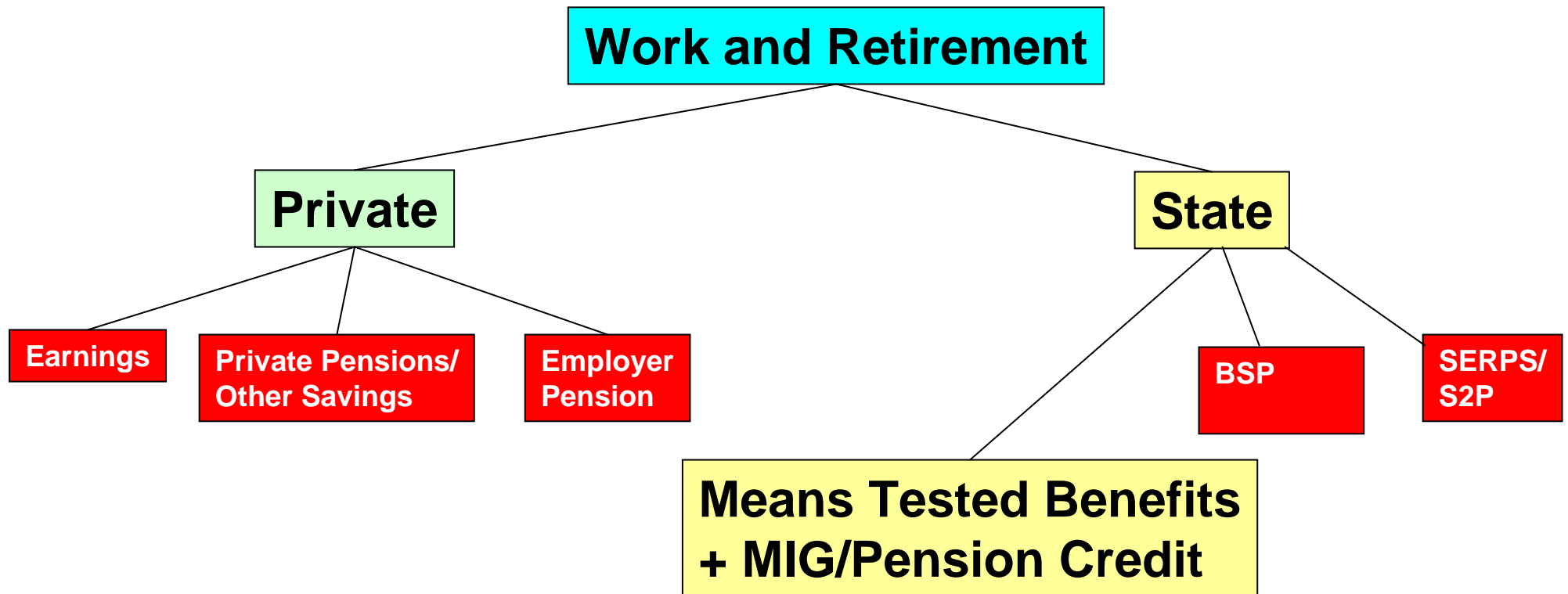


Income in Later Life

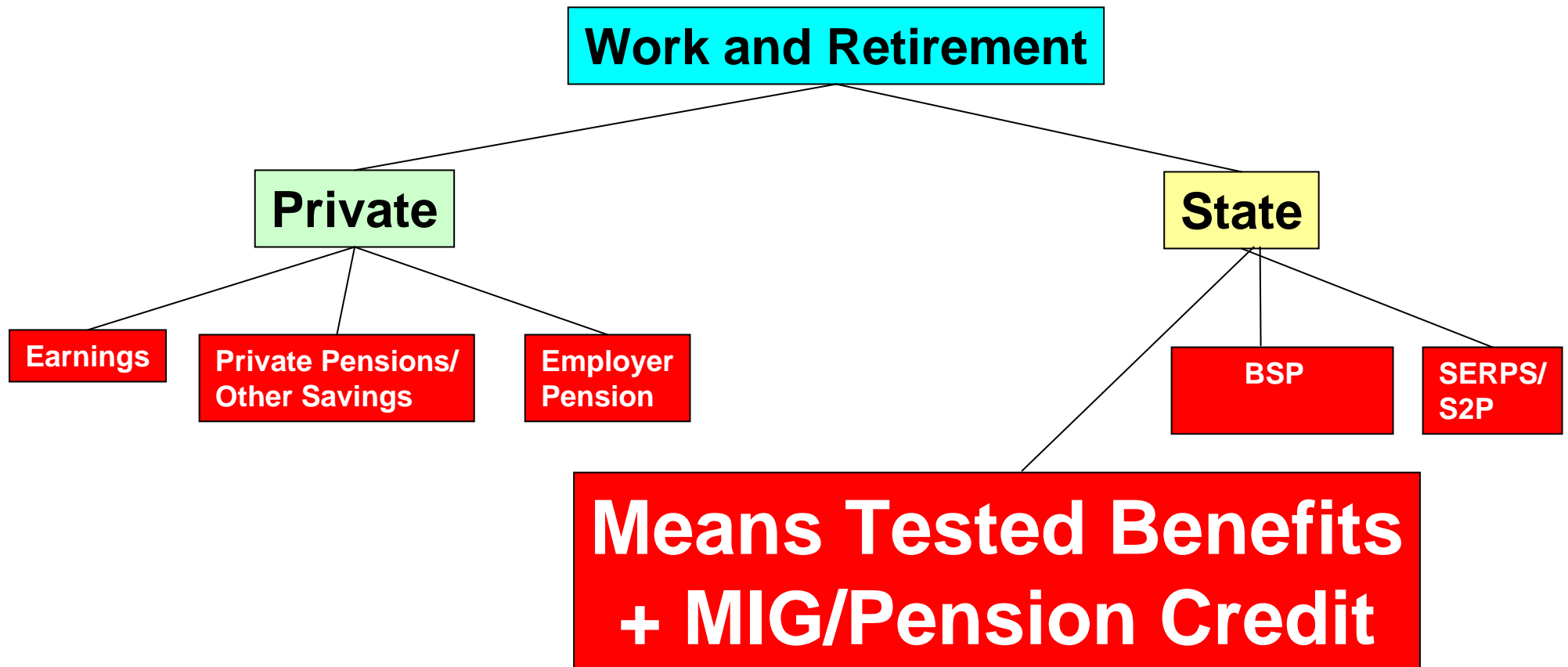




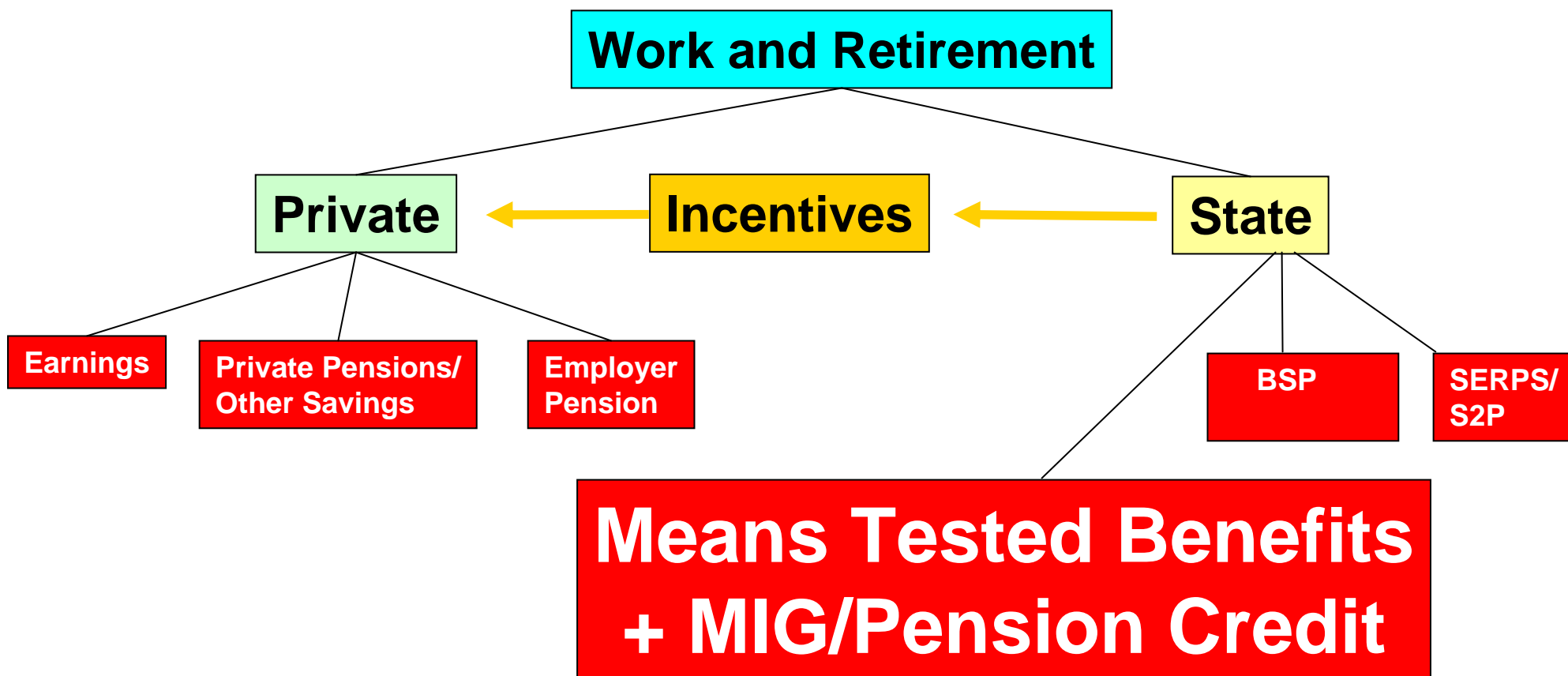
Income in Later Life



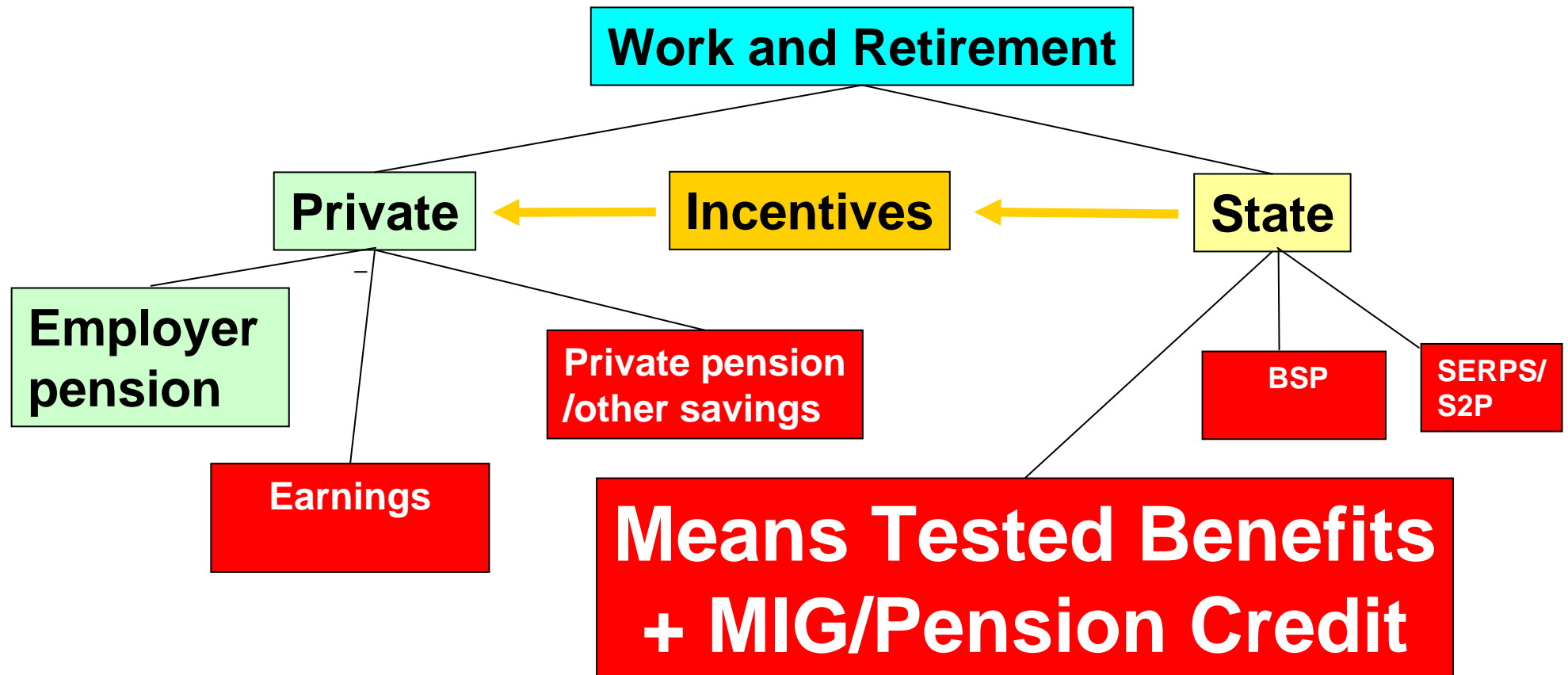
Income in Later Life - problems



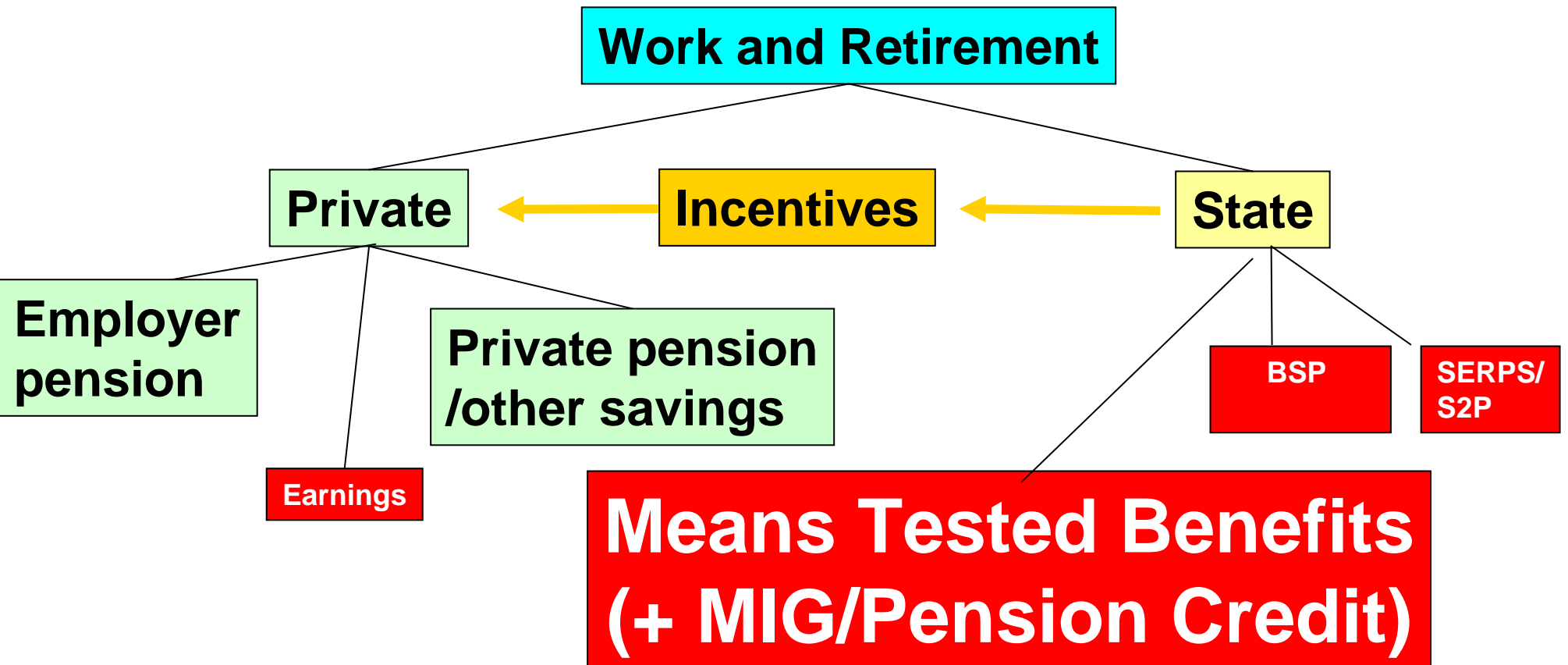
Income in Later Life – incentives?



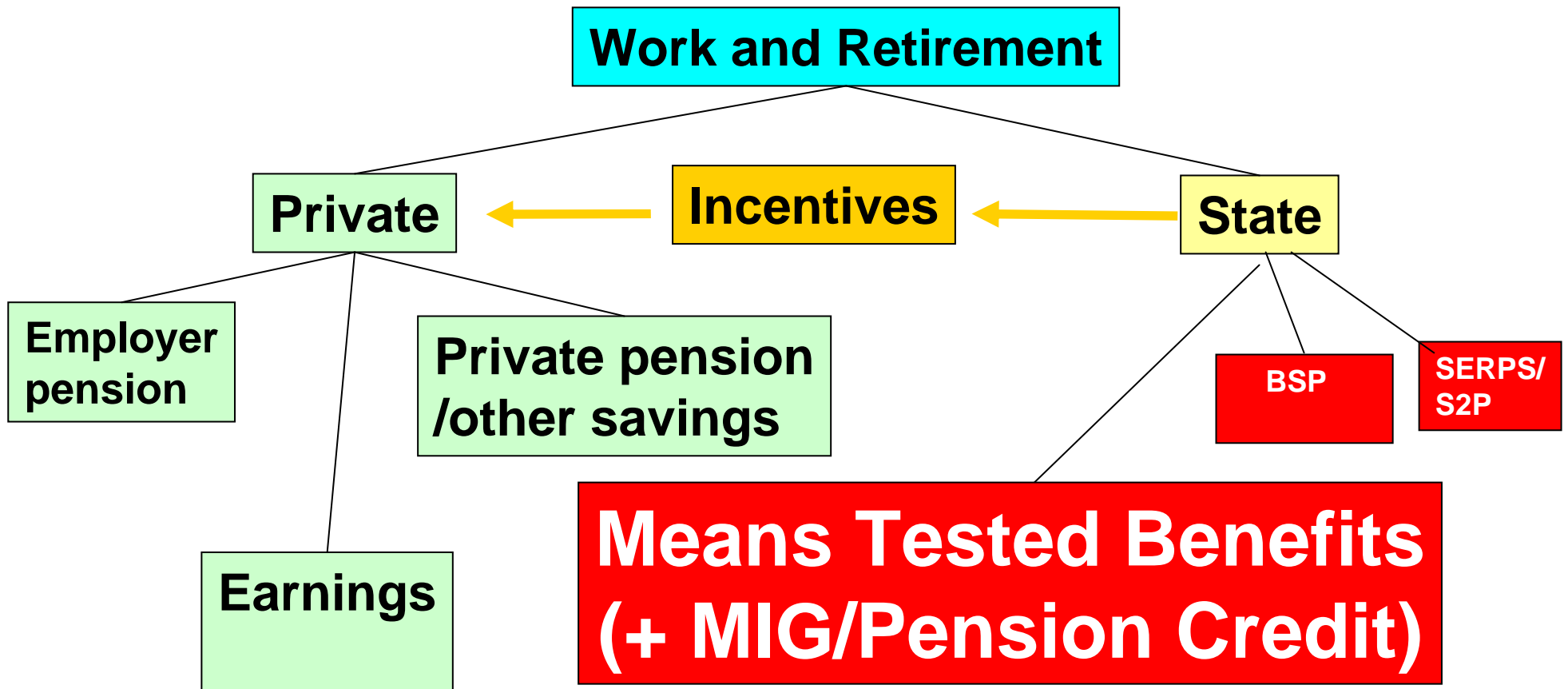
Income in Later Life - theory



Income in Later Life - theory

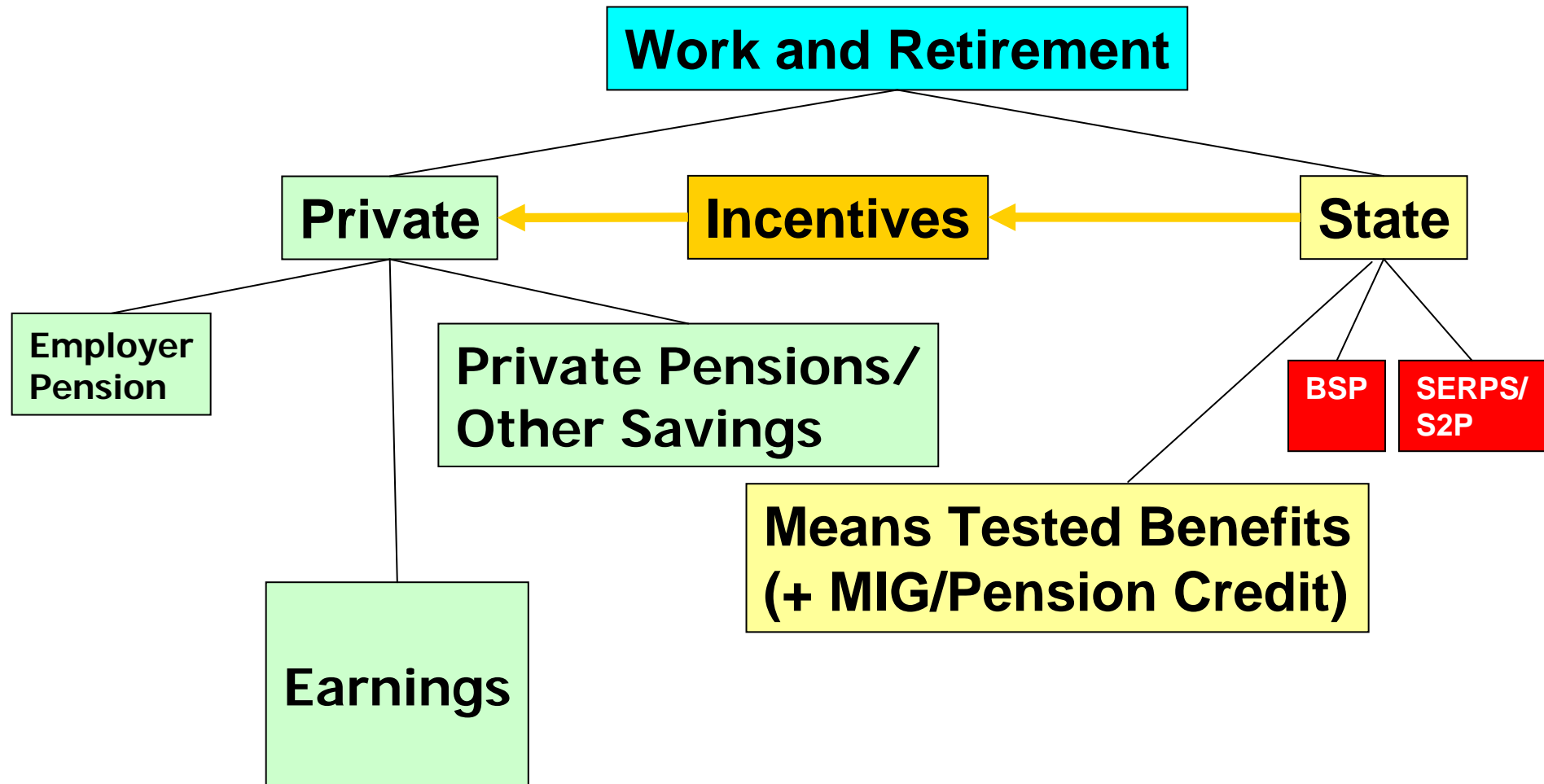


Income in Later Life - theory



Income in Later Life – theory

reduce state, raise private income





This is not working in practice

- Incentives not delivering more pension savings
 - All private elements of later life income falling
- State pension undermining private saving
- No new incentives
- Government not taking lead on encouraging later life employment
- Implies poverty and long term economic decline
- This is a crisis!



Policy challenges – what we need

- Ensure it is safe to save – citizen's pension
 - Get rid of means testing penalties
- Move beyond supply-side and informed choice
- Improve demand - more incentives, tax relief not enough
 - Need incentives for individuals and employers
- Access to advice
- Restore confidence
- Encourage part-time employment for older workers

Income in Later Life - ideal

Work and Retirement

Private

Incentives

State

Employer Pension?

Private pension /other savings

Earnings part-time work

STATE PENSION

flat-rate poverty prevention

MTB



Retirement products for new lifestyles

- State pension basic minimum – everyone wants more
- Save in different ways – not just a pension
- New products for lifetime savings
- Environment not right, products not yet right
- A-day to change nature of pensions –vehicle that lock money away into later in life, but save in different form earlier?
- ISA/Pension or Lifetime Savings Accounts



Pensions Commission

- Excellent start
- Encourage longer working life
- Highlight problems of state system
- National Pension Savings Scheme
 - Is 8% enough?
 - Wrong to compel employers



Summary

- Separate state and private roles
- State take care of social welfare – no means testing
- Individuals responsible for extra if they want – either from savings or working longer (part-time when older)
- Flexibility to cope with individual differences
- New products for lifetime savings, with proper incentives
- Re-think concepts of pensions and retirement



Radically rethinking retirement

New thinking for the 21st Century

THANK YOU FOR LISTENING!

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