



Closing the Savings Gap

How can Government and
Industry Work Together?

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Outline

- Role of Government
- Role of Industry
- Current problems
- Policy responses
- Conclusions



Role of Government

- Provide stable framework
- Don't penalise private savings
- Education
- Access to advice
- Protection and regulation
- Incentives



Role of Industry

- Successful and suitable products
- Simplify procedures and jargon
- Provide reliable advice
 - Financial planning, not product sales
- Control charges/commission
- Education and communication
- Control risk



Current Problems

- Risks/difficulties of saving are greater than the risks/difficulties of NOT saving
- Means testing penalises pensions
- Loss of confidence – scandals
- Poor investment returns



Barriers to saving

- Emotional/psychological
 - apathy/inertia/not sacrifice current spending
- Complexity of system
- Lack of education
- Lack of understanding – myopia
- Not willing to pay for advice



Policy response so far

- New products - ISA/stakeholder/Sandler
- FSA
- CAT standards
- Pension Credit (to 'reward' saving!)
- Simplicity, security and choice



Why hasn't this worked?

- Supply side policies
- What about demand?
- No new incentives for employers or individuals
- Tax relief not much incentive for basic rate taxpayers



Government Response Required

- **C**larify State pension system
- **L**imit means testing
- **E**ducation
- **A**ccess to advice
- **R**egulation – effective, pre-emptive

- **INCENTIVES**



Need New Saving Incentives

- Tax relief regressive and inefficient
 - lowest incentive to those needing most encouragement
- Replace tax relief - 'government saving incentive'
- Highest incentive for pension
 - £2 extra for each £3 contributed
- Everyone receive same incentive for same savings
 - stakeholder sets precedent
- Incentives for employers



Industry Response Required

- **S**uccessful, suitable products
- **A**dvice in groups
- **V**alue for money
- **E**xplain clearly, simplify procedures
- **R**eliable returns – risk control



Conclusions

- Government take care of basics
 - Resident's pension, no means testing
- Industry free to provide savings on top
- Government to provide good incentives
- Appropriate regulation
- Improve financial education
- Industry to focus on customer needs



Thank you for listening

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