



# Pension Reform – Where Next?

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**Scottish Widows**

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Dr. Ros Altmann



# Pension Commission Themes

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- Current situation
- Private pensions
- Compulsion
- State pensions
- Role of savings
- Demography and retirement
- Unstable and unsustainable
- Coverage/confidence falling
- Will voluntarism work?
- Disincentives, complexity
- Inequalities, employer role?
- Unrealistic expectations



# Current pension situation

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- Pensions have two functions
  - 1. Social insurance - state
  - 2. Savings vehicle - private
- Confusion – use same name, but are they really the same?
- In the past, paternalistic employers offered social welfare pensions
  - Government relied on this, enshrined it in law, cut state pensions
- Unaffordable now?
- Unrealistic expectations – crisis looming
  - work less, save less, live longer, more pension



# Problems of current state pension

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- Very low, complex and confusing
- Large proportion on means tested pension credit
- Take-up issues leave many still in poverty
- Mass means testing undermines private saving – disincentives
- Women treated as second class citizens



# Reform of state pension

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- State to provide social insurance
    - Flat-rate or earnings-related
    - Contributory or universal?
    - Means tested or not?
    - Earnings linked or price linked?
    - Contracting out?
  
  - Pension Commission proposed 'half-way' house compromise
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- ? Universal citizens pension would end poverty, treat women fairly, unwind complexity, leave private savings free from state disincentives



# Private pensions inadequacy

- Individuals unable to plan, lost confidence, scandals
- Individuals not focussing on their responsibilities – defer pay, but not ‘free’ money
- Employers see pensions as company ‘cost’ not company ‘benefit’ – what is employer role?
- Final salary schemes in terminal decline
  - Defined contribution schemes less generous, uncertain
- Incentives or compulsion?



# Proposed NPSS

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- Admits current tax relief not effective incentive
  - But costs £11billion pa at least!
- £ for £ matching incentive much more powerful!
- Pension Commission proposes employer pay 75p in the £, state pay 25p
  - Auto-enrolment optional for employee
  - Low charges
  - State organised admin
  - Approved investment vehicles?



# Concerns about NPSS

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- Dumb down pension provision?
    - Is 8% enough? People may think it is
  - Advice, suitability, financial planning?
  - What if investments go wrong?
  - Intellectual case for employer compulsion? A tax rise!
  - Managing expectations
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- ? Have we given voluntarism a proper chance? radical state pension reform could allow better planning and incentives
    - PENSIONS ALONE CAN'T SOLVE 'PENSIONS' CRISIS!





# Working Life Crisis – Demography and retirement

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- Big problem around 2020
    - Too many over 65's, too few young people, labour shortages
  - Paying people not to work? Economic decline
  - What will we all live on? Very low incomes
  - Working longer has to be part of the solution
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- Pension Commission proposed state pension age rise, review age discrimination laws
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- ?Re-think retirement - new phase of life, part-time work?



# What now?

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- Consultation
- Challenge savings industry to bring its own proposals
- Start debate on new working life expectations
- Sensible analysis of costs – Treasury to debate
- Will Government rise to the challenge?
- Time for action now – the longer we leave it, the worse the situation becomes!



# Summary

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- A pension is a means to an end, not an end in itself
- No fairy godmother for a generous pension – if we haven't saved it, we have to earn it
- State can only provide basic minimum – do not expect it is normal to be paid not to work for decades
- Get real about pensions – not some magic pot waiting for you in the future, must be built up
- New phase of life waiting to be grasped – in 30 years most 60's and 70's will work part-time
- Wake up to pension reality - radical rethinking of pensions and retirement urgent - this will affect us all



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Thank you for listening

[ros@rosaltmann.com](mailto:ros@rosaltmann.com)

[www.rosaltmann.com](http://www.rosaltmann.com)