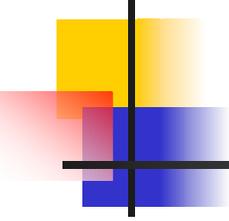


Make Pensions - and Pensioners - Work Well

Third Age Employment Network
Conference

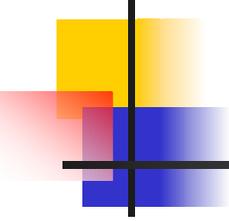
10th October 2002

Dr. Ros Altmann



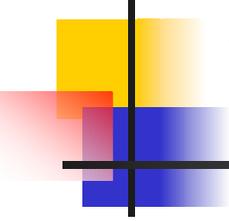
Outline

- Problems
- What we need:
 - Better pensions
 - More flexible working lives
- Solutions:
 - Remove disincentives to pensions and work
 - Better incentives for pensions and work
- Conclusions



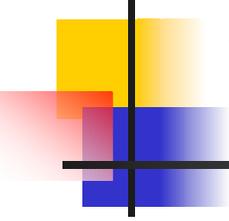
Problems

- People not saving enough
- Retiring too early - not working enough
- Risk of poverty
- Waste of resources
- Lower long-term economic growth
- WE ALL LOSE



We Need Better Pensions

- State pension falling
- Confidence in pensions collapsing
- Private pension saving not enough
- Rising risk of poverty
- Increased reliance on means testing
- State system increasingly complex

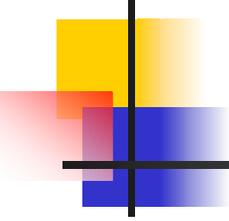


We Need Better Pensions

- Rising longevity
- Longer time in education
- Trend to earlier retirement

These imply

- Less time contributing into pension
- More time living on pension
 - Financially unsustainable



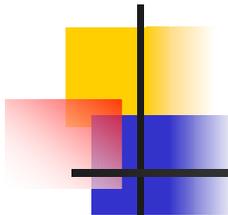
More Flexible Working Lives

- Falling birth rate
- LFP of older workers falling
- Size of labour force reduced
- Labour shortages
- Lower long-term economic output
- Waste of resources
- High social and economic cost

Retirement

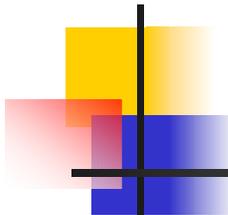
- a 'Process' not an 'Event'

- Change social attitudes - gradual/phased withdrawal
- Part pension/part work - current rules prevent
- No fixed retirement - flexible band
- Reward longer working life
- This is a BENEFIT of social/medical advances



Remove Disincentives - Why People Don't Save Enough

- Risks/difficulties of saving are greater than the risks/difficulties of NOT saving
- Very low savings among low income groups
- Poverty does not explain low saving levels
 - lack of access
 - complexity of products
 - lack of sufficient incentive
 - lack of information/education



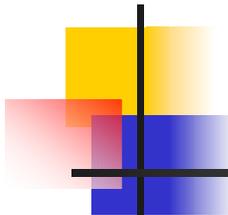
Why Don't People Save?

General Barriers:

- Psychological inhibitors
 - apathy/inertia/boredom
- Complexity of system
- Lack of education
- Lack of understanding
- Lack of confidence
 - scandals
- Not willing to pay for advice

Barriers for Poor:

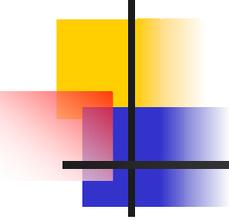
- Savings trap in means testing
- Pension credit
 - tax 40%+
- Perception of security from benefits system/Social Fund
- 'Social exclusion' in advice
- Tax relief discriminates against poor



Contributions Needed to Achieve a Pension of Two-Thirds of Final Salary

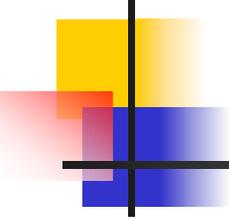
<u>Age when starting pension contributions</u>	<u>Required contributions as % of salary</u>	<u>Maximum contributions permitted by current legislation (% of salary)</u>
25	10.9	17.5
35	16.8	17.5
40	21.7	20
50	40.8	25
55	64.1	30
60	129.8	35

assumes male retiring age 65, salary increases 3% per year, investment growth 5% pa



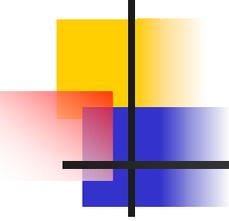
Remove Disincentives - State and Private Pensions

- State pension complex
- Pension credit discourages pensions
- Final Salary occupational pensions discourage gradual retirement
- Moving to DC with lower contributions



Improving incentives - Encourage higher savings

- Encourage higher and more regular savings
- Allow more flexibility of pension withdrawal
- Incentivise employers more
- Improve financial education
- 60/40 to 40/60 for pensions
- Tax relief unfair



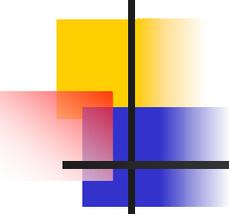
Cost of Tax Relief

- Spend around £14bn pa
- Half to top 10% of taxpayers
- Quarter to top 2.5% of taxpayers
- Is this sensible? Is this fair?

Tax Relief System Exacerbates Wealth Inequality

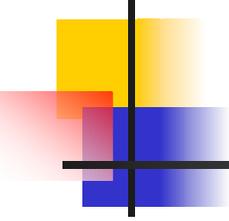
- 20% taxpayer
 - puts in £12 per month for 30 years
 - Government puts in £3 per month on top
 - Over 30 yrs total from Government = £1,080
 - Pension pot at 5% growth **£12,280.47**
(+184%)
- 40% taxpayer
 - puts in £12 **NET*** per month for 30 years
 - Government effectively puts in £8 per month on top (£4 into pension, £4 off tax bill)
 - Over 30 yrs total from Government = £2,880
 - Pension pot at 5% growth **£16,373.96**
(+279%)

*£16 goes into pension, but £4 comes of tax bill



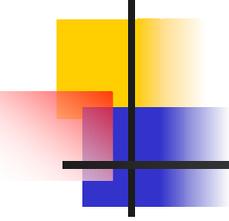
New Pension Savings Incentives

- Tax relief gives higher incentive to the better off
 - This is the wrong way round!
- Replace tax relief with 'government saving incentive'
- Everyone to receive same incentive for same contributions



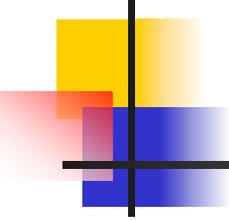
Improve Work Incentives

- Allow more flexibility of pensions withdrawal
- Prevent early retirement on favourable terms
- Age discrimination legislation
- Employment protection for older workers



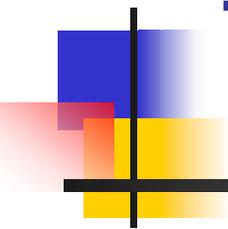
Summary

- Pension and retirement policy lagged behind demographic/health changes
- Policy set in last century
- Pension/retirement expectations influenced by industrial restructuring
- Move into 21st Century



Conclusions

- More pension savings
AND
- More work
- Optimal combination will vary from person to person
- Policy should allow for individual differences
- Flexibility and choice



Thank you for listening

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