

## YouGov Retirement and Pensions Survey

We are hearing so much about the issues of Work, Retirement and Pensions Policy these days, and policy is being seriously re-considered at the moment. We have had umpteen reviews of lots of different aspects of these subjects, reform is on the agenda. What I hope to do this morning is help you understand how all of this fits together, using some of the evidence we have found in this nationally representative survey and my many years' experience of analysing and informing UK retirement and pensions policy.



### Where do we begin?

- How can we judge the Green Paper?
- Framework for reform
- Joined up problem requires joined up solutions
- Help you put things in perspective
- Starting with pensions policy is wrong place to start

We have a Green Paper coming up soon and, if we are going to get this right, we need to look at all these issues as a whole – joined up thinking and joined up reforms. I hope to help you put everything in context. And the first thing I want to tell you is that, starting with pensions policy is not the right place to start!

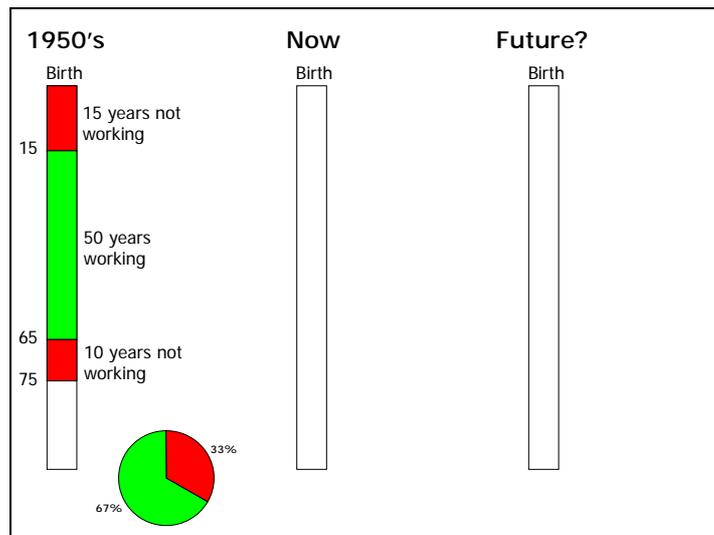


### A Different Perspective

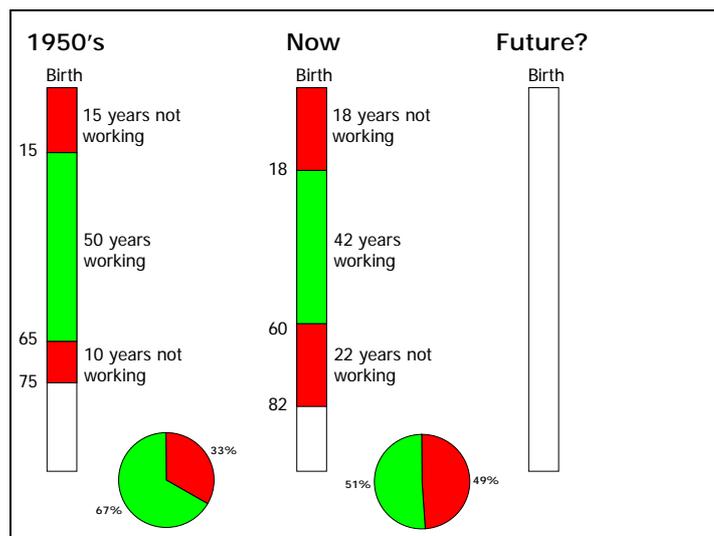
- Let's start with society - all of us
- Do policymakers understand people?
- Survey asks people what they think
- They think there is a crisis!
- Evidence based policy proposals

We need to start with people – society as a whole – you and me. This is about people and their lives.

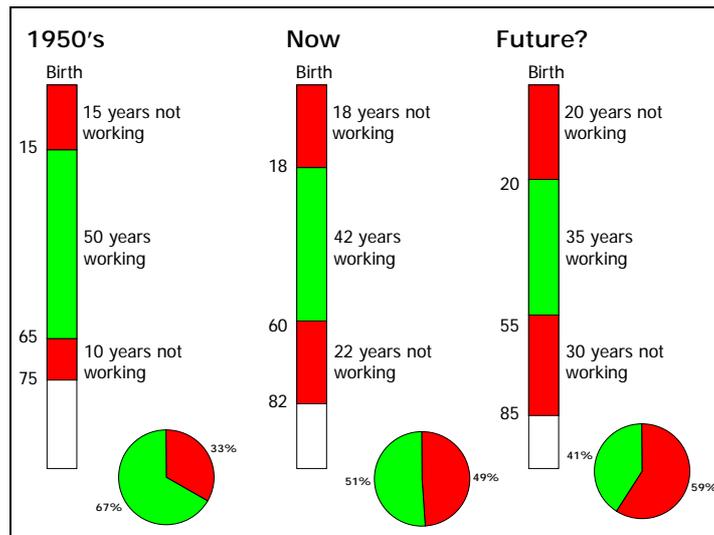
Rather than sitting in Whitehall and deciding what is best for people, we felt it would be useful to actually find out what they think. We surveyed the whole country, men and women, all age groups, all income groups, across the social divide, employers as well as workers, retired as well as those not retired. Well, it's absolutely clear that they think there is a crisis and that policy for dealing with this should be urgently changed. But, if policy proposals are to be properly informed, they really should take into account how the people in this country feel and look at the evidence that we have found.



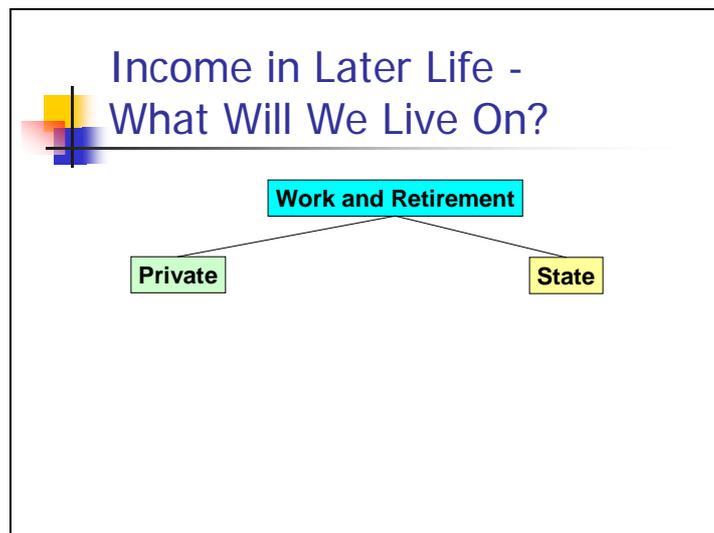
Current policies for retirement and pensions were devised over half a century ago. People would stay at school till they were about 15, work till they were about 65 and then, if they were lucky live for about another 10 years (many didn't live more than 5 years more). Overall people were spending about two-thirds of their lives working full time and the other third not working at all.



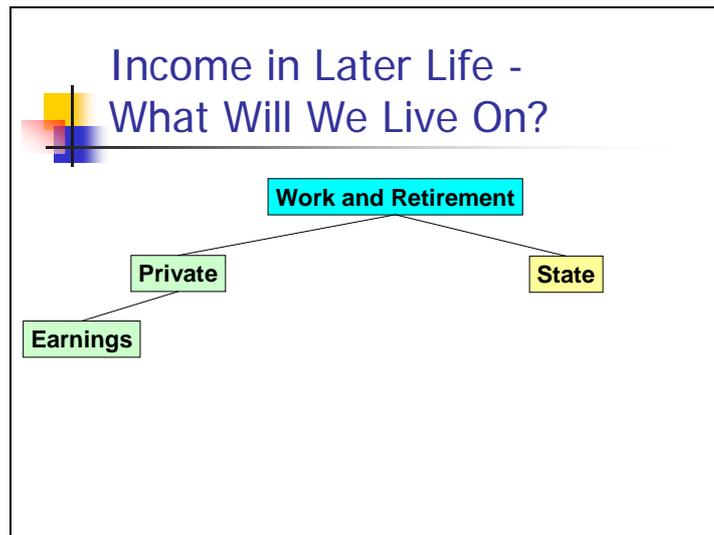
Nowadays, people are often staying on at school till they are 18, then working till they are around 60 (this is the upper retirement age for the public sector, for example) - only a third of men are still working when they are aged 65 - and they are living till they are at least 82 or so. This means that they are now spending about half their lives working and the other half not working.



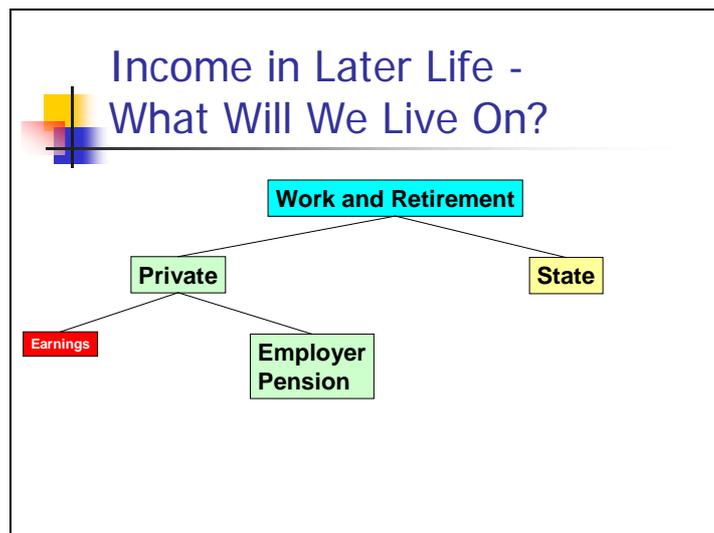
As for the future, the trends show the proportions falling further. Our Survey and others show that people want to retire earlier and longevity is continuing to increase, so people are going to be spending only about 40% of their lives working and contributing to their own incomes and to the economy as a whole. This seems rather a waste of resources and will, inevitably, harm long term growth in the UK. But, even if this is what people want, how will they be able to afford a decent standard of living, what will they live on in their 50's, 60's, 70's and beyond. Have they really thought this through? Can we really expect that just saving more will do the trick? Pensions were never meant to last for 30 years or more!



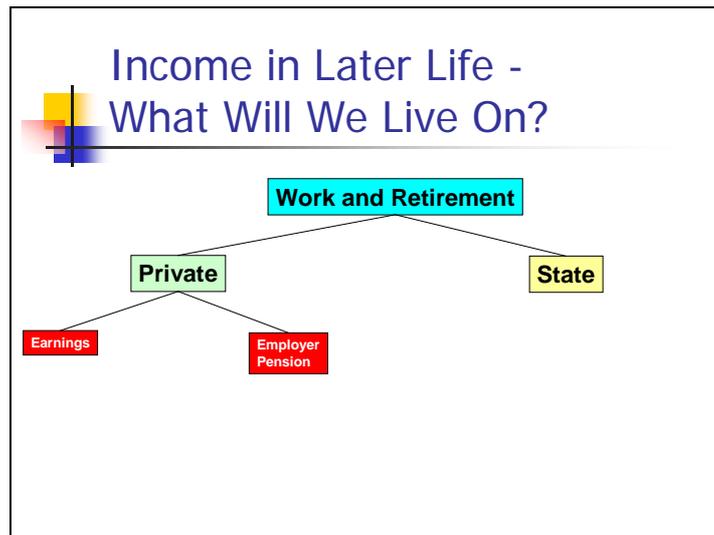
Well, the income can come from two sources – our own private income, or from the State i.e. the taxpayer.



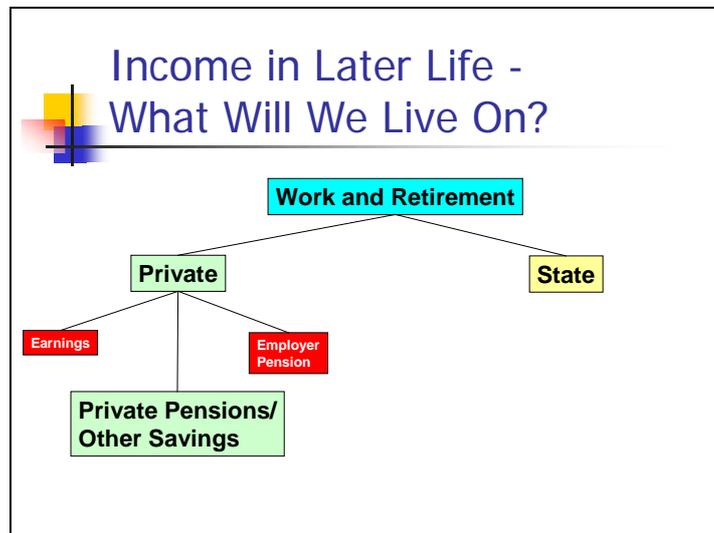
An obvious source of income as we get older is still the same as when we were younger – that is, our earnings from work. People used to stay at work until State Pension Age, but nowadays only about 30% of people do this. So earned income at older ages is falling.



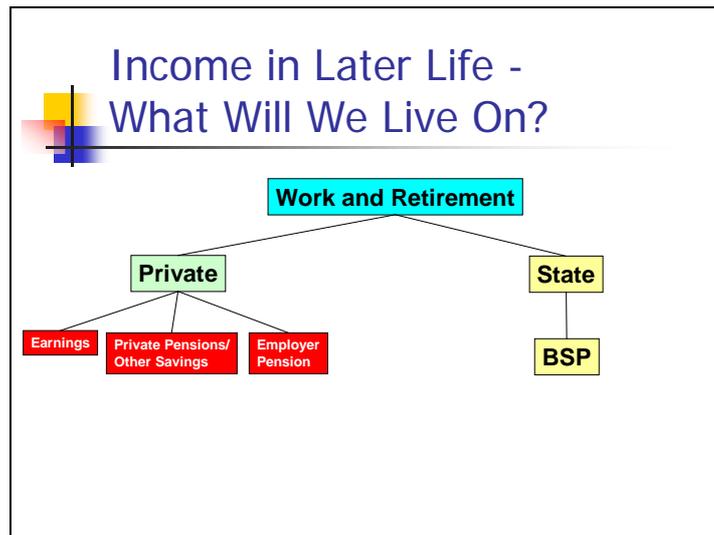
Maybe our employers will still support us when we have stopped working. Employer pensions have been pretty good in this country (much better than most other countries) but final salary schemes are now closing, money purchase contributions are being cut and employers are feeling less paternalistic in this era of individualism.



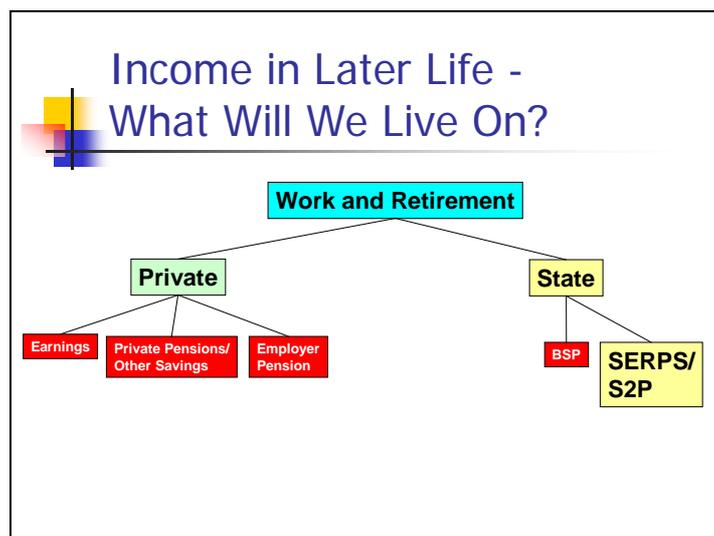
So employer pensions are going to get smaller.



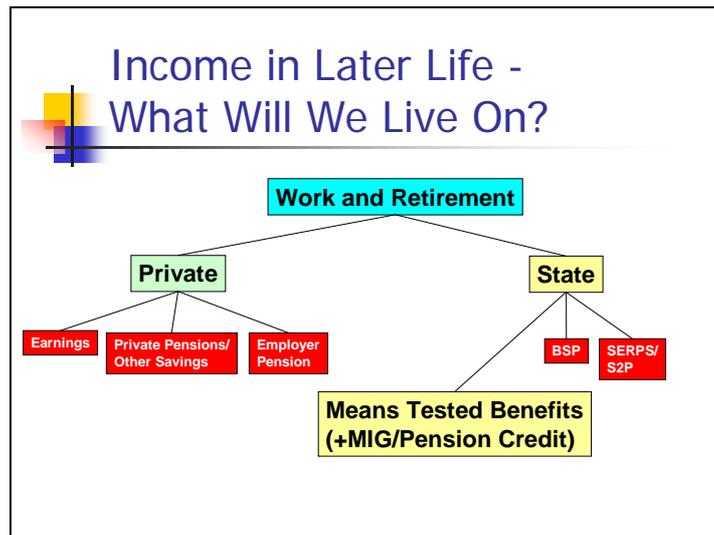
But maybe we could live on our own private pensions or other savings. However, Stakeholder pensions have not really taken off, the savings ratio is at an all time low, annuity rates have fallen, investment returns have fallen, so these sources of income are also falling. In other words, all private sources of income have been falling, while more and more people are living longer and spending more time out of the workforce, so what will they live on?



We, we have the State pension system of course. We all have to pay National Insurance to fund the Basic State Pension (so we already have compulsory contributions!). But Mrs. Thatcher decided to cut the cost of this by linking it to prices, not earnings, so the Basic State Pension is falling behind and declining as a percentage of average earnings. It's already much lower than the rest of Europe and is set to fall to about 10% of average earnings – which is hardly enough for people to live on. But the Labour Government of the 1970's introduced an extra pension which is linked to earnings.



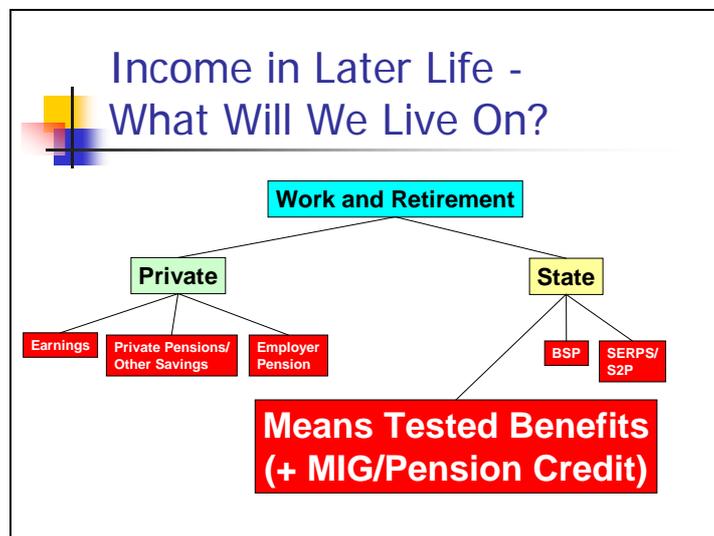
This was called SERPS (and has now been renamed S2P). But SERPS proved too expensive, so the benefits were cut. Also, many people have been encouraged to contract out of this, again to cut costs, but they have often gone into private schemes which have not performed so well, so this source of income is falling too.



Which means that State pensions have also not been keeping up with our needs, so there is a third element of State support which people have to rely on – this is means tested benefits.

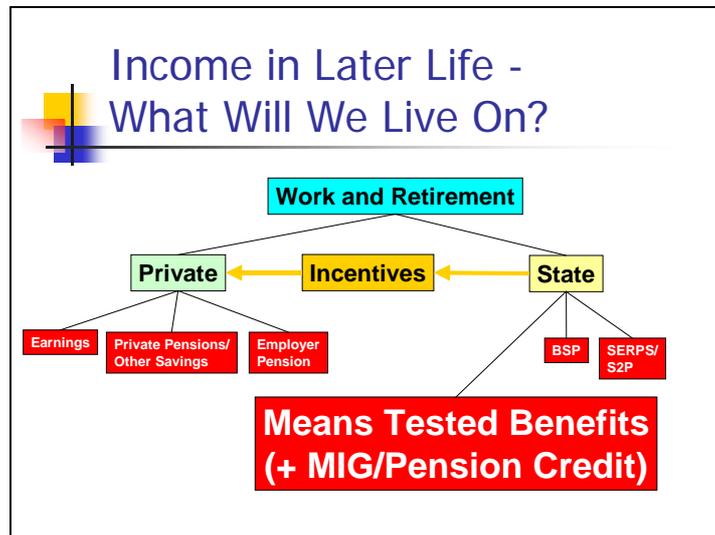
This Government has introduced the Minimum Income Guarantee, or MIG, which will soon turn into Pension Credit (PC) and this will ensure that today's pensioners won't live in poverty. There is also a whole range of other benefits (housing benefit, council tax benefits and so on) which are means tested too. The MIG and Pension Credit are great policies for people retiring now, who have not got enough private income, who didn't save enough, early enough. Everyone over 60 can get it, men don't even have to wait till they are 65.

But, as the number of older people grows and other sources of potential income in later life shrink, more and more people will end up on these means tested benefits.



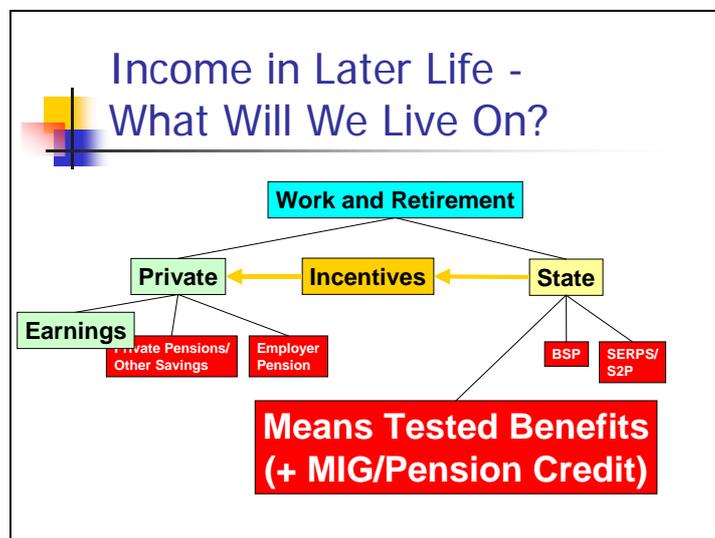
Next year, 57% of pensioners will be entitled to means tested benefits and three quarters of older single women will be. Of course, there are problems with means tested benefits, they are expensive to administer, people don't like them, take up is low (about a third of those entitled don't claim), but the biggest problem is that means tested benefits actually discourage people from trying to provide for themselves. Even with the Pension Credit – which is wrongly billed as ensuring that 'it always pays to save' people could lose all their savings. If they don't have a full basic state pension, which most women don't, they lose all of the first part of their savings, just as they would do now. At best, people will lose 40% of any private pension income they have built up. But, I have to leave this aside for now, because it's not something that the Survey focussed on. However, it is clear that we

are going to need to try and stop more and more people relying on means tested benefits in the first place, otherwise the costs will spiral dramatically.

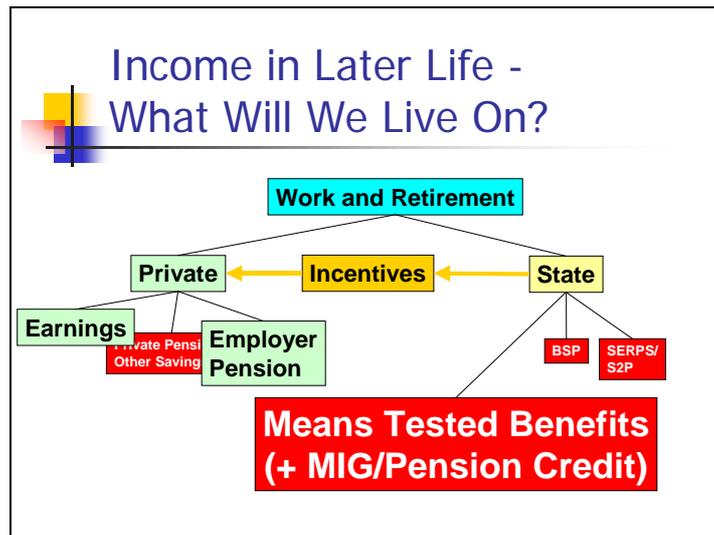


And that is where we come to pensions policy!

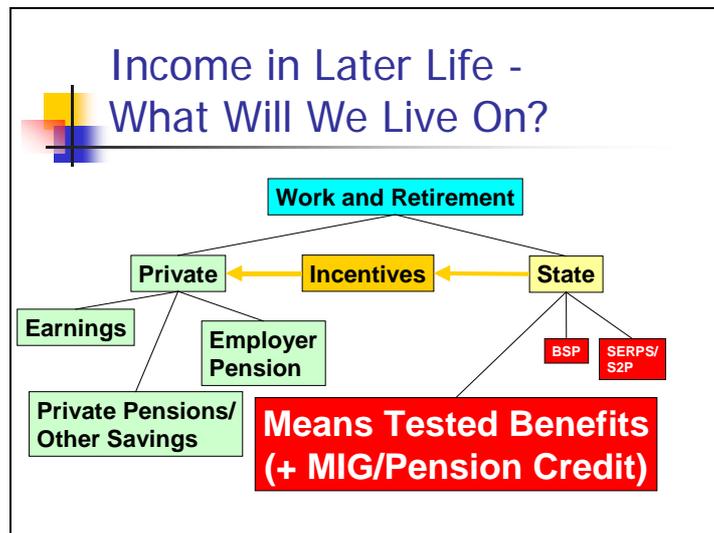
Why do we have pensions policy? Why is it important? Well, apart from the usual benefits to the economy that come from people saving, such as higher investment and long term growth, the idea of pensions policy is that it should encourage people to save enough while they are working, to be able to support themselves when they stop working. So Government wants to encourage people to have pensions, so they don't have to rely on the State. State pensions take money away from today's workers to pay pensions of today's pensioners, but what Government really wants is to encourage people to put money aside for their own future, or encourage employers to do this for them. To do this, Government needs to give incentives.



The first incentive might be to encourage people to work more, to get higher earnings and therefore be able to save more, so they will need to live on State pension or other benefits for less time. There are incentives to delay drawing a pension if people are still working, but these are not generous enough at the moment to make it worthwhile deciding to delay.

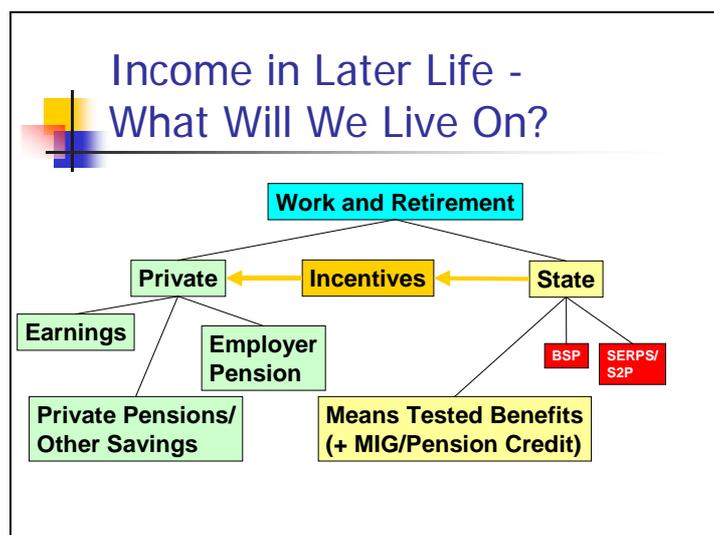


The main incentives used are in the form of Government giving money to people, or to their employers, while they are working, to help them provide for their future and it wants them to lock that money away and not be able to touch it until they retire. This money that Government gives, is in the form of what we call tax relief. This is the system we have always used to provide incentives for employer pensions, private pensions and other forms of saving. Like so many other things that don't really make sense when you start to think carefully about them, this form of incentives doesn't make much sense either. It's also clear from our Survey that the majority of people in this country don't understand tax relief and, if they did understand what it actually does, they wouldn't be in favour of it at all.



Essentially, the way tax relief works, is that anyone who is earning over £34,000 or so, gets 40p from Government for every 60p they put into their pension. This means that, for the top 10% of taxpayers, there is a pretty big financial incentive to put money away for their future. For anyone not earning quite so much, even if they are earning £33,500 or if they are among the other 90% of taxpayers who don't happen to pay higher rate tax, Government doesn't feel that they need quite as much incentive to put money away for their future. So they only get half as much as the top earners into their pension. Even if they contribute the same amount of money as the higher paid, middle Britain will only get about half as much from Government into their pension plans. Obviously, then, they will end up with smaller pensions at the end, even after making the same contributions.

But, of course, the idea is that everyone should be encouraged to put money into their pension, or indeed other savings, and this is so that the cost of means tested benefits falls and doesn't spiral out of control.



So this is the aim of policy and this is how it all fits together. Now, our Survey has tried to take a detailed look at most of the aspects of this issue. We have covered work, pensions, retirement and incentives and tried to find out how people feel, what they think, what they understand and draw implications from this for policy. After all, these policies affect each and every one of us, not just the top or bottom income groups. The findings of the survey were in many cases quite surprising.

Now, if I was going to cover all the policy implications from the Survey and my wider thinking on how this all fits together, it would take much longer than I have time for today. So, I'll just give you a quick overview of some of the major points. You have more in your handouts and we will, of course, be following up with more Surveys and meetings. In the meantime, please feel free to contact us to ask anything else.

As far as the overall attitudes to work and retirement, the Survey results were pretty striking.

## Work & Retirement

Policy recommendations from Survey

- People don't want age 70 - not 'one size fits all'
- Allow part-time work, part pension, same employer
- Retirement - a 'process' not 'event'

People don't want the retirement age raised to 70. 80% are against this and 73% actually want to cut down work gradually, rather than stop completely as they get older, not the cliff-edge effect that we have most commonly now. Policy needs to change to make it easier for people to work part-time, for the same employer and take part of their pension, if they need extra income – retirement should be a 'process', not an 'event'.

What about the implications for Employer Pensions?

## Employer Pensions

Final Salary pension schemes -  
Policy recommendations from Survey

- Protect workers' pensions now
- Allow people to hold more than one type of pension
- Simplify to help people understand rules

At the moment, most of the pensions in the UK are provided by final salary schemes. The public sector is a major part of this, but many large private sector companies also offer final salary pensions. These have always been thought of as the 'Rolls Royce' type of scheme, with benefits promised by the employer as a percentage of the person's final salary. In the past, it was also the case that people could not pay into any other type of pension, if they were paying into their employer's scheme, so they could not diversify their long term savings at all. If they stayed with the same company for many years, they were effectively taking a huge bet that their employer would stay in business and honour its pension commitments, otherwise they could be out of a job, with no earnings and perhaps lose their pension too. It was, therefore, thought to be essential that final salary pension schemes were protected properly, to ensure that the promised benefits were paid. Over the last couple of years, however, it has become clear that workers' pension contributions are not actually protected at all. Only if the pension is already being paid out, does the law give any protection. This is absolutely unacceptable and the law must be changed. A mutual insurance scheme, and changes in the order of priority must be introduced as soon as possible, if the future of final salary pensions and confidence in pensions in general is not to be shattered further. The Survey shows that only 8% of people realise that their pension is not protected. The rules surrounding pensions are so complex and it also seems unwise to force people to keep all their pension in one pot – full concurrency should be allowed. It is also clear that people don't actually understand pensions, and simplification is urgent.

## Employer Pensions

Money Purchase schemes -  
Policy recommendations from Survey

- Simplify regimes - just one type - so people can understand
- Give people better access to advice
- Improve annuity market

Although the majority of schemes at the moment are final salary or 'defined benefit', where the employer promises to pay a certain amount of pension, it seems quite clear that future pensions will be provided much more on a money purchase basis. Final salary schemes were introduced largely in the 1970's, as a response to high inflation, and they are less relevant today. They have become very expensive and also militate against employing older workers, since the contributions paid in need to be much higher for older workers. They are not well suited to the idea of gradual and flexible retirement, since the value of the pension is related to one's final salary, which will not be so high if working hours are cut down. But money purchase schemes in the UK are not working very well at the moment. The pension they provide depends on three things, all of which are not functioning as well as they should. 1. Contributions are typically much lower than for final salary schemes, 2. the investment profile is not well structured in many cases and 3. the annuity market is not functioning in an ideal way either. There are currently many different types of money purchase scheme, with acronyms that tend to mean little or nothing to the general public – GPP, AVC, FSAVC, SIPP, SSAS, RAP, personal pension, Stakeholder and so on. Each of these types of pension has different rules for contributing, for investing, for amount of tax free cash and so on. We need to simplify these and we could have just one single money purchase pension regime, with the same rules for tax free cash (everyone gets 25%), for investment and for annuitisation. People also need access to proper advice, to address the investment issues and to help them choose the right annuity at the end.

## Annuities

Policy recommendations from Survey

- Everyone to get advice to find best annuity
- Everyone to get help to find top rate
- Allow money-back guarantees

In fact, on annuities, the results of the Survey were pretty powerful. People just don't understand them at all. Even those who said they knew at least a little about annuities, didn't realise that, once you had bought one, you could never change it for the rest of your life! This is one of the most fundamental points about an annuity. People did not know how to choose the best type of annuity, they didn't even understand what the common annuity terms, such as 'escalation', 'guarantee period', 'enhanced rate' and 'impaired life' meant! It is clear that people need advice, in order to be able to select the best type of annuity for their circumstances. They have to buy one and they can never change it, so it is crucial that they get help to find the right one, before they actually buy. Most people also would not know how to find the best rate for their annuity and did not realise that the difference between the best and worst rates can be 30% or so. Advice is really essential, to ensure that people get the right annuity and a top rate, otherwise they may be forced to live on a lower income than necessary for the rest of their lives.

Another very powerful finding of the Survey was the extent of support for money back guarantees for annuities. Over 90% of people were in favour and the majority said that they would be more likely to start a pension, or put more money in, if they felt that they could pass on their hard-earned savings and buy a money back guarantee with their annuity.

## Private Pensions/ Other Savings

Policy recommendations from Survey

- Improve demand not just supply side
- Specialist advice - suitability
- Improve financial education - workplace?
- Women need particular help

The Survey results suggest that people would like to receive advice, to help them understand how to plan their finances and what they should be doing. The problem is not one of supply of products, but rather one of demand. People do not understand about pensions or savings and would like advice. The policy implication of this is that we should try to make advice available to as many people as possible. Just giving them information is not enough, because the issue of 'suitability' will not be addressed this way. If full fact find advice is not economic for people with small amounts of savings, then we should try to find a way of delivering advice to people in a more economic fashion. This would be much better than just saying we can't give them advice at all, so let's just give them simple, cheap products. However cheap and simple a product is, if it's not suitable, it's not suitable! One way of delivering financial advice more cost effectively, would be to provide it in the workplace, allowing advisers to benefit from the economies of scale of advising large numbers of people in one place, rather than going to see each one individually. The Survey shows that many people would want to attend advice sessions provided by their employer, even in their own time. The Survey also highlights that women need particular help – they understand much less than men about financial products and issues.

Of course, if we are going to improve demand for pensions, we need to make sure we are offering enough incentives to get the middle income groups engaged.

## Encouraging People to Save

Incentives to save - problems of using tax relief

- Unfair - most help to highest earners
- Illogical - highest earners most able to save
- Inflexible - can only use 40% or 22%
- People don't understand
- Tax is not recouped on pensions in payment

At the moment, we use tax relief as our financial incentive mechanism. Employers benefit from corporation tax and National Insurance contributions relief and employees benefit from income tax relief. But, as I touched on earlier, this system is unfair. It gives most money to the highest earners, which is actually really illogical, since

the highest earners are those most likely to be able to afford to save. It is also inflexible, because the only incentives you can give are those which reflect the tax rates i.e. 40% or 22%. But, as tax rates fall (which is obviously a good thing for the economy) the fact that you tie your savings incentives to the tax system means that the incentives you can give also fall. So, if people need more than 40%, or more than 22%, you can't give it to them. It is clear from the Survey that people don't actually understand how tax relief works and, if they did understand it, they wouldn't be happy that it gives most incentive to higher income groups. They would either want it to give the same incentive to everyone, for the same level of contributions, or to give more incentive to the lowest income groups, not the highest. It is also not true to say that tax relief is only given on the way in and is then recouped on the way out. It is not. Most people on higher rate tax move down to lower tax rates when they retire and there is the tax free lump sum too (which, by the way 83% of people want to keep, so scrapping it would be a very bad idea!)



## Fairer and Better Savings Incentives

Policy recommendations from Survey

- Matching grants, rather than tax relief
- Keep tax free cash
- Give everyone same incentive for same contribution
- Middle Britain needs better incentives than now
- Levelling up, not levelling down
- More pension for same contributions!

So how can we give people a fairer and better system for encouraging them to save?

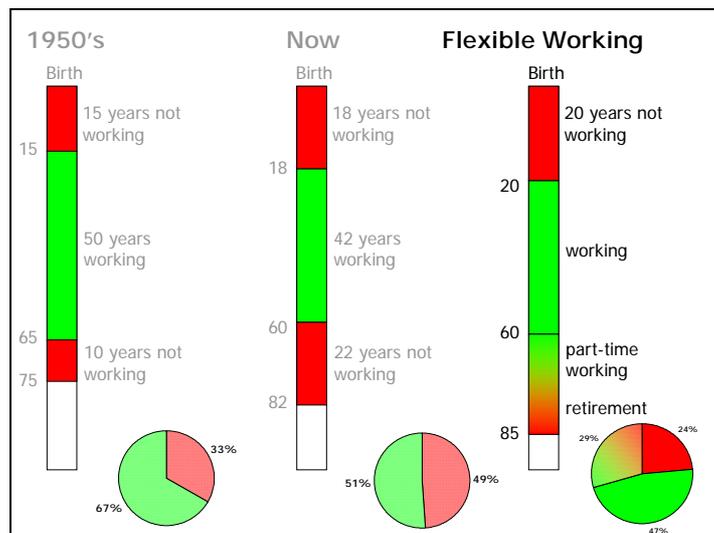
The Survey shows that more people would put money into their pension if they received matching grants, rather than tax relief. If they knew that Government was putting a certain amount of money into their pension, for every £ they put in, they would understand and value the incentive much better. They would know that everyone was getting the same level of incentive, for the same amount of contributions. This is levelling **up**, not levelling down as some in the Press have tried to suggest. This is giving people more incentive than they can get under the system of tax relief that we have at the moment and, at the end of the day, most people would end up with a bigger pension, for the same amount of contributions.

## Summary

- Living longer is a good thing
- People confused about what they should be doing
- Support ourselves, or rely on Government
- People want to cut down gradually, not cliff-edge

I don't have time to go into any more, but to sum up, we know that people are living longer and staying healthier, this is good news.

But people are confused about what they need to do to look after themselves. Their choice is to make their own provision, or to rely on support from Government. They see people at the moment retiring early, but the Survey clearly shows that most people don't want to stop work completely at an early age. They want to withdraw from work gradually, not stop suddenly.



This actually is in all our interests. By 2020, the worst of the demographics will hit us and we will need more people in the labour force, if we are not to face serious shortages of labour and lower long term growth. In order to achieve this, we can plan over the next 20 years or so, to introduce this entirely new period of people's lives, when they are not working full time, but gradually cutting down. It will take some time for attitudes to change but, one of the most heartening things of the Survey for me was that this is something that people already say they want (and those closest to current retirement ages want it most) and employers also say they want it too. Attitudes have already started to change and I hope that the Green Paper will build on this and encourage it further. We've done it over the last 20 years or so for working mothers. People used to say that employers would never want to employ mothers with young children, who need lots of time off, or want to work part time. But they have managed to do this relatively easily, with job-sharing, part time work, flexible work patterns and so on. So I am sure we can do this for people later on in their lives too. If retraining were needed, employers already seem to think this is a good idea and it would fit in with people's desires too.

So this would be the new kind of model, to help people work and contribute to their own wellbeing and society as a whole. Rather than just raise the retirement age and think of working longer full time, allow people the freedom and opportunity to retire gradually and stay in the labour force until much later. We need to change policy in several ways, to facilitate this. We must make it easier for people to work part time for the same employer and take part of their pension, introduce age discrimination legislation, take the lead on public sector schemes and so on.



## Conclusion

- Choice and flexibility
  - Save earlier and more for bigger pension/earlier retirement
  - Work longer, part-time(?), for better standard of living
- Some can, some can't. Some want to, some don't
- Account for individual differences

So to conclude, we hope that the results of the Survey have indicated some of the important areas that the Green Paper needs to focus on, to reflect the attitudes of people in this country. People want to have more choice and more flexibility – moving away from the 'one size fits all policy' that we have had in the past. I hope that the framework I have sketched out today will make it clearer to people what they need to think about, in terms of providing themselves with a decent standard of living as they get older. This is not just about pensions, but about far more.

People should be able to choose what they want to do (hopefully with some expert advice to guide them on the right path). If they want a bigger pension, or to retire early, they need to save from an earlier age and to save more. If they want a higher standard of living, they could choose to work longer, but not necessarily full time.

Some people will be able to do this, some won't. We have to have a safety net in place for those who can't manage. Some people will want to do this, some won't, but most want to provide for themselves if they can. Policy and products need to account for individual differences. And that is where we end – where we began – with people and how they organise their lives.



**A Whole New Way of Looking at Policy**

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Joined up thinking for Work, Retirement and Pensions

Dr. Ros Altmann  
ros@rosaltmann.com

This is a new way of looking at policy. Joined up thinking for work, retirement and pensions.

Thank you.