

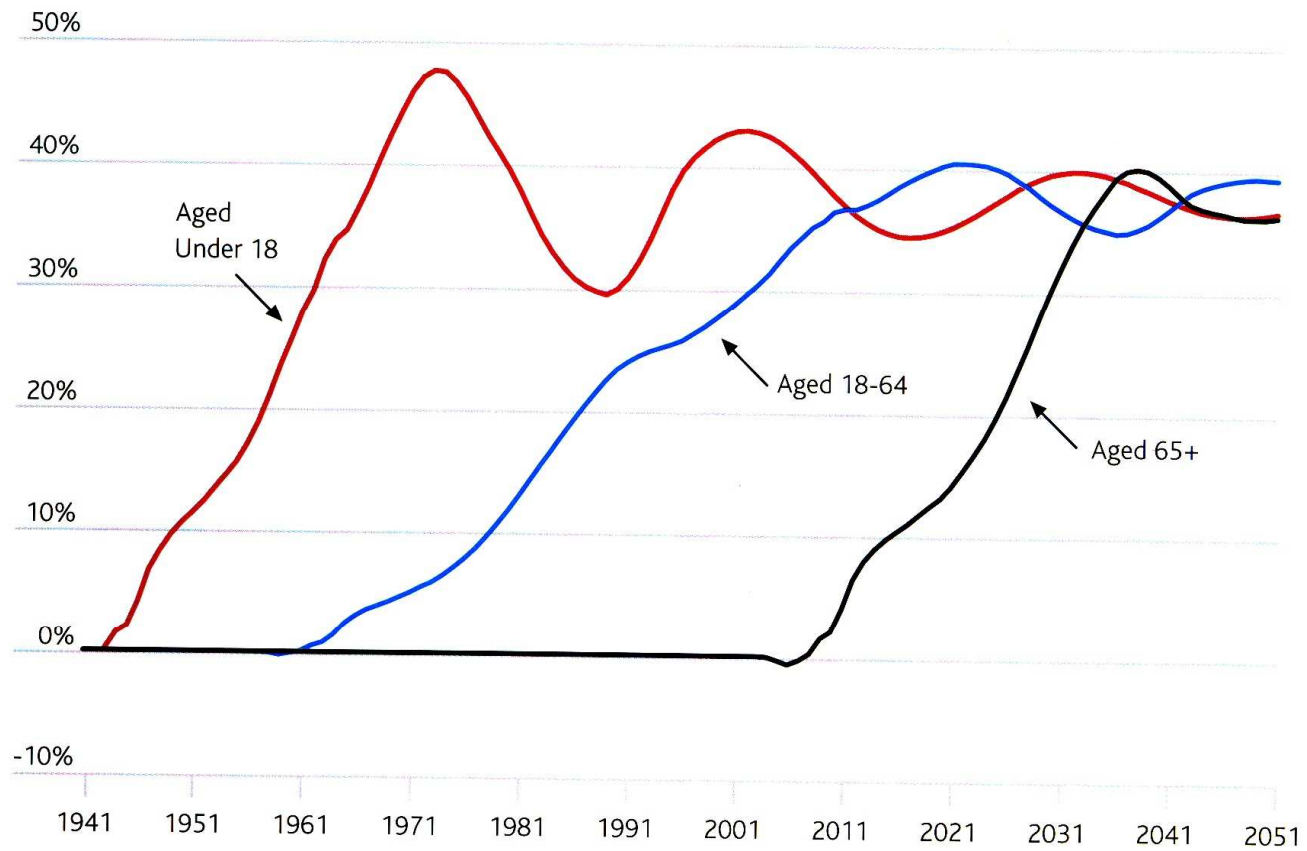


# Pensions in Crisis

**Institutional Investor Pension Fund Meeting  
Luton Hoo  
29 June 2011**

Dr. Ros Altmann  
Director-General  
The Saga Group  
Twitter @SagaRosAltmann

# Pensions crisis – it's NOW!!



Source: Pensions Commission analysis based on a synthetic model of the England and Wales population

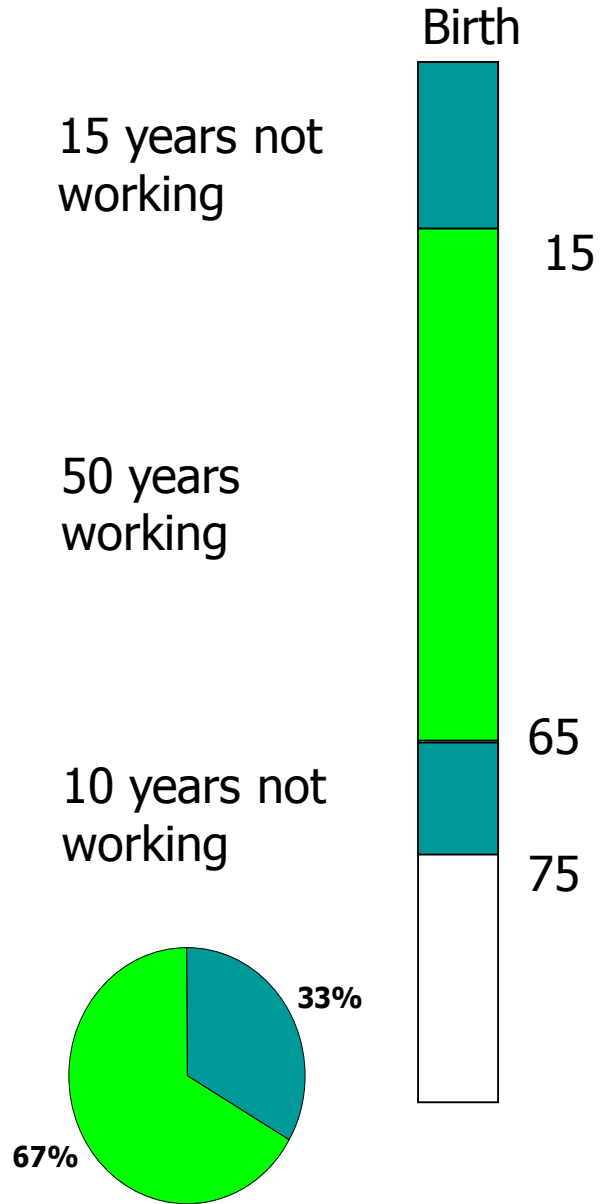
# This involves all of us

- Ageing demographic profile
- Pensions crisis becomes pensioners crisis
- More older citizens with less money to spend
- Lower growth
- Economic decline unless we rethink

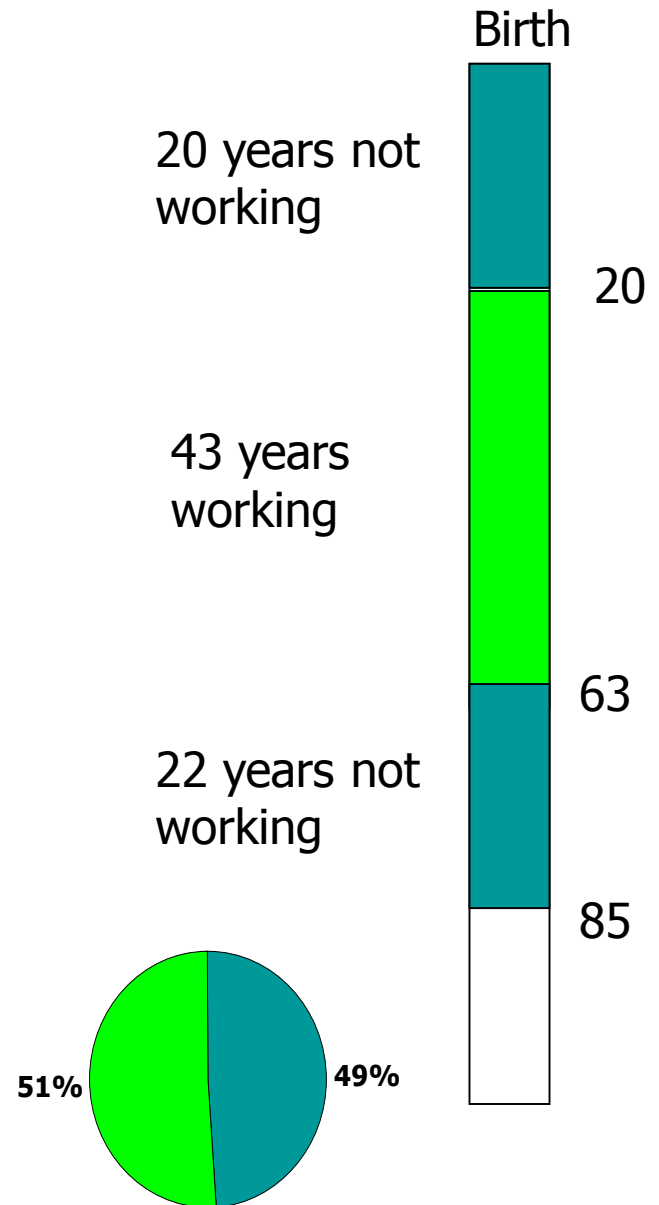
# Pensions crisis - what went wrong?

- Rising life expectancy – good news turned bad!
- Failure to understand pension risks
- ‘Early retirement’ and unrealistic expectations
- Open-ended liabilities
- Too much burden on employers and equities
- Equity returns not reliable – longevity, inflation

# 1950's



# Now



# What is an adequate pension?

- There is no real answer to this
- Confusion between state and private roles
- Pensions are two things
  - **Social welfare** to avoid old age poverty– State role?
  - **Long-term saving** for better old age lifestyle – Private?
- How can they keep lasting longer and longer?
- Employer final salary schemes combine both

# Future of final salary schemes?

- There is none!
- 21<sup>st</sup> Century employers don't do social welfare
  - And will they stay in business long enough?
  - Can't reliably predict costs and risks
- Final salary will die out, maybe career average
- Even in public sector change is coming
- DC is the future, but will it be enough

# DC – Disaster Coming

<b>Pension scheme membership</b>	<b>1997</b>	<b>2010</b>
Men, public sector employer	82%	87%
Women, public sector employer	75%	82%
Men, private sector employer	52%	39%
Women, private sector employer	37%	28%
NEST?	-	-



# Pensions and risk

- Cannot plan pensions reliably
  - Investment risk
  - Longevity risk
  - Interest rate risk
  - Salary inflation risk
  - Regulation risk
  - Annuity risk
- AND pension credit penalises private pensions!

# What pensions can do

- State pension can provide a basic minimum
- State pension can provide base for private saving
- Private pension saving can supplement state pension in retirement
- Employer pensions can help boost private saving
- BUT...

# What pensions can't do

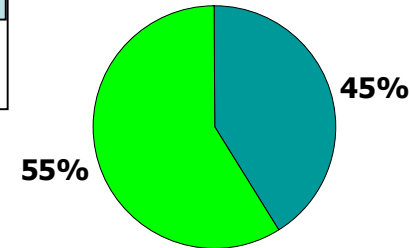
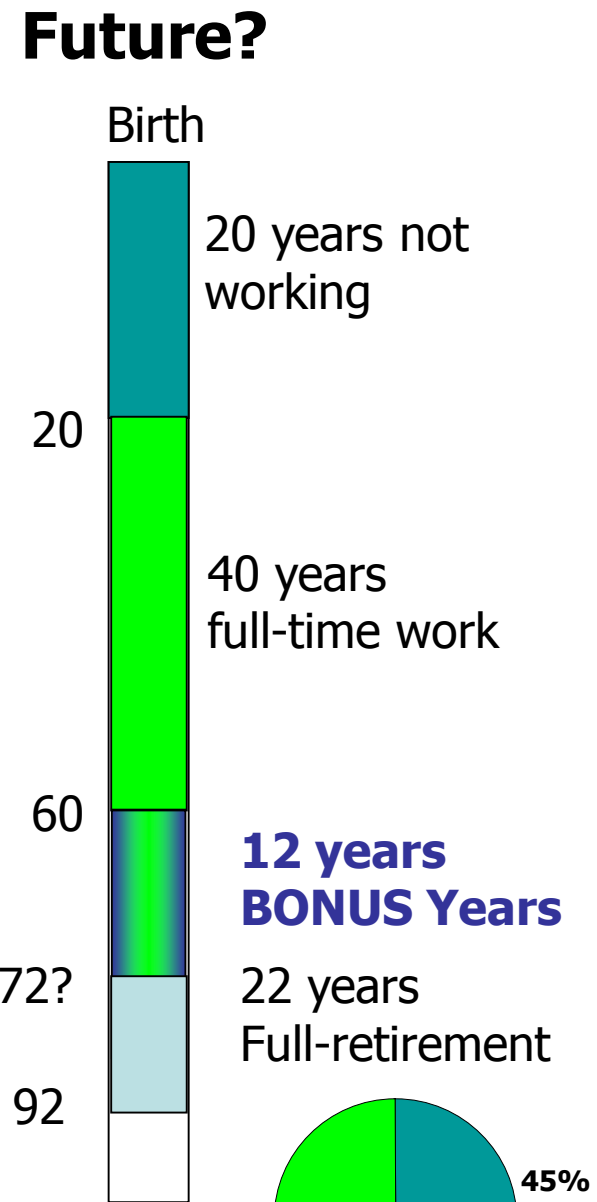
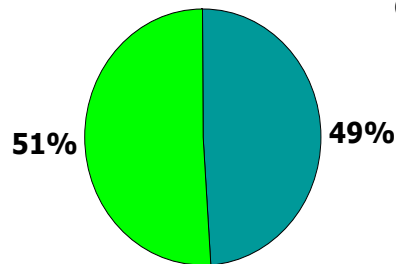
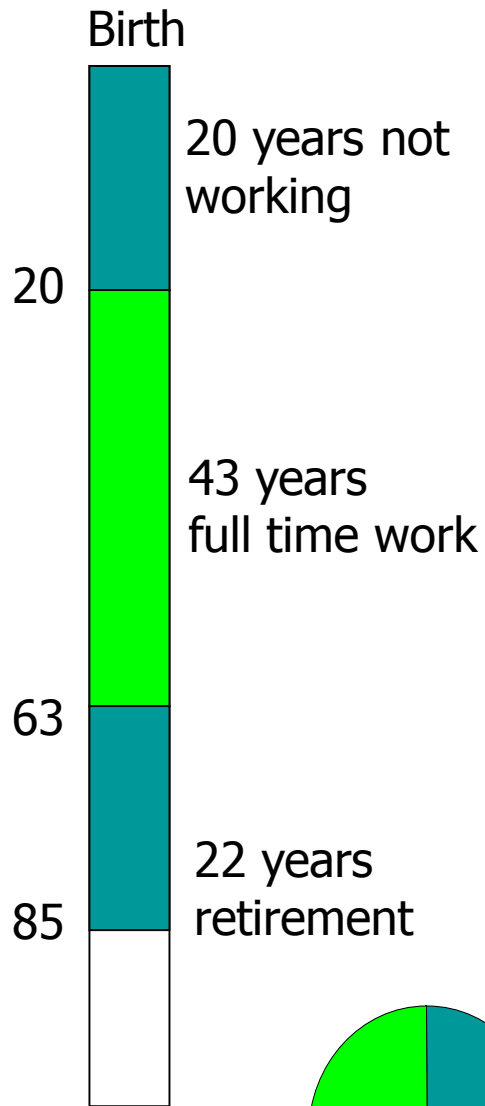
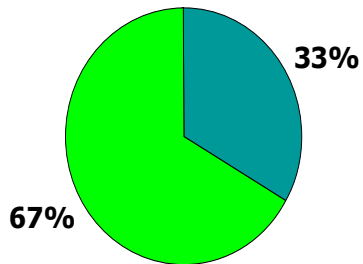
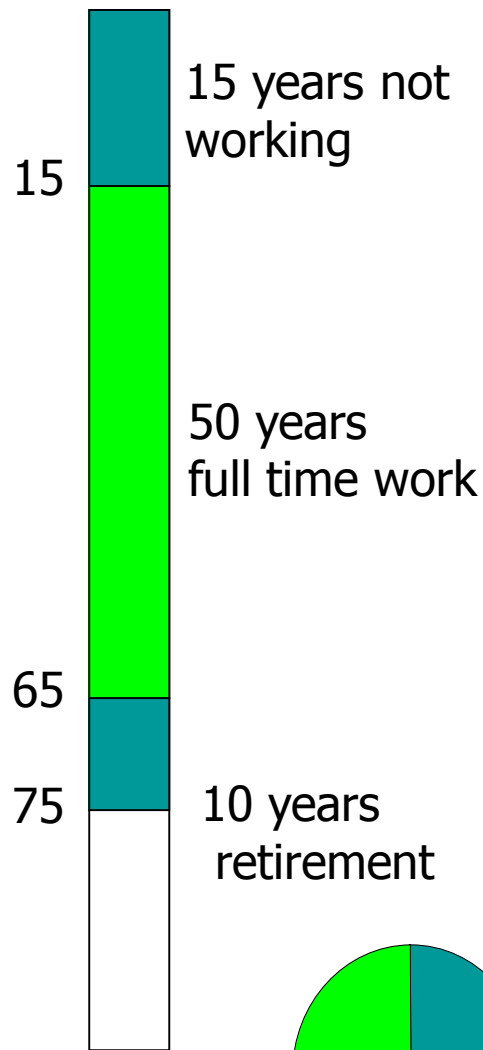
- Pensions can't solve the pensions crisis
- Can't keep stretching longer at same level
- Can't reliably deliver specific pension income
- Can't rely on investment risk to be rewarded
  - no loyalty bonus for taking equity risk!
- Can't keep up with inflation if buy level annuity
  - 3% inflation = 25% loss of value in 10 years

# Solution requires new thinking



# Rethink retirement

- Later life income is not just about pensions
- Part-time work
- 2-3 days work, 4-5 days free, more money
- New phase of life
- Bonus years



# What Government can do

- End Default Retirement Age ✓ ✓
- Simple state pension – Green Paper ✓
- Encourage long-term savings – NEST, flexibility ✓
- Facilitate advice and education ??
- Issue longevity gilts, cpi gilts xx

# What employers can do

- End age discrimination in labour market
- More flexibility – like for working mothers
- Help older workers cut down gradually
- Pre-retirement planning seminars and advice



# What financial industry can do

- Realistic expectations
- Help manage risk
- Manage and monitor investments over time
- Creative products – lifetime savings, lottery, equity release, [care plans?]

# Conclusions

- Rethink pensions
- Rethink retirement – part-time ‘bonus years’
- Flexibility for individuals
- Wake up to reality – no magic money
- Ageing is great news but must be planned for
- Seize the opportunities and solve this crisis