



Leading Change For Pension Reform

Funding Solutions: Individual Responsibilities

Encouraging Private Pensions and Savings

Policy Network Seminar

5th February 2002

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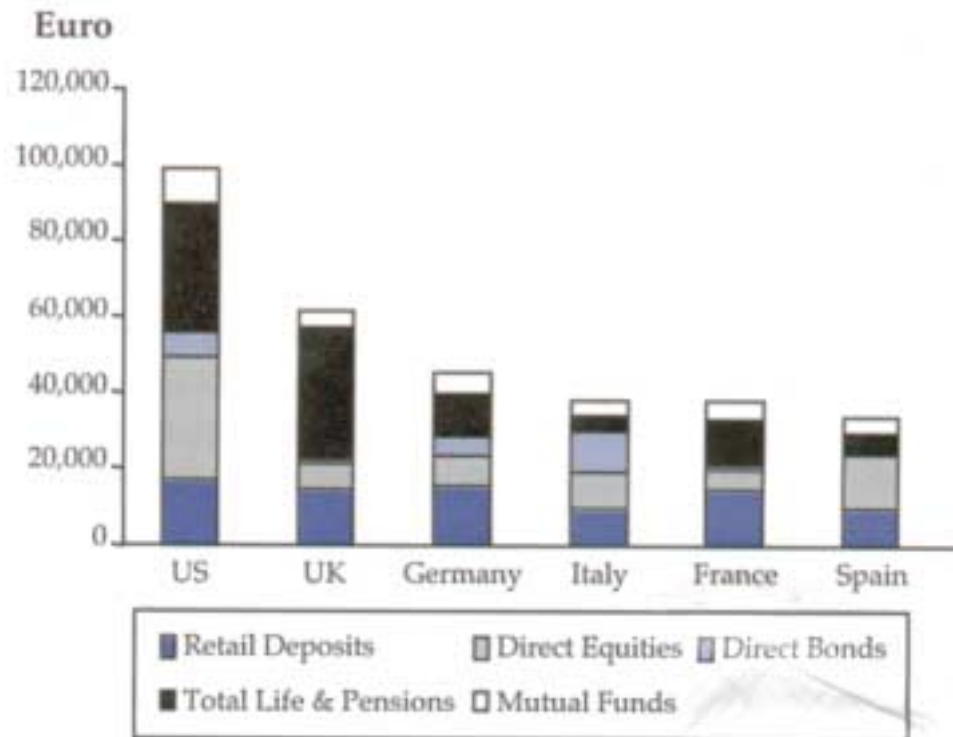


UK Is Different

- Low state pension
- Good retirement savings culture
- Well-developed private provision
- Compulsory annuitisation
- BUT - risks for future pensions

UK Savings Higher Than Europe - Especially Pensions

AVERAGE SAVINGS PER INDIVIDUAL – INTERNATIONAL COMPARISON³⁸



Source: Oliver Wyman & Co.



Savings Incentives For UK Pensions

- Generous pensions tax relief
- Stakeholder pensions
 - low cost
 - flexible
 - incentive for lower income/non-taxpayers
- Pension Credit??

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



Current Issues For Pensions

- Private pension provision more for higher earners (only 50% workforce covered)
- Tax relief regressive - not much of an incentive (if any) for lower income groups
- Move from DB to DC - huge risks for future
- Inadequate financial education

Occupational Pensions For The Rich





Challenges

- Encourage 'lifetime savings culture'
 - Child Trust Fund - 'Baby Bond'
- Increase occupational pension coverage
 - incentivise employers
 - remove current barriers (simplify)
- Increase occupational pension take up
 - automatic enrolment
 - better financial education
 - workplace information - incentivise provision
 - better financial incentives



Radical Alternatives

- Replace tax system as incentive mechanism
 - uniform financial incentive (or progressive)
 - use monetary limits - annual or lifetime
 - actuarial calculation of amounts required
- Replace 'replacement ratio' concept
 - State policy to ensure not in poverty
 - extra depends on individual choice



Most Difficult Issues

- Public Sector pensions
- Self-employed
- Retirement Age
 - individual differences
 - flexible band
 - gradual process