

PENSIONS POST-BUDGET 2014

Social Market Foundation – MetLife Fringe Meeting

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PENSIONS ARE CHANGING, SO IS RETIREMENT

- End of default retirement age and increased rights to request flexible working
- Retirement no longer pre-set, fixed date – you can have a choice!
- Part-time work as people cut back, rather than suddenly stop – a process, not an event
- Whole new phase of life – bonus years, better work-life balance
- Longer, healthier lives give better opportunities for earnings and investment returns
- Can boost lifetime income and pensions

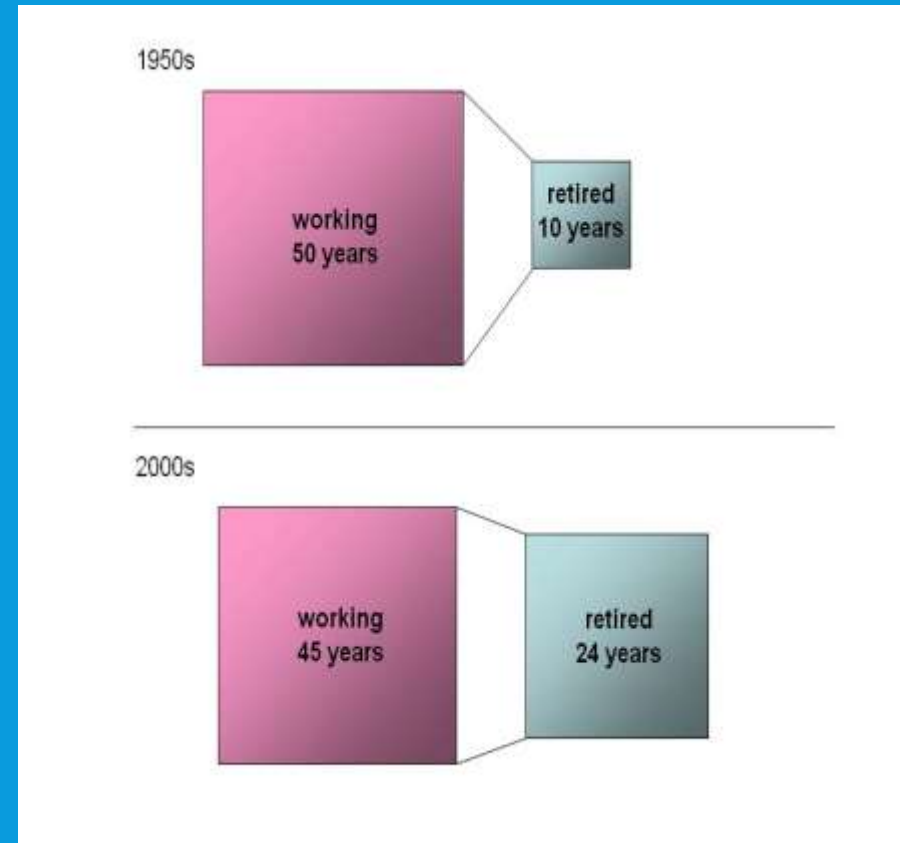
IT'S ALREADY BEGINNING

SURVEY EVIDENCE:

- **71%** of workers say they will consider working past state pension age, to achieve a higher retirement income
- Only **8%** not willing to work on, even if struggle financially
- And only **20%** believe they're saving enough for retirement
 - **Source: MetLife**

REVOLUTIONISE PENSIONS AND RETIREMENT

- 20-30 year retirement time horizon:
why abandon opportunity for
investment growth?
- But need to make pensions suitable
for new retirement



BUDGET 2014 – PENSION REVOLUTION

- Freedom and choice
- Flexibility for pensions to fit increasingly flexible lives
- End of binary annuitisation or drawdown choice and one-size-fits-all approaches?
- Default options need to be rethought as pensions and retirement change
- New products for retirement income
- Tax free inheritance should help deter reckless spending – end of 55% tax charge

POTENTIAL BENEFITS

- Make pensions more attractive
- Pension savings will be able to cope with more retirement risks
- More flexibility for pensions to accommodate changing lifestyles
- May have money left for care needs, may reduce calls on state funding
- More tax revenue for Treasury

POTENTIAL RISKS

- Consumers confused about options
- New products may take long to develop
- If too many cash out too soon, may increase later life poverty
- If people spend all their money, increase public cost of care funding
- Face-to-face guidance/advice not yet in place, quality?

IMPARTIAL, FREE GUIDANCE - NOT PRODUCT SALES!

Guidance must highlight vital questions

- ✓ Do nothing option, if still working
- ✓ Making a financial plan
- ✓ Tax on withdrawals or death
- ✓ Just take tax-free cash?
- ✓ Tax-free cash plus an income
- ✓ Inflation protection
- ✓ Partner provision

Minimum standards? TPAS? New firms?

- ✓ Bequest or legacy
- ✓ Stay invested for future growth
- ✓ Trade-off future growth for certainty
- ✓ Paying for health/care needs
- ✓ What products are available?
- ✓ Guarantees to protect against market falls
- ✓ Signpost to full advice – to give individual answers to the questions

NEW PENSION INVESTMENT OPTIONS

- Lifestyle/target date default funds assume annuity purchase at pre-set date – out of date!
- Develop pension growth roll-up funds? Maybe with capital guarantees
- Diversified funds, perhaps with volatility protection, like DB?
- Lifetime Pension Accounts
- Master Trusts to pool assets and risk – economies of scale

ADVANTAGES OF BUYING vs. NOT BUYING ANNUITIES

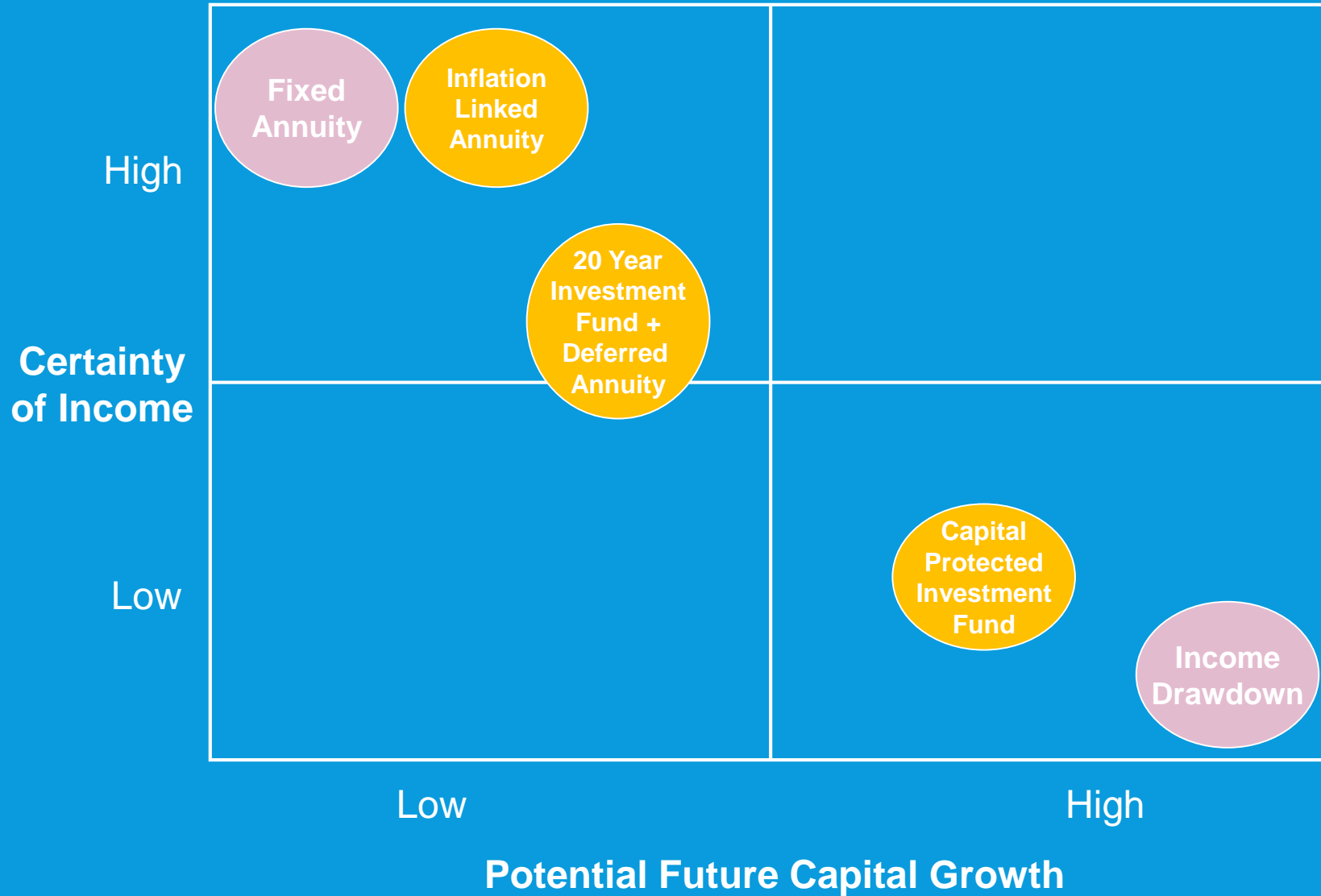


LIFETIME ANNUITIES MARKET WILL SHRINK

- Tax-free inheritance with no 55% charge will deter annuity purchase without guarantees
- Annuities cover risk of living too long, but need to protect from other retirement risks
- Dying too soon, poor health, care needs, protect partner, market or product changes
 - Like insuring a house only against fire and not flood or theft
- Developments in annuities
 - More medical underwriting, joint-life, money-back or surrender values
 - Non-linear income payouts e.g. u-shape / j-shape
 - Advanced Life Deferred Annuities
 - Annuities with term life insurance
 - Investment-linked and guaranteed annuities
 - Care funding annuities

PENSION INCOME FUNDS

- Develop decumulation options that fit better with people's lives
 - More flexible, funds invested for longer
- At 60, people can have 20-30 year horizon - why give up on investment?
- Low cost mass market drawdown?
- Some downside protection/guarantees?
- Some security but also some flexibility for growth and income
- Trade-off certainty for potential growth or liquidity, tax-free legacy, care?



TRADE OFF: INCOME CERTAINTY vs. FUTURE CAPITAL GROWTH

WHAT'S NEXT?

- Get more people to engage/understand pensions, financial plans
- Tax changes could mean more people keep money in their pension funds
- Help fund care provision from pensions if necessary
- Pension savers can help next generation too
- Pensions and retirement are changing
- Whole new world for pensions – exciting times

THANKS FOR LISTENING...

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