

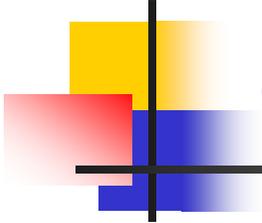
UK Pensions in the 21st Century

TISA Conference
London

26 October 2008

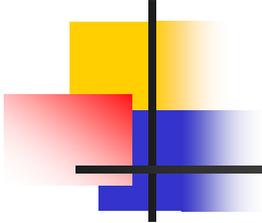
Dr. Ros Altmann

www.rosaltmann.com



Overview

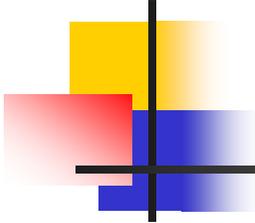
- Some history of our pensions crisis
- What's new
- Latest reforms – sustainable solution or con trick?
- Radical new thinking for 21st Century
- Conclusion



History: what are 'pensions'?

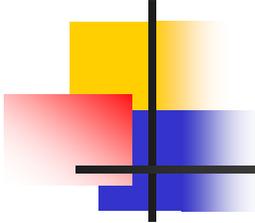
1. **Social welfare** (Original state role)
2. **Long-term savings vehicle** (Later private role)

- Both are called 'pension', but are not the same
- 20th Century employer paternalism caused confusion
 - Final salary schemes to look after loyal lifelong workers
 - 1970's/80's industrial restructuring early retirement
- Helped young baby boomers but unrealistic expectations
- Government relied on employer provision and equity investing
- To offset UK substantial cuts in UK state pension



New realities in 21st Century

- 21st Century employers won't do social welfare
 - Lifelong employment rare, average job tenure 5 years
- DC now the norm, final salary schemes ending
- Longevity improving fast but pension policy lags behind
- Government still relies on private provision
- But state means testing undermines pension saving
- Pensions policy stuck in 20th Century

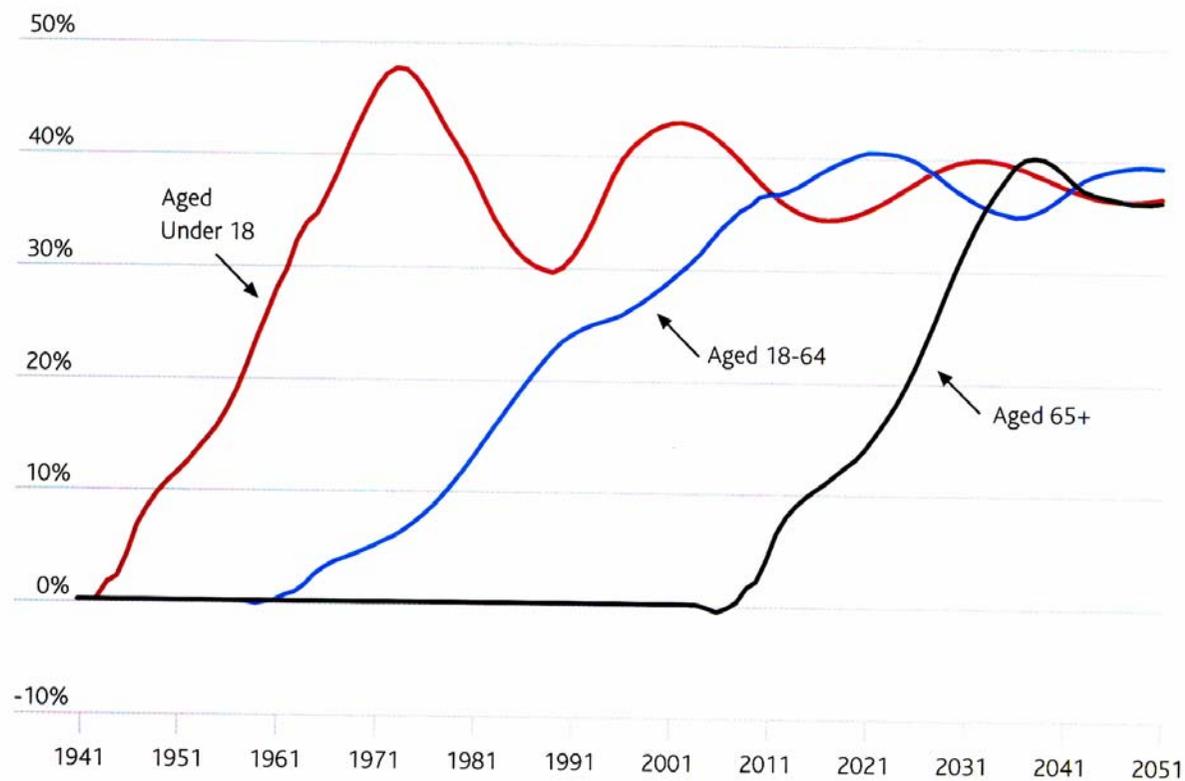


Demographic dangers huge

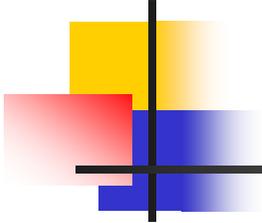
- Baby boomers now reaching pension age after 2010
- Economy benefited from demographic boosted
- But savings were discouraged in the boom times
- Official view: no pensions crisis now but may be in future
- Wrong: pensions in crisis now, **pensioners** in crisis soon
- Heading for demographic drag- huge growth in age 65+

Demography: sharp rise in over-65's

% change in UK population size

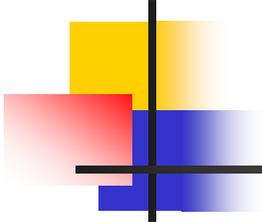


Source: Pensions Commission analysis based on a synthetic model of the England and Wales population



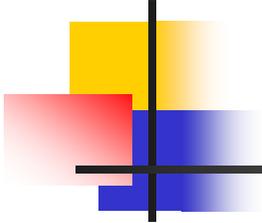
Policy mistakes to correct in 21st Century

- FSA regulation asymmetry: easy to borrow, hard to save
- Culture of self reliance and saving debt and dependency
 - Short-sighted policies helped growth, now credit crisis
- State pension too low, complex, too much means testing
- Lack of incentives, too many disincentives
- Many scandals shaken confidence in pension 'locked box'
- Short-term political time horizons a problem for policy
 - No joined up thinking – ISA, savings gateway, PA
- Will latest reform package sort things out?



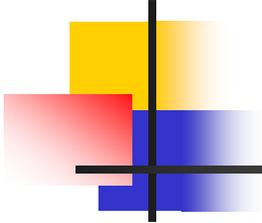
Recent reforms - con trick or solution?

- State pension reforms said to be radical, they are not!
- Still lowest, most complex state pension
 - BSP earnings link not restored before 2012, fall further
 - And S2P then tied to prices!
 - Raise state pension age for everyone!
 - Give with one hand, take back with the other
 - Pension Credit still undermines private pensions



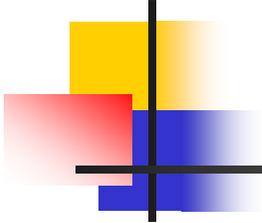
Private pension reforms worse

- Personal accounts- Opportunities
 - **Politicians** can claim lots more people are saving
 - **Government** will save money on means testing
 - **Finance industry** may have more assets to manage
 - **Employers** can cut back to 3% of 'band earnings'
- Personal accounts- Threats
 - Levelling down: 3% minimum becomes maximum
 - Just replace pension credit - 40 100% tax! Suitability?
 - Generic advice can't address suitability, investment risk
 - Admin nightmare, small pots to track, annuities?



Delivering 21st Century pension reform

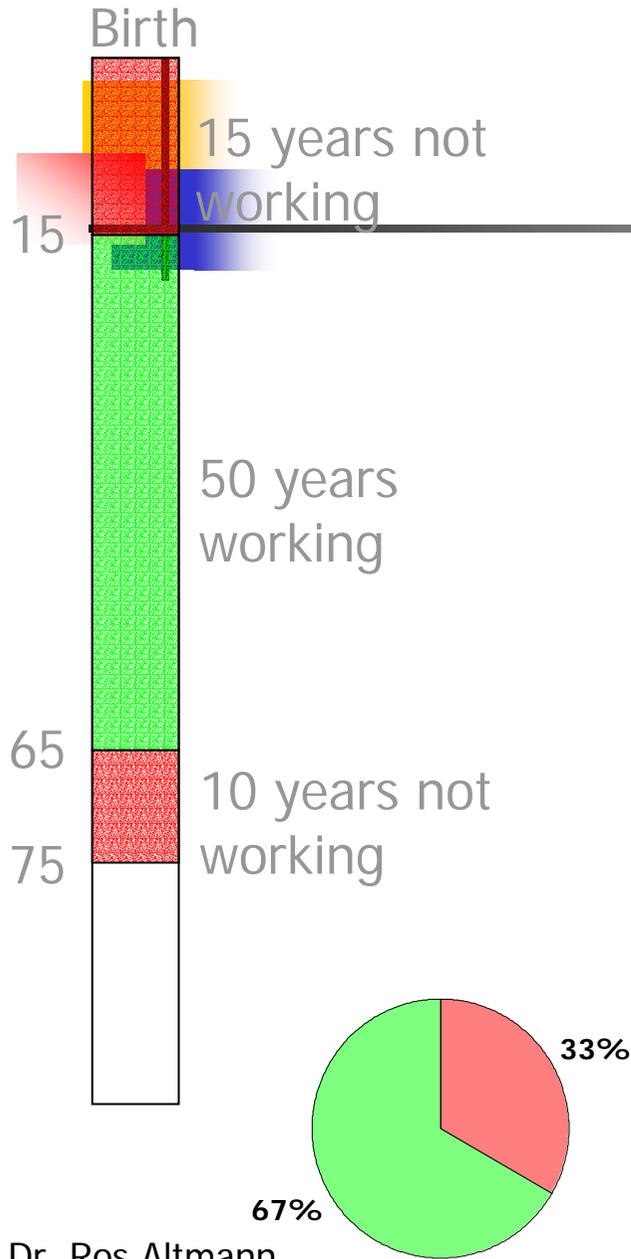
- State pension to be flat rate social welfare minimum
 - £140pw to all, from age 75? Fair, no annuitisation
- Clear message: with no private income you'll get £140pw
- Pensions become 'suitable' for all – but rename them!
- Help deal with past pension funding – DB and annuities
 - Government issue mortality/longevity bonds
- Lifetime savings accounts, manage savings over life cycle
 - Use Child Trust Funds? Not just pension 'locked box'



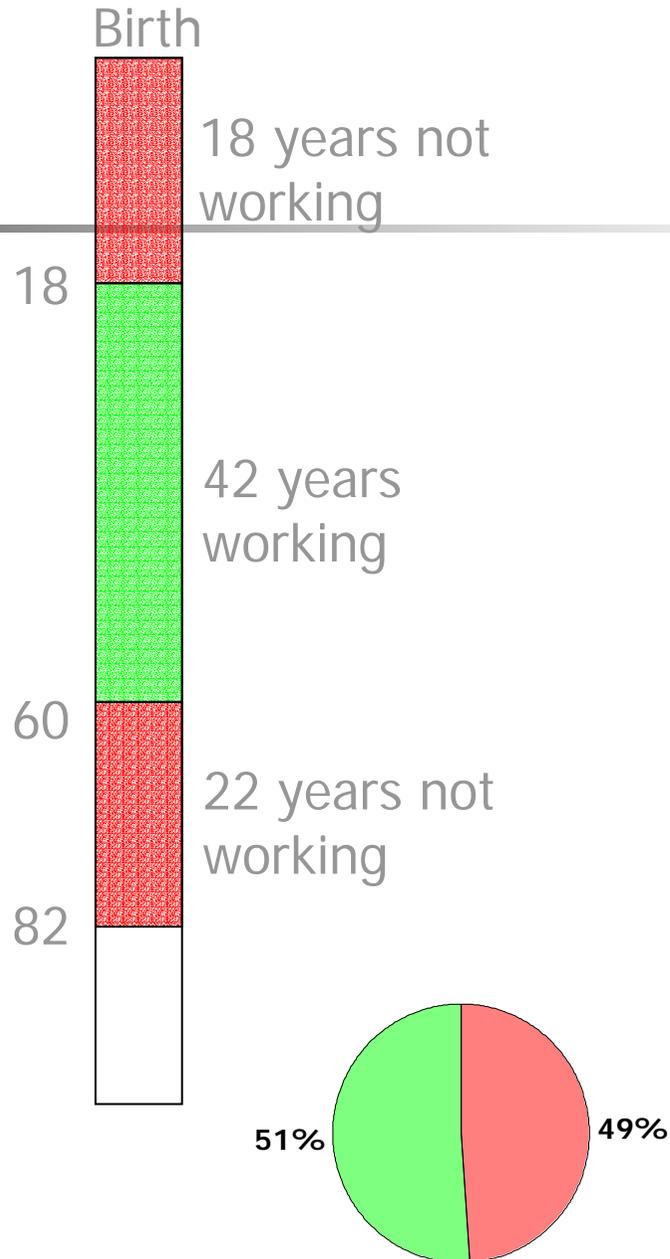
But are we thinking correctly?

- Getting money in short term pleases politicians and industry, but getting good pensions long term is vital!
- This is not just a 'pensions' issue – it's a retirement issue
- Can't sort out pensions without rethinking retirement
- Pensions are trying to last too long
 - Most people can't save for 25 – 30 year decent pensions
- What a waste of resources!
- Policy lagged behind improved life expectancy, health, working practices

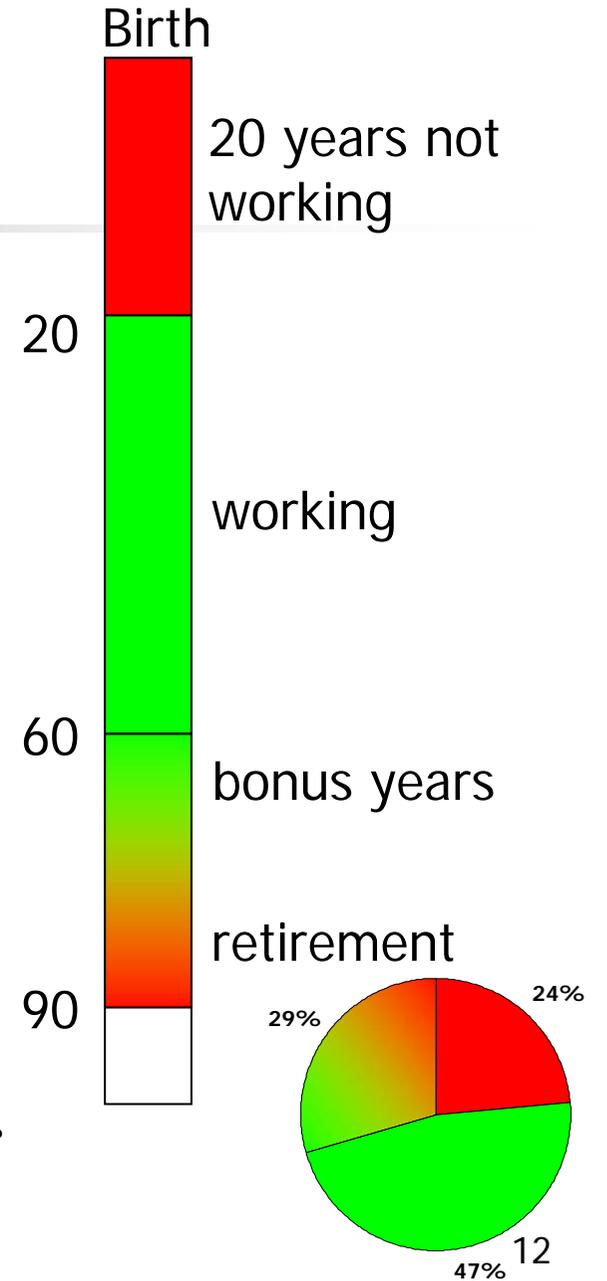
1950's

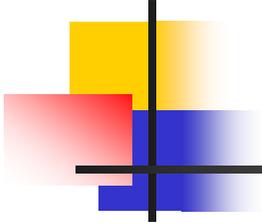


Now



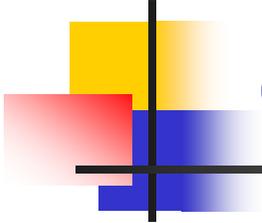
Flexible Working





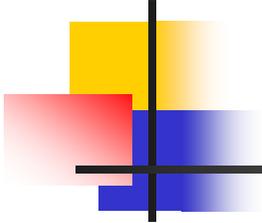
Pensions alone can't solve the pensioners crisis

- New phase of life waiting to be enjoyed – ‘bonus years’
 - 2 3days working, 4 5 days off, sabbaticals, retraining
- Cut down gradually- part time working, job sharing
 - Precedent: working mums with young kids
- More leisure and more money to enjoy the leisure
- Better for individuals, employers and the economy
- This is the employer role in 21st century
 - Age discrimination should not stop at 65



Challenges for savings industry

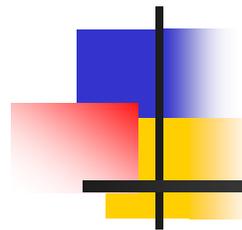
- Can advisers restore confidence and savings ratio
 - Mass market don't understand investment or risk
- Can industry provide attractive mass-market savings vehicles to supplement state pension and/or earnings?
- Lifetime savings accounts with better investment options
 - Guaranteed, age related, other assets etc.
- Annuities not working properly – a disgrace
- Government write annuities + mortality/longevity bonds
 - More natural place for longevity and inflation risk



21st century pensions: Conclusions

- 21st Century pensions will be called something else
- State pension is the only pension: flat rate and fair to all
- Lifetime savings supplement, not replace, later life income
- Rethinking both pensions and retirement for 21st Century
- Longer but different work patterns are inevitable
- UK could show others how to overcome pensions crisis

THIS IS GOOD NEWS IF EXPLAINED PROPERLY



Thank you for listening

Ros Altmann

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