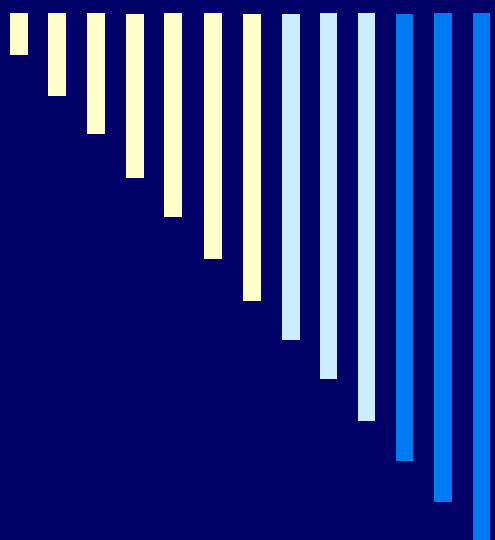


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# Pension provision from 2012 - Are you ready?

**New Directions in Workplace Pensions**  
**UEA London**  
**18 March 2010**

**Dr. Ros Altmann**

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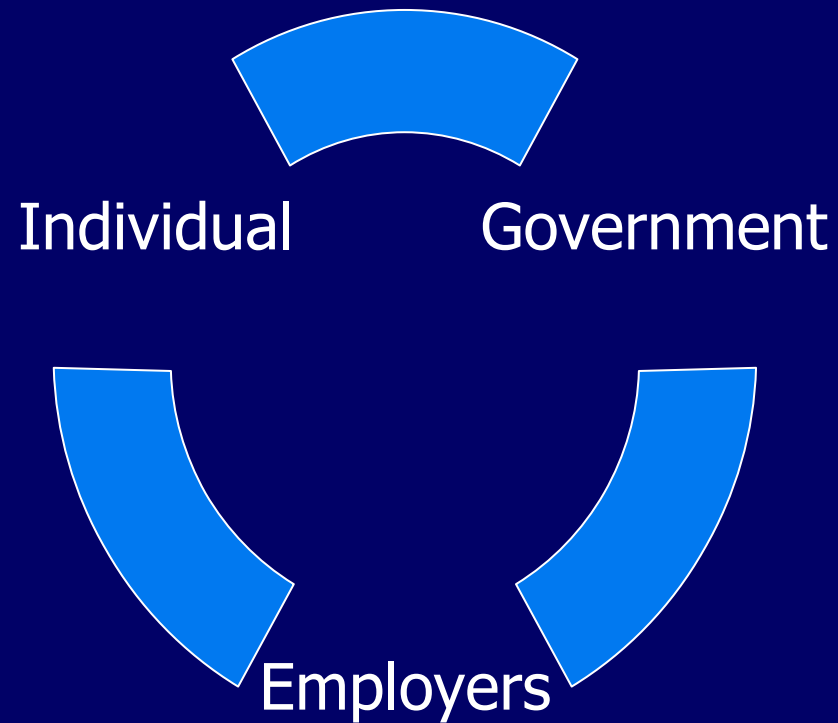
# Outline

- Pension responsibility and crisis
- 2012 agenda
- Challenges posed by reforms
- Meeting workers' needs?
- The future

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# Pensions - whose responsibility?





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# What is a pension?

- Two different things:
  1. Social welfare – state role
  2. Long-term savings – private role
- Employer final salary schemes covered both
- Government forced employers to cover social welfare
- If no employer - personal pensions



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## 2012 Agenda

- NESTs
- All employees auto-enrolled in workplace pension
- Employers contribute minimum 1-3% of band earnings
- Phase in to full roll-out 2018
- Full implementation contributions: 8% of band earnings
- Re-enrol opt-outs every 3 years

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## Positive Aims

- ❑ Improve pension coverage for low to moderate earners
- ❑ Nationally organised, low cost scheme
- ❑ Trustee board to oversee investment and administration
- ❑ Auto-enrolment to overcome inertia – behavioural theory



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## NESTs – theory vs. reality

- ❑ How many will stay in? – level of opt outs, confidence
- ❑ Levelling down: current employer contributions > 7%
- ❑ Suitability: just replaces means testing
- ❑ Inadequacy: investment or annuity forecasts wrong
- ❑ No advice
- ❑ Administrative challenge - track tiny amounts for decades



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## NESTs could be damaging

- ❑ All about putting money IN
- ❑ But what matters is how much people get OUT
- ❑ Official analysis ignores annuity risks and decumulation
- ❑ Outcomes could be worse for many
- ❑ Risk of Government being sued for misleading
- ❑ So why is there such a strong consensus?





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## NESTs offer great opportunities

- Politicians: claim success if more contribute to pension
- Treasury: NESTs could replace means-tested benefits
- Financial industry: earn fees on assets 2% + 0.3%pa
- Employers: can cut contributions
  - > 20% DB, > 7% DC, 2012 just 3% or 1%!!
- Workers bear the risks in years to come
- But today's leaders not around then



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## Do politicians understand?

- ❑ Pensions Ministers – blink and you miss them
- ❑ Short-term vs. long-term
- ❑ Pensions Commission: pensions not in crisis yet
- ❑ Not true! pensions crisis now, **pensioners** crisis in future
- ❑ Policymakers do not have to engage with pensions
- ❑ But employers do...



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## Challenges for employers

- ❑ Millions of employers to deal with pensions for first time
- ❑ Even smallest employers must enrol staff e.g. nannies
- ❑ Costs and complexity
- ❑ £20,000 worker contribute £50pm, employer £37.50pm
- ❑ Is this good value?



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## Questions for employers

- ❑ Will workers value the pension contribution?
- ❑ Pensions suitability
- ❑ Pensions are not the only issue – not one-size-fits-all
- ❑ Long-term care is another big challenge, insurance?
- ❑ Are there better ways to address staff needs?



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## What do workers want?

- ❑ Budget per employee – spend it wisely
- ❑ Workplace financial education and advice?
- ❑ The pensions locked box is not suitable for everyone
- ❑ Cater for individual workers
- ❑ ISAs? Student loans repaid? Long-term care insurance?



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# Challenge for Government

- ❑ Abandon mass means-testing
- ❑ Radical state pension reform – resident's pension
- ❑ Government 'pension' is for minimum security
- ❑ State provides long-term social welfare, not employer
- ❑ What age?
- ❑ Then workers can build private income safely on top



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## Challenge for financial industry

- Reform long-term savings
- Financial education and advice in workplace
- More flexibility, not just locked away for decades
- Lifetime Savings Accounts - better investment options
  - Guaranteed capital and income? Diversification
- Beyond just pensions

BUT...



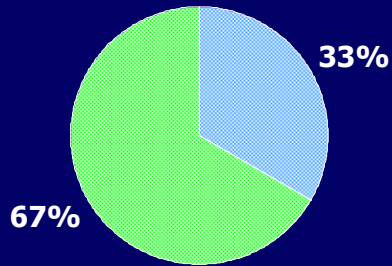
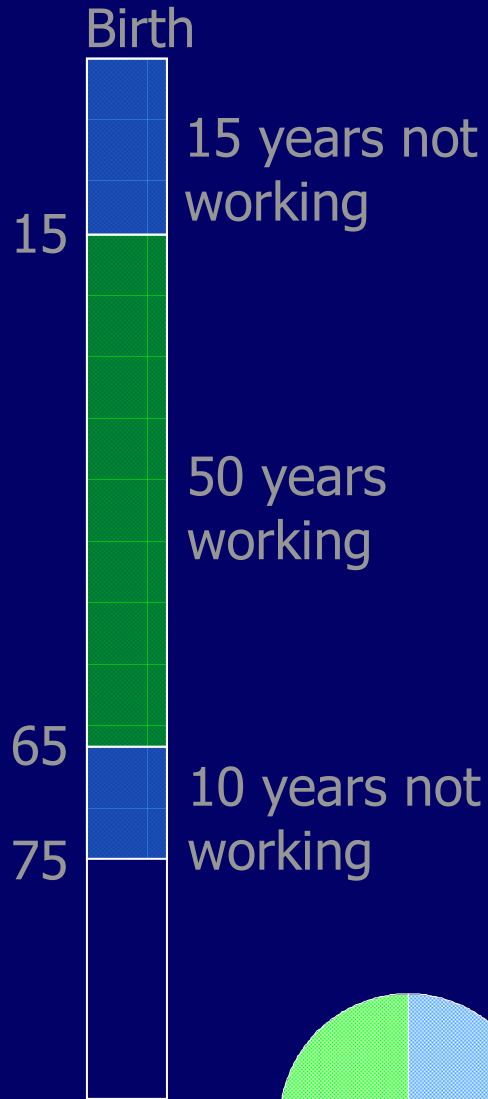
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## Pensions alone can't solve this crisis

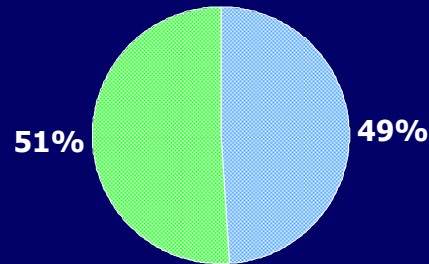
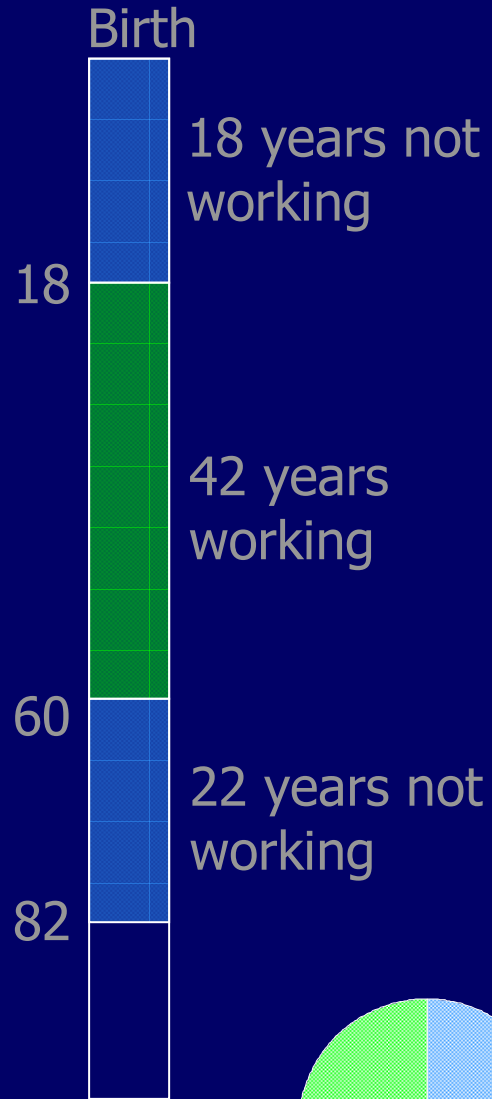
- Must rethink retirement
- New phase of life – ‘bonus years’
- Cut down gradually, part-time work, job sharing
  - 2-3 days a week work, 4-5 days off
- Better for individuals and economy
- More money for everyone



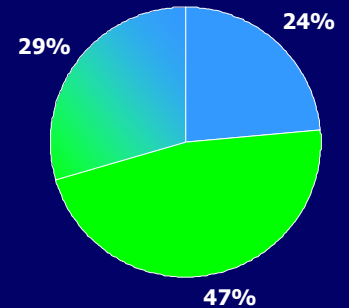
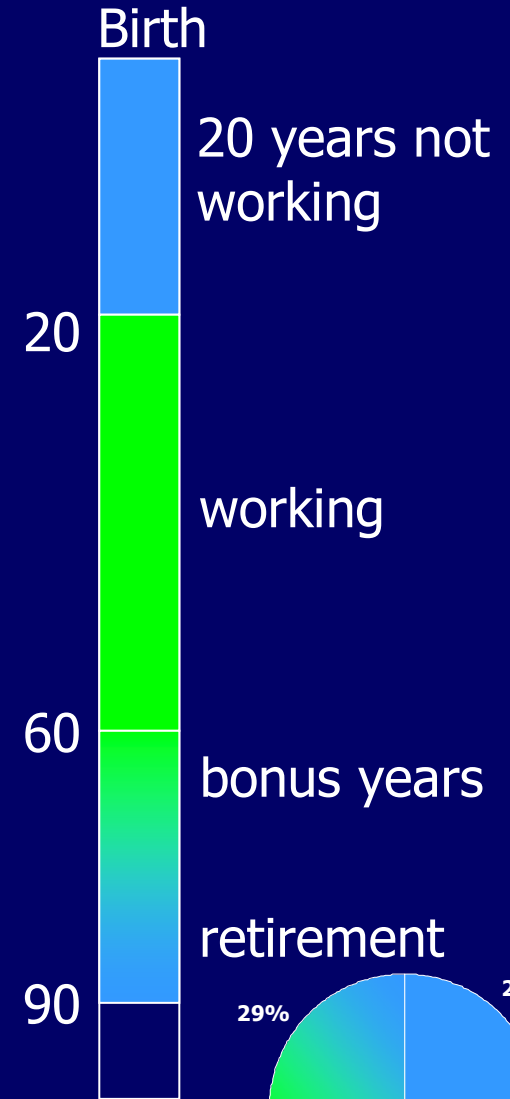
# 1950's



# Now



# Future?





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## The future...

- State
  - Basic minimum resident's pension, simple
  - Encourage workplace reform, advice, savings
- Employer
  - Flexible benefits, fixed amount per worker
  - Jobs for older workers, facilitate savings
- Individual
  - Saving more
  - Working longer

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Thank you for listening

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