

# The Pensions Landscape

---

The Actuarial Profession  
Annual Pensions Convention  
De Vere Grand Hotel, Brighton

7<sup>th</sup> June 2005  
Dr. Ros Altmann  
ros@rosaltmann.com

---

---


---

---

---

---

---



## Outline of Pensions Landscape

- Pension problems + UK pension model
- State pension reforms
- Future for private pensions
- Role of actuaries
- Rethinking retirement
- Conclusions

2

---

---


---

---

---

---

---



## Pension problems

- Confidence collapsing
- State offloading costs onto private sector
- Contracting-out problems
- Expected funded pensions, invested in equities, to deliver better pensions
- UK pension model failing
- Poverty and long-term economic decline

3

---

---

---

---

---

---

---

## Role of pensions?

- Social welfare
- Investment vehicle
- Confusion of welfare and investment roles
- Private sector funded schemes expected to fulfil social welfare and investment functions
- Unaffordable and unsustainable
- Government policy has backfired and is undermining pensions in future

4

---

---

---

---

---

---

---

## Failure of UK model

- State pensions cut too far
  - Lowest and most complex pension system
  - Contracting-out in a mess
- Private employers forced to do too much
  - Revaluation, indexation, spouse cover – huge deficits
  - Most DB schemes closed, DC contributions lower
- Costs and risk of private pensions too high
  - Failure of private sector to offset state cuts
  - Nearly half of pensioners need pension credit
- Vicious circle
  - mass means-testing disincentivises private pensions

5

---

---

---

---

---

---

---

## State pension reforms urgent

- Reform of state pensions is a necessary condition to sort out private pensions
  - State system undermining private pensions
- Pensions not 'suitable' for mass market
- Policy improving supply side, but not demand
- Informed choice and cheap products don't help, if people won't buy!
- Need incentives for employers and individuals
  - Tax relief regressive, inefficient, opaque

6

---

---

---

---

---

---

---

## Radical reforms proposals

- Clarify State pension system – clear division
  - State: welfare role + Private sector: savings role
- Citizen's pension, start age tied to longevity
  - end S2P and contracting out
- End pensioner poverty
  - Means test 40%-100% private pension penalties
- New incentives for individuals and employers
  - matching payments, employer rewards
- Encourage workplace provision
  - economies of scale, access, employers a conduit

7

---

---

---

---

---

---

---

## Private pensions – employer schemes

- Moving to DC world
- Average job tenure 5 years, what is rationale for employers to provide DB?
- DB too uncertain and expensive (>25% pay)
- Failure of MFR – will SSFR be better?
- Wind-up scandals and deficits
- DC more controllable for employer, individuals need to understand

8

---

---

---

---

---

---

---

## Compensation for wind-up victims

- People's lives have been destroyed by our pension system
- Government ignored actuaries' warnings
- Who will trust pensions in future?
  - Told safe and protected
  - Even the GMP has not materialised - neither 'guaranteed' or 'minimum'!
- Government maladministration
- Compensation for victims essential

9

---

---

---

---

---

---

---

## Future of DB schemes

- Final salary schemes now 'pay-as-you-go'
- Many employers won't be able to pay
  - Including public sector?
- Competitiveness issues for private employers
- Hard bargaining with workforce
  - huge problem in running off DB
- Need more diversified investment approaches
- May get interim CARE stage – ultimately DC?

10

---

---

---

---

---

---

---

## Moving to DC world

### 4 elements of DC to be addressed

- Contributions
  - financial planning advice
- Investment vehicles
  - ISA and locked pension?
- Fees
  - not economic one by one, National Savings?
- Annuities
  - capacity? No need to compel with citizens pension

11

---

---

---

---

---

---

---

## Private DC pensions

- If state prevents poverty, defined benefits less necessary – individual choice
- Advice on financial planning – not products
- National savings: cheap, low risk, low return
- Need economies of scale – too expensive one by one – use workplace as conduit
- New products for stakeholder, SIPP
- A-day reforms

12

---

---

---

---

---

---

---

## Compulsion

- Compulsion politically dangerous
- Potential mis-selling scandal if PC stays
- A stealth tax – some forced to over-save
- Government blamed if investments go wrong
  - National Savings capital guarantee?
- Hurt economy and corporate sector
  - Damage wages, profits, employment, investment
- Soft compulsion better?
  - Auto enrolment
  - Put some of annual pay rises into pension

13

---

---

---

---

---

---

---

## Actuarial input needed

- Managing DB deficits
- More diversified investment approaches
- Not just switching to bonds
- Need more than equity risk premium
- Liability focus
- Alternative investments

14

---

---

---

---

---

---

---

## Role of Actuaries

- Lead the debate on affordability of pensions
  - Be honest – no guarantees! Tell it as it is
- Could DB pay only for specified time?
- More creative products – ISA/pension, lifetime savings accounts
- Could actuaries help plan gradual retirement?
- Pensions supplement income, not replace
- 'A' day planning

15

---

---

---

---

---

---

---

## Retirement age

- Just raising pension age to 70 is not the answer
  - Age 70 could soon be just as outdated as 65
- Abolish fixed ages
- Individual differences and flexibility
- Why pay people not to work?
- People are not all 'old' at the same time
- Tie citizen's pension starting age to longevity

16

---

---

---

---

---

---

---

## Rethinking retirement

- Pensions alone cannot solve pensions crisis
- Pensions meant to last 5 or 10 years, trying to live on them for decades – what a waste!
- Bring pensions into 21<sup>st</sup> Century
  - Changes in demography, health, work
- Retirement a 'process' not an 'event'
- New phase of life – part time working
  - Pensions supplement earnings, not replace
  - No fixed retirement age – flexibility
  - THIS IS GOOD NEWS!!

17

---

---

---

---

---

---

---

## Conclusions

- Radical pension reform urgently required
- Clarify state role in social welfare
- Citizen's pension, no means testing
- Private pensions provide investment vehicles
- Employers to facilitate
- Need proper incentives

18

---

---

---

---

---

---

---



**Thank you for listening**

---

**Dr. Ros Altmann**

**ros@rosaltmann.com**

---

---

---

---

---

---

---