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Fundamental Changes Needed Across Pension System. Politeia study explains how new Government can tackle debt ridden system and bring security to the retired.

The new Government has made clear that changes to the pensions system are inevitable and may go further than Labour planned. But Politeia's next pamphlet explains that the problems, under which the system is already buckling, are grave. More fundamental change may be needed if the cost of retirement is to be met.

In *Pension Reckoning: Paying for Public and Private Pensions*, Charles Cowling, a senior Actuary with Jardine Lloyd Thompson, explains that not only are too few individuals saving, or saving enough; but even for successful pension schemes in the public and private sectors, the story is of soaring, possibly unsustainable, costs. Not only are more people living much longer, but pensions have become much more expensive. The private sector is weighed down by a legacy of pension debt whilst the public sector has a mountain of unfunded pension debt. The complexity of these problems is due to a number of different factors:

- Life expectancy has increased – from 50 in 1900 to 80 in 2000. A quarter of all children born today will live beyond 100. Pensions have become a lot more expensive: the cost of providing a pension has doubled since 1990.
- Tax incentives for pension saving have been eroded - for too many people there is no incentive to save for a pension.
- The private sector is weighed down by pension debts: there are nine FTSE 100 companies with total disclosed pension liabilities greater than their equity market value, including British Airways and BT.
- The public sector has a mountain of unfunded pension debt: total liabilities exceed £1,000 billion.
- Regulators are demanding increased protection for pensions, which is adding to the burden of cost.
- People do not save enough for retirement. The DWP suggests that 7 million people save too little and the ABI suggests that 9.6 million working people are saving nothing. The new plan for pension saving, NEST, is complex and will provide only minimal benefits.
- Current pension provision is a complicated mixture of State and Private.

The author analyses the problems and considers what lies behind them. Not only are there serious structural weaknesses in the system, but there has been a reluctance by both public and private sectors to recognise or pay the true cost of pensions, and by politicians to make, and take the voters along with, the difficult decisions that are urgently needed.

The pamphlet proposes the steps needed for reform leading to an effective three pillar system of basic state pension, a compulsory second pension and an additional private and occupational third pillar. These steps include:

The overhaul of State pensions: raising the pension age to 70 or 75; a new enhanced Basic State Pension; abolishing the Second State Pension.

A new, transparent measure for valuing pensions to be introduced with a fair Standard Transfer Value.

Creating new low risk Default Investment Funds to allow people manage the risks associated with DC pension schemes.

Simplifying and Enhancing NEST with changes to auto-enrolment for employees, increasing minimum contribution to 12 per cent of salary, and competition from the private sector.

A radical simplification of the tax system restoring a simple tax framework (EET) for pension savings, with exemption from tax at deduction from salary and before retirement, but income in retirement taxed.

The end of defined benefit schemes through tax changes and the introduction of compulsory defined contribution schemes

Helping employers to manage legacy DB liabilities: the Standard Transfer Value should be used to assist the transfer of pension liabilities to more sustainable forms.

Changing our approach to retirement – removing references to retirement and encouraging people to work on part time or full time.

Pension Reckoning: Paying for Public and Private Pensions, by Charles Cowling, will be published by Politeia on Thursday 15 July 2010. An e-version can be found at <http://www.politeia.co.uk/p117.pdf>

Hard copies are available on request from Politeia.

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