

ELSA/BVZL Summit Keynote Address

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Outline

- Political scene
- Monetary policy impacts
- Secondary annuities market
- Care crisis
- Customer care in aging population

UK political situation

- Crisis for mainstream politicians – far left vs. far right
- Heading for hard Brexit – there's no easy Brexit!
- Parliamentary battles ahead
- Ideological, not logical
- Brexit and populism reflect political dissatisfaction
- Responsibility of monetary policy?

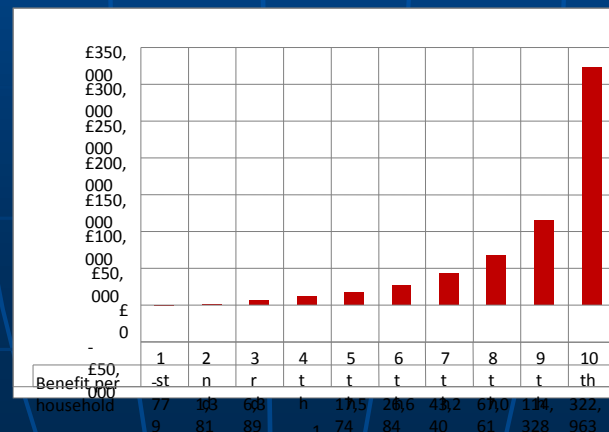
Central bank policies

- Emergency measures considered mainstream 10 years on
- Inflated asset prices – bonds, equities, housing bubbles
- Investors can't be sure what assets are low risk
- Negative yields: return-free risk, not risk-free returns
- QE experiment has unintended consequences
- Significant financial, social and political impacts

QE worsens inequality – populist anger?

- Exacerbated inter-generational inequality
- 80% of financial assets held by people aged over 45
- Widens wealth inequality - bottom half of US citizens own 2% of equities, bonds, mutual fund assets
- Top 5% of UK households hold 40% of all assets
- QE boosted asset value of top 10% by £322,000 each!

Bank of England analysis 2012



Winners vs. Losers

Winners	Losers
Government/Treasury	Pension Funds
Banks	Annuity purchasers
Older people	Younger people
Wealthy households	Poorer households
Borrowers/homeowners	Savers/renters

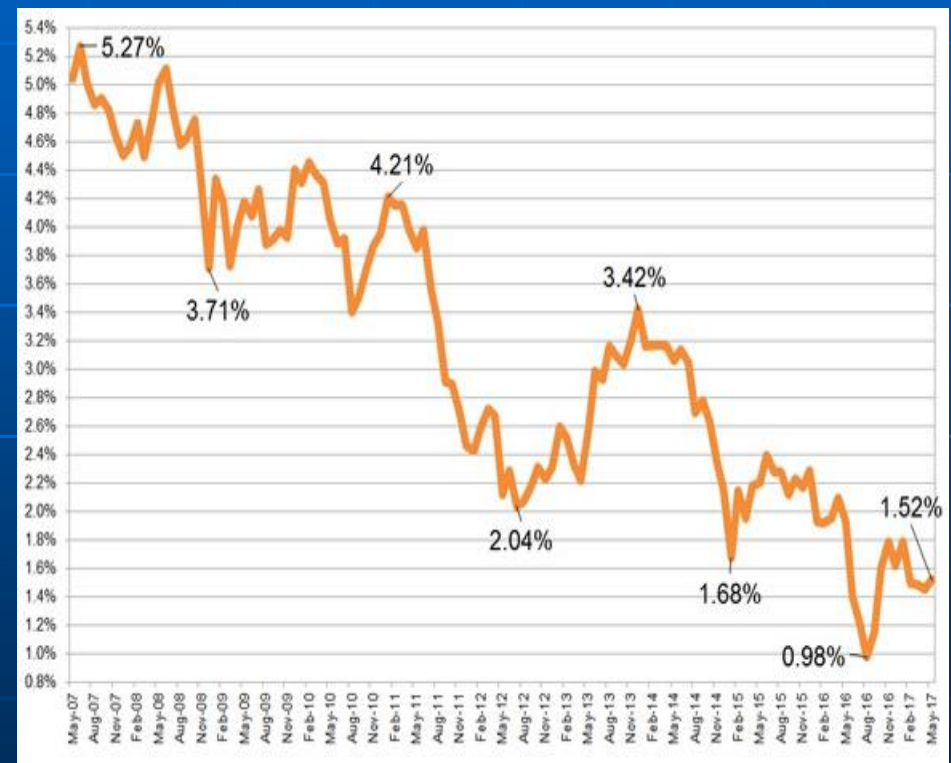
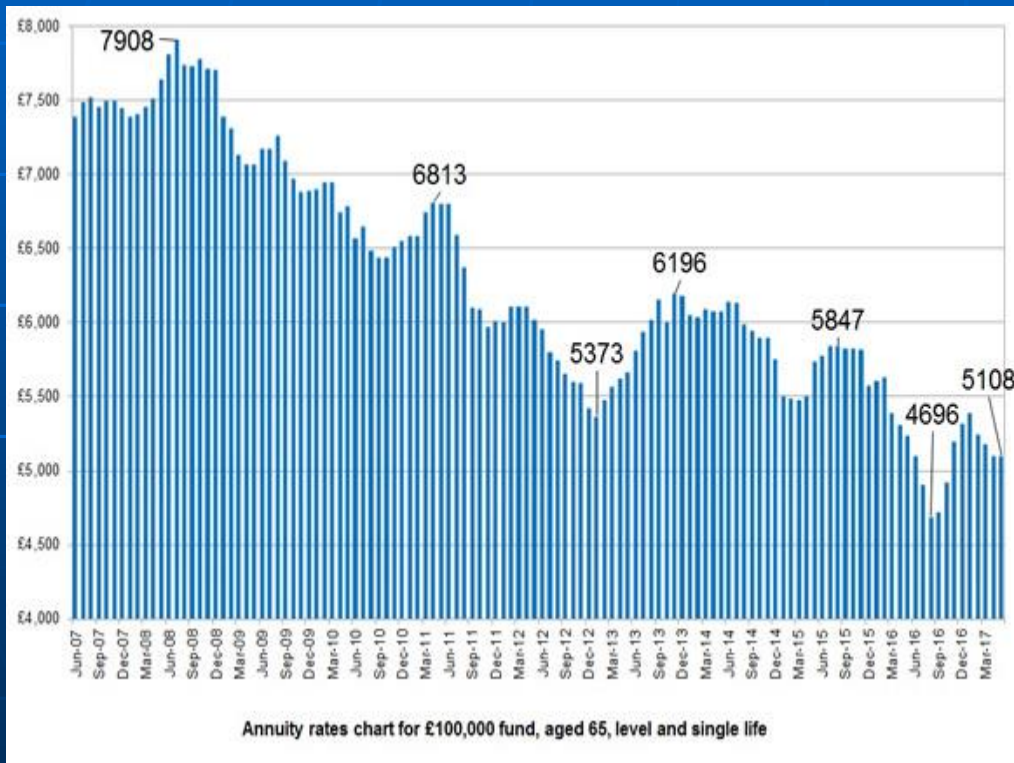
- Is QE actually deficit financing in disguise
- Markets willing to be fooled in their self-interest
- Who would lose if Central banks just let bonds run off

Overcoming QE drawbacks

- QE relies on distorting yields and boosting asset prices
- But erodes value of money and reduces pensions
- Possible alternative solutions less politically toxic?
 - Temporary tax breaks for capital projects
 - Direct SME investment support
 - Use pension/insurance assets to boost growth directly
 - Helicopter money?

QE hit pensions and annuity income

Annuity rates and gilt yields 2007-2017



UK Secondary Annuities Market abandoned

- Shock announcement October 2016 due to consumer protection concerns
- PensionWise could have delivered mandatory guidance
- Legislation already passed, Government now wants to remove it from statute book in current Bill
- I've tried to ensure it's transferred to new guidance body
- Can already sell an annuity if <£10,000
- Millions of annuitants may now be locked in for life

Potential beneficiaries of secondary market

- Many people disappointed, could have been protected
- People forced to annuitise but don't need the income
- Those with GAR but only single life
- Those who want to pass money to inheritors
- People with large debts who need money
- People who might want some money for care

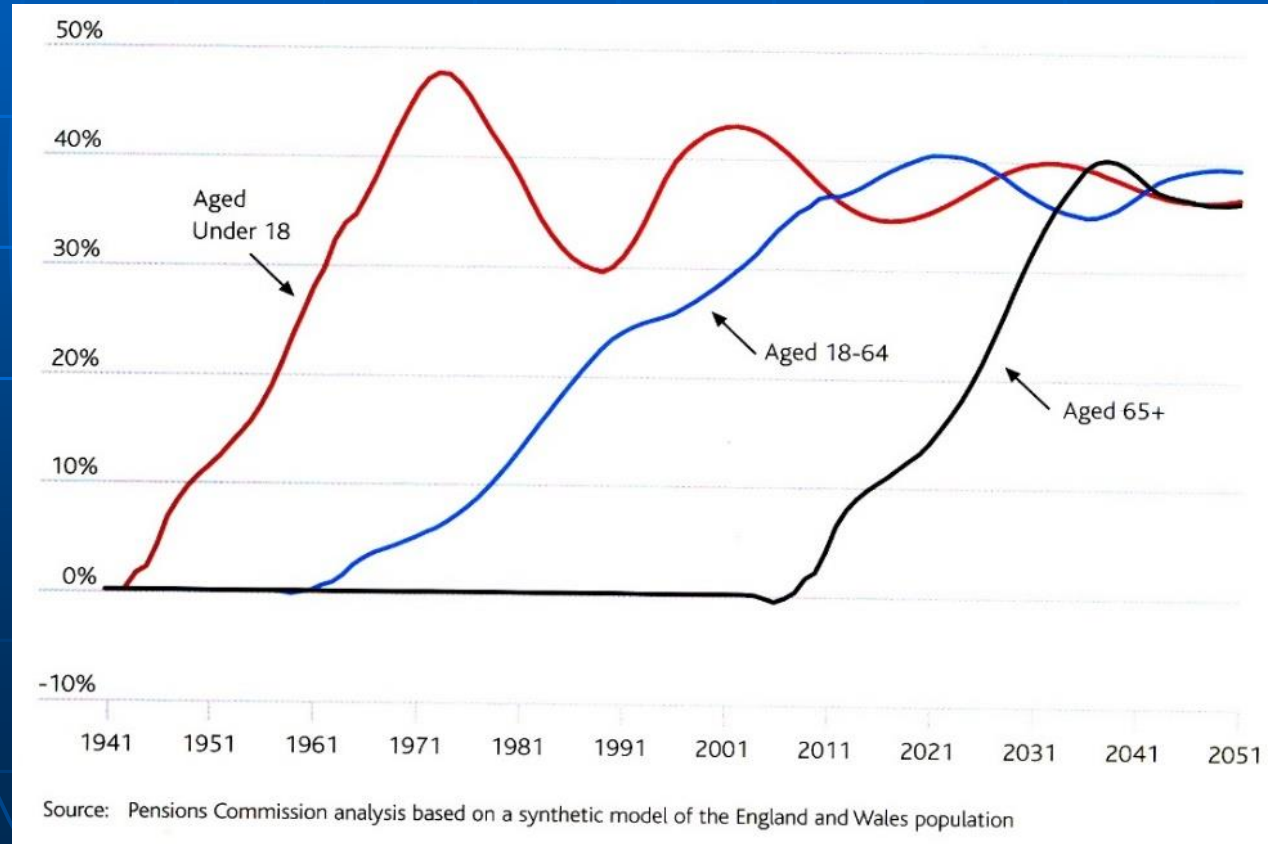
Care crisis

- Worse than pensions crisis – can't delay start
- No money set aside at national, local or individual level
- Lack of funding means falling standards and NHS strain
- Inadequate information/advice – people don't plan ahead
- Need to help people allocate savings or save more for care

Demographics demand action Now!

Failure of political courage – leave to next Govt

Huge rise in numbers age 85+ ahead



Current products only at point of need

- Long-term care is silent enemy of welfare budgets
- UK products can only help at point of need
- Need products to help people plan for future care
- Care annuities, equity release, life insurance
- US allows life insurance to pay early to fund care
- Medicaid Life Settlements

No single solution

- Incentivise baby boomers to save more if still earning
- Incentivise older boomers to keep existing savings for care
 - Pension withdrawals tax free if used for care
 - Care ISAs – free of inheritance tax if unused
 - Workplace Savings – auto-enrolment?
 - Family Care Saving Plans
 - Annuities that allow annuitants to 'accelerate' future income to pay for care if needed

Long term reform needed too

- Will need combination of savings and insurance
- Tax on inherited estates?
- National Insurance extended to care?
- Basic care topped up by private savings up to a cap
- Private insurance with fixed payouts
- Could help with prevention – e.g. house insurer demands locks, smoke alarm, burglar alarm

Financial products to help customers

- Aiming to improve people's lives
- Better financial outcomes
- Need to consider the customer
- Too many scandals undermine confidence
- Pensions and other financial regulations tightening
- Good work being done to improve outcomes

ELSA Code of Practice updated

- Raises the bar for the industry
- Greater transparency for investors
- Explain potential risks and charges clearly to investors
- Including risks associated with Cost Of Insurance rises
- Valuation best practice e.g. independent administrators
- Importance of data security

Ageing population should be great news but...

- Politicians have failed to rise to long-term challenges
- Haven't prepared for care crisis
- Insurance, annuities, pensions and savings can help
- But monetary policies may accentuate political risks
- More diversification, new products, sensible regulation, creative thinking can improve people's lives
- Populism poses dangers if people's lives worsen



Questions



Comments

Let's discuss...

The views expressed in this presentation are solely those of Baroness Ros Altmann and do not constitute any investment advice

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