

Future of Pensions in our changing world

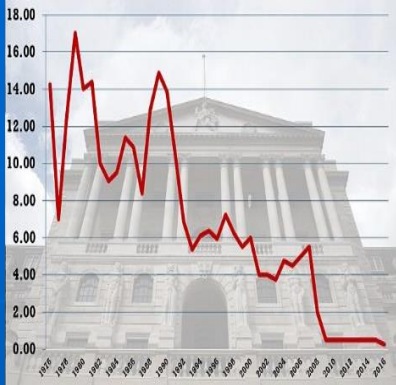
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A changing world for pensions

- QE
- Investment risks
- Demographic shifts
- Retirement and care needs
- Populism, Brexit and politics
- Future of pensions policy

INTEREST RATES HIT RECORD LOW

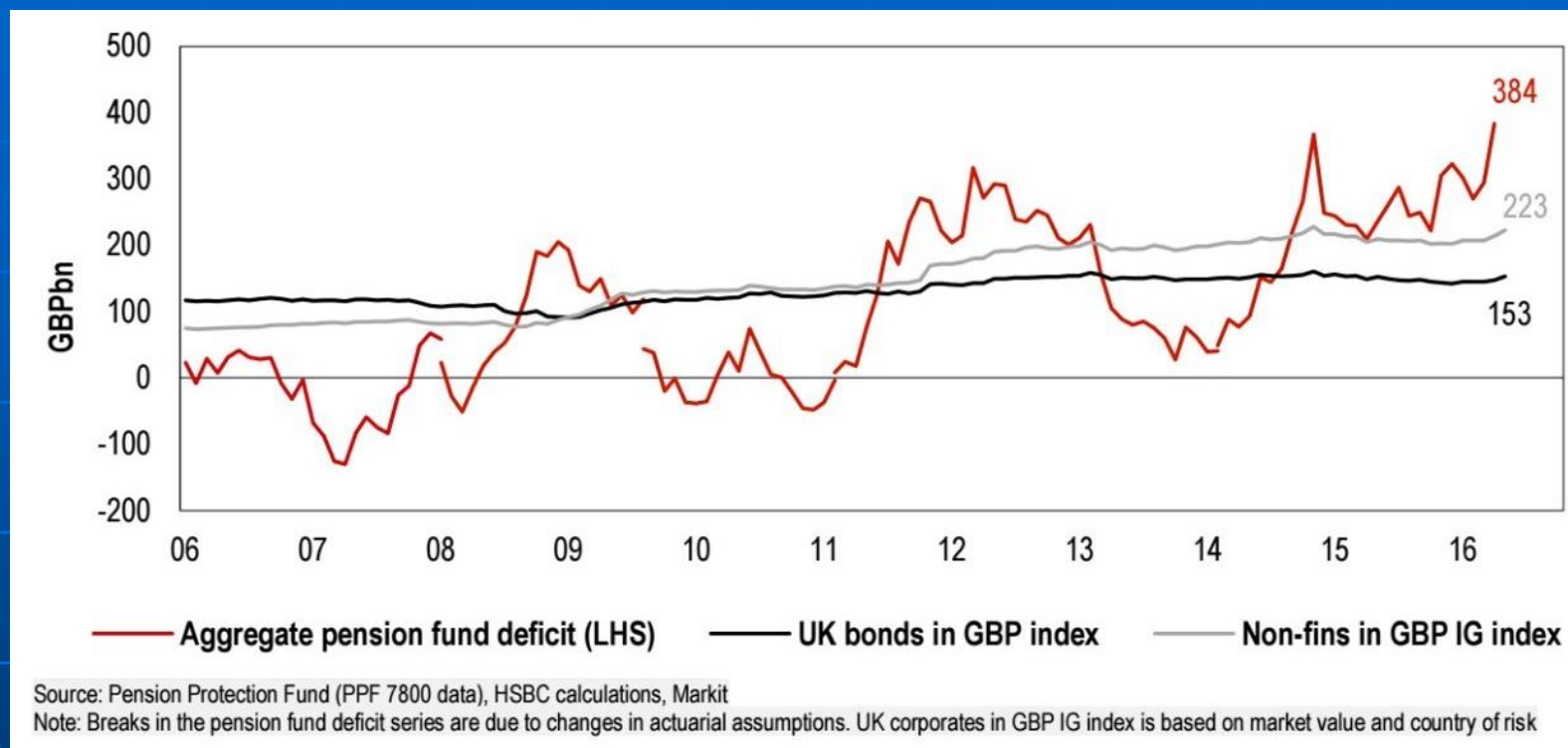


QE hits pensions

- BoE had cut short-rates to near zero
- Created new money to cut long rates too
- Increased DB liabilities, deficits and annuity costs
- DB schemes now cost >50% of salary – 85% closed
- Companies battling with deficits and buyout costs
- Aimed to boost asset prices to help growth and jobs



Massive rise in pension deficits post-QE

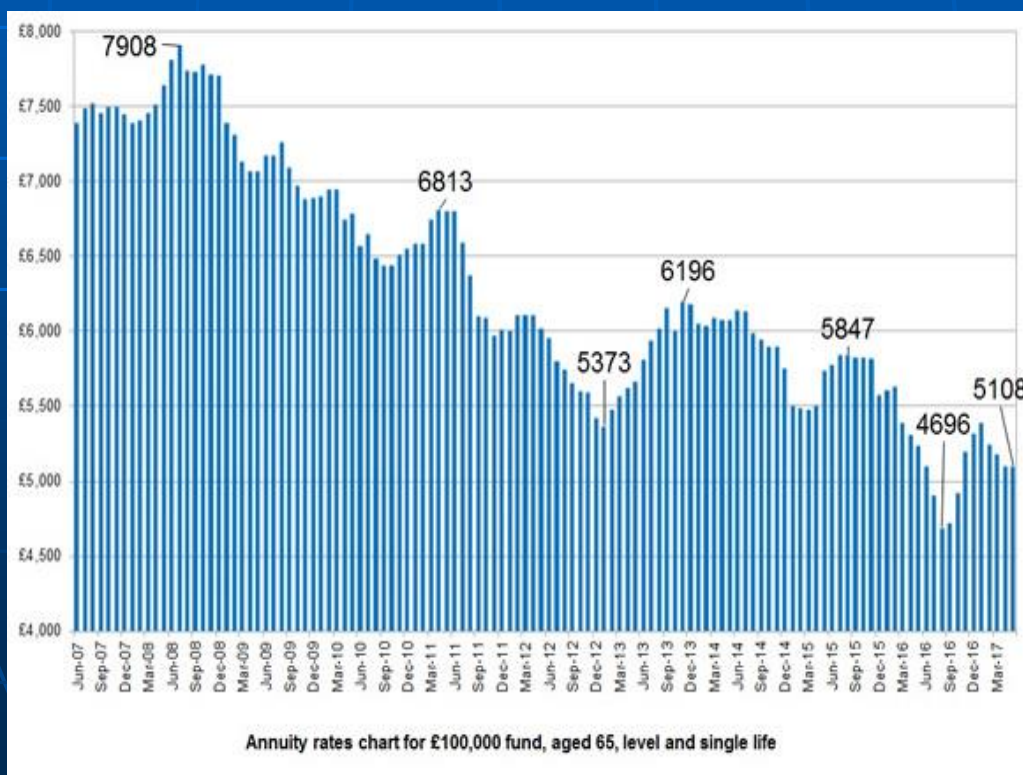


Source HSBC

- Liabilities risen more than assets
- Deficits over £500bn on non PPF basis

Sharp increase in annuity costs post-QE

- £10,000 pension at 65 cost £125,000 in 2008
- £10,000 pension at 65 cost £200,000 in 2017
- 60% increase



Pensions and investment risk post-QE

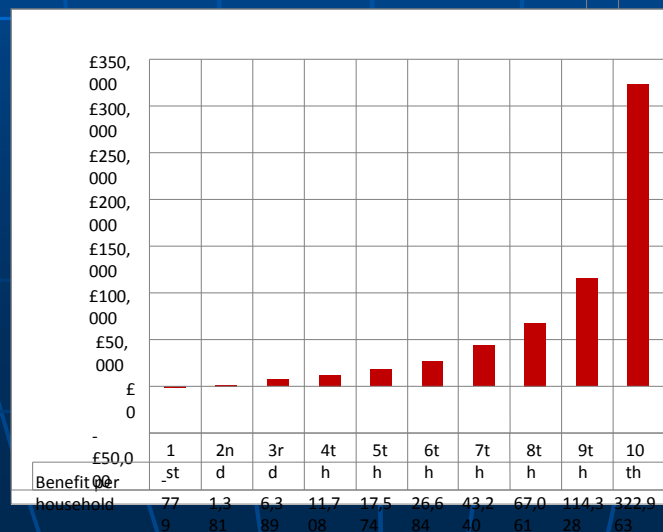
- As deficits worsen trustees 'de-risk' with gilts/bonds
- Equity allocations fallen from 60% 2007 to 30% 2017
- Bonds increased from 28% to 51%
- But are risk models reliable as QE distorts 'risk-free' rate?
- 'Risk-free returns' or 'return-free risks' – negative yields?

Pension investment challenges

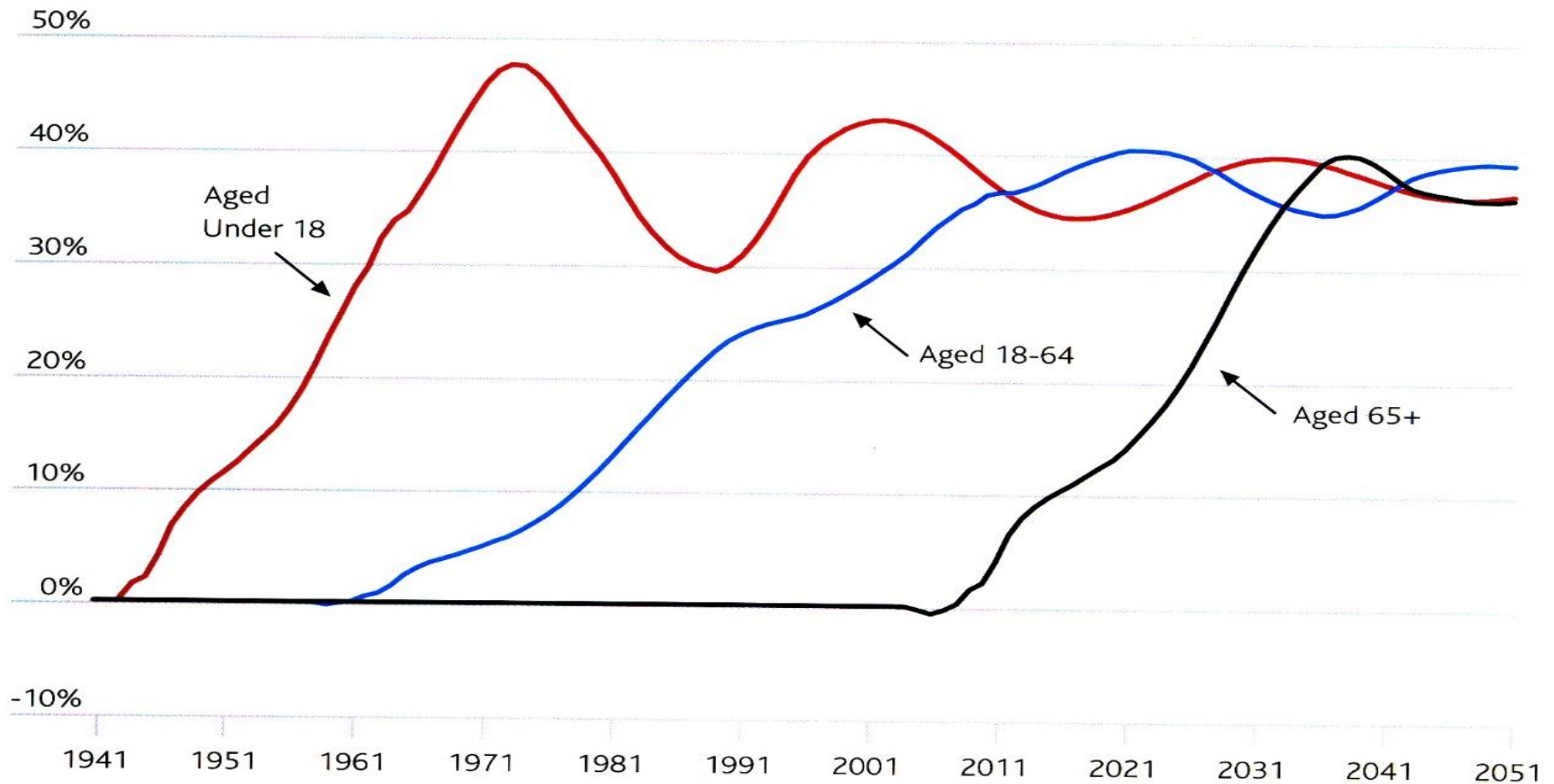
- Manage risk, not minimise risk
- Is selling potentially higher return assets 'de-risking'?
- Or just locking in deficits?
- Bonds don't actually match liabilities
- And need to outperform liabilities to fix deficit
- Diversification gives more types of investment risk premia

Political problems created by QE

- Greater income, wealth and generational inequality
- Making wealthiest wealthier
- 80% of financial assets held by people aged over 45
- Intergenerational tension, young struggle without assets
- And DB deficits have reduced wages
- Rise in DB costs means lower pensions in future



Demographic shifts – baby boomers aging



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

Retirement and pensions must change

- Rising longevity – good news
- Early retirement with aging population – bad news
- Rethinking retirement essential – extend working life
- Freedom and Choice paves way for new approach
- Lifestyle, target date, out of date
- New approaches for accumulation and decumulation

Education and advice vital for the future

- Need to engage customers
- Help with financial planning for life
- Understand benefits of pensions and investing
- Gamification and positive messages
- Socially responsible investing

Pensions and social care

- Social care crisis needs national solution
- Artificial distinction between healthcare and social care
- No funding or insurance set aside to pay for this
- Pension income not enough to meet care needs
- Families need a care funding plan, with cap and floor
- Saving incentives, tax-free pension withdrawal, Care ISAs, equity release, money from estates

Brexit, Populism and Policy

- QE helps Governments, banks, the wealthiest
- Ordinary working families and the young feel left behind
- Populist backlash
- What can be done? Tapering causes market meltdown
- Will QE just turn into fiscal financing – never repay?
- People's QE next? – the Money Tree Policy Committee

Policy agenda slimmed down as focus on Brexit

- Manifesto pension and care proposals abandoned
- Care reform review, no means-testing of Winter Fuel
- Cridland response – no change
- Auto-enrolment review – no new burdens on business
- DB Green Paper – more pooling, regulatory powers
- Reform of pensions tax relief? MPAA? Lifetime Limit?

The future in our changing world

- Engage customers, harness technology, auto-escalation
- Pensions dashboard – who will fund it?
- Improved governance, reduced fees
- Lifetime ISA and reform of pensions tax relief?
- Must promote pensions to help people save more

Any questions?...

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