

Don't let this crisis go to waste


Simplification is the key

Self-sufficiency is the key

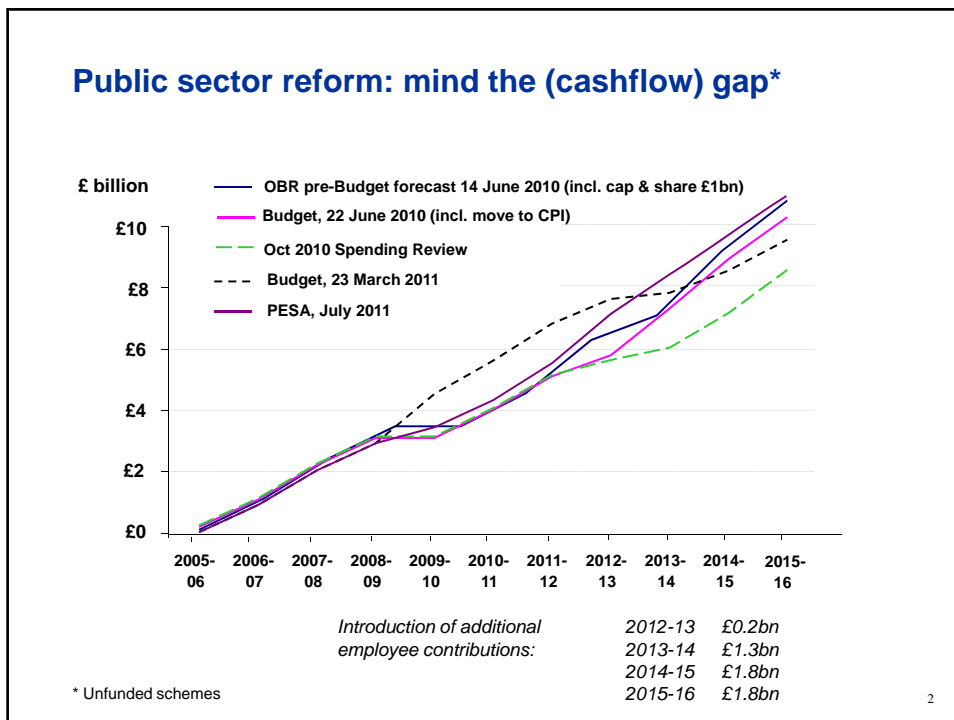
Pensions: no coherent plan

16 November 2011

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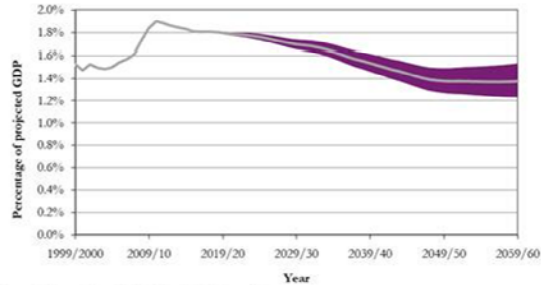


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Open to interpretation

Chart 1.B: Projected benefit payments as a percentage of GDP – sensitivity analysis



Source: GAD projections for IPSFC and IPSFC analysis.

Note: The fan chart shows how the projections would be affected by altering assumptions about productivity growth, public service workforce growth and life expectancy (see Annex C of the interim report).

Assumptions	Hutton	What if?
Workforce	0.25%	-0.25%
Productivity	2%	1%
Real earnings	2%	0%

⇒ Modelling risk

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Fair?

Contributions	2010-11*		2015-16 post-Hutton		
Employees	£5.4	21%	£7.2	22%	+£1.8bn
Employer	£16.0	} 79%	} £25.8	78%	from taxpayers
Gap (Treasury)	£4.5				
Pensions in payment	£25.9		£33.00		

- Contributions as a proxy: 12% vs. 33% to 37% **3x**
- “Far, far better than the private sector”.....why should they be?

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Cave in

- Older workers “grandfathered”
- Accrual rate up to 1/60 from 1/65 “8%”
- Cost ceiling: 17%-21%, now 20%-22% 17%, £5.4bn. } *Excludes gap*
- Cost cap.....design unspecified
- “No more reform for at least 25 years”.....bonkers
 - State Pension?

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Quick wins needed

- NRA = SPA: big *long-term* savings.....but of no political value
- Quick wins:
 - RPI to CPI
 - Higher contributions
 - End contracting out
 - Tax relief
- Strike, please

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Stop negotiations, step back, prepare the ground

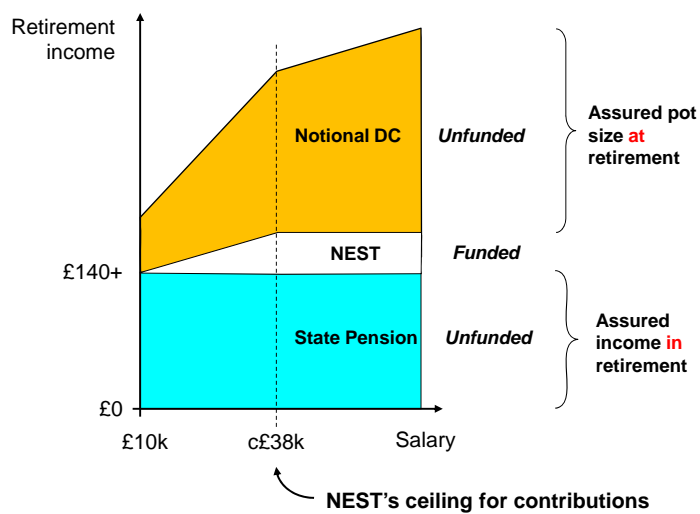
- Raise the State Pension above G'tee Credit
 - Means-tested benefits; virtuous circle + £8.6 bn p.a. (max)
 - End S2P and contracting out + £3.9 bn p.a.
 - End higher rate tax relief + £6.9 bn p.a.
 - End all tax relief? + £30 bn p.a.
 - Gen Y and ISAs

+ 2 years Compulsory NEST participation + CARE DB

+ 10 years Notional DC to replace CARE DB (NEST on-going)

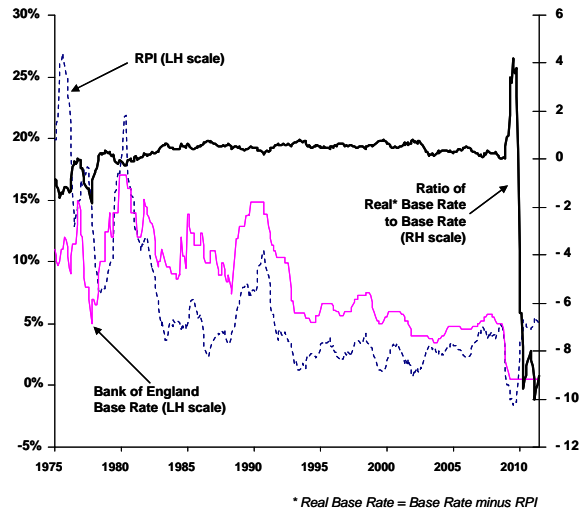
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Overview in 2021



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Pushmi-pullyu government; a lack a common purpose



- NEST default fund strategy?

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Regulation

- RDR: ministerial misery?
 - Increase professional standards? Pass
 - Broader access to advice Fail
 - Consign IFA label to history. Think “planning”
 - End “independent” / “restricted” distinction
 - Annual advice fees: on an “opt-in” basis
 - End all legacy trail commission
 - Simplified advice?
- Demand much more assertive scheme governance
 - Total transparency IMA disclosure tables?
 - Professional trustees?
 - Expose inefficiencies of small schemes: scale up? LGPS?

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An unhealthy industry

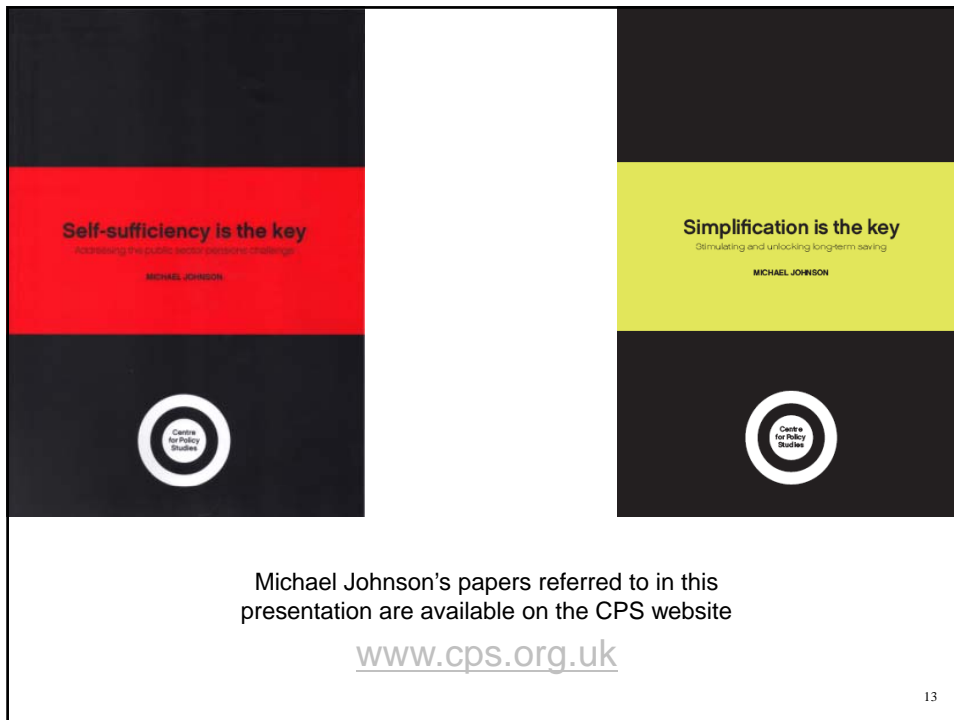
- The agency problem (care of delegation by principals)
 - Opacity and moral hazard
 - Cost chains
- Information asymmetries
 - Inefficient markets
 - Excessive industry costs, borne by customers
 - Smaller savings
- Ask some big Qs:
 - What would make industry employees proud to go to work?
 - What could the industry do to demonstrate that it shares a common purpose with its customers?
 - What is the industry's purpose?
 - Is the industry worth keeping?

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Conclusion

- Public sector: more reform inevitable
 - NEST compulsion: golden opportunity help catalyse a savings culture
 - The vision: pensions equality across sectors
- Concentrate state's limited capacity for longevity risk into higher State Pension
- FSA and TPR
 - Wholly supply-side focused: issue is lack of demand
 - "What would we be talking about amongst ourselves, and what would we be doing, if we shared a common purpose with the industry's customers?"
- Industry is dysfunctional
 - State intervention justified (e.g. NEST)
 - Mass mutualisation?

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Self-sufficiency is the key
Assessing the public sector's pressure challenge
MICHAEL JOHNSON

Simplification is the key
Demulating and unlocking long-term saving
MICHAEL JOHNSON

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Michael Johnson's papers referred to in this presentation are available on the CPS website
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