Imagine what we could do if we got pensions right

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Jeremy Corbyn has talked about the "People's QE," or money-printing to invest in economic growth. But the people have the money already.

By Nigel Wilson / November 3, 2015

We should have a financial system where our slowly ageing population can use low-cost digital technology to save adequately for a longer retirement, which should include meeting costs of care.

We should make much more productive use of peoples' retirement savings as they accumulate—investing for growth, productivity and jobs in ways which are directly visible to savers.

We should help people make well-informed choices about how to access their funds in later life, using the whole of their "personal balance sheet," without paying away excessive sums in advice charges, fees and commissions.

And we should use the pensions infrastructure to "lean in" to a world where governments face mounting affordability issues with state benefits.

We have made huge progress in pensions thanks to insightful thinkers like Adair Turner and dedicated, knowledgeable Pensions Ministers like Steve Webb and Ros Altmann, but we still haven't got it quite right.

Auto-enrolment has been a genuine policy success with five and a half million people now signed up to save for a pension. "Pensions Freedom" was a popular move and most people appear to have exercised choice sensibly. We are coping with the slow run-off of company defined benefit schemes and their replacement with defined contribution savings.

But the well-respected Institute for Fiscal Studies (IFS) says the state pension “triple-lock” may not after all be affordable over the longer term, the Treasury’s whole of government accounts highlights a fast-growing unfunded liability of £1.3 trillion for public-sector pensions, and since 1979 we have had over 1,000 separate pieces of legislation—a third of them tax-related—which have impacted the pensions landscape. We can have a better, fairer, more comprehensible solution.

Auto-enrolment holds the key to improving financial resilience, not just in old age. Here are four steps that could be taken.

Fairer Pensions, Better Value

The tax subsidy for pension saving is expensive and unfair. Tax relief at the marginal rate costs government £50bn annually, two-thirds of it going to higher rate taxpayers. George Osborne’s reforms should deliver a simple flat rate of 20 per cent relief, enabling him to deliver deficit reduction without punitive changes to tax credits. It should be rebranded in supermarket-speak: “for every four pounds you save, we give one pound free.” The financial industry should respond by cutting fees and charges: the cap for auto-enrolment fees needs to move from 0.75 per cent to 0.5 per cent. Digital process improvements mean our industry can afford it and consumers deserve it.

Investments that Drive Growth

Pension assets in the UK amount to £2 trillion. The UK’s local government pension schemes hold £190bn. In a world of low interest rates and investment returns, everyone wants the best investment performance possible. But everyone should also want to know that their money is being invested productively for the broader economy. A small shift in asset allocation towards infrastructure, and capital market mechanisms for investing in the mid-size companies that are driving tomorrow’s growth, should enable pension savers to fund the homes, environments and jobs their children will need in the future.

Savers should know what their money is invested in: as a proud Northerner, I would want to know that my pension savings are being deployed to regenerate Leeds and Newcastle to provide jobs and opportunities for the next generation where I grew up.

Using the Whole “Personal Balance Sheet”

Many people tell me “my house is my pension.” It is an important half-truth. Half-true because, if the state pension is worth around £200,000 at the point of retirement, and typical private pensions worth around £80,000, then the value of a property—say £180,000, but much more in the South-East—is the third major component of the personal balance sheet. But half not-true because it is not easy to access the equity value in a house.

England’s over 60s have more than £1 trillion of housing equity. A third of them want to right-size, but the choice doesn’t exist—only 2 per cent of UK housebuilding is designed for older people. We need to change this by building more tailored housing in the right places, and by making savings locked-up in housing more accessible through a bigger lifetime mortgage market that also delivers better value through lower costs.

Build on the Success of Auto-Enrolment

Pension auto-enrolment provides a framework of digital “plumbing” that could be used as part of a reformed social security system that aligns to the original principles of Beveridge settlement and brings it up to date for an era of greater personal responsibility and tighter government expenditure.

“Beveridge 2.0” offers a chance to provide mass-market “rainy day savings”—like workplace ISAs—as well as benefits that pay out much more than contributory JobSeekers Allowance or Employment Support Allowance in the event that a person loses earnings due to temporary unemployment or sickness. It is also the way to address long-term care costs.

The mass-market, highly digital, nature of the systems enables these to be delivered much more cheaply than through National Insurance. A corresponding cut in NI for the low-paid would be a further move towards an economy where higher real wages reduce reliance on the government, and help end the myth that the low-paid don’t pay tax: NI starts being levied on earnings below £7,000.

So getting pensions right is possible, and it is very worthwhile. Jeremy Corbyn has talked about the “People’s QE,” or money-printing to invest in economic growth. The people have the money already: it is for our industry, working with government, to channel it more effectively to deliver greater resilience and prosperity to individuals, families, and the country as a whole.

Prospect’s Andy Davis will be chairing a roundtable discussion titled: how can auto-enrolment help those that most need it? On Tuesday the 10th of November 2015.

The discussion will bring together parliamentarians and industry representatives to explore how well auto-enrolment is working, and how auto-enrolment infrastructure can be deployed to promote a savings culture in Britain. If you’d like to receive a write-up of the discussion, please contact david.tl@prospect-magazine.co.uk.