Centre for Policy Studies

# Pointmaker

## SOME SUGGESTIONS FOR THE NEW PENSIONS MINISTER

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Ros Altmann, the new Pensions Minister, will not be short of things to do. Her widely respected predecessor, Steve Webb, led many initiatives, but some are on-going and require continued stewardship (such as the introduction of the single-tier State Pension in April 2016). In addition, there are other pensions-related themes that require attention. Summarised below is a wish-list of recommendations for the Pensions Minister to consider, followed by some additional proposals which would need Treasury co-operation.

Collectively, these suggestions are, from the Treasury's point of view, at least cost-neutral. In addition, by encouraging the rebirth of a savings culture, they would if sensitively implemented lead to both greater independence and prosperity for individuals in their retirement; and greater sustained economic growth for the whole nation.

1. **Establish a grand vision for saving.** Suggestion: to encourage a broad-based savings culture, with the aim of raising the nation's household savings ratio from 5.9% (Q4 2014) to the 1980's average of 13%, say. This would require reconciling inherent pushmi-pullyu instincts within government, notably between the Treasury (keen on consumer spending, to boost VAT receipts) and the DWP.

2. Devise a strategy to realise that vision, while **adhering to the following guiding principles**:

   - the pursuit of simplification, transparency and inter-generational fairness should trump commercial interests. In other words, put the saver first;
   - regulation rarely engenders trust between consumers and the industry. Robust, fiduciary, trust-based governance is likely to be much more effective;
   - costs are controllable; asset performance, by and large, is not;
   - bear in mind that few enter the financial services industry with the expressed purpose of enriching others. The consumer suffers accordingly; and
   - attracting cross-party political consensus on pensions policies is a virtue.

3. **Rapidly increase today's private pension age of 55** (scheduled to rise to 57 in 2028) **to 60 in 2024**, i.e. by a year every two years, commencing in 2016. In addition, the DWP should consider preparing people for a retirement age of 65 by 2030-35. Such a move would focus minds on longer working lives, commensurate with the significant rise in life expectancy over recent decades.[1]

4. **Seek to eliminate the industry's profitable inefficiencies and rent-seeking behaviours.** For example, the "pension product" wrapper is used to justify an annual charge simply for "holding assets", expressed as a percentage of assets held. This is rapidly becoming an expensive issue for pots in decumulation, for which there is no justification: a small flat fee per year should suffice, as per a conventional nominee account. Indeed, some Stocks and Shares ISA providers charge nothing to hold client assets. Be prepared to impose charge caps.


More specifically, promote "transfers liberation" to boost the use of custodians rather than platform providers, to reduce costs. Holding assets, and their re-registration between different pension wrappers, whether workplace or personal, should be quick, simple and cheap.

5. **Monitor the roll-out of auto-enrolment into workplace pensions**, particularly SMEs' opt-out rates. Prepare the ground for raising contribution rates, today's destination of 8% of band earnings being insufficient. Consider how to bring a form of auto-enrolment to the self-employed.

6. **Include ISAs in the auto-enrolment legislation**, branded the Workplace ISA.

7. Rapidly sort out the small pots problem. **Scrap Pot-Follows-Member in favour of aggregation.**[2]

8. Establish a few "value for money" benchmarks, then identify the key policy levers that would help deliver them when (i) accumulating and (ii) accessing savings. A spotlight should be placed on the active fund management of listed assets, relative to the passive alternative.

9. Encourage NEST (and its competitors) to develop a **collective drawdown capability to enable retirees to pool their longevity risk.** In addition, immediately liberate NEST from its restrictions (the annual contribution cap and ban on pension transfers), rather than waiting until 2017, subject to operational readiness.

10. In five years' time the annuities market could be growing rapidly, in a rising interest rate environment. For retirees who want certainty of income in retirement until the day they die, annuities have no competition. **Establish a not-for-profit national annuities auction house** to automate the process of shopping

[1] Proposal 3, ***Auto-protection at 55***, (CPS, 2015).

[2] ***Aggregation is the key: Retirement saving nirvana for consumers***, (CPS, 2013).

around, adding to pricing tension and transparency. This would be similar to making the exercise of the Open Market Option mandatory for aspiring annuitants, and should be considered an essential pre-requisite for today's annuitants looking to sell. All aspiring annuity providers (which could include the state) would be required to participate. Initially, only a limited number of standardised single- and joint-life, inflation-protected lifetime and deferred annuity contracts would be listed. Pre-auction aggregation of small pots by the house would encourage stronger bids.[3]

11. **Simplify the regulatory framework**. Concentrate all DC schemes within the Financial Conduct Authority's domain, including group personal pensions (currently regulated by the Pensions Regulator, TPR), and fold the Pension Protection Fund (PPF) into TPR. The FCA and TPR could then be left to focus on two distinct communities, contractual and voluntary (i.e. provision of pensions by employers), monitoring different risks (DC and DB) and requiring different forms of communication.[4]

## PENSIONS-RELATED, BUT TREASURY DOMAIN

1. Simplify the tax framework: **combine National Insurance contributions (NICs) and Income Tax into one Earnings Tax**.[5]

2. Signal that the **triple lock indexation of the State Pension** (the maximum of earnings, prices and 2.5%) **will cease in 2020**, to be replaced by CPI.

3. **Replace today's tax relief framework for pensions contributions with a simple 50p per £1 saved**, up to an annual allowance of £8,000, **paid irrespective of taxpaying status.** Cap total combined annual ISA and pensions contributions at £30,000 and scrap the lifetime allowance.[6]

   The ultimate destination should be the merger of ISA and pension tax regimes, to hugely simplify the savings landscape: a Lifetime ISA to serve everyone from the cradle to the grave.[7]

4. **Map a course to pure DC for public service pensions**, perhaps in the form of a collective DC scheme, leading to participation in a post-retirement risk-sharing pool (with the option to come out).[8]

5. **Combine the 101 disparate LGPS funds into a single fund with four separate, competing, asset allocators**.[9]

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3 ***A market-orientated solution to the problem with annuities***, (CPS, 2012).

4 ***Pensions regulation: governance to the fore?***, (CPS, 2014).

5 ***NICs: the end should be nigh***, (CPS, 2014).

6 ***Retirement saving incentives: the end of tax relief and a new beginning***, (CPS, 2014).

7 ***Introducing the Lifetime ISA***, (CPS, 2014). ***Time for TEE: The unification of pensions and ISAs***, (CPS, 2015).

8 ***Self-sufficiency is the key: Addressing the public sector pensions challenge***, (CPS, 2011).

9 ***The Local Government Pension Scheme: Opportunity knocks***, (CPS, 2013).

***What price localism? A case study: the Local Government Pension Scheme***, (CPS, 2014).

## THE AUTHOR

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