



How to solve Britain's pension crisis

Embargoed: Not for broadcast or publication until September 22nd 2009

The Government will fail to protect millions of Britons from poverty in old age unless it makes vital changes to the way in which it plans to introduce personal accounts, according to research by the RSA.

In its report '*Pensions for the people: addressing the investment crisis in Britain*' the RSA concludes that although the Government's policy of auto-enrolment and personal accounts represents a big opportunity for UK savers, the scheme must be extended to cover pension payments above £3,600 if it's going to have a major impact.

The report says that by limiting pension payments to £3,600 many savers across the UK will be forced to open private pensions that often charge exorbitant costs (often up to 40% of the value of their pension).

Written by David Pitt-Watson, a leading pension fund manager and founder of Hermes Equity Ownership Service, the report argues that this simple step would not require employers to match higher levels of saving; merely that higher savings can be placed in, and invested through, the same pension pot.

The RSA proposes that the infrastructure of the personal accounts system should be made available to a wide range of approved providers that conform to the basic principles of responsibility and low cost.

The pensions system would then begin to look like the energy industry, where a natural monopoly is accessed by a variety of different suppliers who act primarily as sellers. That reform has achieved impressive savings for consumers. By cutting out marketing and persistency costs, this change would be able to do much the same.

Pensions for the people also makes the case for the development of a new type of pension fund that would cut costs by two thirds, increase returns on pension savings by up to 50 percent, and work to ensure companies are run in the interest of long-term owners.

Working closely with APG, one of the world's largest pension funds and fund provider, initial costings confirmed that it is possible to provide all the main elements of the proposed fund, subject to scale, for around 0.5 percent. Over the lifetime of their pension, that would cost about 12% in fees and administration. At present, a typical private pension in the UK might cost 1.5% per annum, or nearly 40% over the life of the pension. Under the RSA's proposals, instead of receiving 60p for every pound invested, savers would receive 80p.

Commenting on the report RSA Chief Executive Matthew Taylor said: "Without making changes to the way the personal accounts scheme is implemented the Government will struggle to get the project to come in on budget. Limiting pension payments to £3600 also sends a dangerous message to the public that saving £3600 a year will be enough to support themselves through their retirement."

Commenting on the report, David Pitt-Watson said: "The Government only need make slight modifications to its current plans for PADA if it's to solve the pension crisis. If it opened the scheme up to cover pension payments above £3,600, then it would reduce costs for the many not just the few."

Commenting on the report, Shadow Pensions Minister, Nigel Waterson MP said: "Any government must tackle the pension's crisis as a priority, to ensure our citizens can look forward to security and dignity in retirement. So I congratulate the RSA on a timely contribution to this important debate. It is a well-informed, well-argued and thought provoking document. I look forward to a continuing dialogue with the RSA on this and other topics."

Commenting on the report, Shadow Chancellor of the Exchequer, Vince Cable MP said: "This is a fascinating and worthwhile proposal. It does not address all the key pensions issues, particularly the problems of the lowest paid. But it has two features which fit well with Liberal Democrat values. Firstly, it opens value-for-money pension provision beyond the present constraints imposed on PADA by existing legislation. Secondly, it offers a route for real engagement in good corporate governance on behalf of pension scheme beneficiaries."

Commenting on the report, Dr Olaf C H M Sleijpen, managing director institutional clients, APG Group said: "We believe it possible and practical to create the fund described in the report. Further, with a system of personal accounts, the UK could enjoy the best features of the Dutch system, which your report singles out as best practice in Europe."

Notes to editors

1. **For more information contact Luke Robinson, RSA Head of Media on 020 7451 6893 or 07799 737 970 luke.robinson@rsa.org.uk**
2. David Pitt-Watson is the founder of Hermes Equity Ownership Service, the largest shareholder stewardship programme of any fund manager in the world. He was formerly head of all Hermes shareholder activist activities. He has enjoyed a varied business career, both as a prominent City investor and as a senior strategic advisor.
3. *Pensions for the people: addressing the investment crisis in Britain* is part of the RSA's Tomorrow's Investor project.

4. The Tomorrow's Investor advisory board includes Sir John Banham, Alastair Blair, Robin Ellison, Philip Goldenberg, Vicky Pryce, Matthew Taylor and Lindsay Thomas.