

## JLT 'White Paper' – Top five pension policy recommendations to avoid mass poverty among the elderly

- ***Calls to reform pensions by making saving and the 'OMO' compulsory; raising State Pension Age; getting DC right; introducing NI relief on employee contributions; and presenting all financial projections in today's values;***

JLT Benefit Solutions has launched its 'White Paper' on "*The future for pensions in the UK*", which provides an up to date analysis of the UK's private pension landscape and a series of recommendations to ensure adequate provision in retirement and avert mass poverty amongst future generations of retirees.

The Paper was launched at a panel discussion, which included Steve Webb the Minister of State for Pensions, at the Liberal Democrats' party conference in Brighton.

The main recommendations outlined in the White Paper are:

- 1. Saving will need to become compulsory**  
Increased levels of savings will be required; the 2017 review of auto-enrolment should begin to consider increases to minimum contributions whilst, in the 2022 review, compulsion should replace auto-enrolment and mandatory increase to contributions will be necessary to achieve Pensions Commission recommended income replacement rates;
- 2. Early increase of the State Pension Age to 70 initially, then further over time**  
The retirement age to which individuals aspire must reflect the substantial improvements in life expectancy, the true extent of which have only recently been appreciated. Longer lives must translate into longer working lives;
- 3. Getting DC right is an imperative**  
If the future of workplace pensions is DC then we have to get it right by encouraging much better engagement with members and using technology to bring DC 'alive' and promote behavioural change;
- 4. Pension projections should be quoted net of inflation and NI relief for employee contributions should be introduced**  
There needs to be a significant improvement in understanding of finance and pensions. A practical first step would be the presentation of all financial projections relating to pensions in today's values (net of an allowance for inflation). Also, National Insurance should not be charged on income set aside for pension provision;
- 5. The Open Market Option should become compulsory** to allow for the maximum return on savings at retirement

**Mark Wood, Chairman of JLT Employee Benefits, said: "*The implications of this extend far beyond the millions not currently saving enough for their retirement as Society has to face the increasingly difficult question of who will support those who have not saved enough for retirement. A 'defined ambition' for pensions is now required.*"**

### **1. Saving will need to become compulsory**

Auto-enrolment will increase pension scheme membership and pension savings significantly but minimum compliance with the reforms will, for many people, not be enough to provide for a comfortable retirement.

JLT estimates that an employee on median earnings contributing for 40 years into a pension requires a total pension contribution rate of 20% of auto-enrolment 'band' earnings to achieve the target income in retirement recommended by the Pensions Commission (67% of gross earnings). Alternatively, at the current minimum contribution rate of 8%, employment and contributions would need to continue for a further 8 years beyond State Pension Age (i.e. to age 76) to achieve this target of two thirds of final earnings.

## **2. Early increase of the State Pension Age to 70 initially, then further over time**

The retirement age to which individuals aspire must reflect the substantial improvements in life expectancy. Society cannot easily afford a retirement system where 40 years of working life are required to support over 40 years out of the workplace.

We therefore need to work longer to ease the cost of building pension (over a longer period) and the State Pension Age probably needs to be increased higher and faster, initially to age 70 and possibly even to age 75. At the same time the traditional 'cliff edge' retirement model needs to be replaced by a more flexible retirement model and a progressive move from full-time work to full time leisure.

## **3. Getting DC right**

If the future of workplace pension provision is defined contribution (DC), then getting it right is an imperative. This applies to both the accumulation and decumulation (payout) phases.

There needs to be a focus on encouraging much better engagement with DC members through the use of online technology, facilitating enhanced investment and annuity options.

Charges should be transparent and must always represent value for money but, for now, we do not believe they need to be controlled through regulation.

Investment guarantees come at a price, but more investment options aimed at giving members the possibility of increased certainty and helping them manage and diversify risk are required.

## **4. Pension projections should be quoted net of inflation and NI relief for employee contributions should be introduced**

Auto-enrolment represents a major burden for employers in terms of both cost and administration. JLT believes that introducing National Insurance (NI) contribution relief on employee pension contributions could simplify and encourage pension savings and save business significant costs, at little or no cost to the Exchequer (as companies are avoiding the NI contribution in any event).

There needs to be a significant improvement in people's understanding of finance and pensions; in particular, the cost of providing for an old age pension. JLT recommends that the Government sets up an independent enquiry to investigate and make recommendations on financial literacy across the UK population.

A fundamental barrier to people achieving a better understanding of long term pension planning is the inclusion of inflation in financial projections. As a result, in future, all financial projections relating to pensions and long term savings products should be presented in today's values (net of an allowance for inflation).

## **5. The Open Market Option should become compulsory**

According to the Pension Income Choice Association, retirees who use the open market option when searching for a pension annuity could collectively earn £3.3 billion in extra income by 2030. The importance of 'shopping around' at retirement is so significant in terms of member outcomes that we believe regulation should require members to be given and exercise an open market option when buying an annuity.

**Mark Wood continued: *"Persuading people to accept that they must work well beyond the age at which their parents retired while diverting current spending into saving at sufficient levels to finance future living expenses requires both a level of understanding and a set of incentives beyond what exists today.***

***“Without these changes the austerity which we confront today will be no more than the early stages of a long term economic downturn. Economic growth will inevitably be depressed as an increasing proportion of the population is in retirement and has insufficient income to maintain levels of consumption.”***

ENDS

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**Editor's Notes:**

**About JLT Benefit Solutions Limited**

JLT Benefit Solutions Limited (JLT) is one of the UK's leading employee benefit providers offering a wide range of benefit and pension services, including administration, actuarial and pension consultancy, investment, wealth management, Self Invested Personal Pensions (SIPPs), Small Self Administered Schemes (SSASs) flexible benefits, healthcare, benefit communication and financial education.

Authorised and regulated by the Financial Services Authority, JLT employs over 1,300 professionals in the UK with revenues of some £137m in 2011. The acquisitions of HSBC Actuaries and Consultants Limited and iimia Wealth Management have supported JLT's continued expansion to become one of the four largest employee benefits consultancies in the UK. JLT was awarded Pension Scheme Administrator of the Year at the 2010 European Pensions Awards and won the Engaged Investor's Most Innovative Pension Consultancy Award in July 2011

Other pensions, employee benefits and wealth management companies within the JLT group of companies include: Profund Solutions Limited, Independent Trustee Services Limited, JLT Wealth Management limited, JLT Investment Management Limited and JLT Pension Capital Strategies Limited.

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