

A Review of the pension's scene – death, retirement and later life funding

Speaker:

Date:

Randle Williams,
Group Investment Actuary, Legal & General

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For this session The FS club, sat down for dinner and heard Randle Williams talk about mortality but not about the afterlife which clearly doesn't need pensions support.

To what extent are we living longer?

Randle started with a look back in time. In 1910 most people died before reaching pensions age. Any savings provision paid for the funeral. Until fairly recently most people who reach old age died in the age bracket 55-79.

During the 20th century there were step falls every decade until the 1970s. More and more people were reaching the 75-80 bracket, but the mortality tables failed to capture the future improvements. In the 1950s we knew we were going to live longer but the tables didn't say so.

The stark improvement in the century can be seen from the child mortality rates. In the decade 1901-1910 the child mortality rates were 43% for males and 47% for females, by 2001 this had reduced to 6% for both males and females.

This trend has started to reverse in the USA where the child death rates are now getting worse mainly due to obesity.

Killer diseases such as cancer and heart disease are getting better treated and there is a worldwide approach to "smoking cessation"; but the rates of improvement are slowing

What's happening with retirement?

Randle produced a chart of the percentage of "retired in "westernised" European countries

	1980	2050 (predicted)
Germany	23.4	41.6
UK	23.3	30.0
France	21.9	37.6
Ireland	18.2	30.8

He noted that Japan has a greater % of over 100 than any other country.

He then postulated the model "work for 30 years then live for 30 years more" based on higher education and not starting your working life till in your 20s.

What is your life expectancy?

We were shown another interesting table (years still to live)

	Male		Female	
	1981	2003	1981	2003
At birth	70.8	76.3	76.8	80.7
At age 60	16.3	20.2	20.8	23.4
At age 80	5.8	7.3	7.5	8.7

What does this mean for pensions and is there a crisis?

There is a perceived pension's gap of £27bn
 One third can't save at all
 One third can't save enough

What has been the response?

Stakeholder pensions
 "A" day
 Age discrimination legislation
 NPSS

What are the key issues?

The actions have been targeted at the bottom two thirds
 These are the hardest to reach
 Distribution does not work
 Individual not groups
 There is no simplified process
 Impact of means tested benefits
 Is it just switching?

What has been the impact on the market?

Simpler products
 Cheaper products
 Overall lower commissions
 Little "new money"

Will immigration help the crisis?

There are 447,000 new EU entrants
 600,000 total entrants
 A high number are Polish
 The average age is in the 18-34 category
 6% have dependents
 The immigrant population is well dispersed

Who is not earning?

In 1997 over 30% were not earning
 In 2006 less than 27% are not earning
 Encouragingly at last new jobs are finally better paid than jobs being lost

What were Randle's conclusions?

Demographics do matter
 Immigration may have a positive impact
 Reaching the unpensioned (the poor) is a challenge
 Simplifying pensions is an oxymoron
 Stopping work abruptly may go.