

**For Immediate Release**

## **PENSIONS PANACEA OR PENSIONS PERIL?**

### **A MAJOR NEW REPORT FROM SCOTTISH WIDOWS EXAMINES THE LIKELY OUTCOMES OF THE GOVERNMENT'S PROPOSED PENSION REFORMS IN THE WORKPLACE**

- **Employees could increase their income from Personal Accounts by 32% by retiring at 68 instead of 65, but few are willing to work that long.**
- **A median earning woman paying in to a Personal Account throughout her working life may only receive 69% as much pension from it as a man in the same position.**
- **Changes to means-testing could mean that the self-employed receive little benefit from saving for retirement.**
- **Only 23% of companies are likely to leave existing pension schemes untouched when Personal Accounts are introduced in 2012**

A major new report, published today by Scottish Widows, concludes that the Government will have many hurdles to overcome if it wishes to avoid a pensions crisis through the introduction of Personal Accounts, as suggested in the Pensions White Paper. While there is widespread public support for many of the principles behind Personal Accounts, there is considerable resistance to starting to save earlier or working longer. Also, a third of adults (34%) say they cannot afford to save anything for their retirement – leading to the very real possibility of millions of Brits opting out of the new savings scheme when it is introduced.

Although Personal Accounts will mean that all people in full time employment will be provided with a pension (with the option to decide not to take advantage of the savings scheme if they so wish) the Scottish Widows report shows that women and the self-employed are still likely to lose out. In addition, employers are likely to 'level down' their pension provision to the Personal Account's minimum for new staff.

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## **Personal Accounts – the employer’s view**

Research by Deloitte, co-sponsored by Scottish Widows, found that less than one quarter (23%) of employers are likely to retain their current pension contribution rates for new and existing employees after 2012. Almost two-thirds (65%) are expected to retain current contributions for existing staff, but will offer new employees contributions more in line with the Personal Accounts minimum (3% employer contributions and 5% employee contributions, including tax relief). If this trend is followed through, UK workplace pension provision will be less generous for many than it is today, although auto-enrolment will mean that almost all employees will have access to a pension arrangement.

### **Ian Naismith, head of pensions market development, Scottish Widows commented:**

“There is widespread agreement that employers have a vital role to play in helping their staff provide for their retirement. It is very worrying that companies who already have generous pension arrangements are likely to reduce their contributions once Personal Accounts are introduced, and the Government needs to make it as easy and worthwhile as possible for them to retain their existing arrangements.”

## **The capacity to save – the employee’s view**

Most employees feel there should be some obligation on employers to contribute to pension arrangements. Almost four out of 10 (39%) support the proposal for Personal Accounts where the employer is required to contribute as long as the employee is willing to pay in, while one in three (33%) go further and believe that all employers should have to contribute to pensions, regardless of employee contributions.

However, employees are very reluctant to work beyond traditional retirement ages, with 58% saying they would be angry if forced to work after age 65. Analysis commissioned by Scottish Widows from the Pensions Policy Institute (PPI) suggests that the three years between age 65 and the proposed State Pension Age of 68 could make an enormous difference. For a median-earning man who has contributed continuously from age 22, his Personal Account pension could increase by as much as 32% through a combination of the extra contributions paid, investment growth and a better annuity rate at the higher age.

In addition, consumers believe it should be possible to defer saving for retirement until age 28 without impacting on their ability to maintain a decent standard of living in retirement. This will also affect retirement income, although to a lesser extent than working for an additional three years because most people earn less in their 20s than later in their careers. Putting off saving

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for the six years between age 22 and age 28 could reduce income from Personal Accounts by 11% for a median-earning man.

34% of consumers said they could not realistically afford to put anything aside on a monthly basis, which suggests that Personal Account opt-out rates could be high.

**Ian Naismith, head of pensions market development, Scottish Widows commented:** “All of our research points to the importance of financial education if consumer expectations are to become aligned with Government thinking by 2012. You can lead a horse to water but you can’t make him drink. It is clear that working for just a few years longer than you might be planning to can make a huge difference to retirement income, but we need to see a major shift in consumer attitudes if they are to enjoy the benefits of that.”

### **The winners and losers under Personal Accounts**

Although most full time employed men will be served well under Personal Accounts, it is a different story for women and self-employed workers. According to data from the Pensions Policy Institute (PPI), an employed man on median earnings who contributes continuously from age 22 until he retires at age 65 could receive £74 a week in ‘real’ (earnings-related) terms from a Personal Account at age 68. The equivalent pension for a woman is just £51 a week (69% of what the man receives), with the difference arising from lower average earnings and more expensive annuity rates. Women are also much more likely than men to take career breaks, or work part-time, which further hits potential retirement income.

Self-employed people will they have no access to the State Second Pension (S2P) and no employer to contribute to their pensions. A self-employed man on median earnings might receive only £46 a week from a Personal Account in real terms, even if he contributes at the same rate as an employed man continuously from age 22 until he retires at age 65. To make matters worse, the effect of changes to means-testing could mean that he is only £12 a week better off at age 68 than if he had saved nothing at all, and only £2 a week by age 78. This is because changes to the Savings Credit mean that those who are not entitled to State Second Pension will lose £1 of means-tested benefit for every £1 of personal income on a significant part of their pension.

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**Niki Cleal, Director of the PPI, commented:**

“The work the PPI has undertaken for Scottish Widows shows the significant difference working later can make to retirement income, and the potential impact the new Personal Accounts could have on retirement income for women and the self-employed. This work is an important contribution that will help the Government understand the implications of the new Personal Accounts for different groups of people and highlights the need for further research in this area.”

**Ian Naismith, head of pensions market development, Scottish Widows commented:**

“The Government’s reforms mean that many women will get a much better deal from State pensions than at present, but despite the introduction of Personal Accounts they will continue to lose out on private provision. The position of the self-employed is a particular concern. Not only do they lose out on State Second Pensions and employer contributions, but the changes to means-tested benefits work against them and mean that much of their incentive to save for retirement is lost.”

**- ENDS -**

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**Notes to editors:**

The research to support the report was carried out by YouGov who interviewed a total of 5,806 people over the age of 18 between 16<sup>th</sup> and 22<sup>nd</sup> of March 2006.

The Deloitte study “Pensions Reform in the Workplace was sponsored by Scottish Widows, Aegon, Axa and Standard Life and was based on the views of 750 employers.

The Pensions Policy Institute report “Case Studies for Scottish Widows” is also published today, and models possible financial outcomes from Personal Accounts for a range of consumers.

**Scottish Widows** was founded in 1815 as Scotland’s first mutual life office. Becoming part of the Lloyds TSB Group in 2000, Scottish Widows has become one of the most recognised brands in the life, pensions and investment industry in the UK. The product range includes ordinary long term insurance, such as life assurance, pensions, annuities and permanent health insurance, and savings and investment products. Using a multi-sales network of Financial Advisers, Direct Sales, Direct Marketing, the Internet and via the branch network of Lloyds TSB, Scottish Widows currently employs about 4,000 people.

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