

PRESS RELEASE

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No need to panic about pensions

On average we are living longer, but worry and confusion over pensions has turned what should be a good news story into a bad news story. The air is thick with headline estimates of "savings gaps" and "black holes" running into tens of billions of pounds. Individuals fear they will have to work till they drop and analysts fret that the economy will suffer as people in work have to transfer more financial resources to people who are no longer working.

But a report out today from Tomorrow's Company, an independent business-led think tank, argues that there is no pensions crisis and that as a society we can afford to grow old. The report, "The Ageing Population, Pensions and Wealth Creation", challenges the assumptions which have created this sense of crisis.

Philip Sadler, one of the report's authors, said: "There is no ageing crisis. As a society we can afford to grow old. Rising productivity will outweigh any negative influence on living standards from an ageing population."

In particular, the report says that:

- * Terms such as "support" and "dependence" can be seriously misleading; rather than estimate what resources might be required to provide a decent pension by comparing the number of people over 65 with the number of people of working age, it makes much more sense to compare the number of people in work with the number of people who are not working; this total economic support ratio is unlikely to be greatly different in 2041 than it was in 1961.
- * More saving is not the simple solution it is often said to be; savings do not automatically translate into more productive investment; excess saving can depress the economic growth essential to financing pensions; moreover, the UK has more wealth in pensions than the rest of Europe put together - the problem is that it is unevenly spread.
- * People should be free to work longer but this, too, is not necessarily a simple solution; it is uncertain how great the demand for older workers will be.
- * The key issue is productivity; if productivity grows at even 1.75 per cent per year, lower than recent trends, the average British worker will produce twice as much goods and services in 2045 as now; this makes any plausible change in the total economic dependency ratio easily manageable.
- * Rising productivity means that a universal taxation-funded state pension is feasible; this would involve ending means testing and contracting out.

- * Government must ensure that the economic framework encourages growing productivity and output; it must also remove barriers to more widespread saving and working longer, for example by abolishing means testing and getting away from the all or nothing assumption which dictates retirement at 65; a decent and universal, tax-payer funded pension is affordable and should be introduced.
- * Managers and owners of companies will have an increasing responsibility to run their businesses in such a way as to create the wealth underlying future pensions, even as defined benefit pensions decline in importance.

Alan Pickering, a partner of Watson Wyatt who contributed the foreword to the report, said: "When it comes to pensions, wealth creation is far more important than wealth distribution. We need a modern labour market which provides lifelong access to learning, which is the key to lifelong earning opportunities. As it is, we are still pensioning people off in their prime."

Since it is impossible to forecast accurately what the UK will be like 30 to 40 years from now, the report argues that it is dangerous to draw up a pensions regime that supposedly anticipates how society will look in 2045. Philip Mullan, a co-author of the report, said: "Provided that there is no major shock to the economy in the immediate future, we can do the sums for the next five years and begin to learn about adapting to the increase in ageing. We can repeat the process each quinquennium thereafter and so on until the baby boom bubble has subsided."

The report follows last year's Tomorrow's Company report "Restoring Trust - an inquiry into the effectiveness of the UK investment system". It concluded that the financial services industry must restore trust in itself, for example by developing a set of principles and standards and setting targets for progress and continuous improvement.

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Notes to Editors:

1. The report is available from:
Tomorrow's Company
235-241 Blackfriars Road,
London SE1 8NW
www.tomorrowcompany.com
2. "Restoring Trust" was published in June 2004 and is available from the same address.
3. Tomorrow's Company is a not for profit research and agenda-setting organisation committed to creating a future for business which makes equal sense to staff, shareholders and society. Its business-led programme of publications, events and activities focuses on three issues fundamental to the future of business:
 - an improved investment system
 - an inclusive approach to leadership and governance
 - closing the gap between business and society.

Having had a strong influence on business leadership and governance in the UK, Tomorrow's Company is now approaching these issues on an international basis under the theme of Tomorrow's Global Company.