



Michael Caine's World of Pensions

Steve Delo, independent trustee of the year

The Pensions Management Institute kindly invited me to speak at its Spring conference in March. The metaphor for my session was Sir Michael Caine, British icon and arguably the most compelling movie star this country has ever produced. I thought I'd share a few of those observations in this edition's article.

Michael Caine guest-starred in *Inception*. And just as in that story we must be in a dream as our wonderful pensions system – once the envy of Europe – is now a mess. In the film, we know it's all a dream as we see Paris bend in on itself. In pensions, it must be a dream. Surely the Barber Judgment can't still be an issue 21 years on?

We are now approaching the point where a decent retirement won't be achieved by anything short of a robbery. The greatest force at our disposal to create meaningful retirement incomes – the final salary scheme – is now facing its demise. It's like the bus at the end of *The Italian Job*, ready to fall over the cliff with no way back. Was it really Gordon Brown, not Michael Caine, saying: "Hang on a minute, lads. I've got a great idea..."

Apparently, there are now only one million employees in open defined benefit (DB) schemes – dwindling numbers holding out against massive odds, rather like in *Zulu*. We knew DB was in mass decline and governments have tried to stem the flow with regulation, but this has pretty much been the equivalent of adding a few thousand more Zulus to the enemy forces.

Now, of course, we have the latest chunk of 'let's reinvigorate pensions' legislation set to land, with auto-enrolment, etc. *Too Late The Hero?* I certainly wouldn't describe any Government action on pensions as heroic. Maybe bravely optimistic.

One part of the DB world has been in good health: the public sector. But even these iron-clad schemes are set to be hobbled. *Get Carter?* Get Hutton more like. There is no doubt the public sector pensions 'problem' needs addressing, but it presents a paradox. As a tax payer, I want these costly things slashed, but as a pensions professional, I don't. It sends an entirely wrong message; how can a government encourage saving with one hand while chopping it back with the other?

Governments keep tackling pensions with various standalone initiatives but they then fail because all the issues are so tightly interwoven. The handling of public sector pensions has huge implications for private sector behaviour. Let's remember: people still don't trust anything 'pensions', and they think people involved with pensions are *Dirty Rotten Scoundrels*.

All a member had to do under a final salary

scheme was 'join and forget'. Many people have found their way to a comfortable retirement by this simple process, but defined contribution (DC) members must 'join and engage'.

The pensions industry always wrestled with how to communicate the sheer value of DB schemes to members, and it found a great

way of doing it – it took them away. For many companies, DB simply became too much of a risk. In the World of Pensions 2011, all the talk is about risk. But in this risk reduction frenzy are we going *A Bridge Too Far*? I shall answer that question, with the ongoing help of Sir Michael Caine, next time.

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