

Delivered on the 18th June 2015 to the House of Lords by Baroness Altmann CBE.

Minister for Pensions Baroness Altmann's maiden speech to the House of Lords on proposed reforms to state and private pension systems.

My Lords, I am proud and honoured to stand here today as a Member of this House and I would like to thank my noble friend Lord Flight for initiating this debate and for the many important and interesting points he raises, which I look forward to discussing with him. I would also like to thank the other noble Lords for their kind words. I must say I am finding this such a friendly place. I am enormously grateful to my 2 supporters, my noble friends Baroness Wheatcroft and Lord Freud and I am also grateful to the Doorkeepers and all the wonderful people who make this great place work so well.

I am particularly pleased to be among so many notable experts, who have a deep knowledge of the UK pensions system. As someone who has studied and advised on pension policies independently, I am excited to have joined the government with the opportunity this gives me to work inside this House to try to deliver the important pension reforms already underway.

In the past 15 years or so, I have worked really hard to help ordinary pension savers. I have been involved in a number of campaigns trying to achieve justice for those who have lost out in our pension system and it has been a privilege to have been able to make a difference to so many people's lives. That is what motivates me. I earnestly hope that, in my new role, I will be able to help many more – time will tell. I wish to thank the many noble Lords who have already shown me such warmth, kindness, support and friendship since arriving in the House.

As this is my maiden speech, may I just share with the noble Lords a few words about my background. My mother, a wonderful woman, well-liked by everyone tells me I always had a strong sense of social justice, helping others wherever I could. Even at school I would stand up for those who were bullied. I remember my parents being proud of me for defending a friend and telling me 'don't stand by, stand up, stand strong'.

My parents and their families were refugees from eastern Europe, who arrived here with nothing. My grandparents were always so grateful for the freedoms and opportunities they enjoyed in this wonderful country of ours. I have been asked why I chose 'Tottenham' as my place and can assure the noble Lords that this is not because I have a hidden talent playing football. Actually, my father's parents lived at their small shop in Tottenham, Hale Bargain Store. I have many fond memories of serving in the shop, and then walking to football at White Hart Lane holding hands with my father and granddad in the Tottenham Hotspur glory days. As I am the last of my family of 'Altmann's', I have chosen Tottenham as my 'place' as it holds many special memories of my time there.

Sadly, my father passed away in his 50s and never reached retirement. This is quite poignant for me given that my career has focussed on helping people prepare for and enjoy retirement. After reading economics and studying at Harvard, I completed a PhD on Pensions and Later Life Poverty at the London School of Economics. I then worked in the City and spent many interesting years managing institutional assets – mostly pension funds.

I took time out after having my third child and then returned to corporate life, as an independent consultant, working on pensions and investment policy. I advised the Treasury and the Number 10 Policy Unit, while also working with many top international firms on pension investment, risk management and member security. That work led to public recognition as a pensions expert and consumer champion, which is ultimately why I am here today, among such distinguished company.

Turning to the subject of today's debate, I'd firstly like to express my gratitude to the important work done by the Pensions Commission in generating the momentum that has brought us to the point we have now reached.

The commission's excellent analysis showed that any system of private pension saving needs to be considered against the background of the State Pension, and rightly, in my view, concluded that means-testing must be reduced, State Pensions should be flat-rate with the widest possible coverage and should rise in line with earnings; and that private saving must be facilitated.

That is why the delivery of the new State Pension, rolling out auto-enrolment to all employers and ensuring customers are treated fairly in the new pensions landscape will be major priorities for me as I do my utmost for both the pensioners of today and the future.

The reforms put in place so dedicatedly by my predecessor in the last government are now reaching a critical stage. I am well aware that the real tests for success are still to come, notwithstanding the encouraging trends so far.

The value of the basic State Pension as a proportion of earnings had been in almost constant decline since 1978. However, with the introduction of the triple lock, the previous government helped to ensure that today's pensioners now receive the highest share of basic State Pension relative to earnings in 2 decades, so that pensioners were protected even in tough times.

Indeed, the basic state pension was £560 a year higher by the end of the last Parliament than if it had just been uprated by earnings. We must continue to recognise the contribution made to society by older people, and maintaining the triple lock aims to help give pensioners the greater financial security and certainty they definitely deserve.

The current State Pension system is, however, one of the most complex in the world. State Pension provision has undermined private pension saving, as too many pensioners just ended up on means-tested benefits that penalised their private income. The new State Pension will significantly reduce pensioner means-testing. People therefore know what to expect from the State Pension, so they can plan any additional personal retirement income they may want or need on top.

Unfortunately, the new State Pension has not yet been properly understood. This is mainly because of the complexity of contracting out, and we need to communicate this more clearly.

Rising longevity means that successive generations are spending longer and longer in retirement. This is, of course, pretty good news! However there are also huge cost implications for State Pensions, which is why we will have an independent review of the State Pension age by 2017. I

want the review to consider not only rising life expectancy but also wider social, occupational and gender factors.

As regard the pension freedoms, there are some who say the financial industry or the government know best what people should do with their private pension and that most people can't make sensible decisions for themselves. Well, I disagree. Yes, some may be reckless and most will need protection, guidance, and even advice, but the new pension freedoms are right in my view. I have long been an advocate of trusting people with their own money. I was acutely aware of how the one-size-fits-all approach of the past meant too many people (unless they had very large pension funds) were forced to buy annuities that were often not suitable for their needs.

The previous system most benefited the wealthy, but we have now offered more choice and flexibility for the majority of savers too. The reforms are particularly helpful in that they use the tax system to incentivise people to keep money in their pensions into later life. By taxing lump sum withdrawals, removing the 55% tax on death and allowing pension savings to pass to the next generation free of inheritance tax, there are strong reasons for people to keep pensions rather than spend them too soon. These reforms will also encourage more people to save in pensions in the first place.

Of course we must also make sure that customers have good value options to choose from. The pensions industry needs to help individuals act as they would like to and as the law now allows, but so far, too many firms are not offering many new options to their customers, or are imposing hefty charges, lengthy delays or exit penalties on those wishing to transfer to other providers. This is most disappointing.

As my Rt Hon friend, the Chancellor of the Exchequer announced in another Place, we will be launching a consultation next month, asking the industry, consumer groups, media and individuals to submit evidence of the actual reality facing customers in this new landscape. We need the evidence in order to inform any action that might be required to ensure the market works as intended and customers are treated fairly. We must not allow consumer rights to play second fiddle to the interests of large financial firms. Ultimately it is in the interests of providers to look after their customers well. Their long term success requires a new approach.

I know there have been fears that too many over-55s might just cash-in their entire pension, but so far the signs are more positive with people generally being responsible. Those that cash in small funds may well be acting rationally, especially if they are repaying debt. Just buying an annuity with a small fund will hardly make a huge difference to their retirement income. I am sure we will encourage far more pension saving if we empower people to take responsibility for their own income rather than forcing them to do something that may not be right for them.

It has been important that the freedoms have been accompanied by the creation of [Pension Wise](#), which has already been used by many thousands of people with free and impartial guidance to help people understand the options available to them, and the risks and costs associated with each. People need to be alive to the risk of scams and Pension Wise staff are working hard to raise awareness of this important issue.

We also need to improve financial education to help the public understand more about long term savings and investment.

As well as the pensions crisis, I have, for many years, been concerned about the looming crisis in social care funding. The ageing population means there will be an enormous surge in the numbers needing to rely on care in coming years and there is simply no money set aside to pay for this. There is still much more to be done to incentivise saving for later life care, whether this is part of pension provision, separate care savings plans or a widespread insurance system, or a combination of all these.

Turning now to automatic enrolment, coverage and adequacy of pension saving had been in rapid decline for many years. Unfortunately, the rising costs and risks of defined benefit pension provision led to employers closing traditional defined benefit schemes. I have great sympathy with the many employers who have been struggling with ever-increasing pension liabilities in the exceptional ultra-low interest rate environment.

It is encouraging, however, that automatic enrolment has so far been successful and that opt-out rates have been really low, especially amongst young people, so that coverage of workplace pensions is once again increasing.

But we mustn't be complacent. Half of all employees have been automatically enrolled, but this only accounts for 4% of employers, and contributions are very low. The hardest work is just starting as there will be many challenges in ensuring the huge numbers of remaining employers manage the auto-enrolment process. In particular, I am conscious of the situation of the micro employers.

Of course, a major factor in people's retirement income is how much and how long they save into a pension, but, as life expectancy keeps rising, it is also imperative to help people stay in the labour market in later life, including beyond state pension age, if they choose to do so.

This is important not only for maintaining the country's labour supply with an ageing workforce, and ensuring valuable skills are retained, but indeed also for the wellbeing and sense of self-worth of many older people. There is more to do to improve later life work opportunities and move away from a 'cliff-edge' view of retirement.

In conclusion, my aim, as Pensions Minister, is to try to make pensions work better for people. As I explained to your Lordships at the start of this, my maiden speech, I have been involved in all aspects of pensions for my entire career. In this work, I have always believed that pensions are not just about money, ultimately they are about people – we all hope to have a pension one day to help us enjoy our later life. Pensions are precious and need to be nurtured. So many of us have taken them for granted.

As the Prime Minister announced to the press when asking me to join his government:

What we're doing is taking the country's leading expert on pensions, on savings, on financial education, Ros Altmann, and saying that if we're re-elected, she'll be at the heart of government, making sure we complete this great revolution where we're giving people much more power to save, to access their pension, to pass their pension on to their children, because we want to create

a real savings culture in our country for everybody. Not for the rich at the top, but for everybody who saves or has a pension.

I realise my new role in the government and as part of this House is a huge responsibility – and there is much to do. I have had the privilege of working with a large number of noble Lords from all sides of this House over the years and hope I can count many as friends. I would like to get to know and work with more of your Lordships in a spirit of co-operation and consensus rather than confrontation. These are national and social imperatives in which we all have an interest and I will try my best to make policy work better for people from all walks of life

I want to improve people's understanding of and engagement with pensions, and also to ensure they are fairer and sustainable. I will try to consider long-term trends, as well as short-term imperatives when formulating policy. Pensions will outlast most politicians. They can help form the cornerstone of a prosperous society. And with that in mind, I look forward to working with the House on the challenges ahead.