

## **PENSIONS**

### ***The Babyboom Generation will need expert retirement advice***

Our ageing population will ensure plenty of retirees seeking advice. The Government needs to respond to the demographics and adapt pension regulation to create a flexible system for retirees and advisers.

#### ***Current Situation***

According to Senioragency International, the strength of the under 50's in Europe is set to increase by only 1% between 1990 and 2020. For the over 50s, however, the figure will explode, with growth of more than 75%.

While statistics suggest a boom in retirement business, the truth of the matter lies in whether these retirees are all wealthy and able to save for a comfortable retirement.

#### ***Personal Choice***

The greater flexibility this group enjoys is welcome. The choice of a pension should not simply be the standard annuity. Using your lifetime savings and buying this regular income till death today, when the current market is characterized by low interest rates, will mean a lifetime of low income to live on. There should be the choice given to the individual whether to take out an annuity or opt for income drawdown. The latter means that the pension annuity is not bought until such time the individual wishes to do so or never at all. In the meantime, the individual draws down small amounts from his pension pot to live on but delays buying the pension annuity for the future until the time interest rates become more favourable, if at all.

We are not just talking of low interest rates that will deter anyone interested in buying an annuity. What if the person is in bad health and does not wish to take the annuity at all? I recommend that this will be the choice of the individual, a move that would be of an advantage to people who suffer from a terminal illness. In this manner, they will be able to leave the pension fund to their relatives who at their discretion can decide whether to buy an annuity or not. Had they to take the pension, they would only enjoy it for a short time, leaving nothing behind for their loved ones.

#### ***Tax Relief***

The White Paper on Pension Reform proposes the standard three pillar schemes. The First Pillar Pension Scheme will provide the safety net pension available to everyone from the Government and will be funded by National Insurance contributions. The Second Pillar Pension Scheme is the occupational scheme provided by the employer (this might become a compulsory contribution imposed on the employer) and the Third Pillar Pension Scheme is a private pension, which is optional to anyone wishing to augment their retirement income. Contributions to Second and Third pillar schemes will attract tax relief, details to be decided after the Government reviews all public feedback received.

The White Paper is suggesting a Second Tier attached to the Second Pillar Pension Scheme where the employee could add on more contributions to the occupational pension but without receiving any tax relief. This would not be attractive to anyone interested in augmenting their pension as the Third Pillar option is more attractive due

to the possibility of tax relief. It would be better if anyone wishing to augment their pension should have the right to increase their contribution to the occupational scheme without having to buy into a third pillar private pension, as this would most probably carry higher charges than the occupational pension scheme provided by the employer.

### ***A pension for new borns***

The Third Pillar Pension Scheme should be available to anyone from the day they are born. This would be beneficial for parents who wish to start saving for their children with the advantage of some basic tax incentives and restricted contributions.

### ***Benefits in Kind***

The White Paper suggests that contributions by employees should receive tax relief, contributions by employers be treated as business expense, and the pension fund be allowed to grow free from income and capital gains tax. These are attractive tax advantages. What is not mentioned is how such employer contributions are to be treated for taxation purposes. Pension contributions made by the employer should not be taxed in the hands of the employee.

### ***Phased Retirement***

Phased retirement should be allowed where a pension can be taken from an early age such as 50 (in the UK this has moved to 55) whilst continuing to work. This will allow people to keep on working at reduced income or workloads if they wish. In such a way it will encourage people to keep on working even past retirement age. An added benefit is that Government will continue collecting NI contributions from people who normally would have preferred to retire for good.

### ***Regulatory Framework***

For the ease of approval of pension scheme applications, I suggest the use of a simple framework, which if adopted by the interested pension scheme providers, will give exempt approval for the pension scheme in a simple, easy and quick way.

### ***Third Pillar Pension Scheme***

From the White Paper it is not apparent whether there will be any exclusion of having a private pension if one belongs to an occupational scheme. This might need more verification and discussion as we are looking at tax incentives and of course their regulation.

Transparency of charges should be the key element in such private pension schemes. Strict regulations on disclosure should be a prime objective of the MFSA.

### ***Women and the job market***

The Government wishes to encourage women to remain in the labour market as besides being good for the economy also contributes to strengthening the sustainability of our pension system. One way of achieving this aim, is to provide women who have left the job market to look after young families to receive NI credits up to when the youngest child reaches a certain agreed age. This system will encourage these women to return to the job market. In this way, they will continue to pay the necessary NI contributions in order to be entitled for their own full pension.

### ***Life Assurance***

A tax incentive should also be provided for those employees or employers who wish to provide life cover for themselves with their private or occupational pension. The tax relief for such contributions could form part of the overall allowed contributions for tax relief.

It is of the utmost importance that the pension system is kept simple. People have to easily understand the choices and there should be no jargon or mystique. Let us learn from countries who have been through this and found out that pension take up was not so encouraging due to the complexity of the subject. Pensions cannot take a back seat. They are not perhaps as interesting or attractive as a loan or investment, but we all have the need and obligation to make provision for our old age.

***Pauline Azzopardi is chartered insurer specializing in Life and Pension Business. She is a lecturer on these subjects at the Mediterranean Insurance Training Centre.***