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Pension payouts to rise by 30 per cent

By: Nathan Rao
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A MASSIVE pensions shake-up means millions of workers could soon be looking forward to bigger retirement payouts.

Pensioners hope the 'target' figure is high

Plans to be unveiled in the Queen's Speech on Wednesday would enable Britons to increase their income in old age by 30 per cent.

The "collective pensions" would allow investments to be pooled into huge funds shared by thousands of members.

These funds have considerably lower management costs and reduce risks associated with individual workplace schemes – vulnerable to variations in the stock market.

The proposals are among reforms expected in a Treasury Bill that will be fast-tracked through Parliament and could be brought in as early as 2016.

Pensions expert Dr Ros Altmann said: “In theory this is much better for members and employers. Because costs associated with the current systems are avoided there could be l-arger payouts. The aim is to guarantee a proportion of salary after retirement.

“But the Government is only saying these schemes are to be allowed. It will be up to employers whether they want to set them up, and it won’t happen overnight.”

Experts say Collective Defined Contribution (CDC) pensions could give a mid-range earner on £24,000 a year an annual pension payout of £6,000 instead of the average £4,500.

They say collective pensions, currently operating in countries such as the Netherlands, could be a better option for many although the benefits shouldn’t be “over hyped”.

Ministers believe the reforms could raise retirement incomes by as much as 30 per cent. Pensions minister Steve Webb said collective schemes were “some of the best in the world” with the key advantage of “pooling the risk” of pension investments performing worse than expected across large numbers of people.

He said: “People say you’ll get a 30 per cent bigger pension. You might, you might not – but clearly it is pretty unambiguous that you will get a more certain outcome and potentially a better one.”

Matthew Arends, partner at management consultants Aon Hewitt, said: “Analysis has shown members of CDC plans can receive retirement incomes that are on average one-third higher than those secured via an individual defined contribution plan – and at the same cost.”

Currently, people with a private defined contribution pension scheme put their money into their own pot and cash in their savings when they retire, using the money to buy an annuity from an insurance firm which provides a guaranteed income.

This can be risky if people retire in a bad economic year and can result in a low income. In a defined benefit scheme all the risk is taken by the employer and there is a guaranteed pension. CDC is aimed to be a “half-way house” between the two with more security of a better return on retirement.

The level of income is determined each year by financial experts who base it on a proportion of the employee’s average salary.

However, some critics warn that unlike with an annuity, pensioners have no guarantee of what they will receive and will only have a “target”.

Yvonne Goodwin, who runs Yvonne Goodwin Wealth Management, said: “Even the most lowly paid employee can go into this and know they will not be paying huge charges. It may even encourage people to save more.” Jonathan Davis, managing director of Jonathan Davis Wealth Management, said: “As long as there are no implicit charges this seems a sound and sensible way of large-scale retirement planning.”

The changes are part of reforms which will also allow pensioners to take larger sums from their savings.