Association of British Insurers

RETIREMENT 2050

Identifying the challenges of a changing world

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Contents

p1 Introduction

p3 Part One – Good Retirement Outcomes

Better guidance and advice
Rapid rise of digital services
To default or not to default?
Ideas from down under
Lessons for the UK?

p11 Part Two – Policy Development for the Ageing Society

A stronger foundation for policy-making
More lessons from down under?

p15 Part Three – Extending the Reach of the Pension Reforms

Back to black – how to persuade people to save more
Make it digital, get an overview, keep it simple
No potential saver left behind

p22 Part Four – Keeping Retirement Savings Relevant

The elephant in the room
Lifecycle saving
The invisible force
Building trust

p29 Conclusions

p31 Annex 1 – Online Retirement Tools in the UK

p34 Annex 2 – Permitted retirement income approaches around the world

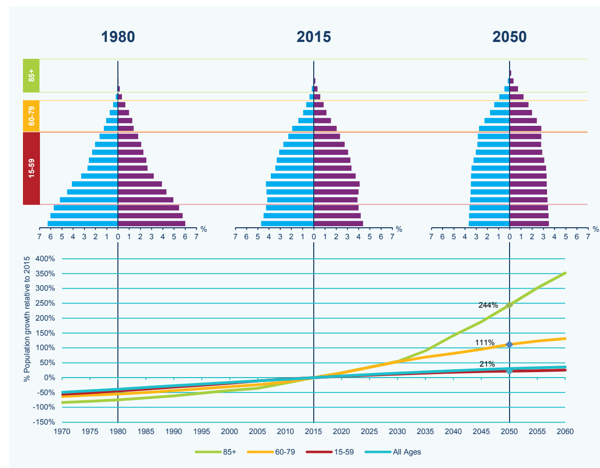
p35 References

Introduction

Some scientists believe the first baby to live to a thousand years has already been born. Tech billionaires in Silicon Valley reportedly want to fix the problem of ageing, with billions pouring into biotech firms working to "hack the code" of life.

Scientific hubris or irrational exuberance, what is clear is that we are standing at the threshold of an extraordinary transformation of our societies in terms of human lifespan. Between 2015 and 2050, the number of 60 to 79 year-olds on earth will increase by 860 million, or 111%. That is over four times the increase in the number of children and teenagers, which will rise by only 200 million, or 8%. The number of people over 85 will rise at the fastest rate of all (by 244% from 2015 to 2050). This will lead to a global population graph shaped more like a beehive than the traditional pyramid.

Figure 1: World population age distribution and total population growth, 1980 - 2050



Source: United Nations, *World Population Prospects: The 2012 Revision*, 2012

Throughout history, humans have lived in societies dominated by children in terms of numbers. But by 2050, children will be barely more numerous than any other age group up to 65. And looking after parents and grandparents will be a social requirement as big, or bigger than bringing up children and grandchildren. 2015 is roughly the halfway point in this global transformation.[1]

How to deal with the societal consequences of our increasing lifespan is one of the defining policy challenges of our time.[2] It has profound and far-reaching implications, ranging from the capacity challenges for economies to support for those who are economically inactive, exacerbated by the increasing automation of knowledge work, to the need to encourage longer working lives. Funding an increasingly longer life after work is a sub-set of this challenge which taxes policymakers around the globe, as well as financial services companies who are expected to provide the financial products needed for people's saving and retirement.

This paper looks at selected international comparisons to see whether they can bring fresh perspectives to a topic which is well travelled in the UK: how we - policymakers, the long-term savings industry, and civil society - can build a future savings and retirement landscape that serves consumers' changing needs.

Now is an ideal point to take stock of our medium-term challenges, with the completion of the auto-enrolment programme in the next three years, and the new pension freedoms coming into force in April 2015. This paper looks beyond April and auto-enrolment at more distant horizons. It "thinks aloud" about the major challenges we need to resolve as a society to ensure all generations can aspire to a financially secure future in the new demographic reality. And it kicks off a debate about the four major challenges for the future of the UK's long-term savings and retirement landscape:

- How to deliver good retirement outcomes for people, and the role of engagement and defaults
- How best to develop policy for the ageing society from an institutional perspective
- How to ensure the pension reforms reach wide and deep enough, in terms of savings sustainability and coverage
- How to keep retirement savings relevant in a rapidly changing world of rising debt and fiscal constraints

In doing so, this paper does not propose ready-made solutions, but highlights questions for all stakeholders to explore as a new administration takes office in 2015.

Part One – Good Retirement Outcomes

Regardless of whether we look at people retiring over the next three years, or those over the next three decades, it is clear that the UK faces considerable challenges in how to ensure that individuals can optimise their retirement income given increasing longevity.

The starting point varies for different age cohorts. The baby boomers are the wealthiest generation[3] – many still have defined benefit pensions, although even here, many are without private pension provision.[4] Conversely, employees retiring from 2030 onwards will be increasingly reliant on their auto-enrolment pension, which is most likely to be defined contribution, as defined benefit schemes are winding down[5] (self-employed people are facing different circumstances, and we return to this group in Part Three). Student debt and increasing house prices compared to wages will be significant influences on the asset position of those born after 1980.

And retirement itself is undergoing a profound change – from a cliff edge to a gradual shift from full-time work towards self-employment, part-time work, second or third careers, and reduced hours. Already, almost 10% (or 1 million people) of the over 65's are in the workforce.[6] Almost 20% of all workers aged between 50 and 64, and just over 40% of workers over 65 are self-employed.[7] The number of over 65s who are self-employed has more than doubled in the past 5 years to reach nearly half a million.[8] And "silver start-ups" are growing – in 2011, the growth for start-ups set up by founders over 65 (20%) was higher than for any other age-group.[9] These trends are accompanied by a gradual rise in state pension age, increasing to 67 between 2026 and 2028, and to 68 between 2044 and 2046. Under the Pensions Act 2014, the State Pension Age will be reviewed regularly and at least once every five years, based on the principle that people should be able to spend a certain proportion of their adult life drawing a State Pension. The timetable for the increase in the State Pension age from 67 to 68 could change as a result of a future review. By some estimates, today's 20-year-olds could retire at 70.[10]

The way we view retirement is also changing: Nearly two-thirds of over 50s no longer think that working full time and then stopping work altogether is the best way to retire and around half of them would still like to be in work between 65 and 70.[11] Research from Prudential found that nearly a quarter of people who reached their retirement date in 2014 didn't feel ready to stop working altogether.[12]

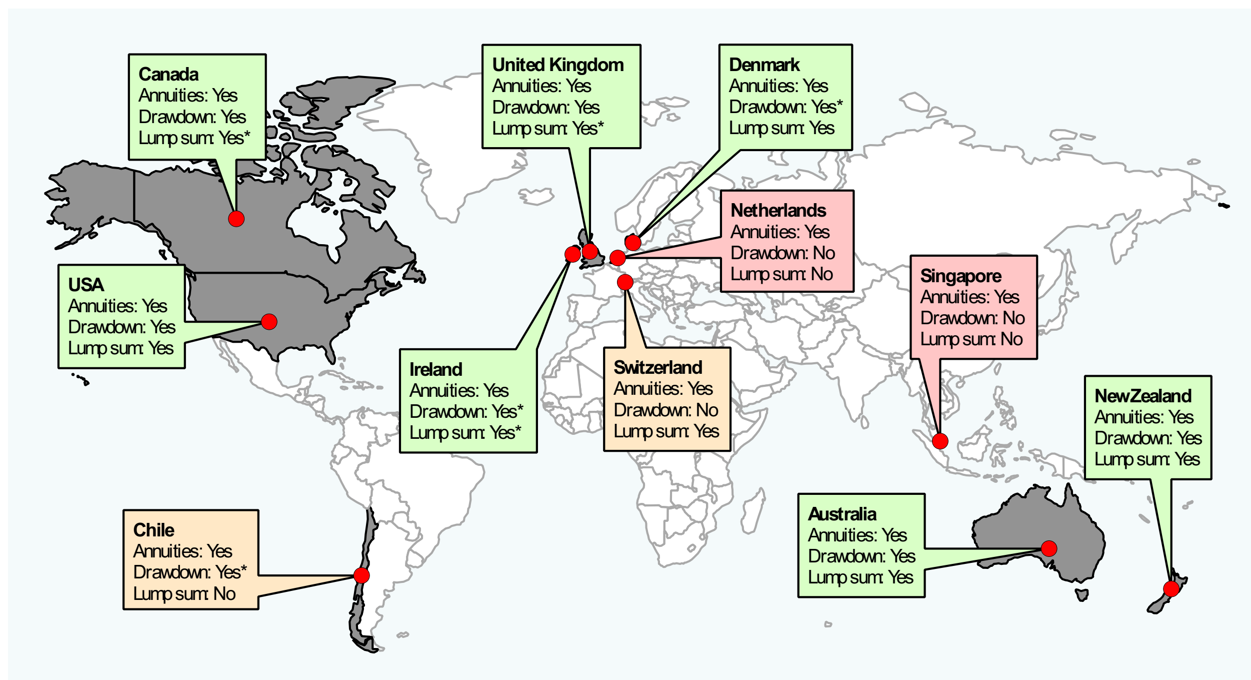
The other profound change is the increasing incidence of care needs. With a life expectancy at age 65 of 83 for men and 86 for women,[13] and the risk of dementia being almost 1 in 5 at age 85,[14] social care and residential care will be required for many of us. The costs can be considerable – and Government will only step in in the most serious cases.[15]

Against this backdrop, the pension reforms introduced in the 2014 Budget create much more freedom for individuals in how and when to access their pension savings. We welcome these reforms, as greater freedom is consistent with this shifting picture of retirement trends and needs. In practice, the reforms will further blur the line between the savings and retirement phase and we can expect to see greater fluidity between saving and drawdown, with the two happening together in some cases.

The reforms have also had a positive influence on people's attitudes to long-term savings: the National Employment Savings Trust's (NEST) latest insights research shows that the new freedoms may be making UK workers more engaged.[16] More than one in three (34%) people say they'll think about their retirement plans sooner and 29% say they plan to pay more into their pension as a result of the reforms. Even more positively, younger people seem to be significantly more engaged following the reforms. Two fifths (40%) of 22-30 year olds say they will start to think about what to do with their retirement income sooner thanks to the new options open to them at retirement and a significant proportion (36%) also say they're more likely to increase payments into their pension as a result. Whether these statements will actually lead to a change in savings behaviour will be an interesting research project for future years.

The Budget reforms have made the UK one of the most liberal systems for taking retirement income in the world.

Figure 2: Permitted retirement income approaches around the world



Source: Oxera, *The retirement income market: Comparative international research*, 2014. Note: Additional restrictions apply. See Annex 2 for more information.

But this liberal system has exacerbated the complexity of decision-making for individuals: inflation, dependants and health should have been considerations for people even when most bought annuities. Now, people have a choice between lump sum withdrawal(s), draw down products, annuities and combinations of the above, at different points in time.

This complexity contrasts with very basic levels of understanding, even amongst DC pension savers approaching retirement with reasonable retirement pots.[17] The latest consumer research of this group suggests that their planning horizons are short, focusing on the next year or two rather than long-term income needs, that they overestimate what they need for their essential spending in retirement and generally have low awareness of how their pension savings are currently invested. Savers also significantly underestimate the likelihood of surviving to older ages. Research from Aviva found that the difference between perceived and actual life expectancy at age 65 was up to 4.7 years for women and up to 8 years for men.[18]

Given this backdrop, what are the components of a future retirement landscape that works in consumers' interests?

Better guidance and advice

The Government has recognised the tension between greater freedom and greater complexity by establishing a new guidance service – Pension Wise. The service will not provide a product recommendation as it is not regulated financial advice, but is "a free and impartial service to help you understand what your choices are and how they work", specifically "what you can do with your pension pot; the different pension types and how they work; and what is tax-free (or not)". Pension Wise will be available to all DC pension savers aged 55 and over, and savers can use the communications channel most convenient for them, be that on-line, over the phone, or face-to-face.

Pension Wise will be an important part of helping consumers navigate through the new retirement landscape, and the industry wants it to succeed. We are working closely with HMT to ensure providers are signposting to Pension Wise as effectively as possible and that there is high take-up. We published our own behavioural research with ideas42 to support the ongoing development of Pension Wise to ensure the "perfect storm of cognitive constraints" for people in making decisions about retirement income is overcome as much as possible. And providers will provide additional protection where people have not used the service. However, Pension Wise will only be the start of the journey required to help people make informed choices.

Additional components are needed. Firstly, many people will need guidance not just as a one-off event but on a regular basis throughout retirement. As stated above, the latest consumer research identifies that planning horizons for those approaching retirement are short, often focusing on the next year or two rather than long-term income needs, not least because phased or flexible retirement is increasingly seen as the norm.[19]

The traditional route for such ongoing support has been financial advice with customers seeing an Independent Financial Advisor (IFA), often in their own home. However, the Retail Distribution Review fundamentally changed the IFA business model: Adviser numbers have fallen from just under 40,000 in 2011 to around 32,700 in 2013,[20] and it has been suggested consumers now need £150,000 in investible assets to qualify as customers.[21] Finding a way to make advice affordable for those with smaller savings pots is a key challenge if the Freedom and Choice reforms are to be truly successful.

Rapid rise of digital services

What can replace this model of supporting customers? This is in large part a regulatory question. Recent FCA guidance has sought to clarify the boundary between personal recommendations and sales as there was some degree of uncertainty, although questions remain. The FCA have also said that they want innovation in the advisory market and ensure that new, cheaper options can become available. Through Project Innovate, the FCA is encouraging financial services firms that are developing innovative approaches in the area of automated, simplified or limited investment advice.[22]

Whether through regulated financial advice, or guidance services, digital technology will have a key role to play in supporting consumers at and during retirement, especially future retirees.

The convenience and ease of accessing information and making transactions on-line is rapidly changing our habits, so much so that digitisation has been compared to industrialisation. Internet usage for purchasing goods and services is growing exponentially. During every minute of every day of 2014, the world's three billion internet users sent 204 million e-mails, uploaded 72 hours of YouTube video, undertook 4 million Google searches, published 277,000 tweets, posted 216,000 photos on Instagram and spent $83,000 on Amazon.[23] Such a flood of content has diminished our attention span and made us far less forgiving of how information is displayed. Studies have found that online consumers want instant gratification and quick fixes and will start abandoning websites that take too long to load.[24]

In the UK, 36 million adults (73%) accessed the Internet every day in 2013, 20 million more than in 2006.[25] Adults aged 25 to 34 used the Internet more than any other age

group for "every day" activities, such as buying goods or services (92%), Internet banking (76%) and selling goods (45%). The impact of digital is transforming all forms of commerce, with customers coming to expect the ease, intuition and anytime/anywhere interaction of digital retail.[26]

The current annuity market illustrates the impact of internet usage on outcomes. Among people who had bought annuities in 2013/14, those who used the internet more frequently were significantly more likely to be confident they fully understood their options, to have shopped around and to have contacted other providers for annuity quotes before purchasing.[27]

As a result of the ongoing advance of digital, retirees over the next three decades and beyond will take it as a given that they can access information, guidance and advice, and buy financial services products over the web. Insurance providers have embraced this trend. Many provide retirement calculators and case studies on their websites and platforms as Annex 1 shows.

There is a general consensus that engagement has to start earlier than at the point of retirement; engagement with retirement savings during people's working lives has to become a social norm. We will return to how best to make this happen in Part 2.

The need for engagement also continues beyond the "at retirement" point. People should consider their potential care needs at later stages of retirement, and a Pension Wise guidance session should be an important staging post in the journey towards raising awareness. But this is likely to be a consideration that many want to return to later, reinforcing the need for guidance and support throughout retirement. The construction of retirement income products leaving flexibility for funding social care needs will also be key.

To default or not to default?

However, there will always be people reaching retirement who will neither take advice nor guidance, and won't engage. As our report with ideas42 has pointed out, people are faced with a perfect storm of cognitive constraints in making retirement income decisions. And auto-enrolment into workplace pensions is all about people having to take no action.

We therefore need a system that also works for those who don't engage. It will be difficult if not impossible to construct a single default choice for all, given that people's needs at retirement are likely to be much more diverse than when they started saving in the workplace, when auto-enrolling them in a default fund could work as a default setting.

So what could an appropriate default option or set of default options look like? What seems clear is that neither an annuity at age 65 nor an income drawdown product, nor indeed taking everything as cash is an appropriate default norm for all.

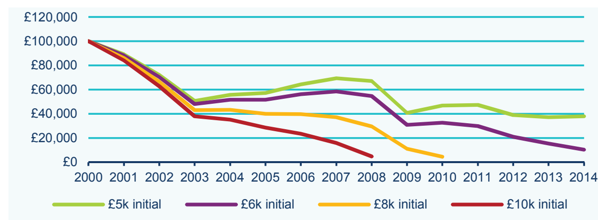
The market for annuities has already reduced by almost half in terms of the number of annuities sold (and by 40% in terms of new premiums)[28] since the 2014 Budget and it is generally expected to remain very much-reduced.

Income drawdown addresses the weak points of annuities: they are not locking consumers into a fixed income strategy, do not force a judgment on longevity, and there are no capital costs for guarantees. However, as has been illustrated in a recent report, income drawdown runs the risk of "pound cost ravaging" – the obverse of "pound cost averaging".

"Pound cost averaging" is a positive factor during the savings phase: making regular contributions to a saving plan means that, when fund prices dip, savers get more units for their monthly contribution. The opposite is true when decumulating. The impact of taking money out of a drawdown fund during a market downturn can be severe, as there are no new contributions to make up the loss, depleting the fund prematurely – hence "pound cost

ravaging”.[29] Regardless of pound cost ravaging, savers may also simply run out of funds by overspending if no limits are set.

Figure 3: Impact of equity returns on decumulation



Source: Cazalet Consulting, *When I’m Sixty Four,* 2014

Note: The chart above is based on a £100,000 fund beginning on 1 January 2000, with four different levels of starting income, each escalating at 2.5% per annum. The fund performance is that of the FTSE All Share index. It can be seen that even taking a seemingly cautious £5,000 initial income would have resulted in the pot halving in value by 2003, at which juncture it would have fallen by almost two-thirds if the initial income had been set at £10,000.

Finally, withdrawing the entire pot may be a good choice for some people, especially those with smaller pots, but cannot be a “default setting” for all savers either, not least because of the potential tax consequences of taking the entire pot as cash.

Whilst neither drawdown nor annuitisation lend themselves to be the new default for all, there appear to be two desirable features for a default retirement income:

- Allowing retirees to benefit from market growth, rather than locking them into a guaranteed income too early.
- An element of longevity insurance, as the need for income certainty (not running out of money) increases each year.

This seems borne out by the latest consumer research: savers are generally resistant to a pre-determined course of action, for example being rolled over into an annuity from a set age, as they wished to retain flexibility to deal with unexpected life events. However, the majority were warm to the concept of a longevity insurance product to act as a “safety net” against the risk that they might live too long and / or draw down too much income in the earlier years of their retirement. A high upfront cost was a significant barrier but the idea of making gradual payments towards an insurance style product (rather than an upfront one-off lump sum to purchase a deferred annuity) did appeal. In discussion, annual premiums of between £500 and £1000, starting at age 65, were not seen as an unreasonable amount to secure a lifetime income, for example £5,000 per annum from age 85 onwards.[30]

It seems clear that many savers - understandably - want a combination of safety and security. This may point to further development, and an increased prevalence, of hybrid products that offer the flexibility of drawdown and the security of an annuity.

Ideas from down under

In this context, it is highly instructive to look at the Financial Systems Inquiry conducted by David Murray, which was recently completed in Australia.

The Murray review was an extensive examination of the Australian financial system, with the “aim of promoting its efficiency, resilience and fairness to facilitate the system’s role in supporting a vibrant, growing economy that improves the standards of living of all Australians”. It proposed an interesting way to try to address this dilemma – effectively a combination drawdown-plus-longevity insurance product as a quasi-default path, designed by the trustees of superannuation schemes, with features prescribed in regulation.

The Australian retirement income system is in many ways the obverse of the old UK system, as at least 94% of pension assets are in account-based pensions, around half of retirees take the money as a lump sum, and the annuitisation rate is below 1%. An account-based pension is similar to a drawdown product, in that the fund remains invested, but combined with a prescribed minimum rate of income, as per the table on the next page.

Figure 4: Mandatory withdrawals from account-based pensions

Age	Annual payment as a % of account balance
55 - 64	4%
65 - 74	5%
75 - 79	6%
80 - 84	7%
85 - 89	9%
90 - 94	11%
95+	14%

Source: The Australian Securities and Investment Commission, *Account-based pensions*, January 2015

Australia was also a pioneer of auto-enrolment pension savings, having started its Superannuation Guarantee system in 1992. Average balances for those retiring in 2011/12 were AUD$197,000 for men and AUD$105,000 for women (£101,000 and £54,000 respectively).[31] Average balances at retirement will continue to grow as the pensions system matures. Projections show that a 30 year old with a AUD$20,000 pension pot earning the average full time wage (AUD$74,724) who makes personal contributions of 4% a year can expect to retire at 65 with a pension pot of around AUD$650,000 (£330,000) in today's terms, which should be enough to provide for a comfortable standard of living until the age of 90 including the state-provided Age Pension.[32] One could say that Australia has successfully resolved the savings part of the retirement income equation in that people retire with significant pension pots.

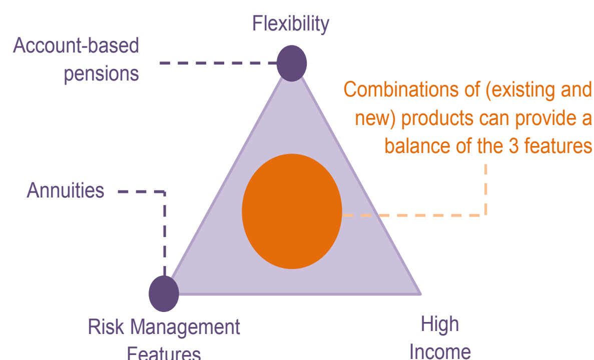
However, evidence suggests that the major worry among retirees and pre-retirees in Australia is exhausting their assets in retirement. The majority of retirees with account-based pensions seek to reduce the risk of outliving their wealth by living more frugally in retirement and drawing down benefits at the minimum allowable rates, thus reducing their standards of living.[33]

The review acknowledges that the complexity of retirement decisions is compounded by behavioural biases. Mandatory superannuation contributions have been used to overcome biases in savings behaviour, such as decision making that disproportionately focuses on the short term – however, these biases do not end at retirement. In part, behavioural biases explain the dominance of account-based pensions and lump sums.[34]

As a result, the Murray review recommends that superannuation trustees pre-select a comprehensive income product for retirement (CIPR) for members' retirement. These CIPRs don't exist yet and would need to be developed. This product would only commence on the member's instruction, or the member may choose to take their benefits in another way.

The review proposes that CIPRs should "deliver a balance" of the three "desired attributes of retirement products (income, risk management and flexibility)". As no single product has all these features, a CIPR is likely to be a combination of products – an account-based product and a product with longevity risk protection. The element of longevity risk pooling would give retirees greater confidence to consume.

Figure 5: Desired features of retirement income products



Source: Financial Systems Inquiry, *Final Report*, 2014

The report states that "pre-selected CIPRs and greater use of longevity risk pooling at retirement could significantly improve the superannuation system's efficiency in providing retirement incomes and better meet the needs of retirees." This would balance the desire to increase system efficiency in providing retirement incomes with a degree of individual freedom and choice.

CIPR regulation and governance

The report also acknowledges that its recommendation of CIPRs involves trustees of superannuation schemes potentially designing, advising on and delivering CIPRs.

Designing CIPRs would be more complex for trustees than designing accumulation accounts, but the report states that trustees are well placed to select appropriate CIPRs for their members within a defined framework, and consider longevity, market risk and inflation risk in designing post-retirement arrangement in much the same way they need to consider investment risk and insurance needs through the accumulation stage.

For these reasons, the Australian Government should "establish a mechanism to ensure each CIPR provides the required features, which should be specified in regulation."[35]

The report acknowledges that developing CIPRs in Australia will take considerable time (not least because superannuation funds would need to design products or form partnerships with other providers). It also states that CIPRs will be less beneficial to individuals with very high or very low superannuation balances: Those with small balances are likely to continue to take their benefits as a lump sum; and individuals with very high balances may be able to generate satisfactory retirement income from an account-based pension, drawn down at minimum rates.[36]

Lessons for the UK?

It stands to reason that we will not have a nation of engaged long-term savers overnight arriving at retirement, coolly weighing up the trade-offs between flexibility and certainty. This has not happened in Australia, after over 20 years of superannuation. The complexity of decisions is too great, the behavioural biases too powerful. So simpler choices must be part of the picture, and the future has to be easier to understand.

Defaults could be a part of this future. Default product solutions are a comforting concept – we have defaults in the savings phase, so why not in the retirement phase? They fit well into the current system of defaulting into workplace pension saving, and into a default fund. Expecting engagement at the point of retirement after this default journey seems incongruous.

However, even the Murray review does not propose a true default approach in the sense of a change happening without the individual having to take any action. Instead, the Murray review proposes that a pre-selected product is chosen by the superannuation trustees, and has to be activated by the member (this could be termed a "quasi-default" approach).

This seems appropriate: people's circumstances at retirement are likely to differ much more widely than at the start of their working life. We know differences in wealth are vast – research shows the poorest 10% have an average debt of £4,616 (excluding mortgage debt) while the wealthiest 10% have total assets (including property wealth) on average of £1.009m.[37] Moreover, differences in health, family situation, income, debt and lifestyle can also be substantial. And at the point of retirement, if the individual does not take any action, the pension pot currently simply remains invested until such time as the individual decides to access it, so there is an existing "true default" option.

Clearly, defaults cannot be a substitute for stepping up efforts to improve engagement both at retirement and even more importantly, at earlier ages. For the retirement point, this may point more towards an advice default model or potentially even compulsory advice, with people's pension pots remaining invested until they engage. Cost-effective advice models will therefore be key. Any quasi-default product solution would also need to fit into the regulatory framework to ensure it can safely be used a from a conduct perspective.

Part Two – Policy Development for the Ageing Society

'At retirement' is the policy debate of the moment, given the 2015 reforms. But how we optimise the long-term savings landscape to best service consumers' needs in the savings phase is equally important.

Auto-enrolment into workplace pensions has been a tremendous success so far.

Legislated for by the Labour Government with cross-party support following the recommendations of the Turner Commission, and implemented by the Coalition Government, it has led to five million people newly enrolled and saving into a workplace pension as of December 2014.[38] While there is still much left to be done (there are still over 1 million employers yet to stage), we can learn from what has made it a success to date. The second main recommendation from Turner – the New State Pension – also has legislation in place to be implemented in an ambitious timetable with widespread support.

A stronger foundation for policy-making

The success of these policies is in large part due to their development by cross-party agreement. The Coalition Government reviewed auto-enrolment in 2010 but decided to only change the earnings parameters and to introduce an optional 3-month waiting period,[39] although it went on to introduce a charge cap later in the Parliament. The legislation enabling the New State Pension did not raise substantial concerns from the Opposition. However, there was noticeably less agreement in debate on private pensions.

Pensions and retirement income serve people's and their families' long-term financial needs – they can last more than half a century, from the start of the savings phase to the end of the "decumulation" stage. It is therefore desirable that policy-making takes a long-term view as much as possible, with policies lasting beyond a single Parliament. But savings and retirement income policy is an increasingly politicised area. As a result, there is a significant risk that important long-term policy will become subject to short-term fluctuations.

We believe that we need to return to making long-term savings policy an area outside of political combat. Parliament will always need to take the final policy decisions, but the policy development process would benefit from greater arms' length advice and evidence gathering. The Turner Commission was an excellent example of policy-making founded on a strong evidence base, with cross-party support.

It is evident that the tax incentivisation of long-term savings, particularly pension tax relief, will form an important part of the political discourse regardless of the exact composition of the new Government from May 2015. It is vital that this debate is informed by as much evidence and rational debate as possible. The same is true for the debate about the funding of social care, and indeed for the debate about retirement income and the State Pension. These matters require a long-term view, including on challenging issues such as the long-term sustainability of state support.

An independent body (an "Office for Intergenerational Responsibility", or a "Retirement Commission") could have an important part to play in informing the policy debate (similar to the Office for Budget Responsibility which assesses the long-term sustainability of the public finances, and judges progress towards the Government's fiscal targets, produces forecasts for the economy and public finances, and scrutinises HMT's costings of tax and welfare measures). But, like the Turner Commission, it should also produce policy advice and recommendations.

This could help inform a national long-term savings strategy which should bring together the diverse departments and regulators with responsibility for different aspects of long-term savings and retirement. To date the Government has not assessed the implications of an ageing society holistically, preferring instead for individual Departments and regulators to look at the implications for their own policies and costs:[40]

- The Department for Work and Pensions is responsible for pension provision in the workplace.

- The Treasury is responsible for tax policy and other savings and investment products and has overall responsibility for the health of the financial services sector.
- HMRC is responsible for formulating the detailed tax rules for retirement income and pension schemes.
- The Department of Health is responsible for social care funding.
- The FCA is responsible for regulating providers of private pensions, savings and investment products. It can make rules that directly bind providers.
- The Pensions Regulator (TPR) is responsible for occupational (trust-based) pensions, both defined benefit and defined contribution, but can only issue guidance – DWP must legislate to effect binding changes for occupational schemes. It is also responsible for employer compliance with auto-enrolment.

A national long-term savings strategy has also been called for by other stakeholders.[41] Supported by the advice and evidence of an Office for Intergenerational Responsibility, this could serve as a much stronger platform for policy-making in long-term savings.

This independent body should also investigate whether the twin regulators for pensions are the optimal regulatory structure for pensions in the future. A 2012 National Audit Office report on TPR's regulation of DC pensions recommended actions to better clarify oversight responsibilities in the pensions market.[42] While the two regulators have moved to align their rules since then, the number of changes over the last 18 months have demonstrated that the structure is quite cumbersome and not easily compatible – for example, the charge cap needed to be put in place by both the DWP (in secondary legislation for trust-based schemes) and by the FCA (for contract-based schemes). The two processes were not happening simultaneously. Similarly, pension flexibility has illustrated the tension between regulation of product sales and regulation of governance of trust – for example, it is unclear whether and how FCA regulation of lump sum payments will be replicated in trust-based schemes.

The difference in regulation has also allowed small occupational schemes to be used as a vehicle for pension scams and dubious unregulated investments, while the FCA clamped down on the same types of investment being held by customers of the firms it regulates.

More lessons from down under?

One example of an independent body providing advice to Government is New Zealand's Commission for Financial Capability (formerly the Commission for Financial Literacy and Retirement Income). The Commission operates under the NZ Superannuation and Retirement Income Act, which provides the statutory framework for its operations. The Retirement Commissioner is required to report to the New Zealand Government on the results of a triennial review of the Government's retirement income policies, as well as being a powerful consumer advocate.

The overarching goal of these triennial reviews is to identify ways in which New Zealand's system of retirement income can remain socially, economically and politically sustainable for many decades to come. Central to these reviews is the principle that New Zealand does not need "overnight reform"; it has time to signal change, and, in doing so, give people time to prepare. The approach recognises that people need certainty and confidence in the retirement income framework so that they can make long-term financial plans. It also recognises that certainty and confidence will be eroded if the balance of objectives changes often or with little notice.

In conducting the reviews, the Retirement Commissioner explicitly acknowledges that "retirement income policy needs to be seen to be fair, so that the potential for resentment or envy is diminished and the system is more politically stable and sustainable". Fairness is needed not just amongst retirees, but through different life stages and across generations of taxpayers and retirees. Notions of what is fair are dynamic rather than fixed, and culturally determined. New Zealanders' understanding of 'what is fair' will ultimately determine the decisions that are made."[43]

With this in mind, since 2010 the assessment of the current system and recommendations for changes and enhancements have been considered with reference to eight socio-economic objectives.[44] These objectives are not just financial or economic in nature; they recognise that living standards in retirement are not determined by income alone, but also by participation in society. In practical terms this means policy areas as diverse as employment, health, housing and transport are considered.

Because these eight objectives both overlap and compete with each other, the challenge is finding a balance between those eight objectives that is both politically and fiscally sustainable over the long term. As a trusted, independent and politically neutral body, the Retirement Commissioner is best placed to promote the debate, improve understanding and make recommendations so a cross-party consensus can develop on what constitutes sustainable policy. The Commissioner is also respected and trusted by both providers and consumer bodies which adds to her credibility.

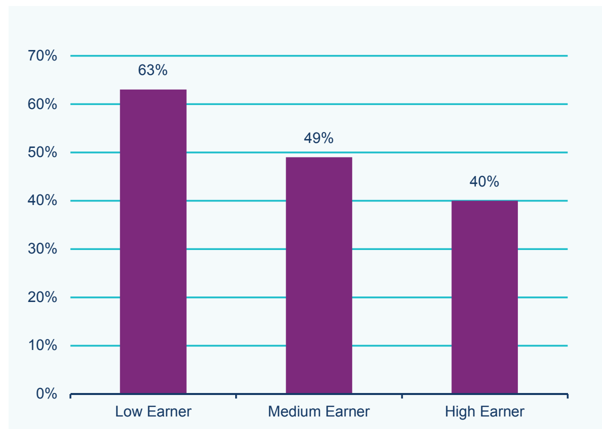
Part Three – Extending the Reach of the Pension Reforms

Back to black – how to persuade people to save more

A national savings strategy, supported by an independent body, could turn to one of the most central questions for the entire debate - how to get people to save more, building on the success of auto-enrolment. Right now, just over half of the UK population is saving adequately for their retirement.[45]

It is generally accepted, and has been demonstrated by PPI modelling, that the auto-enrolment contribution of 8%, once we reach it in 2017, will not be enough for many savers. In more than half of scenarios modelled by the PPI, retirement income is below the target replacement income (of 67% of working life income for a median earner)[46] and in 25% of the scenarios income from private and state pensions was less than 75% of the target replacement income. This is even more pronounced where savers had career breaks. Lower earners have a higher probability of achieving their target replacement income than median or higher earners, see chart below.

Figure 6: Probability of achieving target replacement income by earnings level



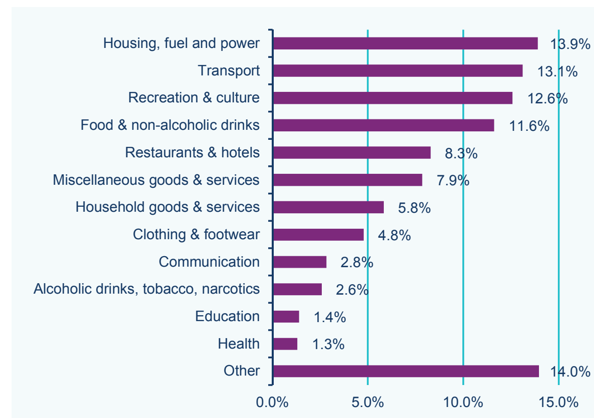
Source: Pensions Policy Institute, *Automatic Enrolment Series: What level of pension contribution is needed to obtain an adequate retirement income?*, October 2013

Note: Probability of achieving target replacement income with income from private and state pensions for different. Each starts to save at age 22, retires at state pension age, followed a traditional lifestyling investment approach and contributes the minimum 8% of band earnings.

It is therefore important that 8% is not seen as a social norm for pension savings – this would be highly problematic, especially for middle and higher earners. For comparison, the average employer contribution for defined benefit pension schemes in 2013 was almost 16%.[47]

While there is a general squeeze on household budgets, ONS spending data for 2013 would suggest that middle and higher income earners do have disposable income some of which they could channel into long-term savings.

Figure 7: How a weekly income of £489 is spent



Source: ONS/The Guardian Datablog, *Families spend £489 each week - on what?*, 11 December 2013

This is supported by Standard Life's focus group research in 2011 which suggests 70% of people would not find it difficult to save an additional £50 per month if they had to, with 48% admitting they would find it easy. An additional £50 would double the individual pension contribution of someone on an annual salary of £20,000 saving at minimum auto-enrolment levels. Similarly, the ABI's consumer research shows that "affordability" is cited as the key reason that people don't save more by the same proportion of people at every level of income.

Auto-enrolment pension contributions will increase if people's salary increase, given they are a percentage of salary. So uplifts in £ terms are built into auto-enrolment. However, as can be seen from the PPI research, 8% will not be enough. Whilst this is not a direct comparison given its different tax and national insurance regime, Australia decided in 2010 to gradually raise compulsory employer superannuation contributions from 9% to 12% between 2013/14 and 2019/20, in recognition of the need for more superannuation contributions given increasing lifespan.

More jam tomorrow

The industry has long supported models of auto-escalation for employees alongside auto-enrolment, such as Save More TomorrowTM (SMarT). This is a mechanism where participants are invited to join a programme committing them to increase their saving, beginning at some time in the future. Work by Benartzi has shown that such programmes can be extremely effective in getting people to save more, by making it easier to gradually increase their savings rate over a number of years. The programme is now used by more than half of the large employers in the US.[48] The work considered asking workers to commit to regular increases in savings; or offering increases triggered by pay rises, and found the latter to be more effective in incentivising higher saving rates. The SMarT model works by engaging employees ahead of an expected increase in salary and offering them the facility to increase their saving rates upon receiving a pay rise. Those in the programme would have their contribution rates increase automatically, up to an agreed ceiling, after each rise in pay.

In the UK, automatic contribution increases could be enshrined in legislation given people's general disengagement with pensions, for example as part of the 2017 auto-enrolment review. The simplest solution could provide that employee contributions increase every two years by, say, half a percent up to a ceiling. Like auto-enrolment, this could be done on an opt-out basis to ensure people retain their freedom to take other decisions. However, auto-enrolment has had extremely low levels of opt outs and automatic contribution increases could be a tipping point where contribution levels are felt in consumers' take-home wages, resulting in some choosing to cease contributing altogether. This is particularly true where wages have been stagnant meaning that increases in pension contributions are not mitigated by pay rises. Well-designed auto escalation schemes do appear to increase average levels of savings without associated increases in opt-outs by linking rises in pension savings to rises in salary consequently avoiding (in most cases) a decrease in take-home pay.

As well as the short-term financial implications for employees, we should be mindful of the administrative impact on employers. Considering how much compliance burden is placed already on small and micro employers, a more appropriate route than legislative change could be to aim for a step-change in engagement which has to be the ultimate aim to transform long-term savings.

Make it digital, get an overview, keep it simple

How to bring about this step change in engagement is the big question – ultimately, auto-enrolment rests on the recognition that most people don't want to engage with long-term saving, especially for retirement.

In debates about the future of long-term savings, a recurring theme is the need for radical simplification. Part of this must be about how to communicate with savers. For example, even the term "pension" is unhelpful, as most people understand it as "retirement income", rather than saving for a retirement income.

But it also has to be about the ease of accessing information, leveraging the power of digital. As discussed earlier, three quarters of 25 to 34-year olds access their bank accounts over the Internet, as well as using it to find information about goods and services (77%).[49] For this generation, digital services are intrinsic for everyday transactions, not an add-on. They will expect information about long-term savings at their fingertips, presented in a convenient and engaging way. Consumer expectations of digital services will continue to increase in the future.[50]

The long-term savings sector is responding to this, with the development of platforms being one part of the response. Platforms are web-based services which allow users (who could be advisors or consumers) to view all their products and investments in one place and to make transactions. Platforms are increasingly transforming traditional pension providers into digital businesses, allowing people to access their pension on smartphones or tablets.

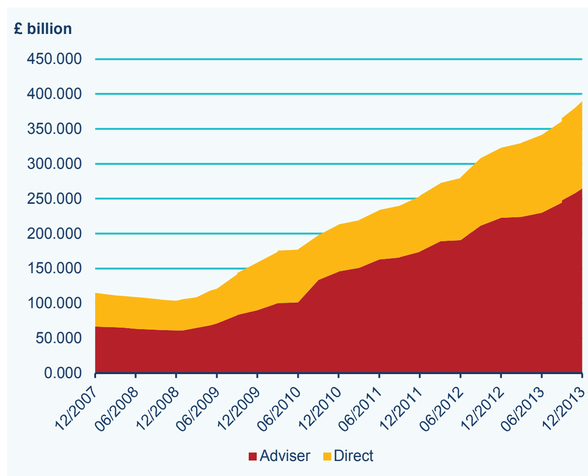
The use of platforms is transforming traditional pensions business, allowing providers to reach advisers, workplaces, as well as helping DIY investors with their financial planning. Platforms will also increasingly be used as a self-service investment offering for people buying retirement products without financial advice. Given the much smaller numbers of financial advisers as a consequence of the Retail Distribution Review, including the disappearance of financial advisers in banks, platforms will be an increasingly important part of the future.

Platforms also modernise the consumer experience of long-term savings products in the UK, offering consumers a holistic way to view their assets and to transact.

However, the term is used for many widely diverging propositions, and the business and financial models are changing rapidly. Platforms are also referred to as wraps, or wrap platforms. While it is estimated that around 2.1 million people are now direct users of platforms, their changing nature makes it difficult to measure the size of the platform market, or even the platform assets of a single operator. The term is used for fund supermarkets, DC corporate pension facilities, and trading platforms. They can be adviser-facing, adviser-led, individual "D2C" (direct to consumer), or a "corporate wrap" (a platform used by an employer for their workplace pension, corporate ISAs, and flexible benefits, as well as educational content and tools).

What is clear is that the use of platforms is growing. Their increasing popularity can be seen from the annual growth of the platform market of around 25% per year, with a significant amount of this growth from non-platform assets moving on-platform.[51] Experts estimate that by end-2016, more than £700bn could be managed on platforms.

Figure 8: The growth of platforms



Source: The Platforum, *Platform Market AUA Projections*, March 2014

One of the key features of platforms is that customers can see more than just one product – platforms offer a holistic view of a customer's investments with the platform provider, including pensions as well as other investment products.

A comprehensive view of people's assets is one of the remedies identified for improving consumers' experiences in the FCA' Retirement Income Market Study.[52] Over the longer term, the FCA recommends the creation of a virtual "Pension Dashboard" which:

- can be accessed by UK consumers at any time through a personal log-in
- sets out an individual's entitlements including all of their accumulated DC pension savings, and
- could be developed over time to allow consumers to view all of their other sources of retirement (such as DB and state pension entitlements) in one place.

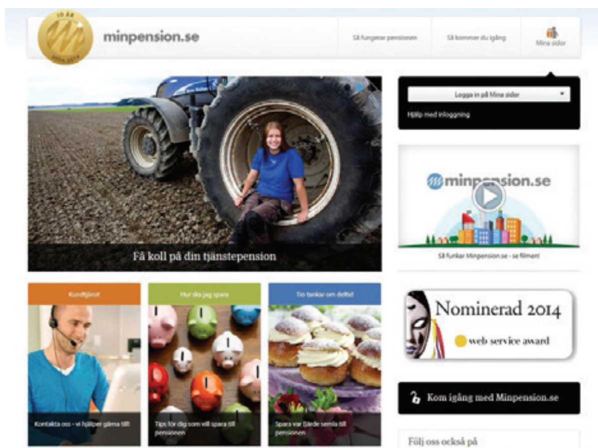
This would enable consumers to view all of their lifetime pensions savings, including their state pension.

As has been identified by the FCA and elsewhere,[53] there are international examples of successful initiatives to improve consumer financial literacy and access to information through virtual dashboards.

Scandinavian design

In Sweden, the minpension website is run as a public private partnership by Government and the long-term savings sector. It is fully owned by the Swedish Insurance Federation but its Board has equal representation of Government and providers. It provides simple and comprehensive material on pensions, and offers advice on how best to manage pension funds. Its success is reflected in many users reporting a substantial increase in their pension knowledge compared to non-users. 48% of users felt they had sufficient information to decide on their future pension, compared to 13% of non-users. It has also led to an increase in consumer trust.

Figure 9: Minpensions homepage



Anyone of working age can register at www.minpension.se and, after authenticating an account, minpension will download an individual's data from connected companies and state authorities onto their website so it can be accessed at any time and on any device. Users can see their projected income, fund allocation, and can access planning tools to model changes in contribution rates. Minpension also sets the standard for projections of retirement income.

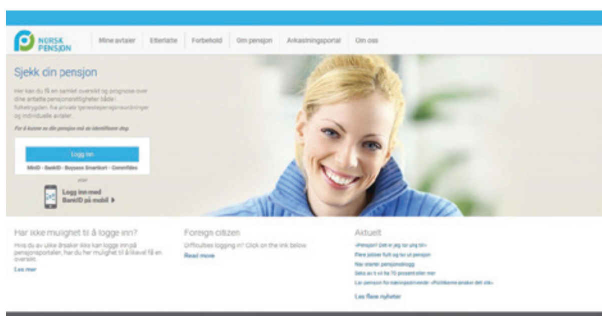
2.3 million Swedes use minpension (out of an eligible working population of 5.4 million users). Minpension is based on a system of electronic certificates for individuals to ensure people can identify themselves reliably. This electronic certificate is a single sign-on, whether people access minpension through on-line banking, their long-term savings provider, or directly.

Building this service has not been a minor undertaking – its development took ten years. It started small (in 2004, it included only the state pension, then extended its coverage. The service is integrated into providers' own on-line platforms, and it can also be accessed from people's on-line banking. It is run with an operating budget of £3.5 million.[54]

For Swedish long-term savings providers, minpension has reduced costs as customers can use the minpension infrastructure, for example for scenario planning. In terms of internet traffic to minpension, 45% of users access it directly, but 55% through different distribution channels – banks, insurers and state pension authorities.

Pensionsinfo.dk in Denmark and Norskpensjon.no in Norway offer similar pension trackers – below is the Norwegian example.

Figure 10 – Norsk Pensjon homepage



Providing a comprehensive view of people's pension assets, both state and private, has to be part of the answer over the longer term, as it will help people understand what they have, what they can expect when they get to retirement, and think through whether they need to save more to achieve their aspirations. Like in Sweden, this would need to be a longer-term project for the UK, with a much larger working population and a more complex pension landscape. The project would need to explore how best to deliver this comprehensive view given rapid advances in IT capacity, including the role of common standards for the exchange of information.

From "Five a day" to "A fiver a day"?

In the meantime, what practical measures can be taken to help people take an overview and save more? Providers are working hard to help people plan with on-line calculators, as Annex 1 shows.

Consumer organisations have called for "Pensions Jam-Jars"[55] – new tools, to be developed by long-term savings providers to help people budget, control their spending and set aside money for future goals. These could also help people manage the inevitable trade-offs and conflicts which exist when taking a retirement income. The tools could help consumers decide how much money to take out of their pension each year and, once a plan has been made, alert them when they are departing from it or are at risk of running out of money or triggering a higher rate tax charge.[56] It is likely only a matter of time before providers' on-line platforms will offer these or similar services to customers, provided the regulatory questions can be resolved. This will of course only take account of the customer's products with that provider, or assets on-platform, although providers are starting to include products customers have elsewhere as "memo assets".

Pension Wise should help people understand how to establish an aggregate view of their pension pots, but only starting from age 55.

One of the fundamental questions that people have is "how much should I save?" There are a few anecdotal rules of thumb, such as

- To identify the pot you need to accumulate to meet your aspirations for retirement, multiply your desired annual retirement income by 20;
- Divide your age when you started saving by 2 to establish the percentage of salary that should go into your pension pot on an ongoing basis;
- The Dutch reportedly work for their retirement on Fridays of every working week.

Any such messages would need to be segmented as sustainability is a bigger challenge for people with medium and high incomes than for people on lower incomes, for whom the state pension will constitute a larger part of their retirement income.

But all stakeholders should continue working on whether such "public wealth messages" can be established. The workplace could play a role as a channel for increasing engagement for long-term savings more widely.

No potential saver left behind

In thinking about sustainable saving, it is important not to forget that the auto-enrolment programme does not include the growing population of self-employed people: 4.6 million (15%) in 2014 compared to 3.9 million (13%) in 2008. Self-employed workers can set up an individual personal pension, as well as a pension with NEST. However, this relies on people taking individual, active decisions – they do not benefit from the default mechanism of auto-enrolment.

One route to make the savings process easier for self-employed people could be collective buying. This has been successful in another market characterised by inertia – energy. Collective buying works by large numbers of people using their collective purchasing power to negotiate discounts from suppliers. In 2012, campaign group 38 Degrees and consumer group Which? teamed up in an initiative called the Big Switch. Nearly 300,000 people registered for the UK's first collective switching initiative with five energy suppliers competing to deliver the cheapest combined tariff for gas and electricity. Newly launched Co-operative Energy won the bidding process.

Extending this to long-term savings may seem fanciful at this moment, considering the administrative complexity of the tax aspects of pension savings. But collective purchasing is used in the Netherlands for car insurance,[57] and with the increasing sophistication of IT systems, there are no fundamental reasons why this model could not be explored – ultimately, collective purchasing is precisely what employers do for their staff.

The other group of people potentially left behind by auto-enrolment is people with multiple jobs, although the numbers are smaller than one might think. In 2012/13, of a total of 510,000 workers with more than one job, between 60% to 70% would be auto-enrolled into a qualifying pension scheme because earnings from either one or both jobs is above the auto-enrolment trigger of £9,440 per year.[58]

However, the position of employees with multiple jobs should be kept under review to establish whether auto-enrolment should be extended. This can be conducted alongside the annual review of earning triggers of auto-enrolment. These employees could also be affected by not being able to accumulate the full number of contributing years for the state pension, as this requires annual pay of more than £10,000 for 2015/16.[59]

More broadly, each year approximately 1% of the workforce (around 250,000 people) leave employment due to ill health, with 60% of these being the main earner. 10.8 million households – more than 60% of working families – would get little or nothing from the state and would face a one-third drop in their income if the main earner had to stop work,[60] making it much less likely that people affected by ill health would be able to sustain their pension contributions. Income protection insurance has a key role to play in improving families' financial security on loss of income but is under-used. Greater efforts are needed to increase public debate, awareness and understanding of health-related income risks, with employers having an important role in providing access to income protection through the workplace.

Part Four – Keeping Retirement Savings Relevant

The elephant in the room

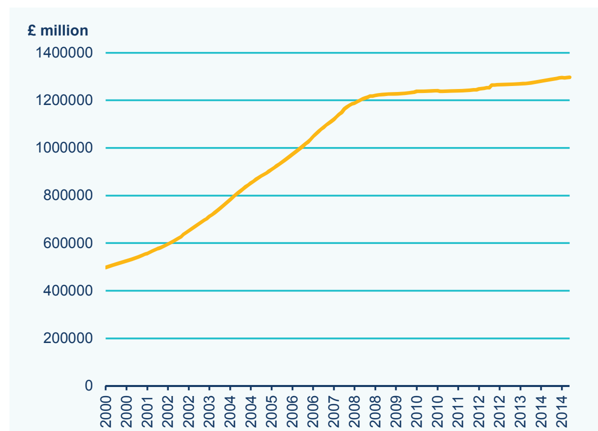
It is becoming increasingly clear that we can't look at savings in isolation. The "golden generation" of baby boomers – the cohort of babies born between the end of World War 2 up to the early sixties – is retiring now and into the 2020s, often on final salary pensions. It has been said that no generation had it so good, and it has also been described as the "luckiest generation": The baby boomers are estimated to own more than half of the £6.7tn national wealth (£1tn in liquid assets, £1tn in housing, £0.75tn in other physical assets and £0.75tn in pensions).[61] In contrast, the under 45s own just £0.9tn. Baby boomers have also done particularly well out of the welfare state. Those born between 1956 and 1961 are forecast to receive from the welfare state 118% of what they will have put into it.

"Generation X", born between 1960 and 1980, followed the baby boomers. Whilst Generation X may not have had such generous retirement provision, it still had mostly free university education, and it was easier to get on and move up the property ladder than it is now. For first time buyers in 1994 the cost of a house was 2.3 times salary on average. Today, a first time buyer can expect to pay 5 times their salary.[62]

However, things have changed fundamentally for Generation Y (also known as the "Millennials", born between 1980 and 2000) and now in their twenties and thirties. They no longer benefited from free university education, as fees were introduced in 1998. With university entry levels at 49% in 2013,[63] student debt affects one in two of this cohort. They are also most affected by the relentless rise in house prices, not matched by a rise in wages.

Debt – both secured and unsecured – is therefore the elephant in the room in the long-term savings debate. And the trend points upwards. Outstanding mortgage debt stood at £1294 billion as of November 2014.

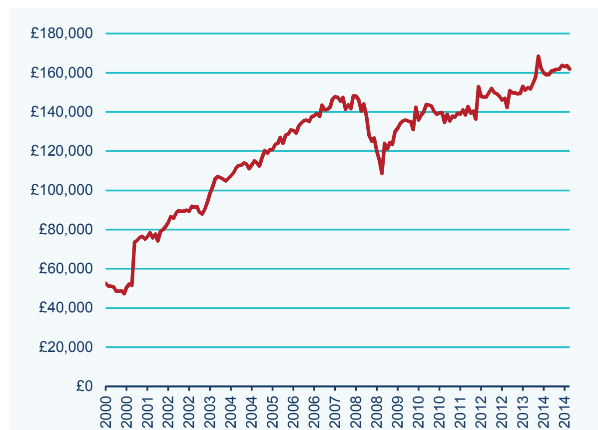
Figure 11 – Outstanding mortgage debt



Source: Bank of England, *Bankstats (series LPMVTXK)*

The average value of mortgage approvals also shows a constant upward trend (see figure 12 below), illustrating the relentless rise in house prices, especially in the South East, home to one third of the UK population.

Figure 12 – Average value of mortgage approvals



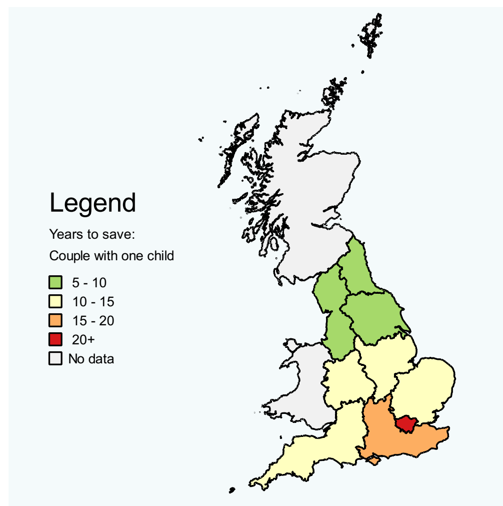
Source: Bank of England, *Bankstats (series B4B5 & VTVX)*

Running out of time

As a result, homeownership is becoming an increasingly unlikely prospect for many.

A report from Shelter set out the amount of time required to save for a deposit – in many cases that amount of time required could put someone well into their late 30's (with a starting age of 25ish):[64]

Figure 13 – Average length of time to save for a deposit, by region



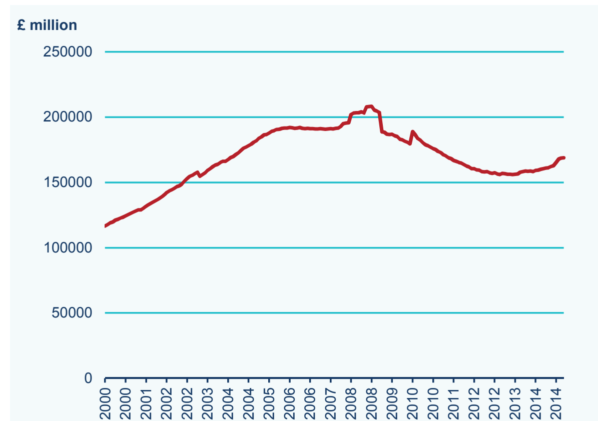
Region	Couple without children	Couple with one child	Single
England	6.6	12.3	13.3
North East	4.3	8.8	9.3
North West	4.6	9.3	9.8
Yorkshire & The Humber	5	9.3	10.3
East Midlands	5.5	10.5	11.1
West Midlands	5.8	10.8	11.6
East	7.1	13	13.9
London	13.5	25.8	29.1
South East	8.3	15.3	16.3
South West	8	14.6	15.8

Source: Shelter, *A Home of Their Own*, 2015

Coupling this with the recent changes in mortgage selling (driven by the Mortgage Market Review) means that many of these people might be excluded from home purchase altogether – if a couple with one child started saving for a deposit at the age of 25 in the Southeast, they might find it difficult to obtain a mortgage having saved for sufficient deposit by the age of 40 (due to the standard mortgage term of 20 – 25 years extending into retirement age bands).

This picture is compounded by unsecured debt. Consumer credit flows have increased drastically over the last few years, both for credit cards and unsecured loans.[65] The total amount of unsecured lending to individuals is equally growing. In November 2014, unsecured lending stood at £168.97 billion (of which £61.3 billion is credit card debt):

Figure 14: Net unsecured lending to individuals, amounts outstanding



Source: Bank of England, *Bankstats (series BI2O)*

Given this backdrop, interest rate rises could spell misery for many.

This debt picture is likely to put pressure on long-term savings over the medium term. Once auto-enrolment is fully rolled out in 2018, workers will contribute 4% of their salary (currently, it is 1%). But banks and building societies are increasing the level of scrutiny over borrowers' financial circumstances as a result of the Mortgage Market

Review. The MMR came into force on 26 April 2014. It was intended to ensure borrowers have enough disposable income to afford to meet their mortgage payments and prevent a repeat of the high-risk lending seen at the peak of the market in 2007.

There are concerns that the new affordability checks mean that making regular, committed savings will restrict borrowers from getting the loan they require. There are suggestions that some lenders asking borrowers more detailed affordability questions reduce the maximum mortgage for those who regularly contribute to a pension or pay off student debt.[66]

This could force an unfortunate choice between saving for retirement and borrowing for a mortgage – both important stores of wealth for the long term.

Lifecycle saving

This illustrates that debt and housing are integral parts of people's assets over their lifetime, and that long-term savings cannot be viewed in isolation. This needs to be matched by a holistic approach in Government and regulatory thinking on savings, pensions, debt and housing.

Given the time it takes to save for a deposit, and the threat to long-term savings as a result, some commentators are proposing that early access to pension savings for house deposits should be reconsidered and others will no doubt follow suit.[67] It may in fact be inevitable for Generation Y. Early access to pension savings for house deposits has benefits as well as drawbacks: It has the potential to establish the long-term savings habit early and to motivate people to pay in more than the minimum. But it could also deplete retirement savings and undermine long-term saving when adequacy remains the key problem.

In New Zealand, residents can withdraw funds from their KiwiSaver scheme to buy their first house. This was introduced in 2007 and is becoming increasingly popular. Providing they have met the eligibility requirements (such as having paid minimum contributions and that the property is not being purchased as an investment), the scheme members are entitled to withdraw some or all of their retirement savings. Members earning less than an income cap may also qualify for a deposit subsidy from Government.[68]

The proportion of residential sales using this withdrawal clause from the KiwiSaver fund increased from 0.1% in Jul 2010 to over 5% in Dec 2012, showing the increased popularity of using retirement savings for other means. Those under 35 are the highest users of this clause and the Department of Building and Housing found many have expressed the ability to withdraw funds to purchase property as an important reason for them joining the scheme.

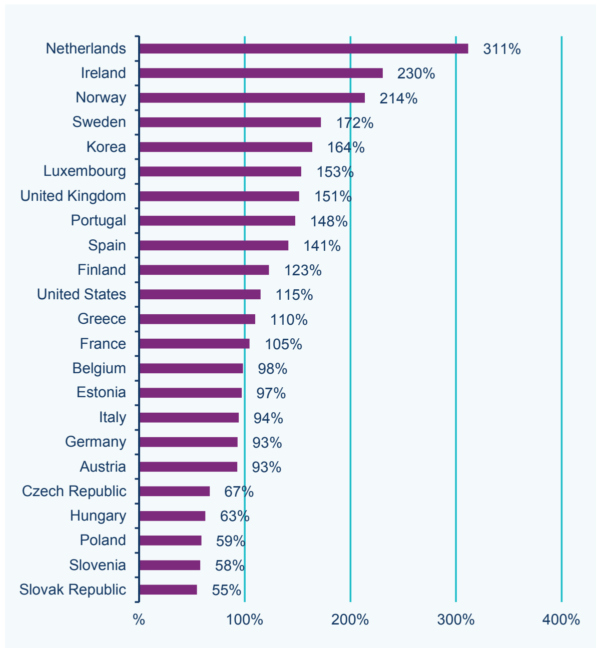
Also required is a culture shift away from excessive reliance on unsecured credit. This is not to suggest that this will resolve the problems of the mounting number of people in real hardship – it is well-established that many people are in an extremely difficult financial position, having to use credit to tie them over to the next pay cheque.

But disposable income has risen, with much less having to be spent on essentials. If we want to increase the financial resilience of our society, a reprioritisation between consumption now and creating wealth to last for an increasingly long life is key.

Figure 15: UK gross disposable household income per head at current prices

Source: Office for National Statistics, *Gross Disposable Household Income*

Figure 16: OECD household debt as % of net disposable income (2012)



Source: OECD, *Household accounts data*

The invisible force

As set out above, tax incentivisation of long-term savings, particularly pension tax relief, will form an increasingly important part of the political discourse from May 2015 especially given fiscal constraints.

It has been suggested that the need for pension tax relief has fallen away, because auto-enrolment into workplace pensions removes the need to incentivise saving. Given people could spend their pension pot on an Aston Martin at age 55 also removes the concept of tax relief to encourage consumption smoothing between working life and retirement. And finally, the single tier state pension will protect citizens against poverty.

However, the argument for pension tax relief remains strong. Consumer research suggests that only a small percentage of people will take their entire pot in one go,[69] so the concept of consumption smoothing will still hold. As has been demonstrated, the single tier pension will not be available to all,[70] it will only protect against absolute poverty. Other measures indicate more is needed to participate in society.[71] Tax relief has also been an important part in the auto-enrolment narrative, see below. And taxing people on their pension contributions as well as taxing them on the income derived from them in retirement would amount to double taxation – indeed, tax relief was originally designed to mirror the income deferral nature of pension savings with tax deferral, rather than as an incentive to save.

Figure 17: Automatic enrolment advertisement

Source: Department for Work and Pensions

But as the industry has been saying for some time, tax relief needs to be reviewed to ensure its effectiveness – both in terms of its distribution, and whether the Annual and Lifetime Allowance are still appropriate. We set out five principles for the future of pension tax relief.[72] It should:

- Be fairer, simpler and easier for people to understand - the more working people who benefit, the better.
- Encourage people, particularly those on low to middle incomes - the group most at risk of not making provisions for their future - to save more.
- Be straightforward to implement - including for employers and the industry.
- Command cross-party support - we need a stable settlement which can last a minimum of two Parliaments.
- Demonstrate good value for money to the Exchequer - it should be revenue neutral or lower cost than the current system.

Any new settlement should also maintain or enhance the incentives for employers to contribute to their employees' pensions.

Tax relief should be a key topic for an Office for Intergenerational Responsibility or a Retirement Commission. This could also explore whether more of a lifecycle approach is needed to long-term savings pensions and indeed pension tax relief, encouraging savings earlier, by including early access for a deposit for a first house.

Building trust

Finally, the long-term savings market depends heavily on trust and consumer confidence. Since the global financial crisis, attitudes to financial markets have been characterised by a deep public mistrust, and this mistrust has not been limited to those parts of the market responsible for the crisis. To maximise the societal value of long-term savings products, and the impact of the challenges we propose should be explored in this paper, trust in the long-term savings market must be rebuilt.

Recent years have seen many actions taken that will contribute to this rebuilding. 2013 saw the implementation of the Retail Distribution Review, with financial advisors no longer permitted to earn commissions and fees but instead being paid directly, and transparently, by the customer.

Forthcoming changes to both occupational pension scheme regulations and FCA rules will see a raft of new measures aimed at protecting those in auto-enrolment schemes: Independent Governance Committees have been set up in contract-based schemes to represent member interests; commission and active member discounts will be banned; a cap will be introduced that will limit charges to an equivalent of 0.75%; and transaction costs will be disclosed. These reforms will make products more transparent, and will allow customers in auto-enrolment workplace schemes to be confident that their products meet minimum standards of quality and price.

Forward-looking change alone isn't enough though. The long tail of long-term savings products means that trust in the industry is also determined by the experiences of those who bought their products over 25 years ago. While those in the industry differentiate between legacy and modern products, consumers tend not to and their expectations of legacy products are set by the standards of modern products. For providers, sustainably meeting these expectations is a major challenge.

What is more, the audit of charges and benefits in DC workplace pensions has put these legacy products firmly in the spotlight. The challenge now is what to do in cases where savers may not be getting value for money. Providers are making big strides already, and further change will come once IGCs are in place. However, for reform to be comprehensive, legislative change is required. Specifically, the DWP should give providers the power to move savers to a new scheme or fund without their consent where it has been verified by the IGC that such a move is in the best interests of scheme members. Such a change will allow providers to move members onto modern operating platforms that offer better customer experiences and can be operated at a much lower cost than a legacy

platform. This is the only sustainable way to deliver modern services to legacy customers. More fundamentally, it would allow the industry to do the right thing for consumers following fundamental shifts in pension policy, technology and social attitudes, rather than being stopped by historic contracts.

We can also expect new issues to emerge that will further challenge the public's perception of the long-term savings industry. Most obviously, the introduction of pension freedoms has blurred the line between accumulation and decumulation. Conduct risks will undoubtedly emerge as a result, and it is the industry's challenge to ensure they are managed appropriately.

It is right to explore, as the FCA suggest, whether IGCs should have a broader role, assessing whether retirement paths are appropriate for scheme members. Good governance will be a powerful way for the industry to rebuild trust and confidence with its customer base.

Conclusion

2050 is only a generation away – not very long for savings vehicles spanning half a century or more. The profound demographic shift in our societies over the next four decades means we have to think deeply about how to build a future savings and retirement landscape that services consumers' changing needs. This paper has identified four themes:

1.
Delivering good retirement outcomes.
The liberalisation of tax rules at retirement has created much more choice, but also much more complexity. Helping consumers successfully navigate this complexity will be vital to delivering good retirement outcomes. The Government's Pension Wise guidance service has an important role but can only provide the foundation to build greater engagement. Digital technology will be key in supporting consumers before, at and during retirement, providing access to information, guidance and regulated financial advice. Given people's widely diverging circumstances, true default solutions are much less appropriate at retirement than in the savings phase. Pre-selected "quasi-default" models as proposed in Australia's Murray review could be considered but should not replace work towards a step-change in engagement.

2.
Policy development for an ageing society.
The long-term nature of pensions and retirement income mean that policy-making should take a long-term view as much as possible, with policies lasting beyond a single Parliament. An independent body (an "Office for Intergenerational Responsibility" or a "Retirement Commission") could have an important part to play in informing the policy debate and shaping a national long-term savings strategy, so that the implications of the ageing society are assessed holistically, rather than by individual Departments.

3.
Extending the reach of the pension reforms.
The full auto-enrolment contribution of 8% has been shown to be insufficient to reach a replacement rate of two thirds of pre-retirement income (including the state pension), especially for middle and higher earners. Mechanisms to introduce auto-escalation should be considered, potentially through legislation, or more immediately through delivering a step-change in engagement. The use of digital technology to provide a holistic view of people's pension assets, both state and private, could drive such a step change, coupled with rules of thumb to help people get a handle on how much to save. Finally, the growing population of self-employed people must not be overlooked, nor indeed those with part-time or multiple jobs where the individual job would not qualify for auto-enrolment.

4.
Keeping retirement savings relevant.
Generation Y, the people now in their twenties and thirties, are facing a very different set of circumstances from the baby boomers retiring now and into the 2020s. Student debt and the need to save for growing house deposits to match rising house prices may mean retirement savings will lose their relevance for this generation. Government and regulatory thinking on long-term savings has to take a holistic approach, based on an understanding that debt and housing are integral parts of people's assets over their lifetime and must be considered together. Early access to pension savings for house deposits should be reconsidered. Equally, in considering how to restructure tax relief for pension contributions, it should be a driving principle to encourage those on low to middle income most at risk of not providing for the future. Finally, trust in the long-term savings market must be rebuilt. Good governance, working demonstrably in the interests of consumers, will be the litmus test for this.

Annexes

1: Online Retirement Tools in the UK

In recent years, ABI members have invested heavily in websites and online tools to make the complicated world of retirement more accessible. These sites help to educate people about the system and the choices they will need to make, and provide tools that enable people to plan for their own retirement. Current examples of these sites include:

Aegon Retiready

- Retiready from Aegon is a new digital retirement planning service that helps customers see their pension and/or ISA in a brand new way, when it suits them
- Customers can find out their Retiready Score by answering a few quick questions – this will help them understand how on track they are for the retirement they want
- The personalised support and education provides customers with useful information and suggested actions to keep them informed

Aviva - Savings and Retirement

- Information is tailored according to where people are on their retirement journey: saving, approaching retirement or retired
- Interactive tools support planning for retirement
- Pension Tracker helps customers manage their pension at any time, similar to online banking
- Lisa, an on-screen guide, helps to personalise the Pension Tracker service

Friends Life e-community

- A social media/education platform that allows employers to communicate with their staff about their workplace savings benefits
- Designed with auto enrolment in mind, it aims to bridge the information gap between enrolment and retirement
- The community includes interactive discussion groups, forums, webinars and financial education pages
- Allows employers to create specific groups to get an insight into the financial behaviours and views of their employees

LV= Retirement Plans

- Improve customer outcomes though engagement, support, education, and advice
- Provide an impartial suite of informative content to help customers get ready for retirement
- Use digital alongside traditional market advisers to increase convenience of engagement, educate customers in making their choices with modern information and advice solutions
- Digital expertise, capability and technology provides integrated and branded, white-label, or co-branded digital journeys for both new and existing customers – delivering strong customer outcomes

Scottish Widows - Retirement Explained

- Clean and streamlined user interface aims to simplify the complicated world of retirement
- Focuses on explaining the world of retirement so that customers have a base on which to make decisions
- Options are explained using real life examples and through interactive tools such as a calculator to calculate living costs in retirement

Standard Life - ReadyWhenUAre

- A central place for customers to discover, compare and explore their pension options online
- Quick and easy pathfinder helps customers get a snapshot of their options under the new pension rules
- Interactive retirement calculator helps customers find out how much they could get in retirement whichever path they take
- ReadyWhenUAre gives customers the confidence to make informed decisions

2: Permitted retirement income approaches around the world

Country	Lifetime annuities	Income drawdown products	Lump sums
Australia	Allowed, but very little demand	Allowed. Main options are account-based income streams	Allowed and relatively common
New Zealand	Allowed, but there are no annuity providers in NZ	Allowed	Allowed and relatively common
USA	Allowed, but demand is weak. 9% of retirees have significant annuity income	Allowed	Allowed
Canada	Allowed, with significant demand	Allowed, although with restrictions in some cases	Limited for DC pension schemes
Ireland	Required, unless income can be shown to be above threshold to qualify for income drawdown	Allowed given sufficient income	Restricted to 25% or 1.5 times income as tax-free lump sum (taken by most people)
Switzerland	Default option, and subsidised	Not allowed	Allowed, but discouraged
Denmark	Unlimited deferred annuities	Restricted amounts can be allocated to term annuities	Allowed
Netherlands	Mandatory	Not allowed	Not allowed*
Singapore	Mandatory	Not allowed	Not allowed
Chile	Default option	Restricted to 'programmed withdrawals'	Not allowed
UK	Allowed. Formerly Primary Option. More flexibility from April 2015.	Currently restricted to 'capped drawdown' and 'flexible drawdown' products. Caps and thresholds removed in April 2015.	25% tax-free, remainder taxed at marginal tax rate. Threshold removed in April 2015.

Source: Oxera, The retirement income market: Comparative international research, 2014.
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6.83% per annum until the age of 65. Wage growth is equal to inflation, and scheme charges average $5 per week. During retirement, the individual earns 4% per annum on their savings pot. In concert with the Age Pension provided by the state, the individual can expect this retirement pot to give them an annual income of A$42,597 (which is the income level that will provide for a comfortable retirement lifestyle for an individual according to the Association of Super Funds of Australia) until the age of 90. *See http://www.superguru.com.au:8081/ASFARetirementCalculator/ui/index.html* for more details.

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2 Wellbeing in retirement: promote positive and active ageing.

3 Encouraging personal responsibility, individual choice and control: voluntary saving for retirement.

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5 The citizenship dividend: build and maintain social cohesion and national identity.

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Notes

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