PENSIONS POLICY INSTITUTE

PPI

The Future Book: unravelling workplace pensions seminar [2015 Edition]

The Pensions Policy Institute (PPI) held a policy seminar on 8 October 2015 to launch its first report in a series of annual reports called *The Future Book: unravelling workplace pensions [2015 Edition]*, which was commissioned by Columbia Threadneedle Investments.

The Future Book is the first edition of an annual PPI publication, which sets out available data on the Defined Contribution (DC) landscape, explores emerging trends and contains PPI projections of future asset levels, scheme distribution and median DC pot sizes. It provides commentary and analysis on DC trends by leading thinkers in the pensions policy world, all with an end-consumer focus.

Around 70 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

Jonathan Stapleton, Editor In-Chief of Professional Pensions, chaired the seminar, welcomed attendees and made introductions.

Andrew Brown, Director, Defined Contribution, Columbia Threadneedle Investments, welcomed attendees to Columbia Threadneedle Investments.

Daniela Silcock, PPI Head of Policy Research, presented the findings of the Research.

Chris Wagstaff, Head of Pensions and Investment Education, Columbia Threadneedle Investments presented an industry view on the research, identifying the need for simple and intuitive tools and solutions to manage and mitigate the three key, and largely unquantifiable, risks faced by DC investors at and in retirement: longevity, unexpected inflation and financial market corrections. He highlighted the common problems that people face when planning for retirement, such as knowing what level of income in retirement is feasible and realistic, and the lack of a frame of reference when making retirement planning decisions. He suggested that an interactive online planning tool could be a helpful conduit for people attempting to manage complex retirement decisions.

Jonathan Stapleton asked the panellists their view on the research findings:

Adrian Boulding, Principal Consultant made the following points:

- The research presented is 'worrying' as it shows that median pension pots, employee contributions and employer contributions are unlikely to yield enough pension savings to replicate working-life standards of living in retirement. However, we need to focus on contextualising and defining outcomes. What income do people need in retirement, what age can people expect to take their pension and will people need extra income? If an outcome-focused approach is adopted, DC will not become a "set and forget" process but will need monitoring.
- DC pensions can be as good as DB, and future annual PPI reports will hopefully show evidence of improvements in DC schemes.

Trudy Netherwood, Food Policy Manager, Department of Health gave an overview of policy initiatives around food labelling:

- Policies behind the labelling on food packaging were originally designed as a response to growing obesity in the UK.
- Originally, supermarkets voluntarily developed individual systems of traffic light labelling indicating the contents on the packaging. However consumers struggled to engage with the labels, due to the vast amount of diversity between approaches. To tackle this inconsistency, a standard traffic light scheme has been developed and voluntarily adopted by all major food retailers and many manufacturers, accounting for two-thirds of the UK market for pre-packed foods and drinks. Feedback from consumers is that they find having a consistent scheme across brands and retailers helps make healthier choices easier.

Thomas Brooks, Senior Policy Researcher, Citizens Advice Bureaux welcomed the report and its findings and made the following points:

- Citizens Advice Bureaux (CAB) has recently done some research on what people think about pensions. The results highlighted a lack of awareness and understanding about pensions, especially among younger people. A reason for this could be that there is a disjoint in the way people conceptualise long-term savings compared to money earned and spent today. This could likely be due to the fact long-term savings are less tangible and there is no perceived immediate need of a pension to a younger person in comparison to more immediate spending.
- The research that CAB completed also found that the media had influenced many of the people's opinions around pensions.
- Pension Wise is up and running with ¼ of the people who visit for guidance booking in for a follow up session with CAB. There is a strong demand for further help, and a lot of people who have visited have said they plan to see an Independent Financial Adviser, though only 6% of people reaching retirement are currently paying for such services. Pension Wise is one option but there needs to be a range of guidance and advice options in place to support people with a range of needs and resources.

The following points were raised during the question and discussion session with the panellists and the audience. They do not necessarily reflect the views of the PPI or the PPI seminar speakers.

- There is a lot that is still unknown about DC, specifically, how will people behave in the future when they access their pensions and what products they will choose? It is a case of having to see how industry develops alongside the consumers.
- People need to be 'vigilant' and make sure that everyone in the policy world is collecting relevant data.
- The industry also needs to be more aware of larger socioeconomic problems acknowledging more than the mean numbers of DC pension pot size, and therefore try to explore what happens to individuals with a very low income in later life.
- It will be important to find out where people are getting their knowledge and advice from, if they are not using an IFA.
- The experience of the traffic light labelling process indicates that it's important to fully test a policy and gauge the consumer's responses and behaviour before it becomes compulsory.
- Fear associated with pensions, and feelings around getting older can lead to inertia. CA reports that 20% of people approaching retirement would benefit from free pensions guidance however, only 5% have taken it up so far, this may be partly attributable to fear of confronting ageing.
- There needs to be more money channelled into engaging people with the earlier stages of pension saving and gaining a behavioural insight.
- The development of a pensions dashboard will be likely to encourage engagement among consumers, because people will be able to access information about the money they have accrued across all their pension pots and compare. The visibility of what has been accrued so far will likely encourage engagement as the savings become more tangible. It may also help to reinforce an outcome focused approach as people will be more able to evaluate whether they need to increase contributions to achieve their target income for retirement.
- Although engagement from an early stage is regarded as a pressing issue, it must be recognised that young people may have conflicting priorities, some of which may seem more tangible than pensions income needs.
- Transparency is still an important issue. Industry transparency needs to be improved, however we are still in a post-crisis world therefore consumers are struggling to regard the industry as trustworthy.
- Increases to the minimum wage could increase auto-enrolment eligibility levels, however often pensions and labour market policy will affect the level of impact any rise to the minimum wage has.
- Pension products need to be labelled more clearly by providers, as a lot of people don't understand scheme communication. A clear labelling of charges and product design will help people to make more informed choices and compare.

- The industry needs to remind people of the benefits of pensions, as the portrayal of pensions is often negative.
- To move forward we should use what we know works, for example automatic enrolment, which has used inertia in a direction that is good for people. Building on this, the 8% minimum contribution should be the next step, along with expanding the qualifying earnings band. However, all this needs to be done slowly and step by step allowing people time to adjust.
- While tax relief can help pots grow more quickly, there is little evidence that they incentivise medium to low earners to save into a pension.
- It is hard to have automatic enrolment without default funds as the target group for auto-enrolment are less likely to take active decisions with regards to pensions savings, meaning that they are unlikely to further choose their investments in a scheme. This means that default funds are needed so that a minimum standard can be set across the chosen scheme helping to ensure members, the majority who remain in the default fund, receive good outcomes from their pension. It might not always yield the highest returns but default funds are the embodiment of a philosophy as well as an investment approach.

To conclude the following final remarks were made about the research presented in the seminar:

- There was a concern that as a result of tax relief and auto-enrolment policy some very high and low earners may be effectively "excluded" from pensions schemes.
- Those that are over 50 years old are more likely to opt out. It may be worth further exploration of the reasons behind this.
- There should be advisers in both the accumulation and decumulation stages. To what extent can this be done by technology?
- There is a philosophical conflict about where the responsibility lies in saving enough to replicate the working-life standards of living in retirement. Before we can solve the issues, we have to resolve this conflict.
- The parallels between pensions and food labelling could be a way forward in labelling pensions and encouraging engagement.
- There are two ways to move forward and both should be deployed; the first being labelling and the second governance, deploy and use both.