PENSIONS POLICY INSTITUTE

PPI Launch Write-Up: The new pensions landscape

The Pensions Policy Institute (PPI) held a policy seminar on 29th November 2016 to launch its latest report *The new pensions landscape*. The report was sponsored by the Association of British Insurers (ABI), the Chartered Insurance Institute (CII), the Department for Work and Pensions (DWP), The People's Pension (TPP) and the Pensions and Lifetime Savings Association (PLSA).

The report finds that future cohorts of pensions may have lower levels of pension income than those recently retired, although pensioners are better off on average than they have ever been. Despite this, 1.6 million pensioners are still living in poverty.

The policies and the landscape changes since 2003 have had different impacts on particular groups.

- Incomes in the middle of the income distribution are projected to increase more than those at the top of the income distribution.
- Men will continue to have higher retirement incomes than women, but women have experienced greater increases than men due to the pension landscape changes that took place between 2010 and 2016.
- Both automatic enrolment and the triple lock could increase retirement incomes while increases to State Pension age (SPa) would reduce retirement incomes.
- While incomes will be lower for those closest to retirement than for recent retirees, automatic enrolment could reverse this trend.

However, this research cannot be definitive due to the large amount of uncertainty surrounding the pensions landscape, in particular the way in which individuals respond to reforms.

A broad range of people representing the Government, third sector, the pensions industry and the investment industry attended the seminar.

Laurence Baxter, Head of Policy, CII, welcomed attendees and provided an introduction to the work of the CII. He highlighted the need for research that takes into account the sum total of pension reforms and welcomed the PPI new pensions landscape research. He outlined consumers' concerns and confusion in the context of changes around pensions.

Margaret Snowdon, PPI Governor welcomed attendees and made introductions, thanking the research sponsors.

Jackie Wells, Independent Consultant for the PPI presented the findings of the research.

Baroness Jeannie Drake responded to the research findings:

- It is positive that increases in inequalities have been reversed despite prospects for future incomes being uncertain.
- The Pensions Commission considered three main strands in terms of the pension system; working longer, saving more and the single-tier pension although it recognised that there was some fluidity around public policy.
- Many employers have carried out their automatic enrolment duties. However, there is concern that automatic enrolment has exacerbated disengagement among some employers.
- Contributions are still low and need to reach 8% before any moves to increase rates. There are also concerns around those people who are excluded, such as the self-employed or those in lower paid jobs, with the £10,000 trigger excluding too many people.
- The triple lock is unlikely to stay in place, and there remains a question around the proportion of earnings that the state pension should provide.
- The State Pension age (SPa) review is unlikely to challenge the upward direction of the SPa. There are concerns, in particular, for those people who enter employment early and subsequently struggle to work longer.
- The objectives for pension saving have been blurred as there has been conflation of long-term and pensions savings. Moreover, this market is not clearly understood.
- There should be more scrutiny of incentives to save. Baroness Drake hopes that changes to tax relief will be based on proper analysis of likely behavioural responses to these.
- Any market for retirement-income products needs to take into account the implications for peoples' incomes over the course of their retirement and that savers are currently very vulnerable to scammers.
- Pensions guidance needs to be independent and impartial.

Following the presentation, Margaret asked if each speaker could give a brief response to the research.

Rob Yuille Assistant Director, Head of Retirement Policy, ABI, responded to the research findings:

- There is a diverse range of policies, only some of which are connected.
- This report provides a reminder of the size of the foundation provided by the state pension.
- Automatic enrolment has been positive but higher contributions are required.
- Freedom and choice has made life more difficult due to the number of decisions to be made by individuals.
- The fact that total contributions have decreased re-inforces the importance of the role that employers could play in pension provision.
- The report findings emphasise the fact that pensions policy should be holistic, take into account other areas such as long-term care and provide some stability.

Darren Philp (Director of Policy and Market Engagement, B & CE) added some comments:

- A lot has happened since 2003, there have been nine Pensions Ministers and many pieces of legislation.
- There is a question around whether 8% is sufficient under automatic enrolment and how to increase contributions, as well as concerns around excluded groups.
- Pensions tax policy remains an area for further exploration, with questions around the extent to which it acts as an incentive to save.

Chris Curry (PPI Director) responded to the research findings:

- This report provides a very good, comprehensive overview of the state of pension provision in the UK, and it will take time to fully analyse all of the findings. The report is likely to form the basis of the PPI's work over the next 12 to 24 months.

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 are difficulties around encouraging engagement with pensions, with no real emotional engagement as of yet. Much emphasis has been given to the role of larger employers to the exclusion of smaller employers.
- The freedom and choice rules have given mixed messages to employers. Whereas in the past employers were encouraged to contribute to pensions on the basis that this is deferred salary, freedom and choice now means that employees can do anything they like with this money, and not necessarily take it in a way that mimics salary payments.
- Scheme governance should be a priority, as it is important that individuals know that their money is being looked after well.
- The rules around automatic enrolment are very complex, particularly around eligibility of jobholders.
- There was a question around the extent to whether the principle that individuals should spent a third of their working lives over State Pension age would endure.
- It was pointed out that, were the triple lock maintained, the state pension would only reach the level of the 1973 basic state pension sometime in the 2030s. As well as helping pensioners, the triple lock helps younger people as they would receive a pension that has been uprated by the triple lock once they retired.
- Stability of outcomes in terms of what policy is looking to achieve would be welcomed.
- Healthy life expectancies are not keeping up with increases to life expectancies. This may mean that there is some requirement for flexibility around the state pension.
- The focus on retirement incomes has ignored the question of how much individuals are willing and able to pay during working life in order to provide these income levels.

- There was a discussion around the trade-offs that individuals might need to make. Ultimately all of the money for pensions comes from individuals whether it be via employer contributions, with employers restructuring remuneration packages, or from the state pension.
- There has still not been sufficient consideration of the interaction of pensions and the requirement for long-term care.

Margaret Snowdon closed the event and thanked attendees