PENSIONS POLICY INSTITUTE

PPI

PPI Seminar: *Retirement income and assets: outlook for the future*

The Pensions Policy Institute (PPI) held a seminar on 11 February 2010 to launch its latest report: *Retirement income and assets: outlook for the future.* The report is the fourth in a series of reports that consider the role of income and assets in supporting retirement. The *Retirement income and assets* series is sponsored by Prudential, J. P. Morgan Asset Management, the Department for Work and Pensions, the Association of British Insurers, the Investment Management Association, and Age Concern and Help the Aged. This seminar was hosted by the Association of British Insurers.

The seminar was chaired by Niki Cleal, PPI Director and was attended by over 50 people representing a range of interests across the pensions and financial sector.

Chris Curry (Research Director of the PPI) gave background to the Retirement income and assets series and **Daniela Silcock (Senior Policy Researcher at the PPI)** gave an overview of the key findings from the report. This included:

- State pension reforms mean that state pensions should provide a much firmer foundation for retirement income in future. By 2030, and assuming that Basic State Pension is re-indexed to earnings, it is more likely than today that lifetime low earners will be able to replicate working-life living standards in retirement.
- Many median earners who contribute to DC pensions at average levels of 10% of salary are unlikely to have sufficient state and private pension income to achieve a desired standard of living in retirement.
- Many people will need to contribute more to their pension during working life, work longer, or run down savings, investments or housing wealth to achieve a standard of living in retirement they might consider acceptable.
- Proposals on how to fund care in retirement will have a large impact on the way people use assets to fund retirement. Costs could reduce for those who need care, but depending on the funding model chosen by the government costs may be higher for some pensioners who do not need care.

Maggie Craig (Director of Life & Savings at the Association of British Insurers) spoke about the role of the insurance, pensions and long term savings industries in addressing the issues raised by the research. She said that pensioners' needs should be the key focus for providers when designing retirement income products. This included the need to consider the growing complexity of people's needs such as how long they will live, what care they might need and how people draw income from various different assets at and in retirement.

She raised concerns at some of the false assumptions that might be made regarding NEST, in particular that people must not mistake the minimum contribution limit for a Government-recommended 'sufficient contribution' level. Pension providers and policymakers face the challenge of successfully communicating key messages such as the need for people to engage with their pension savings, and ensure contributions are made at sufficient levels. She was particularly concerned that employees and employers could place too great a reliance on NEST, adding that while the pension reforms may increase the number of people saving this was not the same as ensuring people save at an adequate level.

She also noted the importance of information and advice, dismissing the idea that individuals are incapable of understanding and managing the issues involved in retirement planning. She instead suggested that the challenge lies in motivating people to engage with their pension savings. She noted that choices faced at retirement by lower earners may be less complex, but more crucial, than those for higher earners who may have a wider range of assets.

Ruth Hancock (Professor of Economics of Health and Welfare at the University of East Anglia) discussed the links between long term care and retirement income and assets.

She noted that, at the macroeconomic level, the issues that affect long term care provision such as the impact of an ageing population and fiscal constraints are often also those which affect retirement provision. At the micro level she said that care is one of the potentially large costs faced in retirement and that the availability of Government help for care may affect, or be affected by, other needs in retirement. She noted that the level of retirement income and assets can directly affect the entitlement to state help for care costs. She suggested the possible potential for products that provide retirement income and cover for care costs.

She compared the means tested entitlement in the current arrangements for State payments toward Long Term Care and those for the Pension Credit. She noted that savings assets held by pensioners reduce entitlement to a greater extent under Long Term Care than the same assets do under Pension Credit. She also noted that the treatment of income under Pension Credit leads to a more gradual tailing off of entitlement than under Long Term Care.

She considered a number of difficulties in combining pensions and LTC insurance products. She discussed the impact of potential legislation on raising the cost to local authorities of providing care at home compared to providing care in a Care Home.

Richenda Solon (Head of Analysis at the Extending Working Lives Division at the Department for Work and Pensions) considered the implications of extending working life. She said that the Government aimed to ensure that people had information available to enable them to make choices regarding their income in later life. This includes the possibility of extending their working life.

She suggested that there was a need for short term policies that enable people to work longer and a longer term culture change.

She said that the short term policies included those set out in the white paper "Building Britain's recovery" and engaging with employers to encourage flexible retirement and flexible working. She mentioned that there are still important barriers to longer working such as training, health issues, skills and caring.

She discussed the work that the DWP has done in order to help individuals understand the issues around extending working life. She discussed the need to challenge cultural norms and expectations and mentioned that recent survey data suggests that attitudes are changing.

Questions and discussion

There followed a question and answer session. The following points were raised by speakers or members of the audience during the discussion. They do not necessarily reflect the views of the PPI or the PPI seminar speakers.

- There was discussion around how debt and inheritance can impact on retirement income and assets. It was agreed that this is an issue, but a difficult one to model as data often gives net wealth. It was hoped that new sources of data may separate out debt from other assets to enable better modelling. It was also noted that, due to increases in longevity, many people are retiring while their parents are still alive, this may reduce inheritance as a source of retirement assets.

- There was a question as to whether increases in longevity affected the total costs of providing care to people, or if the same number of people require care for the same amount of time, just later in their life. The panel suggested that we need more research into whether increases in longevity mean that people are living longer in good health before requiring care, or living longer while in need of care.

- It was said that surveys of people who face decisions about whether or not to work beyond retirement age often find that money is not the first factor that people consider when making that decision. Instead, people often consider other quality of life factors and rely on advice from acquaintances rather than formal advice. It was noted that many people may have no choice but to work after retirement age if their retirement income is inadequate. In general, there was agreement that getting people involved in their own retirement planning, perhaps by improved communication regarding available options, is essential. It was noted that this has to happen well before retirement, as by retirement it may be too late.

- It was suggested that means-testing for pension credit and other income benefits affects pensioners themselves; while means-testing for care benefits affects the people that pensioners bequeath their income and assets to, by depleting these income and assets. There was a suggestion, therefore, that it was not unfair for the income benefit related means test to be more generous than means tests related to care benefits. However it was pointed out that bequeathing wealth may be important to people in care. It was also mentioned that the means test for care benefits does not often leave people with enough income to spend on daily living expenses.

- It was suggested that an increase in the State Pension Age is often seen as a cure for many of the issues around retirement, but the impact of an increase may be of greater detriment to those who have ill-health and shorter life-expectancy, often the poorer members of society. There was agreement with the premise of the argument but a number of speakers felt that the issue to be addressed was the factors causing health inequalities rather than pensions policy.

- There was discussion around how useful it is to use behavioural economic tools such as "nudging" people toward adequate saving. It was felt that such tools can help get people on track. But that there was a limit as to how far people could be "nudged" and that they would still need the appropriate information and advice in order to understand their options and to be able to meet their desired retirement income levels.