Consumer Challenges.

Responses to PPI Research 'Retirement Income and assets; how can pensions and financial assets support retirement?

22nd October 2009

Private Pensions; Core Consumer Challenges

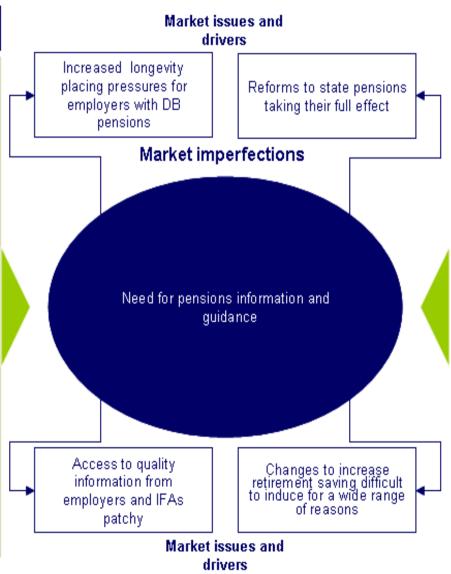
- Having access to a pension!
- Knowing if taking out a pension is the right choice
- Making the right decisions around accumulation
- Knowing your needs are being met on an ongoing basis
- Making the right decisions around decumulation

Consumers need considerable support in meeting some of these challenges – as DC grows in importance, the challenge becomes more significant Do consumers have the support they need?

Why consumers need support

Causes

- Lack of saving 7 million people not saving enough. People considered to be close to retire more likely to report 'inadequate retirement resources to meet their needs'
- Complex market The complexity of the current pensions environment place high "capability hurdles" for consumers to interact
- Lack of financial capability –Not many people shop around for financial products. About one in five make choices without seeking advice first
- Wealth inequality People with low pension wealth do not have other assets to fund their retirement
- Life expectancies Expectation for future generations to work to later ages so that their retirement expectations can be fulfilled
- DB schemes closures and buyouts – It is believed that only 4 per cent of private DB schemes will be open to future accrual by 2018



Government & Regulator actions

- Pensions Bill The Government introduced legislation to tackle the complexity of the current pension system. A Pensions Bill with provisions to change the state pension system
- Personal accounts with automatic enrolment – Personal accounts, with automatic enrolment and a minimum employer contribution, are designed to tackle transparency issues from providers and to encourage people from 22 to state pension age earning over £5,000 p.a. to get their 'hands on' financial decisions to fulfil retirement expectations
- Increasing focus on annuitisation – process and low existing levels of use of the OMO

PPI Conclusions

The report concludes:

- Pensions account for around 60% of pensioners' income, with this proportion expected to increase
- Active membership in DC schemes could increase from 5 million to 15 million by 2020
- Therefore greater numbers may need to use the annuities market, many with smaller pots
- People will have more complex combinations of income and assets to manage in the future
- Information and guidance services are needed (for lower earners/those with less complex decisions)
- Advice and information services are needed (for those with more complex financial decisions)

Meeting the challenge of supporting consumers

Observations:

- 'Generic' information and guidance has an important role supporting consumer decisions for some
- However, decisions regarding retirement income / financing retirement are often complex, require specialist knowledge and understanding of individual circumstances
- Some individuals with 'less complex' decisions will still seek 'individualised' support where they are less confident
- Individualised support is important to good consumer outcomes, but:
 - 'commercial advice' sector under economic and regulatory pressure
 - 'non-commercial advice' sector under scrutiny to demonstrate role and benefits
- Processes around choices at retirement appear not to be working for some there is a need for a different approach to ensure that consumers get better outcomes where this is the case