

# PPI “Question Time” Election Special event December 2019

## PPI Briefing Note Number 116

### Introduction

The Pensions Policy Institute held a “Question Time” Election Special event on Wednesday 4th December 2019, sponsored by Smart Pension Gold Supporting Members, a week before the general election. This was an exclusive event for PPI Governors and Supporting Members only and was attended by circa 45 people who took part in a fascinating and entertaining debate. Our distinguished panel responded to key pensions policy questions posed by our guests. The panel was chaired by Darren Philp, Director of Policy and Communications, Smart Pension and PPI Council Member and the panellists were: Jack Jones, Pensions Policy Officer, TUC; Ruston Smith, Chair of Tesco Pension Fund & PPI Governor; Iona Bain, Young Money Blogger & PPI Governor; Chris Curry, Director, PPI.

This Briefing Note summarises the discussion between the panel and audience. Points are unattributed as the event was held under the Chatham House Rule. The discussion does not reflect the views of the Pensions Policy Institute or the sponsor.



What do you agree or disagree with?

### Question One:

**“What more should be done to increase the scope of automatic enrolment?”**

Automatic enrolment has been very successful, however, around 10 million people are still being excluded, through ineligibility arising from age, income or self-employment.

Implementing the proposals from the 2017 automatic enrolment review, to lower the age of eligibility

to age 18 and the lower level of the contributions earnings band to £0 will go some way to increasing eligibility and the level of contributions people make.

However, more needs to be done to bring lower earners into private pension saving by looking into how people under the earnings eligibility threshold of £10,000 per year can be brought in. Abolishing the earnings eligibility threshold would help bring more people from ethnic minority groups, women, disabled people and carers into saving.

Lowering the earnings threshold is a tricky policy to manage as some people under the threshold may be unable to afford private pension savings; contributions taken from wages could lead to difficulty managing daily living costs and debt repayments.

### *The self-employed...*

The proportion of self-employed people is growing and there needs to be investigation into how automatic enrolment can work for the self-employed.

It is unrealistic to expect the multiple employers of gig workers to join together to fund individual pensions; on

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the other hand, state funded contributions for the self-employed may be perceived as unfair, especially in the case of wealthier self-employed people.

The Lifetime ISA may be a good alternative saving vehicle for the self-employed.

Self-employed people either need to be helped to engage or need to be nudged into a pension, ISA or another savings vehicle. DWP will need to further explore the options during the next Parliament.

The self-employed are not a homogeneous group and have varied working lives. Many move in and out of self-employment during their working lives. There needs to be more support for self-employed people to navigate the relationship between labour market behaviour and pension saving.

### *Contributions...*

Contributions must rise, but to work for individuals, increases must be employer led. Individuals can't afford to contribute up to 15% (a proportion generally held to be the minimum sufficient level of private pension contributions required to achieve adequacy in retirement).

It would be ideal for employees if employers paid all or the majority of contribution increases. Employers funding increases would also reduce the motivation for employees to opt-out when contributions go up.

We need to find a suitable and fair way to increase contributions acknowledging that many have other financial commitments such as per-



sonal debt. A fair approach could be the introduction of auto escalation by linking it to a proportion of increases in inflation. For example a proportion of intended wage increases above price or earnings inflation could be allocated to pension contributions, for example, a quarter of inflation at 4% would be a 1% increase in contributions. This method would allow people to maintain living standards during their working life and would help people to achieve the Pension and Lifetime Savings Moderate standard of living.

### *Taxation...*

The tax system is currently unfair and overly complex. A single rate of tax relief would help restore fairness and simplicity. A rate above basic relief, for example of 25%, would help lower earners and the self-employed through additional credits and allow for abolition of the Annual and Lifetime Allowances and higher earner tax relief taper. This policy would also facilitate the self employed to contribute through Relief At Source.

### *Beyond automatic enrolment...*

Automatic enrolment is important, but we will need to also focus on funding long-term care and ensuring that older people have access to housing going forward.

### **Question two:**

**“Given the level of uncertainty that has come from the recent sustained focus on political/Brexit stalemate is there now a greater need for member engagement regarding pensions?”**

**“Simplifying tax relief would be a good place to start.”**

There are complexities and inequalities baked into automatic enrolment, through, for example, the tax relief system. Before we can expect members to understand and engage with automatic enrolment, we need to address the underlying complexities which make it difficult to navi-

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**“One does not need a specialist’s advice to fly in an airplane or eat at a restaurant, why is advice necessary to save in a pension?”**

There shouldn’t be a need for engagement if the system is working properly, though engagement can lead to positive outcomes if done at the right time, in the right place with the right people.

Engaging people during teachable moments in a place they are comfortable, such as the workplace, can be highly effective.

We need to remember that automatic enrolment has only just finished rolling out, but it is a 30-40 year policy, in that, those who benefited from a full life in automatic enrolment saving will start reaching retirement in 30 to 40 years. At this point, saving levels will be higher and people will have significantly larger pots. It is expected that at this point more engagement will have arisen naturally as people will have something more substantial to engage with.

### Question three:

**“Given that revised figures published by HMRC in May this year show that the cost of tax relief on pension contributions is much lower than thought (and that pensioners are paying more in tax on their pensions than the Government previously estimated). Does the panel agree that there is no case for the Govern-**

gate. Simplifying tax relief would be a good place to start.

Inertia is very useful and has resulted in low opt-out rates. If next year there is a post-Brexit market correction then there’s a risk that those who are engaged may stop saving. It was acknowledged that we should continue to improve engagement through the Simpler Annual Statement, the Pensions Dashboard and the Retirement Living Standards. But we need to remove jargon and speak a much simpler language.

### Building trust...

In order to encourage engagement, trust in pensions needs to be rebuilt. Reports of people being scammed and receiving independent financial advice that isn’t considered appropriate is likely to have reduced trust. Employers could help by appointing trustworthy IFA firms for their employers to use and by putting in place independent ongoing oversight and governance of those firms. Giving people confidence about where to go for advice and guidance is a good step for building trust.

### Advice...

The advice industry needs to be more diverse and operate with more emotional intelligence. Often those on lower incomes feel misunderstood and patronised by advisers who are used only to working with high net worth individuals. There is a danger that those with little financial understanding don’t feel empowered to ask questions and challenge and so don’t end up with the right outcomes.

The cost of advice is also a barrier for many, particularly those on low incomes.

There is something wrong with the system if you need to see an IFA in order to get a good outcome from pension saving. One does not need a specialist’s advice to fly in an airplane or eat at a restaurant, why is advice necessary to save in a pension? The system needs to be fixed so that people can achieve good outcomes without specialist support.

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ment to further reduce the ability for individuals to make tax relieved pension savings, and indeed for the tapered annual allowance to be scrapped, and the auto enrolment net pay anomaly to be rectified?”

Pensions tax relief is currently costing the Government less than anticipated and fewer people are benefiting from it. Many people who work part-time and do not pay tax are paying extra through pensions contributions because of the way tax relief is applied to pension contributions.

The system is very complex, with both annual and Lifetime Allowances and the higher earners taper.

The Lifetime Allowance is likely to affect more people particularly if it continues to reduce and is equivalent to an increasing annuity of around £24k per year, though for many £24k is above their working life income.

A universal rate of tax relief might be fairer for everyone and could apply to both Defined Benefit and Defined Contribution (DC) pensions.

Applying a universal rate of tax relief to Defined Benefit pensions could create unfairness issues between those who benefited from a higher rate of tax relief and those who didn't, since both pay tax on their income in retirement. It might be better to only apply a universal rate of tax relief to Defined Contribution pensions.

Is there clarity about the purpose of tax relief? It does not appear at the moment that there is a holistic rationale for the system, and there-



fore it is hard to say whether it is working or not. Once we have a rationale then we can decide how best to meet goals and what contribution should come from Government, employers and employees.

### *ISAs and LISAs...*

Most people do not make pension decisions based on the level of tax relief that they will receive because it is too complex to understand.

The Independent Savings Account (ISA) system is much easier to understand and therefore more attractive to savers. However, the Lifetime ISA (LISA) system is quite complex (people under age 40 can open one, people can contribute until age 50, people can access from age 60) and therefore not as user friendly.

If LISA was made more user friendly and the amount people can contribute was increased then more people might use it. Could there be a combi-

nation of an ISA and a pensions product with positive attributes from each?

### **Question four:**

**“Will Pension Freedoms come under greater scrutiny post-election, potentially leading to greater safeguards?”**

Pension freedoms have been positive in allowing people to feel more ownership of their own money and more agency in making choices but will inevitably come under more scrutiny as people start to have bad outcomes, make poor choices and run out of money.

Work needs to continue to eradicate the scams targeting people with DC pension savings. There aren't enough products that provide a sensible smart hybrid of both annuities and drawdown products. Providers

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need to catch up and provide hybrids so people face less risk, without taking away freedoms.

Freedom and Choice is unlikely to be reversed. People will not want to let go of control over their money now it has been granted. However, the system can definitely be improved on and safeguards need to be put in place.

People need signposting about where to go for help. The Money and Pensions Service will be getting involved in helping create signposts for people.

### Question five:

**“Is the State Pension affordable in its current form, and is the price of maintaining the triple lock further rapid increases in the state pension age?”**

The election manifestos have all said that they will retain the triple lock, so it must be affordable at the moment! We need to remember that the UK State Pension is quite low compared to other countries.

The triple lock should not justify increases. Instead of asking if the State Pension is affordable, we need to ask if it's doing what we want it to do. Let's move away from the dismal debate about how fast and how far to raise the State pension and start talking about how to improve adequacy.

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**ing about how to improve adequacy.”**

The triple lock can be seen as undoing the damage arising from delinking the State Pension to earnings in the 1980s which meant the State Pension lost value relative to earnings from then.

On the other hand, uprating the State Pension by more than earnings increases intergenerational tensions as working people see their benefits and wages rise more slowly.

The triple lock is sometimes seen as benefiting pensioners at the expense of working age people, however, working age people benefit more from the triple lock in the long run as its retention will mean a higher new State Pension level when current workers reach State Pension age.

While younger pensioners are, on average, wealthier than working age people, a lot of this is due to earnings income which will decrease as pensioners age. The triple lock makes a substantial difference for older pensioners, especially older women, who are more likely to be in poverty.

It is clear that at some point the triple lock will become unsustainable, when the State Pension reaches an appropriate level. But what level is that? And what inflationary mechanism should replace it? These questions lead to wider questions about what State Pension is for, who it is meant to help and how much of a buffer it should provide.

*State Pension age rises...*

There are problems with the State Pension age rise formula in that State

Pension is currently meant to go up by the average of the increase in life expectancy. But there is a wide distribution in life expectancy increases and those in lower socio-economic groups, for example, experience life expectancy increases less quickly than the average. State Pension age rises are a blunt tool for controlling the cost of the State Pension and should either be made with reference to a wider distribution of changes in life expectancies, or more needs to be done to reduce life expectancy inequalities.

*Means testing the State Pension...*

Should the State Pension be means tested so that wealthier people who do not need it don't benefit? Or would that create problems as many of those who would be eligible might not claim? Another way of making the State Pension fairer would be to align eligibility with earnings, so that higher earners automatically accrue a lower level of entitlement than lower earners.

### Question six:

**“We've talked a lot about pensions and later life, but can we ever have a system that delivers for people without a fundamental overhaul of our social care system? Surely Government and industry are missing a trick if they continually duck this huge issue?”**

It's getting to the point where it's almost too late to deal with the long-term care problem for Baby Boomers as many will soon reach the point where they need to pay for

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care for themselves or for a family member.

People are likely to feel it is unfair if they have to lose their house or have to spend their children’s inheritance on care. People would prepare if they are given the tools but many do not know what they will be liable for and how much the State will cover.

There are still options that can be tried, for example, a separate national insurance charge which covers social care costs.

### *Joined-up policies...*

Do we need to look at pensions and care issues together? More joined up thinking would be helpful; we need someone to take a step back and decide where we are going. An explicit decision about how care will be funded needs to be made and acted on now.

**“An explicit decision about how care will be funded needs to be made and acted on now.”**

### **Question seven:**

**“Should there be a permanent independent pensions commission? And if so, what should its brief be?”**

A permanent commission may push itself into irrelevance by needing to always come up with new things to do. Rather than setting up a commission for the sake of it, perhaps we need to come up with a long-term goal for pensions and then think about whether there is a need for a pensions commission within that goal.

Commissions can be useful for setting out the holistic landscape and raising questions and ideas about what needs to be done next. The Pensions Provision Group and Pensions Commission both did this very well.



### **Bonus Question**

**“What would the panellists like for Christmas for pensions?”**

“A Harry Potter wand to remove all the jargon and complexity, as if by magic”

“Pensions as a word stopped existing and was called a future fund instead”

“More cash for pensions”

“A mutual goal for us all to aspire to”



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