PENSIONS POLICY INSTITUTE

The Future Book: unravelling workplace pensions seminar [2016 Edition]

The Pensions Policy Institute (PPI) held a policy seminar on 29 September 2016 to launch its second annual report: ***The Future Book: unravelling workplace pensions [2016 Edition],*** commissioned by Columbia Threadneedle Investments.

The Future Book sets out available data on the Defined Contribution (DC) landscape, explores emerging trends and provides 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.

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

Sandra Wolf, Editor, Pensions Expert, chaired the seminar, welcomed attendees and made introductions.

Andrew Brown, Director, Defined Contribution, Columbia Threadneedle Investments, welcomed attendees and explained the need for a report like the Future Book. More people are saving into Defined Contribution (DC) schemes and this has resulted in millions of new savers who have never saved into a pension scheme before. This has led to the need for a document that allows us to understand the DC Landscape which is why Columbia Threadneedle Investments extends its support to the PPI in sponsoring this research.

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

Chris Wagstaff, Head of Pensions and Investment Education, Columbia Threadneedle Investments considered how behavioural interventions could encourage people to boost their retirement savings given the inadequacy of retirement provision in the UK. This is being exacerbated by longevity improvements, increases to the SPa, decline in Defined Benefit (DB) schemes, the shift of responsibility from employers to individuals and the increasingly secular prospect of more modest yields and investment returns from hereon.

Michelle Cracknell, Chief Executive of the Pensions Advisory Service discussed the complexity of pensions and the difficulty consumers have in understanding them. While opt out rates are encouragingly low, the traditional "workplace" is changing so that many employees work flexibly or in many jobs and slip through the cracks of automatic enrolment eligibility. She also voiced concerns regarding how people will access DC savings in future in light of low levels of knowledge. Defaults will need to play a role in supporting future consumers who are unable to make active decisions.

Mark Fawcett, Chief Investment Officer and Executive Director, Investment and Member Proposition, National Employment Savings Trust said that many people will continue to rely on behavioural nudges pushing them towards the right pensions decisions. It's unlikely that we will ever reach a stage in which all people are making active decisions about their pension saving, especially as there is widespread mistrust of both advisers and product providers. There need to be default products which do not require high levels of engagement. High-quality, good value, low cost defaults are necessary to support those who cannot or will not make decisions.

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 Pensions Policy Institute:

- Smaller employers appear to be experiencing more difficulty complying with automatic enrolment than larger employers. There are also concerns about lower levels of eligibility and higher opt outs among those working for smaller employers. Some small employers may be resistant to compliance or may be encouraging employees to opt out of automatic enrolment. Smaller employers may be less likely to see the benefits of automatic enrolment while larger employers are more likely to see pension provision as part of their employer duty. It is important to delve further into the data in order to understand why more of those working for smaller employers are opting out.
- The Pensions Bill dealing with master-trust regulation should create greater security for scheme members. However, there are fears that the proliferation of master-trusts are creating a less than competitive market, especially as so few schemes have master-trust assurance framework status. This may result in consolidation of schemes.
- The research shows that more people will be relying on DC savings in future. However, there are worries that people will not be capable of making good decisions because of the unpopularity of advisors, the perception that advice is costly and peoples' lack of understanding about how retirement-income products work.

- The increase in minimum contributions and potential further rises from 8% could lead to higher opt-out rates. How can behavioural nudges be used to discourage people from leaving their schemes while also engaging with higher contribution levels? Showing people digital images of what they might look like at older ages has been effective in raising saving levels, and nudges in other areas such as healthy eating have been very effective in changing behaviour. However, it is imperative that people be nudged rather than "pushed" to do things they don't want to do. Pushing is likely to result in further resistance.
- Employers might also resist contributing at higher levels. However, culture can change, and while savers and employers of today may be resistant to higher contribution levels, their future selves may live in a world where saving at higher levels is considered more of a social norm (such as in Australia) and resistance may be less of an issue.
- FAMR should ensure that there is greater clarity and transparency when products are being recommended through advice. However, there is still a vast group of people who aren't aware that they require support and are unlikely to seek it. There are also people who will choose not to engage with advice or guidance. Therefore, defaults will still need to play a role in supporting those who don't engage with advice or guidance. Greater clarity of language around retirement options could also make retirement decisions easier.
- Those invested in a collective drawdown product may have less need of advice or guidance as scheme benefits are pre-determined. Though a collective drawdown scheme may not be fair on an inter-generational level.
- While the Lifetime ISA may encourage saving, it could be problematic if workers save in a LISA instead of a workplace scheme, and forgo employer contributions.
- Women are less likely to be eligible for automatic enrolment and more likely to opt out if they are automatically enrolled. This is partly due to different approaches to income from women. Women are more likely to see their income as a source for discretionary spending or as money which needs to go towards family expenditure. Some women may not realise that if they earn over £5,824, they can opt in and receive employer contributions.