Closing the gap: the choices and factors that can affect private pension income in retirement

On 09 February 2012 the National Association of Pension Funds (NAPF) hosted a seminar to launch a new report published by the Pension Policy Institute (PPI), *Closing the gap: the choices and factors that can affect private pension income in retirement.*

The research considers the impact that increasing pensions contributions, opting out of pension saving, working longer, shopping around for the best deal on an annuity or being in a pension scheme with low charges can have on an individual's defined contribution private pension income.

Around 50 people attended the event which was chaired by Mark Hyde Harrison, Chairman of the NAPF.

Chris Curry, Research Director at the PPI set out the main findings of the report.

Brandon Lewis MP, member of the Work and Pensions Select Committee
Brandon welcomed the report, and said that it was a timely reminder that auto-enrolment is not likely to be enough on its own. He said that while auto-enrolment should lead to more people saving for retirement, he was concerned about younger people for whom a number of factors may stop them from engaging with pension saving. He also said that increasing pension saving is important, and that the minimum contributions are not enough by themselves and should be considered as a floor rather than as the norm. He welcomed the Government's proposed review of the minimum contribution level and hoped it would take place before 2017. He spoke about the need for transparency in charges, suggesting that the pensions industry must come up with a voluntary code of conduct which makes it easy for consumers to compare charges across providers.

Melanie Duffield, Head of Research at the NAPF gave a brief response to the report. She said that it may seem obvious that these factors can influence the level of private pension income, but that the breakdown in the relative size of the impact that these factors have is very useful. She contrasted the difference between choices and factors that required some level of short term sacrifice and others that do not, highlighting the impact of choosing the right annuity and a low charging structure, as being relatively low cost ways to improve private pension income. She commented that these two factors are areas where the NAPF have been concentrating their efforts in recent months. She then introduced Lesley Williams, to give the perspective of an employer.

Lesley Williams Group Pensions Director of Whitbread Group PLC gave the perspective of a large employer. She said that as an employer Whitbread promote pension scheme membership but do not currently operate a policy of automatically enrolling employees, as a result around 5% of the employees are members of the pension scheme. Those who are not members give a number of reasons for not joining; these include affordability, not getting round to it and a general distrust of pensions.

Her experience was that employees actively avoid engaging with pensions, being turned off by any information they do not understand.

She also expressed concern that pension schemes and providers that offer good value for money may be dismissed if charges are the only measure considered.

Nigel Stanley, Head of Campaigns and Communication at the Trades Unions Congress said that consumers are keen to have very little active choice in terms of their pension. He thought that a system based on using consumer inertia with limited choices was the best model for getting people saving into pension schemes. Markets are unlikely to work well where the true value to the consumer of a pension is not known for 30 years.

He pointed out that the contribution level of 8% of band earnings is not 8% of gross earnings for anyone – indeed that because of the banding, the maximum that the total contribution could be is 6.8% of gross salary for people earning exactly at the upper band. He also said that not everyone can work longer, even following the abolition of the default retirement age.

Question and answer session
The following points were raised during the question and answer discussion session. They do not necessarily represent the views of the PPI or the PPI seminar speakers.

There was a discussion around the importance of investment performance in determining the outcome from a defined contribution pension, particularly around the employee's choice of fund versus the default fund. This is a very important factor in the outcomes that people actually receive from pension saving, however as the actual return from a pension scheme is unknown and not a choice of the employee or employer, investment return was excluded from the analysis.

The subject of improving engagement with people in pensions was raised. It was pointed out that engagement tends to increase as employees get older and that the key group to encourage to save are young people. One contributor suggested that concentrating on outcomes could be used to increase engagement. There was also concern that by not being part of their pension scheme, people are in effect not taking "free money" from their employer.

It was suggested that engagement may be improved by addressing the concerns of young people, such as allowing access to the pension scheme savings in order to pay for items such as a deposit on a house. It was commented that this is a feature of the New Zealand KiwiSaver scheme. But it was also pointed out that some people like pension to be locked away so they cannot spend it unwisely.

A question was asked regarding the impact of charges over and above the annual management charges and any contribution charges. There may be frictional costs, such as transfer charges associated with moving between pension schemes on changing jobs; it was pointed out that this is not an issue where both employers use NEST as a provider. Such additional charges can lead to employees having a number of small pension pots. There was concern that any additional costs serve to reduce transparency over the total level of charges faced by savers in a pension scheme.

There was a discussion around whether publicity around auto-enrolment is counterproductive and may lead to disengagement. It was pointed out that there are still businesses who don't know about auto-enrolment and that it was therefore important that good information is available for employers to assist them in fulfilling their legal duties.