PENSIONS POLICY INSTITUTE
PPI

The Future Book: unravelling workplace pensions seminar 2017 Edition

The Pensions Policy Institute (PPI) held a policy seminar on 5th October 2017 to launch its third annual report: ***The Future Book: unravelling workplace pensions 2017 Edition,*** sponsored 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 57 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

Jonathan Stapleton, Editor-in-chief, Professional Pensions, chaired the seminar, welcomed attendees and made introductions.

Chris Wagstaff, Head of Pensions and Investment Education, Columbia Threadneedle Investments welcomed attendees and introduced the future book, and the benefits the publication brings.

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

Toby Nangle, Global Co-Head of Multi-asset and Head of asset allocation EMEA discussed the historical impact of diversification and the dependency upon the relative strengths of the global equity and bond markets. Historically strong bond returns have boosted the risk-adjusted returns of portfolios of fixed-weight bond-equity mixes in recent decades, but low yields challenge their sustainability in the future.

Charlotte Clark, Director for Private Pensions and ALB Partnership, Department for Work and Pensions, discussed the cultural changes within DC workplace pensions and included the evolution of automatic enrolment, where inertia is continuing to provide good outcomes. International evidence suggests this should continue as contributions move up to 8%, but it will be closely monitored. There is need to continue to build the evidence base for policy, particularly around Freedom and Choice which is still in its early stages. Post-retirement policy is therefore an area which will need to receive attention to understand how it will develop over the coming years.

Paul Todd, Director of Investment Development and Delivery, NEST, considered the role of master trusts and the application of defaults. This included that how important master trusts would become within the workplace pension market was largely underestimated. The proportion of master trust members in default strategies is currently over 99%. There is concern that there is a considerable focus upon low-cost rather than value for money defaults. Consideration is also being given to how defaults extend to governance and helping to make decisions for those who are not capable of doing so.

The following points were raised during the question and discussion session held under the Chatham House rule, chaired by Jonathan Stapleton, with the panellists, (Charlotte Clark (DWP), Paul Todd (NEST), Andrew Brown (CTI), and Daniela Silcock (PPI)), and the audience. They do not necessarily reflect the views of the Pensions Policy Institute:

Advice

- Payroll is a major source of advice, particularly to small employers. However this is unregulated.
- We should aim to provide advice to all at the level available to high net worth individuals.

Automatic enrolment (AE)

- Contribution rates:
  - The potential for higher rates of opt-out coinciding with escalating contributions leads to a higher importance of re-enrolment and enrolment on changing employers.
  - Lower earners will receive a higher amount of income from the State Pension than at the outset of AE. A graduated contribution rate might better reflect the needs of private pension wealth for lower earners.
- Macroeconomic impacts of automatic enrolment:
  - While wage growth has been stagnant over the AE period to date it is not believed that automatic enrolment is the cause.
- Consideration of whether there should be a move to compulsion:
  - AE has been too successful for compulsion – had opt-out rates been higher there may be a stronger argument to increase savings coverage.
  - Compulsion may be favoured by employers as this could result in a simpler system.

Decumulation

- If we do not pool mortality risks we are building a problem for the future.
- It is clear there is an advice gap, as advice is not commercially accessible for the majority.
- We are still trying to catch up with the impact of Freedom and Choice, and there are still many unknowns around behaviour.
- Prior focus has been around accumulation and a similar focus will be needed upon decumulation.
- The number of vulnerable people taking decumulation decisions and in decumulation is increasing.
- Default options at decumulation:
  - Would need to reflect consumption analysis reflecting different consumption needs at different ages.
  - People should remain invested as long as possible.
  - At older ages there will need to be pooling of mortality risk.

- While trustees will be involved they will not want responsibility from retirement until death, and crystallisation of funds without direct instruction would be a difficult line to cross.
- There may need to be different defaults for different groups.

Investment

- Investment is outside the scope of Government policy.
- Younger people and those on lower incomes react more emotionally to loss.
- After the last financial crisis quantitative analysis was performed upon DC savers. Approximately:
  - 50% did nothing,
  - 20% stopped contributing,
  - 20% switched (often locking in their losses).
- Responsible investment is expected in governance and investments:
  - Employers want to drive 'green' investment.
  - Sustainability is expected of a fund manager.
  - Social responsibility needs to be improved to match investors' expectations, as there is currently a gap.
- Default strategies:
  - There may not be enough thought applied to these.
  - Default investment design needs to no longer be aimed towards annuity purchase.
  - 5 million individuals will not share the same view.
  - A rush to the lowest cost is dangerous.
  - There is a disconnect between employers (who may define defaults) and the members (who experience defaults).
- Outcomes:
  - Is final pot size the be all and end all of investment measurement?
  - Can a lower long term return be balanced against lower volatility through the accumulation period?

Informed policy making

- The DC market is still young, but will become bigger than DB ever was.
- Currently there is limited opportunity of reform, so time now could be used to produce more considered reforms in the future.
  - The DC landscape can be considered over the next two years as the impact of automatic enrolment becomes clearer.

Transparency

- It can be difficult to recognise a cost, let alone place a value upon it. How, can individuals and employers be helped to recognise this?
- Comparisons are difficult to make, and many people make bad decisions, however richer people are better insulated against a poor decision.