PENSIONS POLICY INSTITUTE

Improving retirement outcomes for consumers across the generations – seminar write up

The Pensions Policy Institute (PPI) hosted a policy seminar on 16th July 2018 at Central Hall, Westminster. The seminar, chaired by Chris Curry PPI director, was an opportunity to hear from Chris Woolard, the Financial Conduct Authority's (FCA) Executive Director for Strategy and Competition and for the audience to engage in questions and debate with him.

Over 50 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

Chris Curry, PPI Director, welcomed the attendees and introduced Chris Woolard.

Chris Woolard, Executive Director for Strategy and Competition, FCA, spoke on how the FCA navigates current challenges in pension policy with a view to improving retirement outcomes across the generations. He spoke of how the FCA's approach interacts with the current landscape, and the rationale behind it. The full text of his speech is available on the FCA website: Intergenerational challenges: what Mike and the Mechanics can teach us about pensions.

Key themes from his speech included:

The generational landscape:
The different cohorts have different concerns, including how they may get on the housing ladder, whether they may have a comfortable retirement, or whether they may be able to leave a legacy. The FCA will be publishing an intergenerational paper later this year.

- Millennials: they inhabit a world of increasing house prices and decreasing house ownership. Many are concentrating on saving while there are higher levels of (student) debt in the population.
- Generation X: they have higher levels of product ownership but more limited private pensions as Defined Benefit schemes have declined. They are set to take greater levels of debt into later life.
- Older individuals: they may have wealth tied up in housing; yet still be cash poor. They may have to dedicate a large part of their savings to long-term care, which is becoming more important to more people. There is a concern pensioners may underspend (including evidence from Australia) to make their pots last longer (which risks reducing their standard of living).
- This context is relevant to the FCA's work, but the policy debate over how to solve these issues should be led by Government.
    - In their role as regulator they look to respond flexibly, rather than approaching issues with blunt tools.

Pensions:

- The FCA sees its role ensuring that markets work well so that people achieve retirement outcomes that are either adequate or align with individuals' expectations. It achieves this through targeted interventions, which requires a clear picture of both the accumulation and decumulation landscape.
- Current issues include:
  - People not saving enough;
  - Fees and charges having a disproportionate impact - the use of competition powers (e.g. applying to asset management) to get greater engagement so people will act on charging differences;
  - People who do not take advice - firms can help with a more structured approach.
- There needs to be pragmatism – people do not behave perfectly rationally, and could be helped by actions including the simplification of wake up packs.
  - Some people are missing out on investment returns; they are holding large cash balances; there are also significant barriers to switching, including exit fees and high switching charges.

Questions and debate

The following topics were raised for discussion during the question and debate session with Chris Woolard held under the Chatham House Rule, chaired by Chris Curry. They do not necessarily reflect the views of the Pensions Policy Institute, the FCA, or the individuals involved in the debate. Questions were raised on the following topics:

The governance of pension policy

- Whether the setting of direction of pension policy is short-termist, as politicians keep one eye on being re-elected; the trust (and lack thereof) placed in firms; and how this impacts upon wider policy.

Investment choice and charges

- DB investment in ethical funds and the labelling of funds as 'green', the role of trustees in representing member investment preferences.
- DC members taking investment risk in decumulation, the impact of fees on fund erosion, the refinement of the value chain providing savings to members.
- Legacy and back book business and the effort to ensure they are being treated fairly.

Decumulation pathways and charging (in a post freedom and choice world)

- There are a range of potential approaches, defaults and pathways for decumulation.
- The market is developing, imposing regulated constraints may impact the production of beneficial solutions.
- Retirement journeys will develop and consumer reactions and behaviour will need to be judged.

Consumer engagement, communication

- The simplification of communications and wake up packs, more straightforward communication, the limitations of differing communication media, and information available through the pensions dashboard.

Advice and guidance

- Pension freedoms have made DB to DC transfers more of a reality, people can benefit from transfers and it may be the right thing with the right advice, occasions of poor advice are evident and regulation is catching up.
- Single Financial Guidance Body, the appropriateness of the scale of advice for different people with differing levels of pension wealth, the expense and economic reality of getting advice, robo- and cyborg advice, the use of retirement journeys.

The power of attorney

- The balance between protecting against elder abuse and facilitating powers of attorney for those who need it.

Transfer of assets through inheritance

- The facilitation of individual choice, the lack of availability of representative data.