The UK Pensions Framework: in association with Aviva
Thursday 30 November 2024

PENSIONS POLICY INSTITUTE
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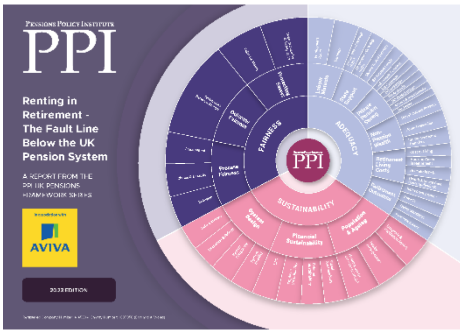
PPI Launch Event Write Up

Renting in Retirement - The Fault Line Below the UK Pension System



On Thursday 30 November 2023, the PPI hosted a launch event for this year's edition of **The UK Pensions Framework.**

Following the publication of its baseline analysis in 2022, [Trends Transitions and Trade-offs in the UK Pensions System,] this year's report, **Renting in Retirement - The Fault Line Below the UK Pension System** uses the Framework to simulate how outcomes could change as fast-growing numbers of people look set to reach retirement without the security of owning their own home in the future. The event was attended by circa 60 people representing a cross section of the industry and Government. Parts of the event were held under The Chatham House Rule.

The PPI UK Pensions Framework, sponsored by Aviva is an innovative multi-year project that tracks how the UK pension system is performing against a set of core objectives, which overall determine the financial security that people have in later life. Its aim is to become established as an essential practical tool for assessing and improving the UK pensions landscape, by constructing a clear, evidence-based picture of how strengths and vulnerabilities in the system relate to each other, and how they are evolving over time. The Framework also supports one of the Institute's strategic objectives to 'encourage the right framework for long-term pension planning' and, along with its Pensions Policy Wheel visualisation tool, is fast gaining recognition across the pensions world.

The event was chaired by **Chris Curry, Director, Pensions Policy Institute.**

Welcome from Chair, Chris Curry (PPI Director)

Chris welcomed the attendees and thanked Aviva for hosting.

Presentation of key findings from Anna Brain (PPI Research Associate)

Anna set out the key findings from the report.

Anna thanked Aviva for sponsoring and thanked the PPI team and external stakeholders who contributed to the project.

The pension system is built on the embedded assumption that everyone will reach retirement with secure, and affordable housing. Housing tenure through later life is changing as the share of pensioner households in the private rented sector could rise from 6% to around 17%. This could put retirement adequacy out of reach for over a million more pensioner households even before we add in housing costs. Increases in private renting are attributable to declines in social housing and home ownership.

We used the PPI UK Pensions Framework to simulate a scenario under which retirement outcomes reflect the differences in housing tenure between pensioners of today and pensioners of tomorrow and looked at:

- What the changes could mean for adequacy, sustainability and fairness
- What might change the trajectory of private renting in the future
- What the findings might mean for the future of pensions policy, and its dependencies on other policy sectors

There are no positive implications of a rise in private renting for the UK pension system. The sizeable increase in the number of households facing housing costs through later life means that most downgrades occur in the adequacy section of the model. Fiscal sustainability is also downgraded because of the expected increase in dependency on means-tested benefits.

Factors that could change this trajectory relate to the assets people have available to them, and the economic and policy conditions that underpin the UK housing sector.

Anna concluded by saying:

- A retirement model built around renting is not intrinsically detrimental to later life outcomes. For such a scenario to be successful however, the infrastructure of income and support must be built around the same model.
- There is no clear policy consensus on long-term target levels of retirement housing tenure in the UK, making it impossible to develop a strategy to support today's renters and mitigate the risk that public spending becomes the default solution to the housing crisis.
- The impact of higher renting on retirement outcomes is indicative of the increasingly outdated nature of the homogeneity-based assumptions and defaults that underpin the UK pension system, and of the path towards increasingly individualised retirements.

Presentation from Michele Golunska, Managing Director, Wealth and Advice, Aviva

Michele welcomed the attendees and thanked Anna and the PPI team for their valuable report. The widespread participation and support from industry PPI has achieved is what Aviva had wanted when they first sponsored this work. The great value of the Framework is that it is designed for action and this year allows us to see what could happen in the future and gives us the opportunity to prepare. The report shows how shocks from outside the system will affect individuals and that, should the future set out in the report come to pass, then there will be big challenges for individuals and government.

What can we do? There is scope for collaboration and innovation across industry. Too many people are not taking control of their financial decisions – most pension customers do not use an adviser. People need to be empowered to take informed decisions. Aviva aspires to help customers be empowered and take decisions throughout their working life and beyond. Michele looks forward to government's engagement plans, and Aviva wants to help these. We can't afford to rely on the old way of doing things. We need to stay engaged and think about what savers will need in the future. The Framework helps by challenging our thinking and making us think about the future.

Presentation from Rt Hon Sir Stephen Timms, MP & select committee chair

Sir Stephen set out the Committee's perspective of what the main priorities of pensions policy should be. A recent Select Committee report pointed out that a large proportion of savers are risking pensions inadequacy as a result of various characteristics. The Committee called on the Government to implement the results of the 2017 Automatic Enrolment review, which they are now doing. However, this may not actually be the time to increase contributions – for example Morrisons is reducing their contribution levels to defray the expense of implementation of the 2017 proposals. As a result of worries over responses to the proposals, the Committee believes that there should be agreement on what level of adequacy should be aimed for. The Government has argued that there are existing adequacy levels which people can use. However, many older workers, self-employed and disabled people are not able to achieve or fit into current adequacy targets and the Committee believes there should be development of new ones. The Government has said that this is not necessary as they have issued a report on guidance which should be sufficient and we have dashboards, Value for Money and an upcoming lifetime provider model. We will need to consult on the lifetime provider model; how may it affect employers, what will it mean for members? We need to address these issues and make sure that the right polices are in place. This report shows that policy is made on increasingly outdated assumptions and that the different objectives compete with each other.

We need an office of pensions responsibility in order to join different disciplines and oversee policy.

Sir Stephen finished by asking whether we should disregard a tranche of pensions income from the Housing Benefit means test, stating that the report provides evidence that can help to inform this debate and others around adequacy in later life. This is a clear example of a challenge we need to work through together. We also need assurance that the Local Housing Allowance will keep pace with local rents in the long term, and that a one-year announcement on the Local Housing Allowance does not offer security to tenants, it needs proper rebasing.

The remainder of the seminar was held under the Chatham House Rule.

Panel discussion/Q&A

Chris Curry chaired the panel discussion and subsequent Q&A session. The panel consisted of:

- Emma Douglas – Managing Director of Workplace Savings (Aviva) & PPI Governor
- Sir Steve Webb - Partner (LCP) & PPI Governor
- Ian Mulheirn – Research Associate (Resolution Foundation)
- Anna Brian – Research Associate (PPI)

The following points were raised during the panel discussion and Q&A session:

General

- Right to buy, subsidies and regulation all provided headwind to people owning their own homes in the 1980s and we have been in three decades of reversing the uptick in home ownership. Homeownership has gone up and down and there are reasons to think it may go up again, particularly as a result of inheritance – there is significant wealth in the pipeline which will go into housing and home ownership – but there are massive risks that we need to keep an eye on.
- It's great to see the framework in action; there are some really sobering facts in the report. PLSA living standard targets do not currently include housing costs -once you add those in, the amount people need to live on in retirement is scarily high. The level of the costs of renting added to expenditure is frightening. It would be worth exploring what other societal changes we might see as a result of these trends. For example, will people start flat sharing in retirement? Retirement is not one size fits all – its individualistic. This report brings the advice/guidance debate to the fore. Can we use that debate to start talking about how to fix these things? We need to think about implications for public finance, housing and pensions policy, workforce management (what if people can't afford to retire?), and what this will mean for employers?
- Should this simulation be our base case going forward, as adequacy is a bigger problem than we at first expected. When you take rental costs into account, even those with some Defined Benefit pension are likely to struggle in the future. Is part of the problem the Retail Distribution Review that meant people have to pay upfront for advice and led to fewer people using advice? There's a lot to be said for benchmarks, do we need to think about how to combine using these with discussions about housing? How do we want young people to prioritise housing v. pensions? Are we misleading people by encouraging them to save in a pension over housing?
- People's pension stories are largely written by the time they get to their 40s/50s, we need policies to help people who may not have time to save sufficiently.
- How does the housing situation affect fairness? It does impact retirement income and these indicators go down, though because of the makeup of the model, the overall objective level does not come down.
- It's news that social housing will not cover this gap, more people need to understand the rise we will see in private renting and how damaging that will be.
- Did we look at Germany and their approach to retirement housing? The report touched on it, but this topic would definitely benefit from further investigation.

Adequacy

- Do high adequacy targets engage or disengage people? They might empower people to make decisions and trade-offs.
- There is an awful lot of wealth out there – it's not going to disappear, so younger people should have more money at older ages.
- It will be a lot easier to help people if we can look at all of their pension wealth together, and see this next to housing wealth and housing costs.

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Engagement

- It would help engage people if we told them the advantages of pension saving and explained the role of State Pension, tax relief, employer contributions.
- Why don't Value for Money assessments cover advice and guidance?
- People don't understand their finances holistically.
- Where does education fit into all of this? What about holistic open finance? Education needs to be timed right – give people what they need when they need it – for example schools could focus on budgeting and then as people age, they could start gradually start bringing in other topics such as mortgages. Open finance will be fascinating and will help us to make great recommendations without having to apply full advice - could use the help of Artificial Intelligence.

Industry

- We need to start capturing information on people's housing situation, e.g., are you a homeowner, tenant, social, private etc?
- We need to be more creative about tax wrappers and products. Employers could use these for example, giving employees access to LISAs. Can we think more about working together to create tax wrappers?
- Why aren't product providers doing more about this? Surely they have the power to change things? Can't they facilitate contribution increases? Providers do focus on this, but employers may be better placed to drive this initiative and at present, managing the cost of living crisis is the main focus for many people. It's difficult to know how to promote more nebulous benefits such as tax relief.

Means-tested Benefits

- Given that the welfare system is a key element of protection and many eligible people don't claim, should we have the government check all eligibility and automatically pay? Actually, the government struggles to know what people have as a household. Instead, we should aim to have fewer people eligible for benefits. Data sharing could help. The council tends to have Housing Benefit data from people that they could share with other departments to be assessed for pension credit and other benefits – people eligible for Pension credit and not claiming are often claiming Housing Benefit.
- Local Housing Allowance is rising for one year and then freezing again – there's no link to actual rent increases.
- There is increased eligibility for housing benefit – can we model the increase and if so, can this be used to persuade Government that something needs to be done? We don't have these figures at the moment, but they could potentially be modelled by PPI.

Pensions vs. Housing

- How do we feel about people taking money from their pensions to fund house purchases? We need people with both short- and long-term saving. This is a thing in many other countries, but has been off our agenda for quite some time. It’s worth thinking about why we are such an outlier. Access for housing could help people engage more with their pensions, but we need to remember that they need money to live off in retirement. Whenever there is a fiscal benefit for accessing housing it tends to be used by those more well off who would have bought housing anyway. Also in the USA where early access is allowed, there are great concerns about the amount of money “leaking” out of pensions.
- Early access overseas does not bring greater engagement with pensions.
- We need to remember that home ownership is a form of long term saving.
- Housing as a rival to pensions might not be a helpful construct to have going forward. It may be time for us to think about these together.
- Could the DWP Select Committee work more closely with the DLUHC committee to forge a more joined up approach between pensions and housing?