PENSIONS POLICY INSTITUTE
PPI

The evolving retirement landscape – launch write up

The Pensions Policy Institute (PPI) held a policy seminar on 8th May 2018 to launch the first of two reports in a series: ***The evolving retirement landscape***, sponsored by AXA Investment Managers, Association of British Insurers (ABI), Department for Work and Pensions (DWP), Legal and General (L&G), NEST, Prudential, The Pensions Regulator (TPR) and Wealth at Work. The report explores the ways in which the retirement landscape may evolve in future years, primarily as a result of freedom and choice, and what this might mean for future retirees.

Over 60 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

Michelle Cracknell, Chief Executive, The Pensions Advisory Service chaired the event. She welcomed the attendees and introduced the panel as chairperson for the event.

Lauren Wilkinson, Policy Researcher, PPI presented the findings of the Research.

Tim Fassam, **Director of UK Public Affairs, Prudential** presented the Prudential's view on the research findings:

- The aim of freedom and choice is to enable people to meet their needs in later life. Compared to the previous annuities-dominated landscape, freedom and choice flexibilities make it easier for some individuals to set up financial arrangements that suit their particular lifestyles and circumstances. Income goals and consumption needs can include inheritance, health needs and family goals. Decisions around these income goals and consumption do not come together during working life in the same way they do in retirement. Engaging with consumption decisions at the point of retirement and through retirement is a difficult and ongoing challenge.
- The decisions that people make around freedom and choice are difficult and consumers are at risk of over withdrawing money from their pension pots. There is evidence that people are withdrawing their money and transferring them into cash ISAs. These consumers are subject to inflation risks over a twenty/thirty year period.
- The wider economic environment has changed and this includes long-term changes to tax systems and the care system. Home ownership is becoming increasingly difficult for people to afford and there is a risk of more older people being on housing benefit if there are fewer people retiring as owner occupiers.

- This research prompts a consideration of retirement decisions and how they are tied up with emotions. Many consumers are worried about running out of money. There is a need for better access to advice. Regulation could be tweaked so that it is more feasible to recommend rules of thumb. It is possible that we might see the benefits of financial education over time in the education system. In parallel, there are uses and advances of technology including the pension dashboard which could make consumer decision-making easier.

Mark Rowlands, Director of Customer Engagement, NEST, presented NEST's view on the research findings:

- Landscapes for both work and retirement are changing. Research on NEST members shows that they want consistent messages and they want consistent regular income and flexibility. Consumers are very anxious about having low levels of saving. Most people even with small pots want a regular income.
- It is not necessarily a case of investing more in financial education or concentrating efforts on harnessing inertia through behavioural nudges to help people save for retirement. In previous times there was more emphasis on facilitating informed choice for consumers. Increasingly, there is a preference amongst providers and other stakeholders to use behavioural finance approaches. However, default or choice options are not necessarily opposing but can be complimentary to each other. An example of this is guided retirement pathways at the point of freedom and choice.

Jeremy Speechley, Insight and Evaluation Manager, The Pensions Regulator (TPR), presented TPR's view on the research:

- The pensions landscape of the future is predominantly going to be characterised by Defined Contribution schemes. Inertia has been very successful with the introduction of Automatic Enrolment. However, inertia will only get consumers so far in their savings goals.
- The large majority of new pension savers under Automatic Enrolment are saving into a large-scale scheme, either a GPP or a master trust. TPR welcomes the benefits of large-scale multi-employer schemes. Master trust authorisation and supervision which will come in later this year means that we can be more confident that the majority of trust-based members will be in well run schemes.
- Employees do not typically receive is a lot of information on different possible outcomes, for example, based on different contribution rates. This may well overwhelm them or maybe have even perverse consequences.
- Individuals often place a high value on their present selves and a low value on the future. Consumers will in the future have different combinations of wealth, assets and savings than now, and this will make decisions more complex. And there's a lot of evidence that despite the complicated choices

that people have to make at decumulation, people are not making the most of advice opportunities.

Michelle Cracknell led a panel session, during which the following points were raised:

- People are not thinking about pensions, instead they are concerned with more immediate financial goals such as saving for a housing deposit. Few people are thinking about pensions, but Automatic Enrolment has helped mitigate this.
- The factors around pension decisions are multi-faceted and there is a merging of personal and household issues and concerns. This points towards the need for a holistic approach and use of different income sources for different needs.
- There is a need to change peoples' relationship with their pension pots. The emotional connect is different between investments and cash. People find cash more relatable. This partly explains why there are high rates of encashment.
- Some retired people are living under the poverty level and underspending because they are scared of their savings running out. This is a very real concern and people are at risk of having much lower standards of living than they could have as they are not spending on the goods and services that they need. .
- Regulations, including European Union regulations, make it difficult to personalise withdrawal rates and products for individuals, or to recommend particular rules of thumb.

The following points were raised during the question and discussion session held under the Chatham House rule, chaired by Michelle Cracknell, with the panellists, Tim Fassam (Prudential), Mark Rowlands (NEST), Jeremy Speechley (TPR), and Lauren Wilkinson (PPI), and the audience. They do not necessarily reflect the views of the Pensions Policy Institute:

Holistic financial decision making

- Holistic financial decision making could be better facilitated throughout the life course and not just at retirement. It may not be helpful for consumers to separate working age issues and decisions with those at retirement.
- Consumers often look at what their families have done in retirement as an example. People may not have friends or family to refer to that have had to make the same decisions around freedom and choice given that the introduction of freedom and choice is relatively recent.

Digital Solutions, technology and consumer engagement

- Technology will help engagement moving forward. Personalised videos at teachable moments are currently being piloted. However, care should be taken that poor decisions are not better facilitated through smart

technology. This is in light of evidence, for example, that people who actively manage their funds tend to underperform the default.
- There is a requirement for people to process multiple decisions at emotional times. There is then a need to manage a switchover from inertia into engagement at various points in the consumer journey. Digital solutions and the pensions dashboard might help people to better understand what savings they have, but people need to use these solutions in order to benefit from them. A complex technology with a simple interface could help encourage more people to use these solutions.

The 'pot follows member' approach

- There is scope for a 'pot follows member' approach. This might help foster consumer engagement. It might be easier to understand how one pot has progressed over time. However, a pension dashboard might mitigate the need for this as it will enable an individual to review all their pots together.
- There is also a risk with the 'pot follows member' approach that it could prolong the time during which consumers are not required to actively engage with pensions. There may be negative consequences to this for consumers in the long run.

The role of default pathways

- There is a need for providers to think about the totality of what people are aiming for, and not just solving the problem of not having the savings they need to fund their retirement. Debt is a part of the financial circumstances of many of those who are retiring. Default pathways with freedom and choice proposed by the Financial Conduct Authority could be very helpful in understanding potential options for those in debt.
- There is a question of how tailored default pathways should be. It is difficult to have a simple solution for the majority of consumers. Most people want a sustainable income and savings for emergencies. The fees attached to full financial advice can be high. These fees may seem particularly expensive for people with small pension pots. Guided pathways could help those who cannot afford high fees in particular.

Annuity products

- Despite freedom and choice, annuity products are still likely to be relevant to those aged 70+ because the decline in cognitive ability over time will make it harder for people to make complex financial decisions. Annuity products can also be fitting for consumers who might otherwise underestimate their longevity and spend down their savings too quickly.

The role of employers and consumer engagement

- Some employees saving through Automatic Enrolment will have a sense of trust in the government and their employer. Alongside this there could be a role for employers to encourage engagement by employees. There are some employers that are paternalistic and especially engaged with pension providers who regard supporting employees with financial wellness as part of the broader HR and wellbeing agenda.