PENSIONS POLICY INSTITUTE
PPI

PPI Seminar
Retirement income and assets: how can pensions and other financial assets support retirement?

The Pensions Policy Institute (PPI) held a seminar on 22 October 2009 to launch its latest report: *Retirement income and assets: how can pensions and other financial assets support retirement?* The report is the third in a series of four reports that consider the role of income and assets in supporting retirement. The *Retirement income and assets* series is sponsored by Prudential, J. P. Morgan Asset Management, the Department for Work and Pensions, the Association of British Insurers, the Investment Management Association, and Age Concern and Help the Aged. This seminar was hosted by J. P. Morgan Asset Management who were the sole sponsors of this report.

The seminar was chaired by Peter Thompson, PPI Council member and a Director at BESTrustees and was attended by 63 people representing a range of interests across the pensions and financial sector.

Chris Curry (Research Director of the PPI) and **Daniela Silcock (Policy Researcher at the PPI)** gave an overview of the key findings from the report. This included:

- That the majority of income in retirement comes from state and private pensions. Wealthier pensioners have a greater mix of income and assets, while lower income pensioners rely more on the state.
- The relative levels of pension income change over time as private pensions erode in value.
- In the future the landscape may change. Eligibility for state pensions may increase, especially for women and carers. More employees will have access to private pensions, for example the number of people saving in DC pensions is projected to rise from 5 million to 15 million by 2020.
- The amount saved in private pensions is uncertain and is likely to be driven by the employers' reaction to the reforms and the rates at which employees opt out.
- The increase in the number of people and the change in the profile of people with pension saving may also impact on type of product demanded at retirement and the need for advice throughout working life and into retirement.

Mark Hoban MP (Conservative MP for Fareham and Shadow Financial Secretary to the Treasury) gave the Conservative Party's perspective on the challenges faced by policymakers in the field of retirement income. He noted that the state pension is unlikely to be enough for most people to have an adequate retirement income and that people would have to save more for their retirement. He reiterated the Conservative Party's commitment to re-index the basis state pension in line with earnings. He stressed that the state pension age would need to rise from 65 to 66 for men from 2016 to make this policy affordable.

He highlighted the result from the paper that the projected increase in the numbers of savers did not lead to a proportionate increase in the amount saved. He noted the need for improved consumer education and financial capability and stated that the Conservative Party supports the planned roll-out of national money guidance. He said that government had a role in ensuring that people have good incentives to save for their retirement and challenged the pensions industry to ensure good product design.

Under the theme of flexibility in retirement provision, he discussed the range of assets that can be used to fund retirement, for example pensions, ISA, and property and how they may each be used. He also suggested that people may work longer in future as a result of the blurring of the distinction between work and retirement and that, under a Conservative government, the compulsion to annuitise by age 75 would be re-examined.

He noted that there was a growing need for guidance for people at retirement and that this was of particular concern for low earners.

Jasper Berens (Director and Head of UK Retail Business at J.P. Morgan Asset Management) gave the industry perspective on the report. He saw the overall message of the report as highlighting the huge complexity in retirement provision, especially arising from the shift from defined benefit to defined contribution pension schemes and the planned introduction of auto enrolment. He recognised the need for innovation in both product design and advice provision to meet the challenge presented by increased complexity. He said that there will have to be more individual self reliance in the future. He thought this may lead to employees needing to make higher contributions. He was concerned about the compulsory 3% employer contribution being perceived as adequate.

He also considered the asset side of pension saving. He noted that 75% of members use the default fund and questioned whether this was suitable. He suggested that there is scope for innovative products that give a better fit to the needs of these scheme members and stressed the need for individuals to receive better advice.

Caroline Gardner (Member of the Financial Services Authority's Consumer Panel) gave a consumer perspective. She set out the core consumer challenges, including having access to a pension and the need for support when making key decisions. She noted that as defined contribution schemes grow in importance, the challenges become more significant. She set out why consumers need support, such as the inadequate level of savings in a complex market and a lack of financial capability.

She said that generic information and guidance has an important role to support some people, however, key decisions can require specialist knowledge and understanding of individual circumstances. She pointed out that currently some people are not receiving the advice they need at retirement and that a different approach is required to help such people.

Questions and discussion

There followed a question and answer session. At the end of the Q&A the Chair asked the audience to give a show of hands vote on whether they agreed with the broad direction of pensions policy (such as state pension reform, auto enrolment and compulsory employer contributions). The results suggested that there was still agreement on the broad direction of the reforms, although there was a general view that the reforms were being implemented too slowly.

The following points were raised by speakers or members of the audience during the discussion. They do not necessarily reflect the views of the PPI or the PPI seminar speakers.

- There was discussion around whether the market is able to provide support to the growing number of people with low value pension pots. It was suggested that steps could be taken to make it easier to combine DC funds from various sources. It was mentioned that consumers are happy to pay for certainty and simplicity.

- It was suggested that there may be an increasing demand for advice for lower value pension pots and the questioner asked whether a system with defaults would be appropriate. There was concern that the complex interaction of a number of defaults may lead to a result which is undesirable. It was suggested that the growing number of people who have pots too small to be of interest to IFAs could mean that new ways to tailor and deliver advice to people with small pension pots will be developed.

- More transparent with-profit products were put forward as a good product to fund retirement. It was thought that they may be useful to provide guarantees that people want. But it was noted that guarantees are expensive and that product guarantees must be true guarantees even in the very worst circumstances in order to gain people's trust.

- It was suggested that a pension system with a different allocation of risk sharing than straight defined contribution or defined benefit could be considered.

- Views were sought on the introduction of personal accounts. It was said that there is political backing for the pension reforms, but that personal accounts will need to be carefully constructed to ensure that they deliver for the target market. Support was expressed for personal accounts because they bring people into pensions saving and make them consider what needs to do be done in preparation for retirement

- It was asked how employers and employees may react in an environment of auto enrolment. Anecdotal evidence was presented from three employers. The first has an overall budget set aside for pensions, personal accounts take a slice, reducing the budget for the existing arrangements; the second employer believes they will have to employ a new person to deal with the administration; the third employer is waiting to see what others do. It was suggested that larger employers tend to have more awareness of the issues than small employers. Concern was expressed that the 3% minimum employer contribution may become thought of as an acceptable level for provision. However it was suggested that higher contributions than the minimum may enable employers to recruit higher quality staff.

There was discussion around how to improve trust in the industry. There was a call for government to work with industry to raise awareness in similar fashion to past campaigns for the use of seatbelts. It was also said that industry must be transparent and recognise and be contrite about mistakes that have been made. The financial sector was said to be seen as a whole by many consumers, so failings in one area affect trust in the whole sector. There was a call to address the issues and to be seen to be addressing the issues.