PRESS RELEASE
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"Pension reforms could broaden the role of private pensions in supporting retirement" says Pensions Policy Institute report

Sponsors, J.P. Morgan Asset Management say "individuals must be more engaged in their retirement planning."

In the future, more pensioners are likely to receive retirement income from private pensions as a result of Government reforms to introduce auto-enrolment into workplace pensions, according to new research published today by the Pensions Policy Institute (PPI), sponsored by J.P. Morgan Asset Management.

At present, approximately 28% of the income pensioners receive is through private pensions, while both state and private pensions combined provide the majority of retirement income for most pensioners – around 60% of retirement income on average, although low earners are likely to receive a higher proportion of their income from the state.

Retirement income and assets: how can pensions and financial assets support retirement? is the third report in the PPI series looking at the future of retirement income and assets in the UK. The report considers the role that state and private pensions and other financial assets are likely to play in supporting retirement incomes today and in the future.

Commenting on the report, Chris Curry, PPI Research Director, said "The major Government reforms about to be implemented for state and private pensions will significantly alter the retirement income landscape in the UK."

"The Government's state and private pension reforms are likely to mean that more pensioners will receive income from state and private pensions in the future. The introduction of auto-enrolment into workplace pensions and the continued shift by employers from Defined Benefit to Defined Contribution pensions in the private sector mean that by 2020 there could be 15 million savers in DC pensions, compared to an estimated 5 million today."

"Greater reliance on Defined Contribution pensions in the future will mean that many more individuals will be exposed to the risks of investment performance and will need to convert pension pots into retirement income and engage with the annuity and retirement products market."

"As the first report in this series highlighted, the amount of income needed by pensioners can increase significantly during retirement, especially as health deteriorates and the need for care increases, and yet currently around 90% of annuities purchased are level annuities that do not keep pace with inflation during retirement. Individuals will need to manage all of their income and assets, including state pensions, private pensions, savings, and potentially housing wealth to reach the standard of living they aspire to."

Jasper Berens, Head of UK Retail at J.P. Morgan Asset Management said, "Changes in the pensions landscape mean it will no longer be possible for individuals to stick their head in the sand when it comes to planning for retirement. The report highlights the necessity for individuals to take a greater interest in planning financially for their retirement during their working life. "

"However, the complexity of planning for retirement and the potential opportunity to use more complex combinations of income and assets means individuals will require a greater level of advice and support to ensure they are saving and investing suitably towards their retirement."

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Notes for editors

1. The Pensions Policy Institute is an educational charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication.

2. This report is the third in a series of reports looking at the evolution of financial needs during the course of retirement and the roles of different sources of income in meeting those needs. The retirement income and assets project has the overall aim of providing independent evidence to inform debate about the role of different types of assets in funding retirement. The first report in the series, *Retirement income and assets: do pensioners have sufficient income to meet their needs?* considers the needs and aspirations of pensioners, and the second report *Retirement income and assets: how can housing wealth support retirement?* considers the role that housing assets can play in supporting retirement. Both reports can be downloaded from the PPI website at www.pensionspolicyinstitute.org.uk.

3. This report considers the role that state and private pensions and other financial assets can play in supporting retirement. The report has been commissioned by J.P. Morgan Asset Management.

4. J.P. Morgan Asset Management is part of J.P. Morgan Chase & Co. and is a global asset management leader providing world-class investment solutions to clients. With US$1.3 trillion in assets under management (the Asset Management client funds of J.P. Morgan Chase & Co. as at September 30th 2009) and offices in 40 locations around the world, J.P. Morgan Asset Management offers global coverage with a strong local market presence, and leadership positions in most asset classes.

5. J.P. Morgan Asset Management is a trading name of JPMorgan Asset Management Marketing Limited which has issued this material in the United Kingdom and which is authorised and regulated by the Financial Services Authority. Registered in England No. 288553. Registered office: 125 London Wall, London EC2Y 5AJ.

A summary of conclusions from the report follows on the next page. The full report can be downloaded from www.pensionspolicyinstitute.org.uk

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Summary of Conclusions

Pensions, both state and private, currently provide the majority of retirement income for most pensioners – around 60% of retirement income on average - although low earners are likely to receive a higher proportion of their income from the state. Pensioners on very high incomes are likely to receive a significant proportion of income from other savings and investments, however the majority of pensioners receive very little income from other savings and investments.

A new pensions landscape will emerge due to the Government's state and private pension reforms, and to changes already occurring in the private pensions market. In the future, state and private pension income is still likely to provide the majority of retirement income for most pensioners and the importance of private pensions for many pensioners is likely to grow.

Even though pension income is likely to be the most important source of retirement income in future, it is still unlikely to be high enough for many individuals to meet their needs or preferences throughout retirement. Some pensioners may need to use income from other savings and assets (including housing) or from earnings to meet these needs and preferences.

The Government's state pension reforms are likely to mean that in the future:

- The level of income that all pensioners receive from state pensions is likely to increase as a result of the re-indexation of the Basic State Pension with earnings.
- Some inequalities in entitlement to state pensions, such as those between men and women, and between employees and carers are likely to be reduced.

The Government's private pension reforms and changes already occurring in the private pensions market could mean that in the future:

- The risks associated with pension funds are increasingly passed from employer to employee.
- Currently around 40% of the working age population (around 14 million people) are saving in a private pension, meaning occupational, private or personal pensions, including individual and group personal pensions.
- Assuming that opt-out rates after auto-enrolment are in line with Government expectations, the proportion of people with private pension savings after 2012 could rise from around 40% of the working age population today (around 14 million people) to around 21 million people, or roughly 60% of the UK working-age population once the Government's reforms are fully implemented.
- Active membership in Defined Benefit schemes could reduce by around 40% in the private sector by 2050, from current levels of around 2.5 million active members to around 1.5 million by 2050.

- Active membership in Defined Contribution schemes could reach around 15 million by 2020 and around 17 million by 2050, compared to an estimated 5 million today.
- The amount held within DC pension funds could grow from around £600 billion today to between £700 billion and £900 billion (2009 earnings terms) by 2050, depending on how employers respond to the private pension reforms.

As a result of greater numbers of people saving in DC pensions in the future:

- Greater numbers of people will need to convert their pension pots into an income and may need to use the annuities market in the future.
- The financial profiles of people who purchase annuities and the average size of pension pots used to purchase annuities could change. Pension pots may decrease in the early years after the reforms are first introduced and then increase as greater private pension entitlements are built up over time.
- There may be pressure to look at ways of making flexible retirement products and the Open Market Option more accessible for people with small to median pension pots.

The changed landscape has implications for the information and advice that individuals will need:

- People may have more complex combinations of income and assets to manage in future; some low to moderate and higher earners could have state pension entitlement, residual DB pension entitlement, DC pension savings, other financial savings and assets, housing assets, and earnings.
- Generic financial information and guidance services will need to be able to support people, mostly low earners, who are making decisions for the first time regarding the accumulation of savings and investments in working-life and their use in retirement.
- Advice and information services will need to be able to support people who are likely to have to make more choices and more complex financial decisions about their retirement savings during their working life, at the point of retirement and during retirement.

The state and private pension reforms and the changes to the private pensions market are likely to affect private sector employees with different income levels in different ways.

Very low earners (for example, earning £11,200 p.a. or less in 2009):

- Will receive more from state pensions as a result of the state pension reforms.
- Could accumulate a small pension pot from being auto-enrolled, which they may be able to trivially commute or may convert into a relatively small amount of income through an annuity.
- May need personalised information or advice to help them to decide whether to stay in or opt-out of pension saving.

Low to moderate earners (for example, earning £11,200 - £37,000 p.a.):

- Will receive more from state pensions as a result of the state pension reforms.
- May benefit from auto-enrolment and compulsory employer contributions by saving in a private pension for the first time or receiving contributions from their employer for the first time, *or* could see no change to their pension, *or* could see a reduction in their current employers pension contributions if, as a result of the reforms, their employer reduces the generosity of contributions to their existing pension scheme.
- May accumulate several small pots of DC and DB pension savings if they change employment several times, although they are more likely to be offered a private DC pension by their employer than a DB pension in the future.
- May have some savings from other financial products when they retire.

Higher earners (for example, earning above £37,000 p.a.):

- Will receive more from state pensions as a result of the state pension reforms.
- Could receive the same, less or more income from private pensions depending on how their employer responds to the introduction of auto-enrolment.
- Are likely to have substantial savings and assets, including housing, when they retire.
- Are more likely than other groups to be able to spend more for independent financial advice.

Public sector employees will also benefit from the changes to the state pension. In the public sector, most pension schemes already use auto-enrolment so the Government's private pension reforms are less likely to lead to a significant change in public sector pension provision. However, public sector employees face political uncertainty about the type of pension that will be offered to them in the future and some individuals will work in both the public and private sectors. The PPI will be undertaking a separate piece of research on the future of public sector pensions so this issue is not covered in this report.

The PPI is grateful for the additional support of other sponsors of this

Sponsorship has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.