PENSIONS POLICY INSTITUTE

PPI

The DC Future Book: 2018 Edition Launch Writeup

The Pensions Policy Institute (PPI) held a policy seminar on 11th October 2018 to launch ***The DC Future Book: 2018 edition***, sponsored by Columbia Threadneedle Investments. The Future Book sets out available data on the Defined Contribution (DC) landscape, explores emerging trends and provides PPI projections of future asset levels, scheme distribution and median DC pot sizes. It provides commentary and analysis on DC trends by leading thinkers in the pensions policy world.

Around 45 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

Jonathan Stapleton, **Editor**, **Professional Pensions and Workplace Savings & Benefits**, chaired the seminar, welcomed attendees and made introductions.

Chris Wagstaff, **Head of Pensions and Investment Education**, **Columbia Threadneedle Investments** welcomed attendees and introduced The Future Book, highlighting that each annual publication offers greater longitudinal insight.

Daniela Silcock, **PPI Head of Policy Research**, presented the findings of the research.

Panel responses to the research

The panel members reflected upon the messages from the research and the implications that these have for their respective perspectives.

- Chris Wagstaff, Columbia Threadneedle Investments, spoke about how people may make poor decisions when presented with the complexity of options and the multitude of risks involved in accessing savings.
- Jane Vass, Age UK, spoke about adequacy, the importance of the State Pension and the growing challenge of care funding.
- Pritheeva Rasaratnam, Financial Conduct Authority (FCA), spoke about intergenerational contrasts, the growing importance of DC to pension savers, and the FCA's focus on the pensions market. She further considered the potentially key intervention of retirement pathways.
- Gregg McClymont, The People's Pension, spoke about how pension fund members want control and ownership of their savings, but don't want to have to make complex decisions especially at retirement and want a trusted provider to take that responsibility.

Discussion and Q&A

The following points were raised during the question and discussion session held under the Chatham House rule, chaired by Jonathan Stapleton, with the panellists, (above), and Daniela Silcock (PPI), and the audience. They do not necessarily reflect the views of the Pensions Policy Institute:

Consumption patterns in retirement

- The reduction of discretionary spending as age increases:
  - Spending falls around 1% a year as pensioners get older;
  - Discretionary spending falls significantly above age 75.
- How consumption of wealth at later ages may be influenced by the desire to leave a legacy.
- How consumption patterns may change based upon cultural differences between generations.

A more holistic view of pensioner outcomes:

- How the changing landscape of pensions and other wealth interact and provide underpins to one another. How this interaction may change in the future.
- DC accumulation and spending cannot be considered in isolation and discussion must reflect other pension income and assets.
- The current underpin provided by DB pension wealth:
  - Current behaviour with DC pots is dependent upon having a DB pension to provide a secure income.
- The underpin of the State Pension:
  - How the triple lock protects future pensioners, and how long it may remain in place;
  - How and whether people value the State Pension as an income of £8,500 per year and how much this is worth.
- How home ownership interacts with retirement income:
  - Home ownership acts primarily as a means of reducing costs (compared with renting), rather than as a source of income (for example through equity release);
  - The impacting of reduced home ownership in younger generations and how DC saving will need to increase to match the higher costs of renting.

Decisions at retirement, advice and guidance

- While guidance gives good results, take up is low (around 1 in 5).
- Scaling up of guidance from the current levels of uptake would require greater suitable provision (e.g. the Pensions Advisory Service).
  - There is a danger that a guidance gap could be filled by groups not working to the best interests of pensioners.
- How default guidance might work:
  - How people may be able to opt out;
  - Whether there should be exemptions, and if so, how this might apply.

Pathways

- Automatic enrolment has not delivered the degree of engagement needed at retirement.
- A small number of defined pathways could protect people from the complexity of retirement decisions.
- One size does not fit all at retirement and what options and flexibility will be needed for pathways.
- The considerations of a pathway will need to include items such as: sustainable withdrawal; suitable investment; flexibility; longevity hedging.

Pensions dashboard

- A pensions dashboard is a step forward and supported by industry and regulators.
- What the scale of demand is for the dashboard and what impact upon this may have upon levels of engagement.
  - Whether behavioural changes resulting from the dashboard will lead to better outcomes.
  - The potential negative consequences of poor implementation and bad press.
- The benefits of the dashboard as a pensions register.
- The challenges for governance of the dashboard.
- The DWP dashboard feasibility study due to be published.

Small pots and aggregation

- The approach to aggregation and consolidation:
  - It's desirability for scheme members;
  - Whether this can lead to worse outcomes;
- The contrast between trust and contract arrangements and how these could be aggregated to the benefit of the member.
- Whether the challenge of small pots will be simpler in future than it is at present:
  - Regulation will lead to greater alignment of investment and charging in future;
  - Greater comparability may make consolidation easier.
- The opportunity and challenges for innovation by providers.

Automatic enrolment

- How the high levels of inertia may mean that opt out rates will not increase significantly as contribution rates increase.
- Re-enrolment catches people who may have previously opted out as this time the 'time is right' and they may be able to better afford it.