PPI report, Evolving retirement outcomes – launch write up

The Pensions Policy Institute (PPI) held a policy seminar on 12th July 2018 to launch its research report: *Evolving Retirement outcomes,* 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 potential outcomes that may be achieved through different retirement income decisions, and the changes that may need to occur within the industry and wider pensions landscape in order to ensure that these outcomes are positive for as many people as possible.

Emma Douglas, Head of DC, LGIM thanked the PPI for their work and welcomed the attendees and event sponsors. L&G were keen to sponsor the research as it is an important time to reflect on default pathways and how people will fund changing consumption needs during retirement.

Michelle Cracknell, Chief Executive, The Pensions Advisory Service gave the Chair's welcome and noted that the publication of the research had conveniently fallen within the period of DWP's consultation on bulk transfers made without members' consent.

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

Emma Byron, Managing Director, Retail Retirement Income, L&G mentioned how the research findings were very consistent with the customer research conducted by L&G. She highlighted three main issues:

1. There are a number of complex products which customers do not understand.
2. There isn't a 'one size fits all solution' for all, given there are numerous financial and non-financial considerations.
3. It is difficult for people to come up with individual solutions since they might not know how much income they will need in the distant future.

She concluded that the pensions industry could do a better job in providing support for their customers.

Michelle Cracknell led a panel session, with Emma Byron, Managing Director, Retail Retirement Income, L&G, Jonathan Watts-Lay, Director, Wealth at Work, Rob Yuille, Head of Retirement Policy, ABI, and Jane Woolley DWP (Guidance Policy Team), during which the following points were raised. The discussion does not reflect or represent the views of the PPI.

- Freedom and Choice has worked well so far considering the expectations that people would withdraw all of their money and not use it to responsibly support retirement. While the majority of people are taking out their savings as cash, those with bigger pots are still buying annuities or drawdown products.
- People like the flexibility around accessing savings but don't understand their options or the implications of choosing different access methods. Most important points are not discussed in retirement packs and there is no "one right way" for particular types of people.
- People have very low levels of financial capability, so it is not a surprise that they are not more engaged.
- In order to better support people, their decision-making processes need to be better understood; how do they make financial decisions about work, housing, debt and long-term saving? Picking apart how people view financial planning as a while will make it easier to support them. The new guidance body should focus on helping people to manage their finances holistically.
- Would annuities make a preferable default to drawdown? Drawdown offers no longevity protection and people generally underestimate their life expectancy. People currently think of annuities as a bad idea because of bad press and the reasons given for freedom and choice. However, annuities do offer good value for money.
- It would not be ideal for any defaults to become the norm as this might undo the benefits of Freedom and Choice as people will not shop around and there will be less competition for providers. On the other hand, defaults are preferable to people being taken advantage of by scammers or making poor decisions.
- . People need support to understand how the wide variety of products in the market can be used to shape income and consumption during retirement.
  Products might need to be simplified to highlight certain features such as inflation or providing an income for dependents.
- For people to receive sufficient support, providers will need to improve the way they engage and communicate; their current methods are still very opaque and involve speaking in a language that people don't understand about topics that they also don't understand. Understanding of products is very low. Many people think that

annuities provide flexibility or that drawdown provides an income life.

- It is worrying that so many drawdown customers are being defaulted into cash without understanding the implications.
- There must be more accessible engaging ways of communicating that providers can investigate and develop.
- One way of finding better ways to engage is by getting people to talk through what they want and how they respond to the different options available to them and help them to conceive a rough idea of what they might want from a retirement income. Providers can use these conversations to design solutions for people
- It is vital that industry gets support and engagement right as getting it wrong could have a major impact on people's retirement outcomes.
- Take up of Pension Wise was initially low but has increased, which is promising. Should guidance be mandatory? Are there other ways of increasing take up of guidance at the point of access?

The following points were raised during the question and discussion session held under the Chatham House rule, chaired by Michelle Cracknell, with the panellists. They do not necessarily reflect the views of the Pensions Policy Institute:

Freedom and choice

- People should be cautious about saying that freedom and choice has been a success as people are being scammed and paying excess taxes.

Advice and guidance

- What would an opt out from default guidance look like? Could default guidance become a social norm?
- People don't understand how much income they can generate from their pots and are likely to over-estimate. If people are to be engaged then the first step is linking desires to understanding by helping people to recognise how much they need to contribute, and how long for, in order to achieve their desired lifestyle in retirement.
- Those who receive advice tend, on the whole, to draw a retirement income which goes up and down as their needs fluctuate. Non-advised people tend to draw a less tailored income.
- Technology could play a big role in filling the advice gap by providing robo-advice. But also because technology allows people to see what others are doing and what reviews they give on particular products. This type of information sharing can be used for retirement income products.

- Educational seminars through the workplace have a good response with 76% of participants requesting a one-to-one call back.
- People trust their employers, so these may be good conduits for providing guidance. However, only large organisations tend to provide education. There needs to be a public/private initiative to help smaller employers to provide education to employees.
- People with small pots will need guidance on simple things, like the implications for tax of withdrawing over two years instead of one. However, not all schemes will allow these levels of flexibility.
- There is still confusion regarding what provider behaviour may be considered advice. For example, if a person withdraws more quickly than advisable for their retirement pathway, does addressing this constitute advice?
- How much is a lack of trust hindering progress with products and advice/guidance? The amount of money withdrawn because people don't trust their provider is worrying?

Product innovation

- The first task should be to engage people before the industry focuses on product innovation.
- Products need to be simplified if people are ever to be able to understand them. While hybrid products might be a good idea in principle, they are likely to alienate people through their complexity.
- Immediate needs annuities aren't able to suit everyone's particular care circumstances. A product should be developed which includes a mechanism for funding long term care.
- On the other hand, should pensions be used to fund care when many people can't even afford a suitable standard of living in retirement?
- Many people will use their home to pay for care. People would need to save much more into pensions in order to use them to fund both care and retirement income.
- Regulation provides potential barriers to product innovation. For example, it would be difficult to automatically convert a drawdown product into an annuity because of the different funding levels required to support these and the fact that it changes the nature of the product and therefore any contractual obligations between the individual and the provider.
- Products need to be appropriate for great variations in consumption as some people will have declining consumption, some will have U-shaped consumption, and some will have (unpredictable) care needs.

The panellists and audience were asked what "good" might look like over the next ten to fifteen years. The following answers were offered.

- Informed decision making in a competitive and innovative market.
- More people taking advice and guidance, and it becoming a social norm.
- Personalised guidance – people want to talk to someone.
- Industry-wide, consistent, simple, short communications with no jargon.
- Better outcomes for non-advised people.
- People using the pensions dashboard in a positive way which helps engagement.
- People who took lump sums today being in a good position.
- People using guidance earlier, when glide paths start to change, in order to help decision-making in retirement.
- People to engage more proactively during accumulation.
- More being done for millennials who will have different working lives than those currently reaching retirement. Millennials have so far experienced supportive policies being withdrawn from them and are therefore cynical about pensions and benefits.
- Emphasis moving more from state action to individual action, perhaps through use of digital media.
- Providers give consumers basic, positive messages which are built on as people age. Current messages are all quite negative which cause people to disengage, so it would be good to see these become positive.
- Nudges as people age on all relevant financial decisions.
- There is a need for a long term vision from Government which needs to be clear about what people can expect and how people can avoid regret.
- Other vehicles like LISAs which help people to understand the mechanisms of saving.
- More support for the self-employed to save in pensions.
- People saving more.
- Technology which helps people to educate themselves.
- A replication of automatic enrolment whereby people are defaulted into guidance.
- People better understanding longevity and their own potential life expectancy. Also, more communication about the potential benefits of longer life, not just the drawbacks.
- The two recommendations of the automatic enrolment review (lowering the age threshold to 18 and the lower earnings band for contributions to £0) to be implemented immediately.
- People to understand what they will need in retirement and how best to prepare for unpredictable needs.
- Education in the workplace and in schools on pensions and finances.