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

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Introduction

This report is the third in a series of four reports looking at the evolution of needs for income during the course of retirement and the roles that different sources of income and assets could play in helping pensioners to meet their needs for retirement income. The two previous reports in this series examined the income needs of pensioners and the role of housing assets in funding retirement. A final concluding report will draw out the overall findings from the retirement income and assets project as a whole. The project has the overall aim of providing independent evidence to inform debate about the role of different types of income and assets in funding retirement.

Recent pensions policy developments in the UK have mostly focussed on the accumulation of assets to fund retirement income, for example, the introduction of auto-enrolment, compulsory employer contributions and personal accounts. There has been some research on the use of assets in retirement, however most of the research has examined particular assets in isolation. The HM Treasury review of annuitisation considered only private pension assets; previous PPI work has considered the potential role of property in supporting retirement; DWP research has focussed on possible needs in retirement.

There is a need for a holistic consideration of the evolution of financial needs during the course of retirement and the roles that different sources of income and assets could have in meeting those needs, combined, as well as in isolation.

This report examines the respective roles of state pension, private pension and other financial assets in providing for retirement and explores the effects that reform and changes in private pension provision might have on their future roles.

Chapter one explores the role which state pensions, private pensions and other savings and assets play in providing income to pensioners and examines how these vary between households.

Chapter two explores the potential effects of the reforms on state pensions and discusses how they may change the role that income from state pensions will play in supporting retirement for pensioners in the future.

Chapter three explores the potential effects of changes in private pension provision and discusses how the role that private pension income plays in supporting retirement may change in the future.

Chapter four explores how the baskets of income and assets that people of different income groups have in retirement are likely to change and how the new landscape may affect the choices and risks faced by people with different financial profiles.

Chapter five analyses the implications that changes in the types of pensions offered by employers may have for the way people convert pension savings into retirement income and the features people might expect from retirement products.

Chapter six explores behavioural, economic and structural factors which affect saving and investment decisions and explores how changes in the pensions landscape and regulations surrounding tax-privileged savings vehicles may affect the choices people make about saving.

Chapter seven investigates how changes in the profiles of people who need financial advice and information may affect what is required from those providing financial advice and information, and discusses current proposals and options for the provision of financial advice and information.

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.

Chapter one: how are pension and financial assets currently used to support retirement?

This chapter explores the role which state pensions, private pensions and other savings and assets play in providing income to pensioners and examines how these vary between households. The role that housing assets can play in supporting retirement is examined in a separate PPI report.[1]

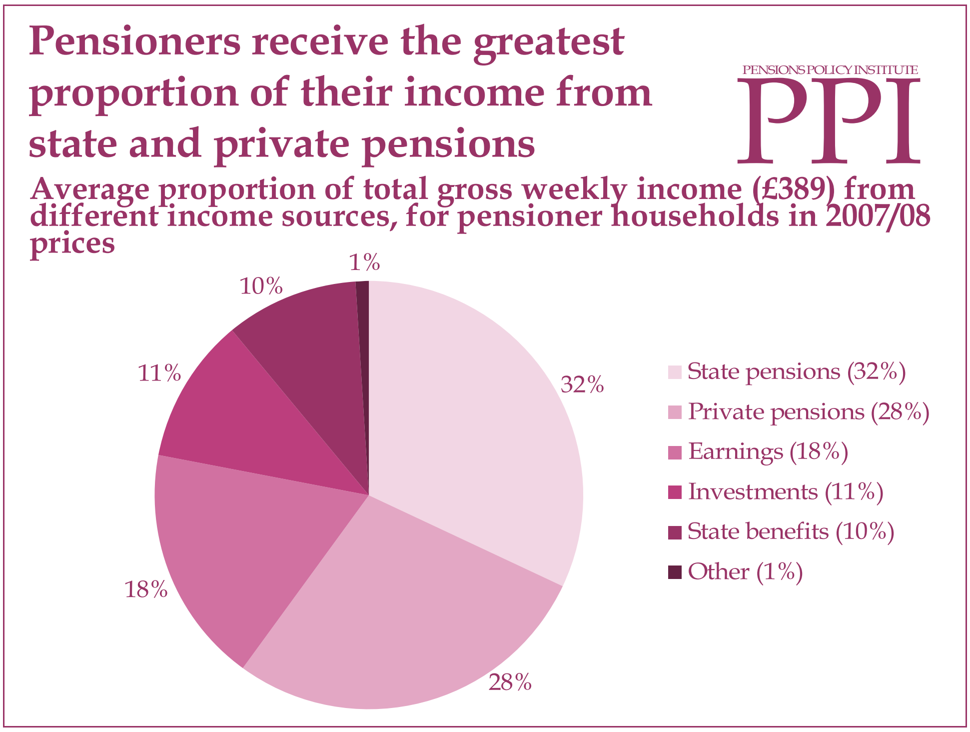
Pensioners receive income from many different sources
After State Pension Age (SPA), people are likely to receive their income from a mixed basket of income and asset sources. The main sources which pensioners tend to receive income from are:
- state and private pensions
- earnings
- savings and assets
- and state benefits.

This chapter examines the proportions of income pensioners receive from the above sources, sets out the main components of state and private pensions, and savings and assets, and examines the role of sources in providing income in retirement.

Pensioners receive the greatest proportion of income from state and private pensions
On average, pensioners currently receive the largest proportion (60%) of their income from state and private pensions (Chart 1) though earnings and investment income also make up a significant proportion of the income pensioners receive.

[1] PPI (2009c)

Chart 1[2, 3]



The proportion of income pensioners receive from state pensions has implications for income levels

Around 11.5 million[4] pensioners (95%[5] of total pensioners) receive income from state pensions, making it the most important source of retirement income. The relative importance state pension income plays for any pensioner household is dependent on what proportion of their total income is from state pensions (Chart 1). Income that pensioners receive from state pensions can come from two different sources: Basic State Pension (BSP), and second tier pensions (Box 1).

Pensioners on low incomes are likely to receive a large proportion of income from state pensions

Pensioners on low incomes generally receive a larger proportion of their income – around 60% on average - from state pensions than pensioners on high incomes who receive on average 23% (single pensioners) and 12% (couples) of their income from state pensions.[6]

[2] DWP (2009a) Table 2.1, and DWP data for breakdown between state benefits and state pension income
[3] *Investment income* refers to income from all types of investments and savings (stocks, shares, ISAs, savings accounts etc), *Other income* includes benefits from friendly societies, income from friends or family members and free TV licences for those age 75 and over.
[4] ONS 2006 based population projections, principal projections
[5] DWP (2009a) p. 35 figures for 2007/08
[6] Pensioners in the lowest and highest income quintiles, mean averages 2007-08, After Housing Costs - figures from data supplied by DWP

Box 1: State pensions[7]

Basic State Pension: The Basic State Pension (BSP) is a national, state run pension scheme. It is a contributory pension in the sense that the final amount of BSP paid to an individual depends on the number of National Insurance contributions made before reaching State Pension Age (SPA).[8]

Second tier pensions: Since 1961 there has been an additional 'second tier' to the state pension. It was originally set up with the aim of providing employees a pension that was more closely related to their earnings level than the first tier (BSP). The second tier scheme has changed twice since its inception in 1961 and is currently called the **State Second Pension (S2P)**. The main aim of S2P is to target greater resources at the lower paid and some individuals who cannot work due to disability or caring responsibilities. It is therefore more redistributive than the two previous second tier schemes.[9]

Pensioners on high incomes are likely to receive a large proportion of income from private pensions

Many pensioners (67%)[10] receive income from private pensions (Box 2) as well as income from state pensions (though a very small minority of pensioners receive income from private pensions without receiving any income from state pensions).[11] Pensioners on high incomes receive on average a much larger proportion, around 35% of their income, from private pensions, than pensioners on low incomes who receive on average between 9% and 14% of their income from private pensions.[12]

[7] For more detailed discussion on state pensions see PPI (2009b)
[8] There are a number of ways in which contributions can be made or credited, for instance, carers may be eligible to receive BSP credits without paying National Insurance contributions
[9] State Earnings Related Pension (SERPS) 1978 - 2002, and Graduated Retirement Benefit (GRB) 1961 - 1975.
[10] DWP (2009a) table 3.9, 2007/08 data
[11] DWP (2009b) table 3.27
[12] Pensioners in the lowest and highest income quintiles, mean average 2005-08 DWP (2009a) table 4.4 - After Housing Costs

Box 2: Private pensions[13]

Private pensions are voluntary pension arrangements that are not directly funded by the state. Many private pension arrangements are employer-sponsored however individuals can make their own private pension arrangements by paying in to **personal pensions**.

Work-based pension provision can be through **occupational pension schemes**, which are set up by, or administered on behalf of, an employer or through **personal pensions**, such as Group Personal Pensions or Stakeholder Pensions, which are administered by financial service companies. Work-based pension schemes can be Defined Benefit (DB) or Defined Contribution (DC)[14] however, most personal pensions are in DC schemes.

In DB schemes the benefit will usually be based on an individual's length of service and his or her earnings at, or close to, retirement. In DC schemes contributions (normally based on a proportion of salary) are paid into a pension fund, which is then invested.

There are many different options for private pension withdrawal

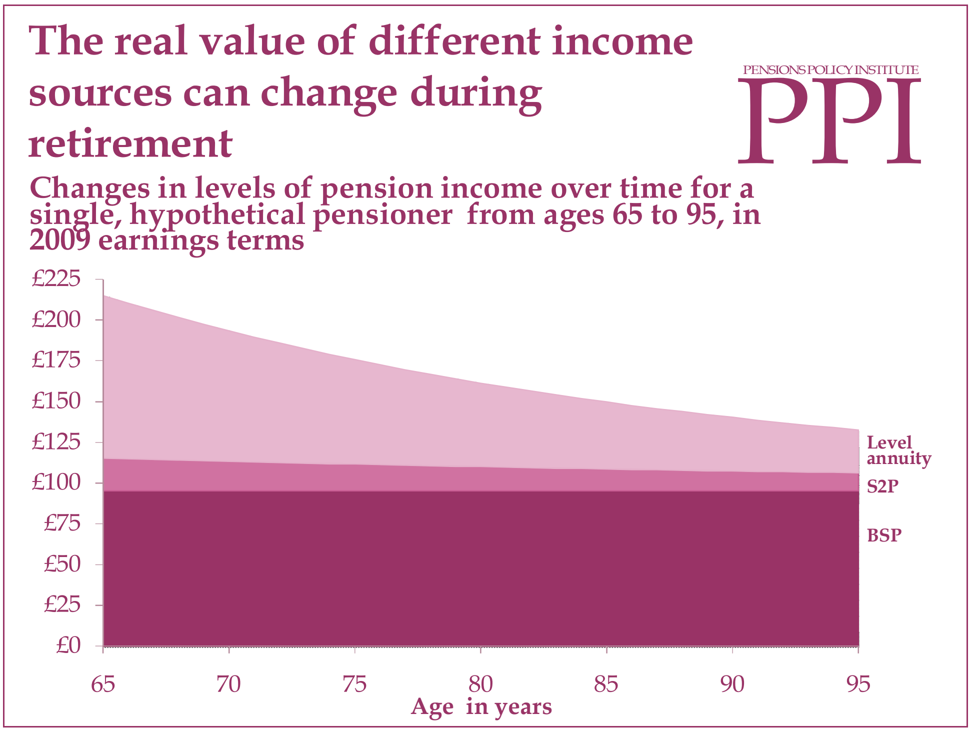
Income from state pensions is paid directly to pensioners by the Government, but there are many options for the receipt of private pension income. People with savings in private DC pensions can opt at the age of 50 (55 from 2010) to take a 25% tax-free lump sum from their pension pots. People are required to convert the remainder of their pension pots into a retirement income, generally by purchasing an annuity, by the age of 75.[15] People with savings in DB pensions are paid a lifetime income from the normal retirement age of their scheme, though they may also have an option to take a lump sum in addition to, or as part of their retirement income.

Income from S2P and private pensions declines over time relative to earnings

Income from state and private pensions is likely to decline in earnings terms during retirement. Chart 2 shows the way that income from BSP, S2P and a level annuity (of £100 per week)[16] from a private pension could change for someone retiring after 2012, in earnings terms, as they age. People can also purchase annuities which escalate in line with prices or a pre-fixed percentage. RPI-linked annuities will decline over time in earnings terms though more slowly than level annuities. Although the Government intends to index BSP to earnings sometime by the end of the next parliament, S2P will remain indexed to prices, meaning that overall state pensions will decline relative to earnings for most people. Pension Credit, the main means-tested benefit for pensioners on low incomes, also rises in line with earnings.

[13] For a more detailed discussion on private pension see PPI (2009b)
[14] There are also some hybrid schemes which have features of both DB and DC
[15] See Chapter 5 for more discussion on the options for converting DC pension savings into retirement income
[16] A level annuity will pay the same amount to the annuitant every year until their death.

Chart 2[17]



Pensioners have complex baskets of assets and income including savings and investments

Many people have savings and investments when they reach retirement. The most common types which pensioners have are:

- **Savings (or investment) bank account**:[18] 51%[19] of pensioner households[20] have at least one savings or investment bank account.
- **Individual Savings Account (ISA)**: an ISA (Box 3) is a tax privileged financial product that allows you to save or invest without paying tax on the interest or investment income.[21] 42%[22] of pensioner households have at least one ISA.
- **Premium Bonds:** Premium Bonds are investment bonds that people can take out with the UK's state owned bank, National Savings and Investments.[23] 30%[24] of pensioner households own premium bonds.
- **Stocks and shares**: 20%[25] of pensioner households own stocks and/or shares.

[17] PPI Modelling

[18] Includes savings accounts, investment accounts/bonds, or other types of accounts with a bank or building society - excludes current and basic bank accounts.

[19] DWP (2009b) table 5.2

[20] Households with one or more adults over pension age

[21] There are two types of ISAs – cash ISAs and stocks and shares ISAs. An individual can currently save or invest £7,200 in their ISA/s in any given year, though this limit is £10,200 for people over 50 and will be raised to £10,200 for everyone from 6 April 2010. For a detailed explanation of how ISAs work see: www.hmrc.gov.uk/leaflets/isa-factsheet.htm

[22] DWP (2009b) table 5.2

[23] Premium bonds do not pay interest in the normal way, instead each month every bond an individual owns is entered into a prize draw which currently deliver an average nominal interest rate of 3.8%.

[24] DWP (2009b) table 5.2

[25] DWP (2009b) table 5.2

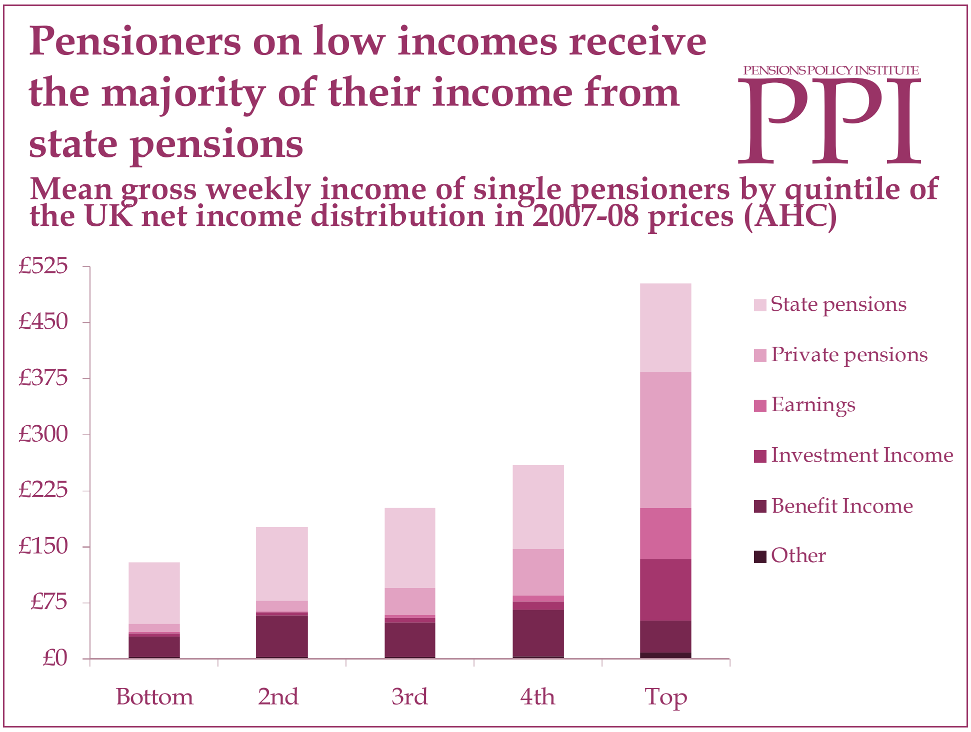
Box 3: Tax privileged savings vehicles

ISAs and Premium Bonds are attractive forms of saving because interest and investment income (prize income in the case of Premium Bonds) is tax free. They differ from pension savings because people can access their savings in ISAs and Premium Bonds at any time (within certain regulations regarding notice periods) whereas pension savings cannot be accessed until the age of 50 (55 from 2010). People between the ages of 55 and 74 are most likely to have other financial savings or investments. Around 45% of people aged between 55 and 74 have at least one ISA.[26]

Only pensioners on very high incomes are likely to receive a significant proportion of income from savings and investments

The majority of pensioners receive some income from savings and investments, however saving and investments are a much more important source of income for wealthier pensioners. Pensioners in the top quintile of the income distribution receive on average 16% to 19% of their income from savings and investments whilst pensioners in the bottom four quintiles receive, on average, only 3% to 6% of their income from savings and investments.[27] Pensioners in the top quintile of the net income distribution are much more likely to have a varied basket of assets and income than pensioners in lower income quintiles (Chart 3).

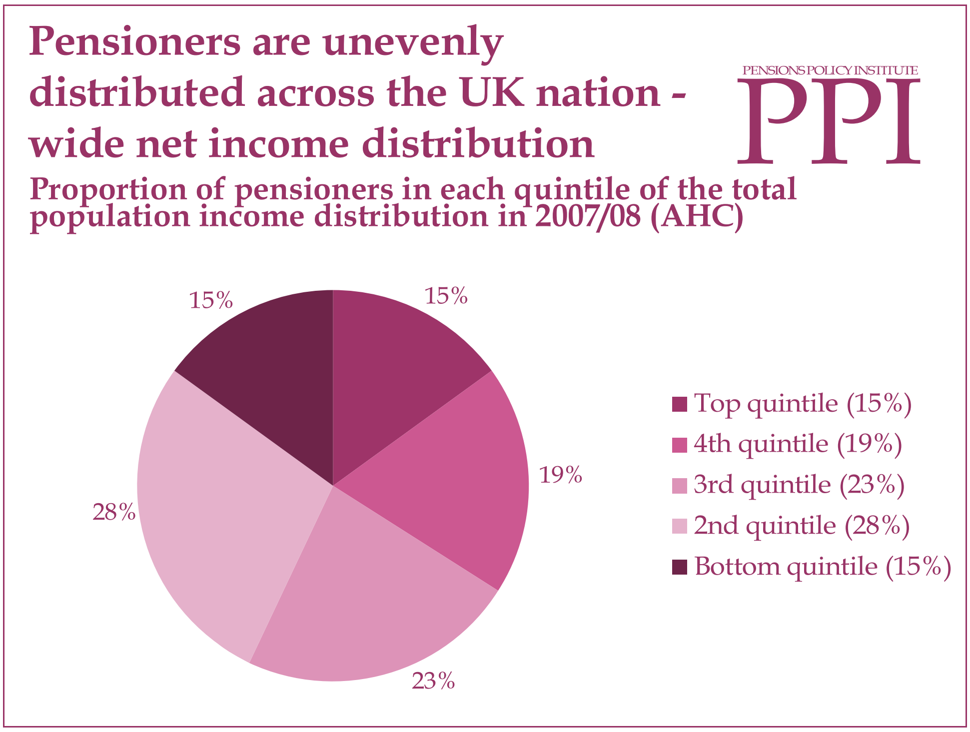
Chart 3[28]



[26] DWP (2008a) table 5.3
[27] Mean average 2005-08, DWP (2009a) table 4.4 – After Housing Costs
[28] Data supplied by DWP

However, even higher income pensioners may not be in the highest income groups of the UK population as a whole. Pensioners are unevenly distributed across UK national income quintiles with 66% of all pensioners in the bottom 3 quintiles and 15% of pensioners in the top quintile (Chart 4).

Chart 4[29]



Most pensioners have some housing wealth which can help with living costs or help provide income in retirement

As well as income from state and private pensions, and other income and savings, around 75% of pensioners have some housing wealth.[30] Housing can be an important asset in retirement. Owning housing has the potential to reduce living costs by up to 40%[31] and housing can be used as an investment in order to provide an income in retirement. However releasing equity may not be appropriate or possible for all owner occupiers, the amounts available for release may not necessarily be an adequate substitute for savings in pensions and other savings and asset types and many of those who do have housing wealth do not necessarily view it as a way to save for retirement.[32]

[29] DWP (2009c) table 6.2
[30] DWP (2009b) table 4.2, 07/08 includes outright ownership and those still paying off their mortgage
[31] Parker (2006)
[32] For a detailed discussion on the role of housing in supporting retirement see PPI (2009c)

Conclusion

- Pensions, both state and private, currently provide the majority of income for most pensioners.
- Pensioners who receive a large proportion of their income from private pensions are likely to be on a higher income than those who receive a large proportion from state pensions.
- 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.

Chapter two: how could the role of state pension income in funding retirement change in the future?

The Pensions Act 2007 contains reforms (Boxes 4 & 5) which directly and indirectly affect the amount of income people are likely to receive from state pensions in the future. This chapter explores the potential effects of the reforms on state pensions and discusses how the reforms may change the role that income from state pensions will play in supporting retirement for pensioners in the future.

Box 4: Reforms to the Basic State Pension (BSP)[33]

BSP is currently available from the age of 65 for men and the age of 60 for women, rising to 65 for women between 2010 and 2020. People build up entitlement to BSP by making National Insurance contributions (NICs). Any tax year in which an individual makes, or is credited with making, sufficient NICs is known as a qualifying year. To be eligible to receive the full rate of BSP (£95.25 in 09/10) women must have at least 39 qualifying years and men must have at least 44 qualifying years. To receive the minimum rate (25%) of BSP, women and men need at least 10 and 11 qualifying years respectively.

- The Pensions Act 2007 reduces the number of qualifying years needed to receive the full rate of BSP to 30 years for both men and women from 6 April 2010.
- The 2007 Act allows people with one or more qualifying years to receive BSP at 1/30th the maximum rate for each qualifying year.
- The 2007 Act increases the State Pension Age to 68 by 2046.

People of working age who care more than 20 hours a week or receive child benefit are eligible for Home Responsibilities Protection (HRP). HRP reduces the number of qualifying years needed for a full BSP.

- The 2007 Act replaces HRP with a system of weekly credits which constitute a contribution to qualifying years.[34]

The full rate of BSP is currently increased each year by the greater of 2.5% or the yearly percentage increase of the Retail Price Index (RPI).[35]

- The 2007 Act allows for BSP to be uprated annually in line with national average earnings, rather than prices, from some point in 2012 or before the end of the next parliament, subject to affordability.

[33] For a more detailed discussion of how state pensions work see PPI (2009b)

[34] The outcome for individuals under a credit system is more generous and simplifies the way entitlement is calculated. For example, a person with 5 qualifying years and 10 years of HRP would, under the reduction system receive 25% of the full state pension; calculated as 5 years out of their 20 (i.e. 30 – 10 HRP) required years. Under a credit system the same person would receive 50% of the full state pension; calculated as 15 (5 + 10 credits) years out of their required 30 years.

[35] The effect of increasing the BSP by RPI is that its value remains constant in real terms but when compared to national average earnings its value gradually erodes

The commitment to index BSP to earnings sometime in 2012 or before the end of the next parliament was made at a time when the economy was in a period of growth. At the current time there is some political and economic uncertainty about whether and when the Government will be in a fiscal position to re-index BSP to earnings. It is difficult to predict when earnings indexation might take place as the move will be subject to fiscal affordability.

Box 5: Reforms to the State Second Pension (S2P)

Accrual of benefits under S2P is based on three earning bands and three accrual rates. Higher earners accrue an additional earnings-related benefit whilst a flat-rate of income is guaranteed for low-earners.[36]

- The Pensions Act 2007 allows people with earnings lower than the previous limit, the Lower Earnings Threshold (LET), to accrue benefits under S2P and makes it easier for carers, disabled people and people with partial years of credits to build up entitlement.
- The Act brings forward the implementation of a new flat rate of S2P from 2050 to 2030, with gradual staged introduction beginning in 2012. In the future people will receive S2P as a flat-rate top up to BSP.[37]

The reforms will increase the proportion of income that women and carers are likely to receive from state pensions

The state pension system has traditionally favoured employees with unbroken records of full time work. Very low earners, and people who tend to work casual, or part time jobs (e.g., women and carers), people with disabilities and the self employed[38] tend to receive less income from state pensions than the traditionally-employed median earning male. The reforms will result in an increase in the level of income which many pensioners receive from state pensions (Chart 5) by lowering the income threshold for S2P entitlement, reducing the number of qualifying years needed for a full BSP and making it easier for carers and people with disabilities to earn NI credits.

Not all groups are likely to benefit equally from the state pension reforms. Disabled people and the self employed are still likely to receive lower than average incomes from S2P after the reforms as not all disability benefits qualify for S2P credits and the self-employed are excluded from making S2P contributions. Some people who are not in work but do not qualify for credits will continue to receive low or no income from state pensions, though some unemployment benefits, such as Jobseekers Allowance, allow people to accrue S2P credits. Although the reforms are likely to improve pension incomes for women, differences in the average incomes between men and women are likely to remain for some time. This is because the reforms, and those related to S2P in particular, will take many decades to filter through the system.

[36] Disabled people, and some individuals with caring responsibilities, are credited into the flat-rate part of S2P

[37] People should begin to pay fully flat-rate contributions by around 2030

[38] People from ethnic minority groups are over-represented amongst the self-employed

Chart 5[39]

Everyone who is entitled to some BSP or S2P will receive more income from state pensions than they would have without reform (Chart 5). Some groups, such as women, carers, and very low earners are likely to benefit substantially more from the reforms than people who already tended to accrue enough qualifying years to receive the full rate of BSP, i.e. traditionally employed men. For example, the low earning woman with caring breaks in Chart 5 receives 30% more from state pensions than she would have without reform, whereas the high earner and median earner receive 17% and 21% more respectively.

The reforms will reduce the proportion of pensioners eligible for means tested benefits

Pension Credit is a non-contributory means tested benefit that is designed to ensure that people aged 60 and over have a minimum guaranteed income of £130 a week for a single person and £198.45 a week for a couple (in 2009).[40] People with incomes under the guarantee level (and savings and assets below a specified amount) are eligible to receive the Guarantee Credit element of Pension Credit.

[39] PPI analysis using the Individual Model, assuming high and median earners have a working life of 42 and 47 years respectively, and carer works for 26 years and earns at the 10th percentile. With reform figures assume: BSP uprated by earnings from 2012, S2P flat rate from 2030, and necessary qualifying years for a full BSP is 30 for men and women

[40] These amounts can be higher for some carers, severely disabled people, and homeowners with certain housing costs

Guarantee Credit is intended to prevent pensioners having to live in poverty, however it is generally only taken up by about two thirds of the people who are entitled to it,[41] which means that some pensioners still live on incomes below the guarantee level. Pensioners with savings can also receive some income from the Savings Credit element of Pensions Credit, which is intended to ensure that pensioners with modest amounts of savings receive some benefit. The effect of the reforms will be to increase the levels of income which most pensioners receive from state pensions, thereby ensuring that more pensioners (around 60% in 2050)[42] will have an income above the guarantee level and are therefore less likely to need to claim Pension Credit.

Conclusion

- From 2010 and beyond pensioners are likely to receive more income from state pensions than they currently do. This will increase the importance of income from state pensions for many pensioners, though more significantly for certain groups, such as women, carers, the disabled and very low earners.
- Employed men and women with full National Insurance records and people on median to high incomes (higher earners and some low to moderate earners) may not see the proportion of income they receive from state pensions increase as dramatically as some low earners and carers.
- One possible outcome from the pension reforms is that state pensions may eventually provide a more flat rate level of income for pensioners which may be adequate to provide for basic needs[43] and that private pensions and other savings may be used by pensioners to top up their state pensions and provide themselves with a level of income which more closely resembles those they experienced during working life.

[41] Age Concern (2008) Figure is for overall Pension Credit (PC) take-up, the take-up of the Guarantee Credit element of PC is slightly higher

[42] PPI analysis using the Aggregate and Distributional Models. This figure is lower than the DWP projection (of 70% of pensioners not eligible for Pension Credit in 2050) because of differences in underlying assumptions between PPI and DWP models.

[43] As defined by minimum income standards as the level of income needed to provide a minimally acceptable standard of living for a pensioner in the UK, JRF (2008)

Chapter three: how could the provision of private pensions change in the future?

The private pensions landscape is likely to change dramatically over the next few years due to the measures contained in the Pensions Act 2008 (Box 6) and to changes already occurring in the private pensions market - most critically the shift from employers offering Defined Benefit based pension provision to offering membership in Defined Contribution schemes. This chapter explores the potential effects of changes in private pension provision and discusses how the role that private pension income plays in supporting retirement may change in the future. In this chapter, the term 'private pensions' refers to pensions provided by employers in the public and private sector and pensions provided by financial service companies.

Box 6: Reforms to the private pension system

The Pensions Act 2008 contains three major reforms to the private pensions system, all to take effect from 2012, though the reforms which affect employers will be phased in to reduce administrative burdens:

- A requirement for employers to automatically enrol eligible employees into a work-based pension scheme (employees have the option to opt out).
- A requirement for employers to make contributions of at least 3% of band earnings[44] to eligible employee's workplace pension schemes.
- The introduction of a new, low cost, national pension savings scheme, currently called personal accounts.

The reforms will increase the number of people saving in private pensions

Currently around 40% of the working age population (around 14 million people) are saving in a private pension,[45] meaning occupational, private or personal pensions, including individual and group personal pensions. Auto-enrolment could result in a further 5 to 9 million people (mostly low to moderate earners) saving in private pensions.[46] Some of the people who are auto-enrolled will already have existing private pension saving from previous employment or in personal pension arrangements. The actual number of new savers that will result from the reforms will depend on the number of people who opt out of the pension scheme which they have been enrolled in to by their employer. The current Government estimate is that around 25% of those auto-enrolled into pension saving will opt out.[47] As a central estimate, auto-enrolment could result in around 7 million new savers in private pension schemes.[48]

[44] Band earnings are earnings between £5,035 and £33,540 (in 2006/07 earnings terms)
[45] PPI analysis of Family Resources Survey 2005/06 and 2006/07
[46] DWP (2009d), PPI (2007a)
[47] DWP (2009d)
[48] Based on the range contained in DWP (2009d)

Assuming that opt-out rates are in line with Government expectations, the proportion of people with private pension savings after 2012 could rise by around 20% of the working-age population, bringing the total number of people with private pension savings up to around 21 million, or roughly around 60% of the UK working-age population once the reforms are fully implemented. This would result in the proportion of pensioners receiving income from private pensions rising as successive cohorts reach State Pension Age (SPA). Some pensioners are also likely to receive higher levels of income from private pensions than they would have without reform as a result of compulsory employer contributions.

Younger people and people with full work histories are likely to benefit most as a result of the reforms

Auto-enrolment into pension saving may mean that some people will receive higher levels of income in retirement. However, there are also concerns that pension saving might not be suitable for everybody who is auto-enrolled. This might be because the individual is likely to receive a low return on their saving because of the potential for income to interact negatively with means tested benefit entitlement, the pension contributions may be unaffordable, or the individual may have significant amounts of personal debt.[49] Younger people and people in their forties and fifties with full National Insurance records and large levels of additional savings are likely to see the most increase in their private pension income as a result of auto-enrolment. Non-eligible employees (those earning below a certain amount) and the self-employed will not be auto-enrolled and are therefore unlikely to see a substantial increase in retirement income from the private pension reforms unless they become eligible or opt themselves in on a voluntary basis.

Future income levels from private pensions are uncertain

The reforms will increase the costs of pension provision for most employers because auto-enrolment is likely to result in higher levels of participation in pension schemes and because of the requirement for employers to contribute at least 3% of band earnings for employees who remain opted in.[50] Employers may be able to pass on increased costs in a number of ways, for example, by charging higher prices, awarding lower wage increases, passing the costs on to shareholders through lower profits, or reducing their previous levels of contributions into employees pension schemes. Although surveys of likely employer responses have been conducted, they cannot predict with certainty how employers will respond to the reforms.[51] Therefore it is difficult to estimate exactly how private pension contributions and the proportions of income pensioners receive from private pensions may change in the future.

[49] For a full discussion of the potential outcomes of auto-enrolling individuals see PPI (2006)
[50] Currently, only around 15% of private sector employers offer schemes that are more generous than the 3% minimum contribution. DWP (2006a)
[51] PPI (2007a)

Chart 6[52, 53]

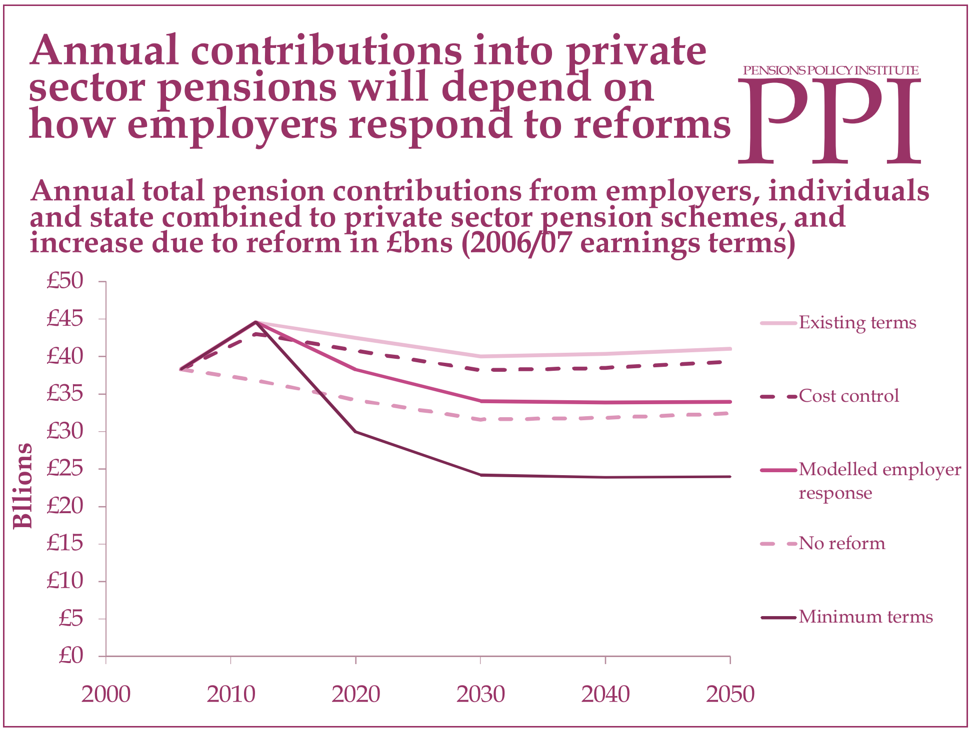


Chart 6 shows how annual pension contributions into private sector pensions could change as a result of the Government's private pension reforms. In the absence of reform, contributions into private pensions are projected to fall from around £40 billion to around £30 billion by 2050 (in 2006/7 earnings terms). This is due to the assumption that employers continue to close DB pension schemes and replace them with less generous DC schemes. (No reform baseline in Chart 6)

Chart 6 shows four stylised scenarios to show the possible implications of employers responding to the Government's private pension reforms in different ways:

- In the 'existing terms' scenario it is assumed that *employers with existing pension schemes auto-enrol their eligible employees into existing pensions on existing terms and employers without pension schemes auto-enrol into a personal account*. In this scenario the reforms could increase annual total annual pension contributions (made by individuals, employers and the state combined) by around £10 billion in 2012 compared to the no reform scenario, and by around £10 billion by 2050. (Chart 6: Existing terms)
- In the 'cost control' scenario it is assumed that *all of the employers who currently contribute more than 3% and can reduce their pension contributions to hold their total pension costs constant do so, and employers who currently offer no pension contribution or a contribution of less than 3% contribute the minimum*

[52] PPI Aggregate Model, PPI (2007a), scenarios assume - active membership of private sector DB schemes falls by two thirds from 2005 to 2035, 33% of those auto-enrolled from 2012 will opt-out, in line with DWP assumptions at the time the research was first published.
[53] Please see PPI Briefing Note 42 (2007) *Will personal accounts increase pension saving?* For more discussion of the scenarios – all figure rounded to closest £5bn as there is a large degree of uncertainty around outcomes

3% into personal accounts. The reforms could still increase annual total pension contributions by around £5 billion in 2012 compared to without reform, and by around £5 billion by 2050. (Chart 6: Cost control)

- In the 'modelled employer response' scenario it is assumed that *employers act in line with a survey of their likely responses in which some employers have said they will close their existing schemes or reduce their pension contributions as a result of the reforms.*[54] The reforms could initially increase annual total pension contributions by around £10 billion in 2012 compared to without reform when auto-enrolment is first introduced. By 2050 the reforms could still increase annual total pension contributions but by less than £2.5 billion as some employers are assumed to make changes to the generosity of their pension schemes. (Chart 6: Modelled employer response)
- In the 'minimum terms scenario' it is assumed that *all employers auto-enrol new employees on minimum terms, offering only the minimum employer contribution level of 3%*. In this scenario, annual total pension contributions could be higher than without reform initially, as auto-enrolment takes effect, but by 2050 could be £10 billion lower than in the absence of reform. (Chart 6: Minimum terms)

Overall, the analysis shows that there is a wide range of outcomes for the flow of contributions into private pensions in the UK as a result of the reforms. How employers respond to the reforms will be very important in determining whether overall levels of private pension saving are higher or lower than they would have been in the absence of the reforms.

There is an increasing trend for private sector employers to offer DC scheme membership rather than DB scheme membership

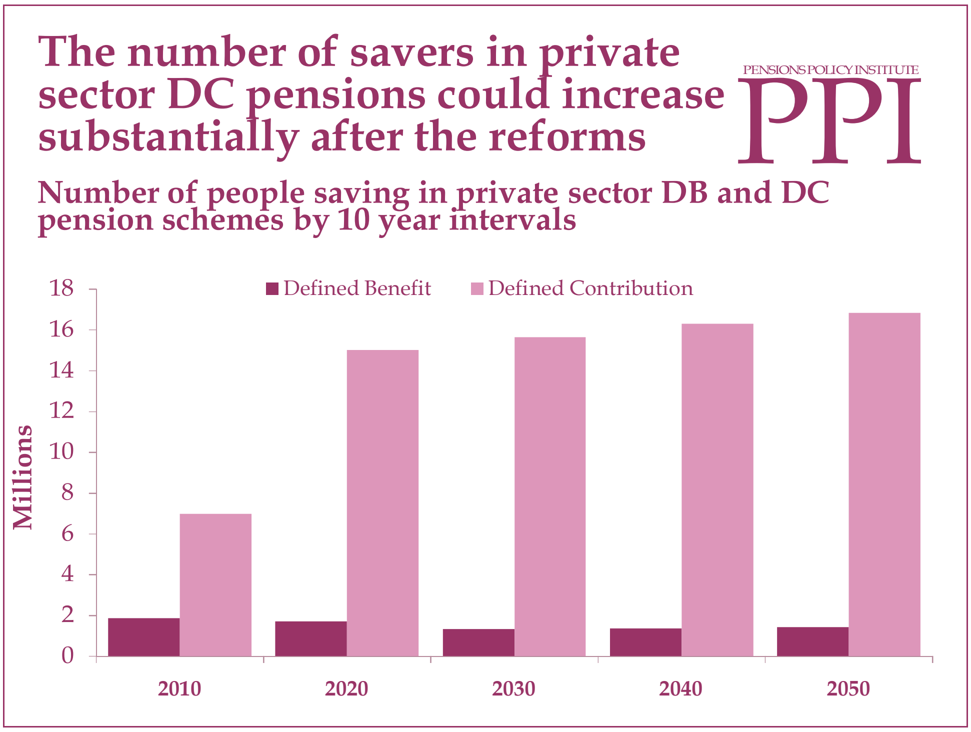
For many years the most common form of work-based pension provision has been through Defined Benefit (DB) schemes.[55] However the last two decades have seen an acceleration in the trend for private sector DB schemes to close, either to new members or to new and existing members,[56] and for employers to offer membership in Defined Contribution (DC) schemes instead.[57] Of the above 7 million working-age people who are currently contributing to pension savings in the private sector, around 2.5 million of these are in DB schemes. There are no official figures on the total active membership of private pension schemes, however figures on the membership of work-based DC schemes (3.7 million)[58] and other private pension schemes (such as Group Personal

[54] In the modelled employer response scenario it is assumed that employers act in line with a survey conducted by the ABI for Deloitte of their reported likely responses to reforms, ABI, Deloitte (2006)
[55] See Box 2, Chapter 1 for a definition of DB and DC schemes
[56] Schemes which are closed to existing members may continue to hold and invest existing member's benefits whilst not allowing further accrual, or may settle benefits with members and close down altogether. In some cases, fully funded, closed schemes are sold to a third party, usually an insurance company, who then takes on liability for existing members benefits. See PPI (2007b) for further discussion of the different states in which DB schemes which are no longer fully open can operate
[57] This could take the form of a DC scheme with an insurance provider or the employer may choose to open a DC section within their previous DB scheme
[58] ONS (2008)

Pensions and Stakeholder pensions) indicate that there could currently be somewhere in the region of 5 million active members in DC schemes.[59]

As a result of the reduction in private sector DB scheme provision, DC schemes are increasingly becoming the standard for private sector provision, around 90% of private sector work-based pension schemes are DC.[60] The future balance between DC and DB schemes in the private sector (Chart 7) will depend partly on employer reactions to many factors such as market pressures and the Government's private pension reforms. However, the introduction of auto-enrolment and the national DC pension saving scheme, personal accounts, is likely to lead to an even more pronounced shift to DC provision in the private sector in future.

Chart 7[61]



PPI Projections suggest that active[62] DB scheme membership in the private sector could reduce by 40% from current levels of around 2.5 million to around 1.5 million active members in 2050.[63] Under the same scenario, the active membership of DC schemes could grow from an estimated 5 million[64]

[59] ONS (2008), PPI Aggregate model, DWP data - estimated figure based on available data
[60] ONS (2008)
[61] PPI Aggregate Model, DC saver numbers includes all personal, private and occupational DC pensions including SIPPS. DC saver numbers may contain a small amount of public sector savers
[62] Active membership refers to the number of members currently making contributions to their pension scheme
[63] PPI Aggregate model projections assume that that the proportion of employees who are active members of DB schemes in the private sector will fall by 80% between 2010 and 2035.This is a faster closure than assumed in previous PPI projections, reflecting recent increases in the rate of DB scheme closure.
[64] ONS (2008), PPI Aggregate model, DWP data

today to around 15 million by 2020 and around 17 million by 2050.[65] However these projections depend heavily on how employers and employees act in future. These projections assume that:

- The proportion of employees who are active members of DB schemes in the private sector will fall by 80% between 2010 and 2035.
- After the introduction of pension reforms from 2012, 33% of those auto-enrolled opt-out[66] and employers act in line with a survey conducted by Deloitte of their reported likely responses to the private pension reforms,[67] - some employees are auto-enrolled into existing provision, some employees are enrolled into less generous provision or some employers reduce pension contributions, and some employees are enrolled into personal accounts.

Changes in these assumptions would affect the number of savers in private sector DB and DC pension schemes.

By offering DC schemes, employers can pass on some of the risks associated with pension funds to their employees

The trend for private sector employers to close DB schemes has been prompted by schemes sponsors facing increased risks associated with market changes, lower than expected investment returns, increased longevity, and further burdens imposed by legislative and regulatory changes.[68] In a DB scheme, the employer is liable for agreed payouts to scheme members regardless of the performance of the invested pension fund. By offering a DC scheme rather than a DB scheme, employers can effectively pass on some of the risks associated with hosting a pension scheme to their employees. DC scheme members bear the risks of low investment returns, fund losses due to market fluctuations and the longevity of other scheme members. The trend for DB schemes to be replaced by DC schemes is more prevalent in the private sector than in the public sector[69] where the predominant form of pension provision remains DB pension schemes.

There is a growing (though still small) trend for employers to offer hybrid schemes with both a DB and a DC element, thereby sharing risk between employer and employee but also providing some degree of guaranteed income.[70] In hybrid schemes the employer bears the investment risk while the individual (or insurer) bears the longevity risk.

[65] PPI Aggregate model
[66] Opt-out rates are uncertain. Latest DWP figures assume a central opt out rate of 25%, however this paper uses the PPI's central assumption of a 33% opt out rate which is consistent with previous modelling
[67] ABI, Deloitte (2006) see appendix for specific assumptions
[68] For a full discussion of the causes of the shift from DB to DC please see PPI (2007b) Chapter 2
[69] Within the public sector 5.2 million people (a rise from 4.1 million in 1991) are active members of DB schemes, while in the private sector 2.7 million people (a drop from 3.2 million in 2006) are active members of DB schemes - PPI (2008), ONS (2008) table 3.1 and 3.3, TPR, PPF (2008) table 3.5
[70] PPI (2007b)

The shift from DB to DC in the private sector may mean some people will receive lower incomes from pensions
DC pensions may yield lower pension income than DB pensions for several reasons:

- Contribution rates are often lower in DC pensions than in DB. In private sector DC pensions, employers contribute on average around 7% of salary and employees contribute around 3% of salary. In private sector DB pensions, employers contribute around 16% of salary and employees contribute around 5%.[71] There is evidence that employers lower their contribution rates when switching from DB to DC schemes.[72]
- DC pension funds are vulnerable to market fluctuations.
- The amount of income available at retirement from a DC fund will depend on the level of contributions made, investment returns, and available annuity rates at the point of retirement. DB pension income is usually linked to the employee's final or average salary and their length of service.

However, if members of DC pension schemes and/or their employers pay in sufficient contributions, and their funds are well invested and are invested in a way that minimises the risk of sharp falls in the markets reducing the size of the pension fund near the point of retirement, DC pensions could yield pension pots that could provide a similar level of income in retirement to a DB pension.

Returns from a DC pension will also be affected by the investment options that the provider makes available to members and the investment choices that the member makes. Around 80% of members remain in the default option.[73] Default options are often invested in index tracker funds rather than actively managed. There is conflicting evidence about whether actively managed funds perform better or worse than index trackers and performance varies from fund to fund and with changes in the market.

Only around 75% of default funds include a 'lifestyle' option[74] which targets investments into less risky funds when members are close to retirement. People whose funds are not life-styled face the risk market volatility when they are close to retirement and may not have time to recoup any losses before they retire. However, lifestyle funds could mean that members miss out on some investment growth.

The move from trust-based to contract-based schemes in the private sector could mean there is less pressure on employers to act in members best interests
Employers who offer DC scheme membership have the choice whether to offer their employees a *trust-based* DC scheme which is sponsored by the employer and governed by a board of trustees, or a *contract-based* DC scheme

[71] ONS (2009), 2007 figures, all figures rounded to nearest whole number
[72] Campbell *et al* (2006)
[73] Byrne *et. al.* (2007)
[74] Punter Southall (2009)

which is provided by a third party in the form of a personal pension.[75] There are advantages and disadvantages to the employer in each case[76] however the current trend is for employers to offer contract-based schemes over trust-based schemes. Since 2005 the number of trust-based DC schemes on offer by employers has dropped from around 90% to around 55% of all DC schemes, and the number of contract-based DC schemes on offer has risen from around 10% to around 45%.[77]

Contract-based schemes are popular as they place less of a regulatory burden on the employer[78] however there are some differences between contract and trust-based DC schemes:

- Though contract-based schemes often offer their members larger portfolios of investment options than trust-based schemes[79] there is no body corporate that has a fiduciary duty to act in members' best interests and assist members with investment strategy decisions.
- In trust-based schemes there is some evidence that trustees may take a more active role in ensuring members choose the appropriate investment strategy,[80] and that trustees take more responsibility for educating members on issues such as appropriate contribution rates[81] than employers and providers do in contract-based schemes. However there is evidence that trustees do not always act in members best interests when, for example, there are conflicts of interest or trustees do not have the training or experience to make the correct decisions.[82]

Many contract based schemes have set up governance committees or some form of 'psuedo trustees'[83] in order to protect member's interests[84] which may go some way to addressing some of the concerns people have about contract-based schemes. Members of contract-based schemes without any form of governance may need to rely more on outside advice and information than members of trust-based DC schemes and DB schemes for assistance with managing their pension savings.

Public sector pension provision

Although there is a shift from DB to DC provision in the private sector, DB provision is still the norm in the public sector. There are currently around 5 million active members of DB schemes in the public sector.[85]

75 For example: Group Personal Pensions, Stakeholder Pensions, and SIPPs are all contract-based
76 See Friends Provident (2007) Pensions Facts, Issue no 2007/09 for a list of advantages and disadvantages
77 NAPF (2008) results based on NAPF members and may be slightly skewed towards trust-based schemes
78 Trust-based schemes are governed by the Pensions Regulator and trustees have fiduciary responsibility to scheme members. Contract-based schemes are governed by the Financial Services Authority and are required to adhere to the principles in the 'treating customers fairly' regulations which do not explicitly place fiduciary responsibility on the provider or the employer.
79 Watson Wyatt (2009)
80 Watson Wyatt (2009)
81 Friends Provident (2007)
82 Stewart and Yermo (2008)
83 See Scottish Life's 'custom range' investment proposition as an example
84 Friends Provident (2007)
85 ONS (2008)

There are some uncertainties around the future of public sector provision as changes in the private sector such as the shift from DB to DC and issues around fiscal affordability may lead to pressure to change either the level or the type of benefits offered in the public sector. 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.

Conclusion

- Changes in the private sector pensions market, such as the shift from DB to DC pensions, are causing the risks associated with pension investments to be 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.

In future:

- 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.
- Fewer employees in the private sector will be retiring with savings from DB pensions than used to be the case - active membership in Defined Benefit schemes could reduce by around 40% in the private sector by 2050 from around 2.5 million active members today, to around 1.5 million active members by 2050.
- Active membership in Defined Contribution schemes could increase substantially and reach around 15 million by 2020 and around 17 million by 2050, compared to an estimated 5 million today.
- Some people retiring with savings from private sector pensions are likely to receive less income from them than was previously the case due to the shift from DB to DC.

Chapter four: how could the new pensions landscape impact on people with different levels of income in the future?

A new pensions landscape will emerge due to the Government's reforms, and to changes already occurring in the private pensions market. This chapter explores how the baskets of income and assets that people of different income groups have in retirement are likely to change and how the new landscape may affect the choices and risks faced by people with different financial profiles.

As discussed in previous chapters, pensioners are likely to receive more income from state pensions in future due to the Government's state pension reforms. The Government's private pension reforms are likely to lead to many more people saving in private pensions in future, but it is possible that, due to changes in the private pensions landscape, the level of income received from private pensions could decrease for some pensioners in future if their employer makes their pension scheme less generous as a result of the reforms.

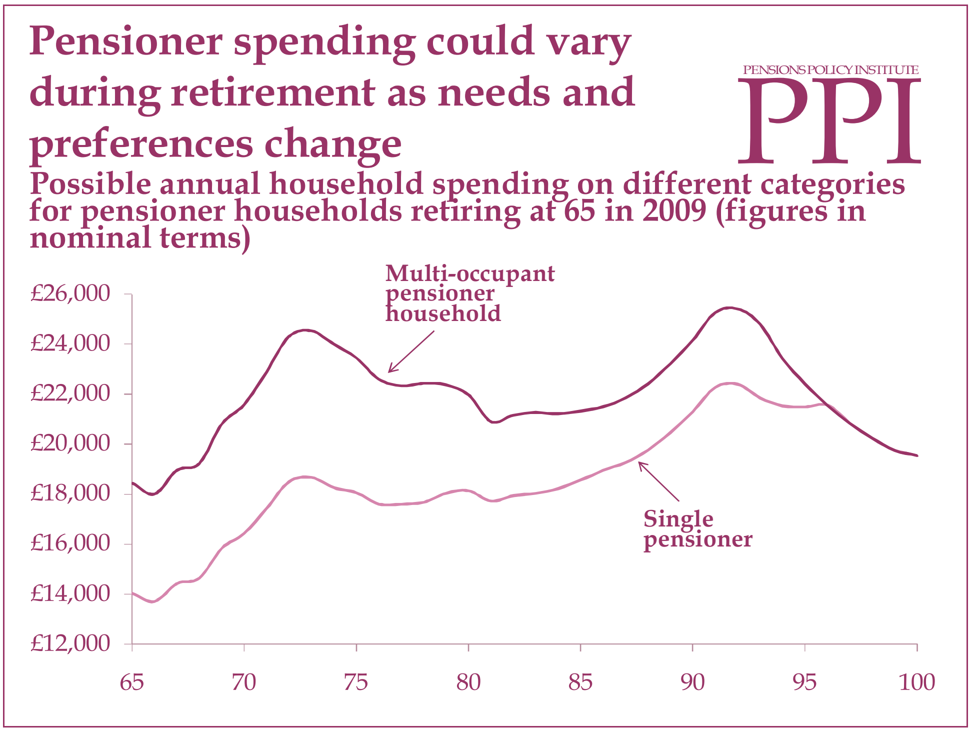
Pensioners' income needs vary during retirement

Spending can vary during retirement due to a combination of needs, expectations and spending preferences (Chart 8). A typical pensioner might spend more on recreation and leisure in early retirement, decrease spending around age 75 as they become less mobile, increase spending once again around the age of 85 as a result of disability or health needs and then decrease spending in their 90s as mobility is reduced to a very minimal level.[86] Any individual pensioner's needs and expectations may be for higher spending than depicted in this chart if, for instance, they acquire disabilities as they age.[87]

[86] PPI (2009a)

[87] Which could increase income needs for an individual pensioner by up to £250 per week depending on type and severity level. PPI (2009a), Zaidi & Burchardt (2005) 2008 earnings terms

Chart 8[88]



Pensioners' income needs vary during retirement, however not all pensioners have the same baskets of income and assets available to meet needs as they change. This chapter considers how baskets of income and assets may change for pensioners in the new pensions landscape. This chapter uses three specific groups to explore how these baskets may be used to meet varying needs in retirement:

- *Very low earners:* people in this group are likely to have earned at low earnings (for example, roughly £11,200 p.a. or less in 2009),[89] worked casual or part-time jobs or spent time unemployed. People in this group are likely to reach retirement with no or very little savings and rely almost entirely on state pensions and state benefits during retirement.
- *Low to moderate earners:* people in this group are likely to have earned at low to moderate earnings (for example, roughly £11,200 - £37,000 p.a.),[90] and work full time for most of their working life. People in this group are likely to reach retirement with some pension savings and some other savings and assets. Some of the people in this group will be eligible for means-tested benefits during retirement.
- *Higher earners:* people in this group are likely to have earned at high earnings (for example, roughly above £37,000 p.a.),[91] and worked full time for most of their working life. People in this group are likely to reach retirement with substantial pension savings, other savings and assets.

[88] Life Trust, cebr (2008), data assumes 2.5% inflation (altered from original data which assumed 2.3%)
[89] Yearly gross income for someone working 37 hours a week for minimum wage (£5.80) in 2009/10
[90] Above full time minimum wage earnings of £11,200, but below the upper limit of the personal accounts target group in 2009 earnings terms DWP (2006a), less than 20% of employees earned above £37,000 in 2008, 2008 (ONS) Annual Survey of Hours and Earnings
[91] Above the personal accounts target group in 2009 earnings terms DWP (2006a)

The earning bands used should not be taken as predictors of the likely outcomes of people whose earnings fall within them. People may move between different bands during their working life, or may fall consistently within one band but have other significant sources of income which affect their financial profile. In most cases, the earning band in which people fall for the majority of their working life will be a good indicator of their likely position when they reach retirement.

Very low earners will see an increase in state pension income
Very low earners will see an increase in their income from state pensions but are not likely to experience much change in their income from private pensions, as they are not likely to be pension savers. Some may build up small amounts of saving from being auto-enrolled into pension savings.

Example: A low earning woman with some full time employment and caring breaks (See Keisha from first two reports in the series):

- will receive more from state pensions as a result of the state pension reforms (which have lowered the income threshold for S2P entitlement, reduced the number of qualifying years needed for a full BSP, and made it easier for carers and people with disabilities to earn NI credits) and because the BSP is due to be indexed with earnings rather than prices by 2012, or the end of next parliament, subject to affordability,
- may accumulate a small pension pot from being auto-enrolled which she may be able to trivially commute or may convert into a relatively small amount of income through an annuity.[92]

If she is auto-enrolled she may need personalised information or advice to help her to decide whether to stay in or opt-out of pension saving. She may decide to opt-out if:

- she is at risk of low returns due to the potential for her pension income to interact negatively with means tested benefit entitlement,
- the pension contributions are unaffordable,
- she has significant amounts of personal debt.[93]

Many low to moderate earners will see an increase in private pension income
Low to moderate earners will see an increase in their income from state pensions due to the Government's state pension reforms. Many low to moderate earners will also benefit from private pension reforms such as auto-enrolment and compulsory employer contributions. Some low to moderate earners may accumulate private DC pension savings for the first time, though some may already have some pension or other savings.

[92] Depending on the length of time she remains in the scheme and the level of contributions she and her employer makes to the scheme
[93] PPI (2006)

Example: A median earning man who is employed full-time for 44 years and has a full National Insurance contribution record (See Amit from first two reports in the series):

- will receive more income from the state pension than he would have without reform because of the earnings indexation of the Basic State Pension,
- may benefit from auto-enrolment and compulsory employer contributions by saving in a private pension for the first time or receiving contributions from his employer for the first time, *or* could see a reduction in his current employers pension contributions if, as a result of the reforms, his employer reduces the generosity of contributions to his existing scheme, *or* could see his pension unchanged if his employer makes no changes,
- may accumulate several small pots of DC and DB pension savings if he changes his employment several times,
- is more likely to be offered a private DC pension by his employer than a DB pension in the future,
- may have some savings from other financial products when he retires.

Higher earners may receive more, less or the same income from private pensions and may be able to pay more for financial advice

Higher earners will see an increase in their income from state pensions due to the state pension reforms and may have one or more DC (and/or DB) pensions. Higher earners are likely to receive retirement income from other financial assets, and this source of income may become more important for higher earners in the future. The amount high earning pensioners receive from private pensions will depend on their employer's responses to the cost of reform and to changes in the pensions market.

- Some employers may increase the level of their contributions to their employees' pension scheme as a response to reform, in which case their employee's pension income would increase.
- Some employers may decide to maintain their existing pension provision after reform, in which case their employee's pension income would remain the same if they were already participating in the pension scheme.
- Some employers may level down their provision by switching from a DB to a DC pension or by lowering their contributions to their employees' pension scheme, in which case their employee's pension income could decrease.

Example: *A high earning woman who is employed full-time for 35 years (See Grace from first two reports in the series):*

- will receive less income from S2P than she would have without reform due to changes in accrual and eventual flattening of the S2P rate in 2030 (rather than 2050),
- will receive more income *overall* from state pensions than she would have without reform because of BSP earnings indexation despite changes to S2P,[94]

[94] DWP (2006c) Figure B.4

- could receive the same, less or more income from private pensions depending on how her employer responds to the introduction of auto-enrolment,
- is likely to have substantial savings and assets,[95] including housing, when she retires,
- is likely to be able to afford independent financial advice.

Pensioners with different levels of income may have different ways of meeting gaps in income needs in retirement

Spending in retirement does not follow a linear pattern (Chart 9), and income from state and private pensions declines over time relative to earnings. Therefore, income from state and private pensions may not be sufficient to meet the needs and preferences of all pensioners at all stages of their retirement. If pensioners have a second peak in their need for income in their 80s or 90s due to a disability or the need for long-term care, they may need other sources of income and assets, as well as state and private pension income to meet their needs.

Very low earners are unlikely to have much income from private pensions, but receive the majority of their income in retirement from state pensions and state benefits.[96] It is likely that for pensioners on very low incomes, shortfalls in income needs, especially health related needs, will be met by the state.

Low to moderate earners are likely to receive some private pension income in retirement, and may have some, low, or no income from other financial savings and assets. Many low to moderate earners may find it difficult to meet income needs in later retirement from their private pension income, especially income needs related to disability, long term care or residential care. Many pensioners on low to moderate incomes may need to use their other savings and assets in retirement if they have serious health needs and may need to rely on the state to meet the costs of care and support.

Higher earners are more likely to have substantial amounts of income from other savings and assets in retirement[97] and may receive more, less or the same income from private pensions in the future. Higher earners, especially those who receive less income from private pensions, may become increasingly dependent on other savings and assets to meet needs and preferences in later retirement when pension income may be insufficient.

[95] DWP (2008a) Table 5.12
[96] DWP (2009a)
[97] DWP (2008a) Table 5.12

The role of other income and assets may become more important in supporting needs in later retirement in the future

Some moderate to high earners may receive lower incomes on average from private pensions in the future[98] and may see more shortfalls in future between their income in retirement and their expectations. Therefore, the use of savings and assets may become more important for pensioners over time, especially as longevity increases and people need to fund longer retirements.

Tax privileged savings vehicles such as ISAs and Premium Bonds could become more important for pensioners of moderate to high incomes who may become increasingly dependent on income from sources other than pensions to meet their needs. The use of housing as a source of income, either through releasing equity or as a source of rental income for people with multiple properties, may also become an increasingly important way of supplementing the income people receive from pensions in retirement.

Conclusion

In the future:

- Very low earners will see an increase in their income from state pensions but are not likely to experience much change in their income from private pensions.
- Low to moderate earners will see an increase in their income from state pensions, many low to moderate earners will benefit from private pension reforms such as auto-enrolment and compulsory employer contributions and some low to moderate earners may accumulate private DC pension savings for the first time.
- Higher earners will see an increase in their income from state pensions and may have one or more DC (and/or DB) pensions. Higher earners are likely to receive retirement income from other financial assets, and this source of income may become more important for higher earners in the future. The amount high earners receive from private pension income will depend on their employer's responses to the cost of reform and to changes in the pensions market.
- As longevity increases and people's needs for income in retirement increases it may become more important for pensioners to be able to use income from other savings and assets (including housing), or from earnings to help to meet their needs in retirement.

[98] Due to changes in the private pensions market and possibly as a result of some employer's reactions to reform, see chapter 3 for further discussion

Chapter five: how could the way people receive income from private pensions change in the future?

Changes in the private pension landscape will affect the level and type of pension savings people retire with. This chapter analyses the implications that changes in the types of pensions offered by employers may have for the way people convert pension savings into retirement income and the features people might expect from retirement products.

There are several options for converting DC pension pots into retirement income

People can opt to convert their private pension saving into an income from the age of 50, (55 from 2010). People wishing to convert their pension savings into an income can choose one, or a combination of, five options:

- **Cash lump sum**: 25% of pension savings can be taken as a one-off tax-free lump sum, depending on scheme rules.[99]
- **A lifetime annuity** (Box 7): An insurance product that pays an income from the date of purchase until the date of death.[100]
- **An Unsecured Pension (USP) or 'income drawdown'**: An alternative to an annuity where the pension fund is invested in the market and an income is drawn from it of up to 120% of the income that the fund holder would receive from a single-life, level annuity.[101] People can only use drawdown between the ages of 50 (55 from 2010) and 75, after which people are required to use their private pension savings to provide a secure income for life, generally by buying an annuity.
- **An Alternatively Secured Pension (ASP):** Until April 2006, individuals were required to purchase an annuity with their pension fund by age 75. Now people have the choice at age 75 whether to buy an annuity or to invest in an Alternatively Secured Pension (ASP). ASPs work on the same principle as USPs, however the maximum and minimum level of required income withdrawal is different. The levels are currently set at 55% and 90% of the income of a single-life, level annuity for an individual aged 75 and of the same gender. The Government intended ASPs to meet the needs of those with *'religious objections to the pooling of mortality risk'*[102] and has taken steps to discourage people to use ASPs as an alternative to annuities.[103]
- **Trivial Commutation:** people with pension savings of less than 1% of the lifetime allowance (£17,500 in 2009/10) are allowed to trivially commute their savings, by taking the whole pot as a lump sum (25% of which is tax free) without having to purchase an annuity (or an ASP).

[99] Individuals with pension savings below a certain level may be able to take their entire fund as a lump sum with 25% of it tax-free.
[100] An annuity insures against an individual's money running out because he or she lives longer than expected
[101] The current minimum withdrawal amount is £0. For more information on USPs see: www.pensionsadvisoryservice.org.uk/personal_and_stakeholder_pensions/income_drawdown/
[102] HMT (2006)
[103] Such as applying a 70% tax to any lump sum death benefits passed on to other scheme members

Box 7: Lifetime annuities

This box lists the most common lifetime annuity features. Often a combination of more than one of the below features may be appropriate for an individual, depending on their circumstances and needs.

Single and joint life annuities: single life annuities will pay an income only to the annuitant, however people can purchase joint life annuities which will pay an income to a dependent[104] after the annuitant's death.

Guaranteed annuities: an annuity can include a guarantee period, usually of 5 or 10 years. If the annuitant dies during the guarantee period then their annuity provider will continue to pay an income for the outstanding length of the guarantee period to a designated individual or to the annuitant's estate as a lump sum.

Level, escalating and RPI-linked annuities: a level annuity will pay the same amount to an annuitant every year until their death. Escalating annuities start out at lower rates than level annuities but then escalate each year by pre-fixed percentage, RPI-linked annuities escalated each year by the percent of yearly change in the Retail Price Index.

Impaired life or enhanced annuities: people with certain health problems[105] can purchase impaired life annuities, which pay higher rates than other lifetime annuities. People can also purchase higher-rate enhanced annuities if they have certain lifestyle or regional characteristics that tend to be linked to a shorter lifetime, such as smoking, being overweight or living in certain areas.

Investment-linked annuities: people can have their annuities invested in the stock market and have their income linked to changes in their investments. Investment linked annuities can be either **with profits**, which 'smooths' your income, or **unit-linked** which is more variable than with-profits but has more potential for growth.[106]

There are several ways to attempt to maximise pension income

People are not required to purchase their annuity from the pension provider that holds their fund, and can shop around for the provider who offers the best rates for an individual or household's particular needs.[107] Shopping around for the best rates is known as using the Open Market Option (OMO). In some cases people could improve their annuity rate by up to 30% by using the OMO,[108] however only about half of annuitants actually use the shop around for better annuity rates. In total, around a third of annuitants purchase annuities from other providers.[109]

[104] A dependent could be a spouse, partner or other financial dependent (such as a child) of the annuitant.
[105] Health problems which could shorten life expectancy such as cancer, chronic asthma or diabetes
[106] For a more in depth explanation of investment linked annuities see: www.pension-annuity.co.uk
[107] The FSA provides an annuity rate comparison tool - www.moneymadeclear.fsa.gov.uk
[108] HMT (2006)
[109] ABI (2008)

Some people, especially those with larger pension pots who may have less need for an immediate income, may wish to explore alternatives to annuities. From the age of 50 (55 from 2010) and up until the age of 75, individuals in most DC pension plans can enter into an 'income drawdown' arrangement whereby their pension fund is invested and they are allowed to draw an income from it of up to 120% of the income that the fund holder would receive from a single-life, level annuity. Income drawdown may provide a greater income than a lifetime annuity but there is also more risk involved as the pension fund is exposed to market fluctuations. IFAs tend to recommend drawdown to people with large pension pots of above £250,000 (though some people with smaller pots may have drawdown recommended to them).

Pensioners can increase their potential annuity income by working longer and annuitising later. The older a pensioner is when they take out an annuity, the higher their income will generally be from it. The type of annuity that people purchase will also affect their levels of income throughout retirement. A level annuity, which pays the same amount every month, may be unsuitable for those with greater needs in later retirement, who may be best suited by an RPI-linked or escalating annuity. However, a level annuity pays more at the start than those which rise over time, and may help pensioners meet initial spending peaks at the beginning of retirement (Chart 8). Around 87% of annuitants purchase level annuities.[110]

For some people, with large pension pots and access to financial advice, investing in an Alternatively Secured Pension (ASP) may be a viable option instead of an annuity, at age 75, though there are complex tax and management issues associated with ASPs.

In future, the average size of private pension saving pots may decrease and then increase

As a result of auto-enrolment and the shift from DB to DC, a greater proportion of pensioners will retire with private DC pension savings in future than is currently the case.

In 2008 460,000 people bought an annuity and the average pension annuity purchase price was around £25,000.[111] As auto-enrolment is phased in, many people who are in their 50s and 60s will be enrolled in private pension saving for the first time, and may not have enough years before their retirement to accumulate a substantial pot size (Table 1), (though some of the people who are auto-enrolled will already have some private pension savings). This implies that for the first 10 years or so after auto-enrolment, the average pension saving pot of retirees could decrease from today's levels. Not all of

[110] ABI (2008)

[111] ABI statistics, may not represent full savings pot as many people take 25% of their pension savings as a tax-free lump sum

these pots will be used to purchase annuities, as many pots may be small enough to 'trivially commute'.[112]

Table 1:[113] Pension pot size for a median earning man auto-enrolled into private DC pension saving in 2012 retiring at age 65 in 2022, 2032, 2047

Age at auto-enrolment	Year retired (age 65)	Size of DC pension pot at age 65 (2009 earnings terms)
55	2022	£10,024
45	2032	£36,168
30	2047	£70,873

Some people who are auto-enrolled may continue to work and save in a pension after the age of 65 and could therefore accumulate a larger pension savings pot.

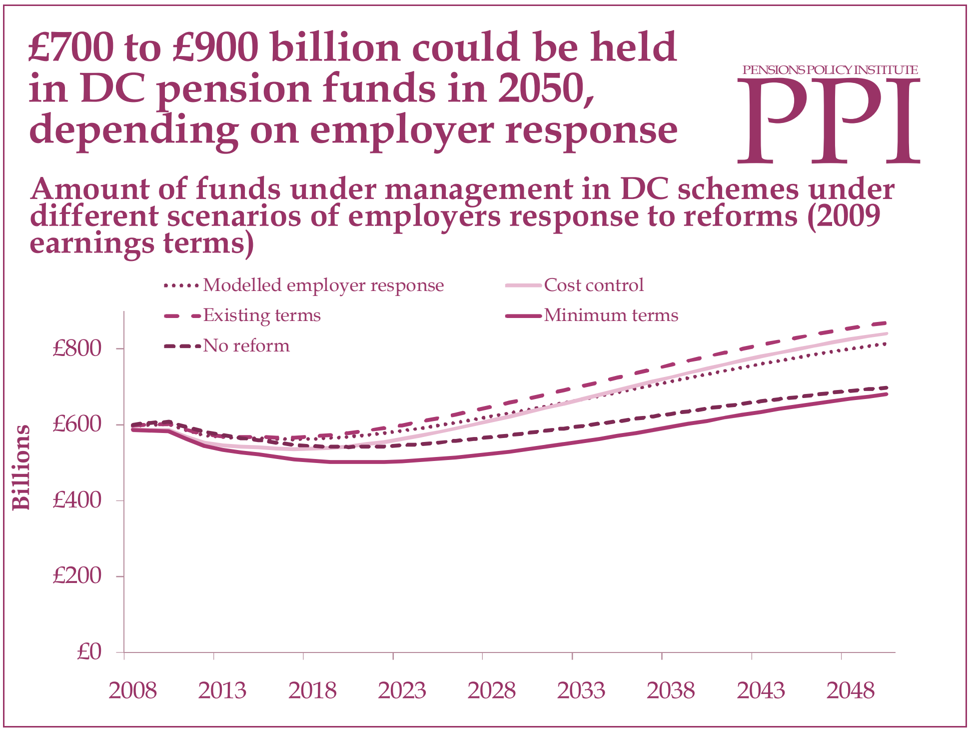
In future the annuities and retirement products market will need to cope with more savers and a greater volume of wealth

The Government's current estimate is that there will be 5 to 9 million new work-based pension savers[114] resulting from auto-enrolment. Assuming that many of the new savers who are auto-enrolled stay in their schemes and continue to save, average pot sizes may begin to rise above current levels 15 years or so after auto-enrolment. Around 2027 people who have been auto enrolled could begin to retire with pots at or above the current average level of £25,000[115] (2009 earnings terms).

The law requires people with private DC pension savings of over a certain amount (£17,500 in 2009/10) to use their private pension savings to provide a secure income for life, generally by buying an annuity, by the time they reach age 75 (though individuals are permitted to withdraw 25% of their pension pot as a tax free lump sum). There could be around 15 million people saving in a DC pensions by 2020, and around 17 million people saving in DC pensions from 2050, up from an estimated 5 million today.[116] An increase in DC pension savers means that, in the future, the annuity and retirement products market will have relevance for the income of a greater number of pensioners and that the retirement products market will face a greater number new customers. In future, the annuity and retirement products market will need to hold and manage a larger proportion of people's wealth in retirement than it does today (Chart 9).

[112] People with savings of 1% of the lifetime allowance or below are allowed to trivially commute their savings, i.e. taking them as a lump sum (25% of which is tax free) without having to purchase an annuity
[113] PPI Individual model, assumes a 0.5% AMC and minimum employee and employer contributions of earnings band
[114] DWP (2009d)
[115] ABI statistics
[116] ONS (2008), PPI Aggregate model, DWP data

Chart 9[117]



There is currently around £600 billion of funds under management held within DC pension funds in the UK. In the absence of reform (Chart 9: No reform), the amount held within DC pension funds could grow from around £600 billion today to around £700 billion by 2050 (2009 earnings terms). Using the four stylised scenarios of employer response to the reforms discussed in Chart 6, Chart 9 shows how the amount held within DC pension funds (including personal accounts) could change if employers respond to the reforms in different ways.

- If employers auto-enrol on existing terms (Chart 9: Existing terms) then the amount of pension funds under management could grow to around £900 billion by 2050 (2009 earnings terms).
- If employers hold their costs constant (Chart 9: Cost control) then the amount of pension funds under management could grow to around £800 billion by 2050 (2009 earnings terms).
- If employers act in line with a survey of their likely responses (Chart 9: Modelled employer response) then the amount of pension funds under management could grow to around £800 billion by 2050 (2009 earnings terms).
- If employers auto-enrol new employees on minimum terms offering only the minimum employer contribution level of 3% (Chart 9: Minimum terms) then the amount of pension funds under management could grow to around £700 billion by 2050 (2009 earnings terms), similar to the 'no reform' scenario.

[117] PPI Aggregate Model using four scenarios of possible employer responses to reform, see PPI Chart 6, appendix and PPI (2007) *Will personal accounts increase pension saving?* for more discussion of the scenarios

The rest of this chapter examines the requirements that people with a range of pension pot sizes and needs could have from retirement products.

The majority of private pension pots are small

The majority of annuitants have relatively small savings pots and this is not likely to change for around 15 years or so until people who have been able to feel the benefits of a long period of auto-enrolment begin to retire. However it is likely that there will always be people who retire with small or no private pension savings such as low earners, people who work casual or part time jobs and people who spend time in self-employment, as well as eligible employees who consistently opt-out of private pension saving.

People with small pension pots face certain difficulties with purchasing annuities:

Shopping around for the best annuity rate (using the OMO) - Annuity rates can be improved by up to 30% by using the OMO,[118] however:

- It can be hard to transfer small pots as some annuity providers will not take transfers of pots below certain values.[119]
- Any advice or arrangement fee associated with transferring pots can seem prohibitive when compared to small pot sizes.

Accessing appropriate advice:

- Annuitants with small pots may find it difficult to afford financial advice as the fees may seem too high when compared with the potential gains. A lack of appropriate advice could result in people choosing annuities which are inappropriate for their particular circumstances.[120]

As the numbers of people with private pension savings increases, and especially the number of people with small pots, it will be necessary to ensure that appropriate advice, information and products are made available so that people can maximise their income in retirement.

People may increasingly want flexibility from retirement products

One result of an increase in the numbers of people retiring with small DC savings pots rather than guaranteed income from DB pensions is that many people may want the opportunity to attempt to grow their savings before, or instead of, buying an annuity in order to maximise the income that will be generated. Conventional annuities can be unattractive to some people because they:

- lock in savings amounts without allowing funds to be re-invested in the market,

[118] HMT (2006) see chapter 1 for a more detailed explanation

[119] PPI (2004)

[120] For instance, people with dependents may not realise they can buy joint-life annuities or other types of annuities which continue paying an income to dependents upon the death of the annuitant.

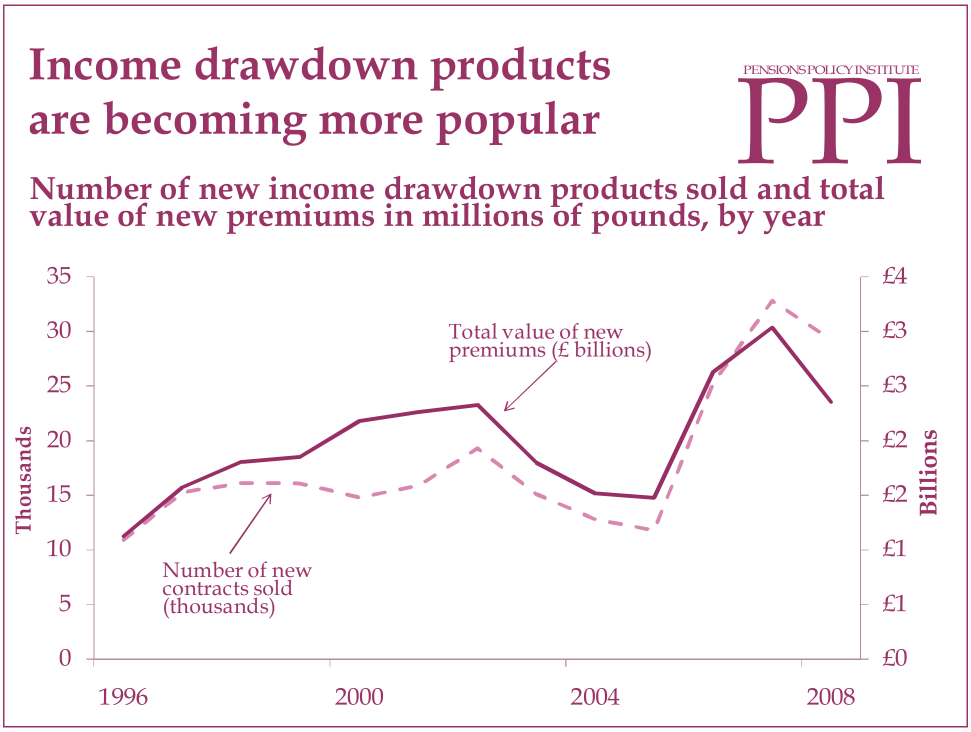
- don't always grow with earnings inflation (except escalating annuities, which uprate at a pre-fixed amount that may exceed, match or be less than earnings),
- offer different annuity rates to people based on age, gender, post code, and health status (as these factors can be indicators of expected longevity),
- can vary in the rates offered depending on the economic situation at the time.

However, conventional annuities will be attractive to many people as they provide a secure income for life.

Until the age of 75 people have the opportunity to invest in unsecured pension arrangements (USPs) or 'income drawdown', in which their pension fund is invested and has the opportunity to grow in size. The popularity of income drawdown has grown in recent years (Chart 10), however income drawdown arrangements:

- often charge around 5% of initial fund value which is higher than the equivalent charge for an annuity, typically 1 – 1.5%,[121]
- require active management which means people must either have high financial literacy or pay for ongoing advice,
- are riskier than conventional annuities as the pension fund remains exposed to market fluctuations and could therefore lose value.

Chart 10[122]



[121] HMT (2006)

[122] ABI Stats 2009, New Premiums refers to amount invested in new drawdown products in each particular year

Use of income drawdown products has increased over the last few years. Around 6%[123] of the 500,000 people who bought retirement income products in 2008 purchased income drawdown products and the total value of new premiums was £2.4bn.[124]

People might increasingly be attracted to mid-market products
In an attempt to balance the trade-off between the security of annuities and the desire people may have to continue to grow their funds, providers are increasingly offering 'Mid-market' products.[125] Mid-market products (such as variable annuities and guaranteed drawdown pensions) allow people to invest their pension pots in the market and draw an income of a pre-agreed percentage of the fund and its investment returns. Fund sizes and investment returns are periodically[126] 'locked-in' and the insurance provider agrees to subsidise any losses in value below this level that the fund may experience after each lock-in. However, mid-market products charge around 0.75% to 1.5% per annum,[127] and contain an element of risk, as funds can rise and fall in value between investment lock-in periods.

Mid-market and drawdown products may not be appropriate for all annuitants
Mid-market and drawdown products are likely to continue to grow in popularity as more people retire with DC pension savings, however these products may not suit the needs or preferences of all pensioners as:

- they cost more than conventional annuities, and may not be suitable for people with small to medium pot sizes,
- they can expose fund values to market risks,
- people with dependents may want the security of guaranteed or joint-life annuities and people with health problems may find it necessary to purchase impaired life or enhanced annuities in order to fund their immediate retirement needs,
- some of these products, for example income drawdown, are only available to people under the age of 75, as people are required to turn their pension savings into a secure income, generally through purchasing an annuity, on reaching the age of 75.

The pressure to review compulsory annuitisation rules may grow
There is already some pressure on the Government to review the requirement on people to use their private pension savings to provide a secure income, generally by buying an annuity, on reaching the age of 75.[128] As more people retire with DC pension savings rather than guaranteed DB pension incomes, the interest in alternatives to the requirement for an income to be secured by 75 may grow (Box 8). The majority of people currently annuitise before the age of 75, (Table 2), however as DC pension provision increases, people may

[123] ABI Stats 2009, around 30,000 people
[124] ABI Stats 2009
[125] See Lincoln, *i2Live*, MetLife, *Secure Retirement Option*, AEGON, *Income for Life* as examples
[126] For instance, every 2 ½ years in the case of MetLife's *Secure Retirement Option*
[127] News.bbc.co.uk/1/hi/business/7595951.stm
[128] IMA (2008a)

start to work longer,[129] retire later and annuitise later, as they may not feel that their pension pot is large enough to support them when they reach retirement age.

Table 2:[130] Percentage of annuitants purchasing annuities at different ages

Age of annuitisation	Percentage of DC pension holders annuitising at this age
Before 60	14%
60 – 64	40%
65 – 69	41%
70 – 74	5%

Box 8:[131] Compulsory annuitisation

The Government requires people to use their pension savings to provide a secure income for life, generally by buying an annuity, by the age of 75, arguing that the Government provides *"generous tax relief on pensions in order that savings produce an income in retirement."*[132] However there is an ongoing debate regarding whether compulsory annuitisation is the best way for people to utilise their wealth in retirement. This box sets out the arguments for and against compulsory annuitisation.

"Certainty":[133] the Government argues that annuities provide a guaranteed level of income which cannot run out, thereby providing security in retirement. Opponents argue that income drawdown and mid-market products have the potential to provide a secure lifetime income at or above comparable annuity levels and still leave money for bequest.[134]

"Moral hazard": the Government argues that annuities ensure that people will not be encouraged to spend all of their retirement savings with a view to depending on the state when and if their savings are depleted. Opponents argue that maximum withdrawal limits could be applied to prevent people from using all of their pension savings before their death.

"Retirement focus": the Government argues that it provides tax-relief to pension contributions so that people will use their savings for retirement income, not so that people will leave their savings as bequests. They argue that people can save in other tax privileged vehicles (such as ISAs) if they wish to save for bequest. Opponents argue that the Government could reclaim the accumulated tax relief from any bequest of pension savings through a tax.

129 Members of DC pensions are likely to work for longer than members of DB pensions, Banks *et. al.* (2005)
130 Table reproduced from HMT (2006) table 3.2
131 For a more detailed discussion of both arguments see HMT (2006) and IMA (2008a)
132 HMT (2006)
133 Headings: "certainty", "moral hazard" and "retirement focus" from IMA (2008a)
134 IMA (2008b)

Conclusion

Over time there are likely to be greater numbers of people retiring with private DC pension savings than before, and less people retiring with DB pension income, therefore:

- the numbers of people using the annuity market in the future could double after 2012 and 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,
- the financial profiles of people who purchase annuities will change in the future to include more people on low to moderate incomes,
- and the average amounts of pension pots used to buy annuities could reduce for the first 15 years after auto-enrolment is introduced from 2012, and may increase from 2027.

As the proportion of people who retire with private DC pensions grows there may be more pressure to:

- look at ways of making flexible retirement products more accessible to people with small to medium sized pension pots,
- make it easier for people with small to medium sized pots to use the OMO,
- review the compulsory annuitisation rules or make income drawdown more widely available.

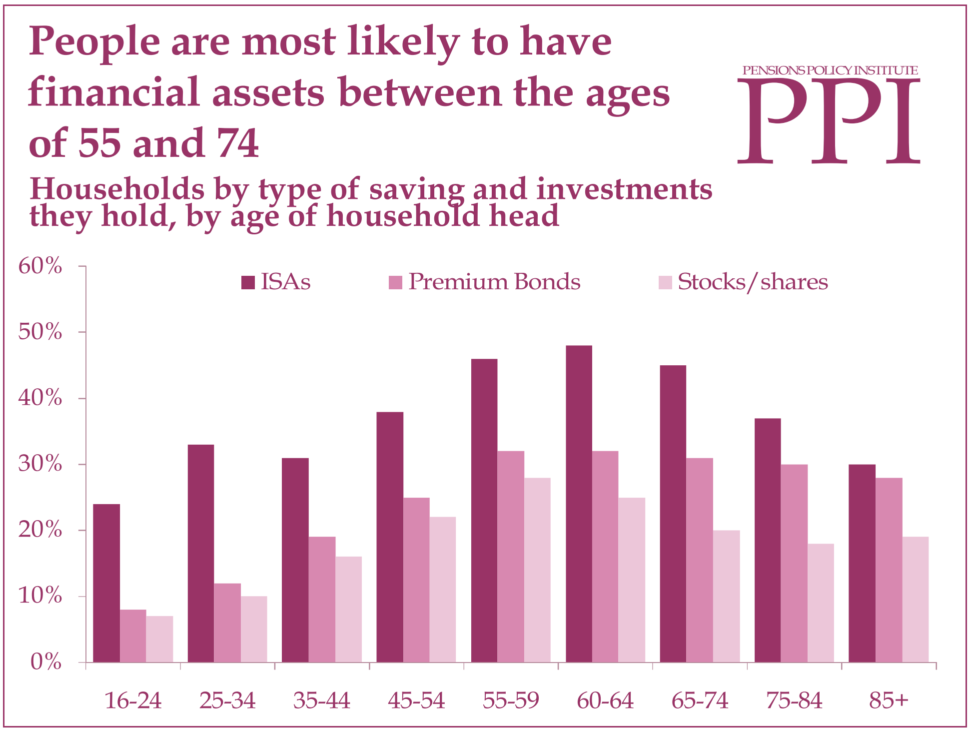
Chapter six: how could the role of financial assets in funding retirement change in the future?

Changes in the way that people accumulate state and private pensions may have consequences for the way people save and invest in other financial products. This chapter explores behavioural, economic and structural factors which affect saving and investment decisions and explores how changes in the pensions landscape and regulations surrounding tax-privileged savings vehicles may affect the choices people make about saving.

People tend to save and invest in other financial products when they are close to retirement

People between the ages of 55 and 74 are most likely to have savings or investments (Chart 11).

Chart 11[135]



As people get closer to retirement age, around age 55, they are more likely to save and invest in other financial products, with Individual Savings Accounts (ISAs) being the most popular product. Saving and investing rates decline for people after SPA (age 65) indicating that some people may be saving for retirement in these financial products.

As people tend to save and invest in other financial products when they are older, many people do not have time to accrue substantial funds in their savings and investments before reaching retirement. Only 34% of pensioner

[135] DWP (2008a) Table 5.3

couples, 20% of single male pensioners, and 14% of single female pensioners have savings and investments worth more than £20,000.[136]

Not all people save or invest in other financial products, and many people reach retirement age without any accumulated savings or investments:
- 52% of people reach SPA without any ISAs,
- 68% of people reach SPA without any Premium Bonds, and
- 75% of people reach SPA without any stocks and shares.[137]

Saving and investing in other financial products tends to be related to income levels:
- 91% of higher income households, with weekly incomes of £1,000 or more, have some savings,
- 59% of lower income households, with weekly incomes of £100 or less, have some savings.[138]

People who save and invest in other financial products are also likely to:
- be employed full time,
- work in managerial or professional jobs,
- and be saving in private or occupational pensions.[139]

To summarise, it appears that only a minority of people, who have high incomes in working life, save substantial amounts in other financial products which they can use to support retirement. However, the majority of people who save and invest in other financial products reach SPA with relatively small savings and investment pots (less than £20,000).[140]

The government has taken steps to encourage further saving in ISAs
In order to encourage further long-term saving, the government has raised the annual limit on ISAs from £7,200 to £10,200 for everyone from April 6th 2010 (and for people over 50 from April 6th 2009).[141] Raising the ISA limit will allow people to accumulate more savings in ISAs. However, the average ISA balance was around £7,000 in 2008,[142] (an average of 30% of annual salaries)[143] which means that many people do not actually contribute up to the current yearly limit.

The effect of raising the ISA limit will be dependent on whether people can afford to make further contributions to their ISAs. It is likely that people who meet the profile of current savers and investors, (employed people on high incomes who are close to retirement age) will benefit most from raising the

[136] DWP (2008a) Table 5.10
[137] DWP (2008a) Table 5.3
[138] DWP (2008a) Table 5.12
[139] FSA (2008)
[140] DWP (2008a) Table 5.10
[141] HMT (2009)
[142] Halifax data (2008)
[143] Halifax data (2008)

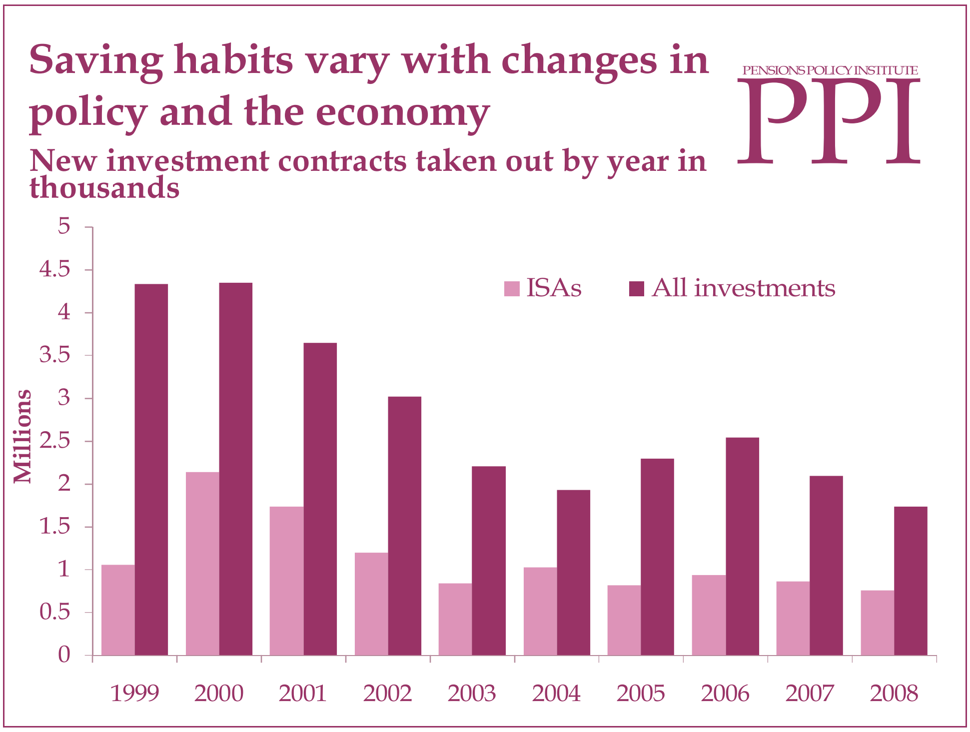
ISA limit as they are most likely to make use of ISAs and to be able to afford contributions of up to £10,200 a year.

However, the decisions people make about saving are not just affected by their financial profiles, but also by external factors such as the economy, people's behaviour, and attitudes to saving.

Changes with the economy and within people's personal economic circumstances have a great impact on saving decisions

The number of people taking out contracts in saving and investment vehicles has declined somewhat, from a peak in 2000 (Chart 12) due to a rise in living costs and, more recently, as a result of the economic downturn, with many people reporting they cannot afford to save any of their income.[144] However, over the past two decades there has not been a pronounced downward trend in people's saving habits, instead there has been a variable year-on-year pattern.[145] There are also generational effects on saving, with younger people being less likely to save than older generations.[146]

Chart 12[147]



Whether people save or invest any of their income is often affected by changes in the economy, policy and in personal economic circumstances; for example, people tend to save more when they anticipate a reduction in future income,[148] and people tend to save less when their income decreases to restrictive

[144] Sainsbury's Finance (2008), Nationwide (2008)
[145] IMA (2008c)
[146] DWP (2007)
[147] ABI stats - total investments includes ISAs PEPs, Unit Trusts & OEICs, Bonds, life annuities, child trust funds, mortgage and savings endowments and insurance ISAs.
[148] ILR (1998)

levels.[149] Some of the decrease in ISA saving, observed in Chart 12, may be due to a natural drop after the initial surge of take up when ISAs were introduced in 1999. However, the decisions that people make regarding savings are likely to be affected by other drivers as well:

- **Market factors:** such as lower private pension income and risks involved in pension saving.
- **Economic factors:** such as financial uncertainty and affordability.
- **Behavioural, attitudinal and structural factors:** such as people's attitudes to saving and the accessibility of products.
- **Government policies:** such as the private pension reforms.

The rest of this chapter explores each of these drivers in turn and discusses how they may affect the decisions that people make about saving and investment in other financial products.

The private pension reforms may have some impact on saving and investment in other financial vehicles

From 2012, some employees may be incentivised to save in private pensions over other financial products as a result of receiving additional funds from compulsory employer contributions.[150] From 2012, there will be a phasing in of the requirement for all employers to contribute at least 3% of band earnings to eligible employee's workplace pension schemes. Most people will not receive employer contributions in to other savings and investment products though a minority of employers make funds or shares available to their employees for contribution into savings vehicles, such as ISAs.

It is difficult to predict the impact that the introduction of auto-enrolment into pension saving could have on other forms of saving. It is possible that greater pension saving could displace other types of saving. However, it is also possible that an increase in pension saving could promote greater awareness about the need to save for retirement, leading to an increase in other forms of saving.

Lower private pension incomes and market risks associated with pensions could lead to more saving in other financial products

Chapter three has discussed the ways in which changes in the private pensions market[151] could lead to people building up small private pension pots, and being more likely to save in DC pensions vehicles which carry greater risks than saving in DB pensions as:

- DC pension funds are exposed to the market while in the accumulation phase and,

[149] Sainsbury's Finance (2008), Nationwide (2008)
[150] DWP (2009e)
[151] Such as the move from DB to DC schemes, the trend for employers to offer contract-based schemes over trust-based schemes and he possibility that private pension savings may be further reduced by some employers reducing their pension contributions in order to compensate for the costs imposed by reform

- the final amount of income that is drawn from DC pensions can depend on the level of contributions made, investment returns, and available annuity rates at retirement.

Saving or investing in other financial vehicles can be a way of mitigating several of the risks associated with saving in DC pensions:

- Saving or investing in a supplementary vehicle (such as an ISA) is a way to diversify savings and investment portfolios, thereby hedging the risks that any particular savings or investment pot is exposed to.[152]
- As there is no requirement to turn other savings into a secure income, generally by purchasing an annuity, by age 75, saving or investing in other financial products enables people to avoid the risk of needing to annuitise when annuity rates are unfavourable.
- Saving and investment products allow people to withdraw funds at any time and are therefore accessible in times of personal economic hardship.[153] Being able to access savings can be important for people who have 'precautionary savings motives,' where they are motivated to save for future needs which cannot be predicted.[154]

People can mitigate the risks their pension savings are exposed to by investing their pensions in 'risk-free' (cash) assets, however these assets are likely to deliver minimal investment growth.

As the number of people saving in DC pensions increases, the number of people wishing to diversify their assets by saving and investing in other financial vehicles may also increase.

The savings decisions people make are influenced by their own behaviour and attitudes as well as external factors

Studies of people's saving behaviour can help highlight the factors that influence saving behaviour, such as demand side factors:[155]

- whether people have the information or understanding they need to make savings decisions that are appropriate for their particular circumstances,
- people's attitudes to saving, such as whether they have confidence in financial institutions or whether they feel investing money in the market is too risky (Box 9),
- behavioural factors, such as engaging only in short-term financial planning due to 'short-sightedness' or wishing to put off dealing with tricky financial issues,

and supply side factors:

- structural factors such as the complexity of the pensions and tax/benefits system and the accessibility of appropriate savings products.

[152] Though both pensions and other financial investments are exposed to the risks associated with market fluctuations
[153] Being able to access savings is an important factor for savers FSA (2008)
[154] DWP (2009e)
[155] For a longer discussion of these influences see DWP (2009e)

Box 9: The effects of risk on saving decisions is uncertain

Risk-aversion is commonly cited as an impediment to saving, however, only 6% of non-savers cite the risk of poor investment returns as one of their reasons for not saving.[156] In fact, people's reactions to perceived risk are ambiguous. Risk can act as both a motivator and a de-motivator. The perception of risk can motivate people to save - when people assess the risks of an uncertain financial future such as redundancy or ill-health.[157] However, when people feel at risk of making poor decisions, there is evidence that they often choose to do nothing rather than make what could turn out to be the wrong decisions about saving.[158]

The pension reforms may encourage a savings culture

The Government is attempting to address the barriers to saving in pensions by manipulating the external and internal factors that influence saving behaviour:

- **Informational and attitudinal factors:** the Government (and the Financial Services Authority) will institute a system of generic advice and education in an attempt to provide people with the information they need to make appropriate saving decisions.[159] The next chapter of this paper discusses the advice and education plans in more depth.
- **Behavioural factors:** auto-enrolment is intended to overcome people's behavioural barriers to saving by turning 'not saving' into an active choice rather than a default.
- **Structural factors:** the Government intends personal accounts to be 'simple' and 'low cost' to counter the barriers of complexity and inaccessibility. The interaction between savings and tax/benefits is complex, however the Government hopes that by engendering a long-term savings culture, raising the level of income people can expect to receive from state and private pensions, and by reform of the means-tested benefit system, they will ensure that tax/benefit interaction with savings is only a barrier for a small group of people.[160]
- The Government has also implemented several policies specifically designed to encourage savings habits such as Child Trust Funds,[161] which are opened for all children born in the UK and a government supported cash saving scheme for lower earners called the Saving Gateway.[162]

Though the pension reforms are intended to encourage people to save more in private pensions, they may have knock-on effects for saving and investing in other financial products. The advice and education campaign may raise general financial capability, which is associated with higher levels of saving.[163] It is possible that if people become more accustomed to saving a portion of

[156] ABI (2002)
[157] DWP (2009e)
[158] DWP (2009e)
[159] www.fsa.gov.uk/pages/Library/Communication/PR/2008/016.shtml
[160] DWP (2009e)
[161] www.childtrustfund.gov.uk
[162] www.hm-treasury.gov.uk/saving_gateway.htm
[163] DWP (2009e)

their income as a result of auto-enrolment into pension savings, this may engender a savings culture and shape new, positive attitudes towards saving in general. However a new pension savings culture may not necessarily lead to greater saving in other financial products and could potentially result in some displacement whereby people save in pensions rather than other financial products.

Conclusion

- A minority of people, who have high incomes in working life, save substantial amounts in other financial products which they could use to support retirement.
- The majority of people who save and invest in other financial products reach SPA with relatively small savings and investment pots.
- Whether people save or invest any of their income is affected by changes in the economy (and in personal economic circumstances) as well as behavioural, attitudinal, structural and market factors.
- Changes in the private pensions market, such as people building up small private pension pots, and being more likely to save in DC pension vehicles which carry market risk, could motivate more people to save or invest in other financial products in order to supplement their pension saving and mitigate risk.

The pension reforms may have knock-on effects for saving in other financial vehicles:

- It is possible that some of those who are auto-enrolled (or already saving in pensions) may be incentivised to save in private pensions over other financial products as a result of receiving additional funds from compulsory employer contributions.
- The FSA's and Government's advice and education campaign may raise general financial capability, which is associated with higher levels of saving.
- The Government's state and private pension reforms and advice and education campaign may assist in engendering a savings culture and shape new, positive attitudes towards saving in general, however the reforms could potentially result in some displacement whereby people save in pensions rather than other financial products.

Chapter seven: how could the provision of financial advice change in the future?

Previous chapters in this report have discussed the reforms contained in the Pensions Act 2008 and the changes already occurring in the private pensions market. They have concluded that these changes are likely to result in greater numbers of people saving in private pensions. This chapter investigates how changes in the profiles of people who need financial advice and information may affect what is required from providers of financial advice and information, and discusses current proposals and options for the provision of financial advice and information.

The current financial advice and information landscape is complex
The current financial advice and information landscape is multi-tiered and complex, serving an array of consumers with different financial profiles and needs. However, different parts of the system deliver different levels of advice and information, with the wealthiest consumers having greater access to personalised advice and consumers with lower incomes being more likely to receive generic information and guidance which does not take individual circumstances into account.

The next section of this chapter sets out the sources of financial advice and information currently available and explores who uses each particular source.

There are three main sources of financial advice and information:

- Independent Financial Advisers
- 'Tied' and 'multi-tied' Financial Advisers
- Free public information and guidance services

Independent Financial Advisers (IFAs):[164] IFAs are professionals who recommend financial products and provide advice on financial matters such as saving for retirement, investing in the market, insurance and mortgages. IFAs are not tied to any particular product provider and can recommend any financial products that are on offer in the market. IFAs can be paid through commission,[165] a fee for the IFA's time or a combination of both commission and a fee.[166]

Financial advisers ('tied' and 'multi-tied'): financial advisers are professionals who can recommend financial products and provide advice on financial matters however, unlike IFAs, financial advisers are tied to one ('tied') or

[164] To be considered an IFA, advisers must represent a firm which is registered with the Financial Services Authority and must have qualifications up to a certain minimum level as accredited by the Chartered Insurance Institute
[165] Commission is paid to the IFA directly from the product provider that the IFA's client purchases products from. The product provider will then, in most cases, charge the client for the commission fee through service charges or by subtracting from the investment amount.
[166] All IFAs are required to offer clients the option of paying through a fee or a commission, and in many cases paying by fee is the cheaper option, however many people choose to pay through a commission as the cost of the service then becomes swallowed by the investment amount or service charges.

more ('multi-tied') financial institutions[167] and will only recommend products from the institutions that they are tied to.

Free public information and guidance services: there are many sources of free, generic financial information and guidance. The Financial Services Authority's (FSA) Moneymadeclear website[168] offers information, guides, financial calculators and comparison tables for all financial matters including dealing with debt, understanding tax and benefits and saving for retirement. There are other information and guidance services which offer telephone and face to face services,[169] and some people may receive financial information and guidance through Local Authority or voluntary services that they are in contact with.

People who are enrolled in work-based pensions may also receive advice and information from their employer on the benefits of their scheme, or pension providers may visit workplaces to discuss pension scheme options with employees, however employers are not obligated to advise their employees on financial decisions and many employees only receive information about their company pension scheme in the welcome pack they receive on joining.[170]

The sources of financial advice and information people use often depends on their financial circumstances

Around a third of consumers use financial advice, and the majority of these make use of IFAs, though many consumers also use financial advisers tied to banks and building societies.[171] IFAs and financial advisers tend to be used by people with incomes of above £25,000 who make regular savings.[172] People with low incomes are often unable to afford to use financial advisers[173] and instead may need to use generic financial information and guidance if they want help with their finances.[174]

The sources people use for financial advice and information can affect their financial decisions:

- *Independent financial advisers* provide personalised assessments of individual's financial situations and recommend suitable financial products from across the whole of the market.
- *Tied and multi-tied financial advisers* can also provide personalised assessments of individual's financial situations, however they may not recommend the most suitable products (market-wide) to people unless the

[167] Such as a bank or insurance provider
[168] www.moneymadeclear.fsa.gov.uk
[169] Such as: National Debtline, Consumer Credit Counselling Service, Citizens Advice Bureau, The Pensions Advisory Service and commercial comparison websites
[170] Some large Defined Benefit schemes will provide employees with guidance sites such as the one offered to civil servants www.civilservice.gov.uk/pensions/Employer/index.aspx
[171] FSA (2008)
[172] FSA (2008)
[173] Thoresen Review (2008)
[174] 4.1 million people have visited the FSA's moneymadeclear website, though it is unknown whether these are mainly low income people FSA, HMT (2008)

most suitable products are offered by the institutions that the adviser is tied to.

- *Generic financial information and guidance* is less personalised, requiring the individual to make decisions about how to manage their finances based on the information provided. People who use generic information and guidance may make poorer financial choices than they would if they had access to personalised guidance or advice.[175]
- Many people who need help with financial decisions do not seek advice or information,[176] and increase their chances of making unsuitable financial decisions.

The rest of this chapter considers current proposals for offering financial advice and information and explores how these proposals may meet people's needs for financial advice and information in the future.

The Government and the Financial Services Authority (FSA) are introducing a new, national information and guidance programme

The Government and the FSA are jointly funding a new, national financial information and guidance service, currently known as Money Guidance,[177] not just because of the anticipated increase in private pension saving, but also to tackle issues such as high levels of debt amongst households and increases in longevity, leading to more complexity in managing finances in retirement.[178]

Money Guidance, which is currently in its pilot stage, will be delivered through a central office and through generalist, specialist and commercial partners who will incorporate Money Guidance principles and practices into their existing services. Money Guidance will provide free financial guidance and information services on the internet, over the phone and face to face, and will focus on the potential effects of making certain financial decisions without providing direct advice.[179] If appropriate, Money Guidance providers will refer people on to other services such as third sector organisations, debt advisers, or on to paid services such as IFAs.[180]

As well as providing information and guidance, Money Guidance will actively market to people who are most likely to benefit from the service by giving presentations and becoming involved at workplaces, schools and agencies who work with vulnerable people. Money Guidance services and information will be offered to people at 'life stage events' such as marriage and child birth and 'key trigger events' such as changes in the economy.[181]

[175] Thoresen Review (2007)
[176] Thoresen Review (2007)
[177] www.fsa.gov.uk/financial_capability/our-work/money_guidance.shtml, Money Guidance may not be the brand name which is eventually used
[178] Thoresen Review (2008)
[179] Money Guidance will not advise consumers to purchase, sell or switch between specific financial products
[180] Thoresen Review (2008)
[181] Thoresen Review (2008)

The proposals in the Retail Distribution Review (RDR) may change the way that financial advice is delivered

As well as the delivery of generic financial information changing, the way that advice is delivered is also likely to change. The FSA recently launched a review (the RDR)[182] of the investment advice market in response to the following issues:[183]

- many people are not able to afford advice services,
- there is a conflict of interest created by advisers receiving commission from product providers, and
- the perceived low level of qualifications required to be a financial adviser.

The FSA is still consulting on the best ways of implementing the proposals they have made to tackle the above issues:[184]

- all financial advisers will need to adopt 'adviser charging' and provide clear information regarding their pricing structures which differentiates between adviser and product charges,
- tied and multi-tied advisers will need to communicate to their clients that their advice is restricted and not 'independent',
- there will be an increase in the level of qualifications required to be a financial adviser,[185]
- the possible creation of an independent Professional Standards Board for all advisers to set and oversee professional standards.

Implementing the RDR proposals[186] represents a cost to providers of financial advice as there will be costs associated with meeting the new FSA regulations, such as increasing adviser qualification levels.[187] As a reaction to costs imposed on advice providers by the RDR, it is possible that the fees of some financial advisers will rise,[188] and that, as a result, financial advice may become less accessible to those with more limited incomes,[189] so the FSA has suggested introducing a system of 'guided sales' to coincide with the government's new Money Guidance programme.[190]

Alongside Money Guidance there may be a programme of simple, low-cost 'guided sales'

The FSA has proposed that 'guided sales' services will provide personalised guidance services which recommend products from a range of simple, easy to understand 'stakeholder' savings and investments products. The FSA reasons that offering 'guided sales' on a small range of simple products will allow advisers to keep their fees low whilst maintaining quality standards.[191]

182 www.fsa.gov.uk/Pages/About/What/rdr/index.shtml
183 FSA (2007)
184 FSA (2007)
185 Of at least QCA (The Qualifications & Curriculum Authority) level four, equivalent to the first year of a bachelor's degree
186 The RDR is still in consultation phase and the way that proposals will be implemented is not yet finalised.
187 FSA (2007)
188 FSA (2007)
189 Pinsent Masons (2009), FSA (2007)
190 FSA (2007)
191 FSA (2007)

The FSA is not intending to open and operate guided sales services, but will develop the principles of guided sales so that existing financial institutions can offer guided sales alongside existing services or guided sales firms could be set up.

In the future, more people may need access to financial advice
Previous chapters have explored the future of the pensions landscape and have concluded that several significant changes are currently occurring or are likely to occur after the pension reforms are introduced from 2012 and beyond.

- As a result of auto-enrolment, the number of people saving in private DC pensions could almost double from 2012,[192] meaning that many more people will start to need to use the annuity and retirement product market.
- The trend for employers to offer DC scheme membership to employees over DB scheme membership means that more people are likely to have their pension funds exposed to market risk and may need to make investment decisions about their pension pot.
- As more people may reach retirement with DC saving pots, there may be an increase in people seeking to grow their savings before buying an annuity through using mid-market or drawdown products.

Advice services have traditionally been used by a select group of consumers, who tend to: be high earners, have both pension and other savings and assets, and need professional assistance with making financial decisions.[193] Very low earners and many low to moderate earners have tended to have less complex financial profiles and many have not generally used the assistance of financial advisers to manage their saving and investment decisions. Very low earners are more likely to use financial information and guidance services for help with financial issues such as debt management, loans and mortgage repayments.

People may be required to make more choices within the new savings and pensions landscape
Auto-enrolment in particular is likely to increase the number of low to moderate earners[194] saving in private DC pension savings for the first time, many of whom may have little experience of making complex financial decisions.[195] Many of the people who are auto-enrolled may need to make complex financial decisions for the first time, including:

- whether to opt-out of their pension scheme,
- whether to stay in the default scheme fund,
- what percentage of salary to contribute,
- whether and when to purchase annuities or other retirement products,
- whether to take a 25% tax free lump sum from their pension savings.

[192] PPI Aggregate Model
[193] FSA (2008)
[194] DWP (2006a)
[195] PADA (2009)

Shifts within the private pensions and savings landscape mean that in the future people may be required to make many more choices regarding their savings than they needed to in the past.

- Changes such as the shift from DB to DC will mean that many new and existing savers will need to make more complex choices regarding pension investments than previous generations who could generally rely on their employers or scheme trustees to make choices in their best interests.
- People may have more complex combinations of income and assets to manage in future, some low to moderate and high earners especially could have baskets which include state pension entitlement, residual DB pension entitlement, DC pension savings, other financial savings and assets, housing assets, and earnings.

Within the new pensions and savings landscape, more people are likely to need some kind of information or advice to support them to make these complex financial decisions.

Some of those who are auto-enrolled into pension savings for the first time may choose not to make any decisions regarding whether to opt-out, or whether to stay in the default fund. It will, therefore, also be important for the defaults to be carefully designed to meet the needs of those who don't make a choice.

In the new savings and pensions landscape, people with different financial profiles are likely to use different sources of advice and information

New savers: Many of the new savers in private pensions will be low or low to moderate earners who may not be able to afford to use the services of financial advisers. On auto-enrolment, employers will be required to provide their employees with information packs detailing the different implications of opting-out or staying in. However, many new private pension savers may need to use the new Money Guidance services if they want further assistance with decisions regarding their pension investment options or which retirement products to use, for example, which type of annuity to purchase.

It will be quite important that Money Guidance and other free, generic information and guidance services are effectively promoted to those who may need them and are able to provide financial guidance and information for all stages of life, pre and post retirement. People's income needs can change several times during retirement[196] and therefore it will be important for guidance and information services to be effectively promoted and tailored to people in early and later retirement as well as people of working-age.

[196] PPI (2009a)

Existing savers: As a result of the trend for employers to increasingly offer DC pension scheme membership rather than DB, many existing savers, including many higher earners, will have more complex financial decisions to make. The pension investments of existing savers in DC pension schemes will be exposed to more market risk than if they had a DB pension and the annuities they will be able to purchase with their DC pension pots will often yield lower income in retirement than the income from a DB pension would.[197]

Some people may change the type of advice or information they use as a result of the RDR proposals

Many moderate to high earners, who save regularly, currently use the services of IFAs and other financial advisers for financial advice.[198] However, the implementation of the proposals in the RDR could make financial advice services more expensive.[199] The implementation of the new upfront 'adviser charging' could also make fees appear more costly than they used to as both product and adviser charges will need to be disclosed at the outset.

It is difficult to predict what the financial advice market will look like in the future as the FSA is still consulting on how best to implement the proposals in the RDR. However, it is possible that as a reaction to changes in charging structures, or a possible raising of fees, some existing users of financial advice may switch from using IFA services to using tied and multi-tied advisers as these may be (or may appear to be) more affordable.[200]

The use of tied and multi-tied advisers services may not be ideal for all people as these advisers cannot recommend products from across the whole market, even if those products are the most suitable for their clients. For example, tied and multi-tied advisers will only be able to offer clients flexible retirement products which are offered by the institutions which the advisers represent. As some institutions do not currently offer mid-market products, some people who use tied and multi-tied advisers, may not have these products offered to them when seeking advice on retirement products. However many tied and multi-tied advisers will be able to offer a wide range of products, and will be able to offer their clients suitable products which fit their needs.

A rise in the costs of financial advice could also motivate some existing users of financial advice, especially those on moderate incomes, to cease using advice services and use the more limited 'guided sales' or generic financial information and guidance. People who switch from using financial advice to the 'guided sales' service will have a very limited range of products to choose from. However, a limited range of choices may be suitable for people who are deterred by having to make complex financial decisions.

[197] Due to lower contributions and market risks. See chapter 4 for further discussion of the effects of the shift from DB to DC
[198] FSA (2008)
[199] As some advisers may need to raise their fees in order to meet the costs of the proposals, FSA (2007)
[200] Pinsent Masons (2009), FSA (2007)

The RDR proposals are intended to increase consumer confidence in the financial advice market, and many existing and new users of financial advice may appreciate the up-front pricing structures and raised level of professionalism generated by the RDR proposals. For higher earners with large baskets of assets and income, are still likely to use financial advice services.

Conclusion

In the future:

- People are likely to need to make more complex financial decisions about their retirement savings during working life, at the point of retirement and during retirement.
- Generic financial information and guidance services will need to be able to support low to moderate earners who are making decisions for the first time regarding the accumulation of savings and investments in working-life and their use in retirement.
- It will be important that financial information and guidance services such as Money Guidance are: effectively promoted to those who need them, able to provide assistance on complex financial matters such as the interaction between pension savings and means-testing, able to adapt as needs change, able to provide assistance at all life stages including during retirement.
- It is possible that, due to changes in financial adviser charging structures, some existing users of IFA services may start to use the services of tied and multi-tied financial advisers and some people may use ‘guided sales’ or generic information instead of financial advice.

Appendix: Modelling assumptions and methodology

This appendix describes the modelling assumptions used in this report. The modelling in this report uses the PPI's Individual and Aggregate Models that were developed with a grant from the Nuffield Foundation.

Common set of assumptions
Modelling of the state pension income (Chart 6) and private pension pot sizes (Table 1) of individuals uses the PPI Individual Model.[201] Modelling of the future membership levels of DB and DC schemes (Chart 7) and the future value of funds under management (Chart 9) uses the PPI Aggregate Model. Throughout, the modelling assumes:

- Future annual price inflation of 2.5%.
- Future annual earnings growth of 2% in excess of prices.
- Expected investment returns of 3.5% in excess of prices, before charges, corresponding to a mixed equity/bond fund.[202]
- Annual management charges (AMCs) of 1% of assets under management except for personal account where a 0.5% AMC is assumed.

Assumptions on Personal Accounts:

- Employees who are newly enrolled into pension saving in Personal Accounts (as opposed to existing provision) contribute the minimum amount.
- The self-employed and other individuals contribute the same as employees into Personal Accounts. This means that they contribute the equivalent of the employer amount themselves.
- Charges consist of an AMC of 0.5% of funds under management each year.
- The contribution limits for Personal Accounts are assumed to be increased each year in line with the assumed growth in average earnings.

The scenarios are based on the Government's estimate that 10.8 million employees would be available for auto enrolment into pension saving from 2012.[203] The scenarios assume that around 2 million of these are already saving in a personal pension without an employer contribution. Around half of these are assumed to switch into Personal Accounts. A similar allowance is made for people who voluntarily opt in to Personal Accounts.[204] No allowance is made for the proposed phasing in of auto-enrolment. Auto-enrolment is assumed to be rolled out nationally for all eligible employees from 2012.

For a more detailed discussion of the four employer response scenarios used in this paper please see PPI (2007) *Will personal accounts increase pension saving?*

201 For more information on the Individual Model, see PPI (2003) *The Under-pensioned*
202 This corresponds to assumed equity returns of 7.5% a year, assumed bond returns of 4.5% a year, and a portfolio of 55% equities and 45% bonds
203 DWP (2006b) Figure 1.xi
204 A broad assumption has been adopted in the modelling that one-half of the self-employed people who voluntarily opt into Personal Accounts were previously saving in a personal pension

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