PENSIONS AND LIFETIME SAVINGS ASSOCIATION

July 2018

HITTING THE TARGET

A VISION FOR RETIREMENT INCOME ADEQUACY

Final Recommendations

The Pensions and Lifetime Savings Association (PLSA) is the national association with a 90-year history of helping pensions professionals run better pension schemes. Our members include more than 1,300 pension schemes with 20 million members and £1 trillion in assets, and over 400 supporting businesses. They make us the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels. Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

THE HITTING THE TARGET STEERING GROUP

This work was supported by a Steering Group of PLSA members and experts from the sectors covered by the report. The members of the Steering Group were:

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The biographies of the members of the Steering Group are provided in Appendix C.

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DISCLAIMER

This consultation and the recommendations made are the views of the PLSA. It was drafted with the guidance and advice of a Steering Group of PLSA members and non-PLSA specialists. Members of the Steering Group took part in a personal capacity. The recommendations made do not necessarily reflect the views of individual Steering Group members. We are very grateful for the time and effort given by each member.

HITTING THE TARGET – A ROADMAP FOR REFORM

PLSA RETIREMENT INCOME TARGETS LAUNCHED	2019	VALUE FOR MONEY METRICS
LATER LIFE AGE DIVERSITY PRINCIPLES	2020	ACCESSIBLE HOUSING WEALTH
PENSION: AUTOMATIC ENROLMENT SCOPE WIDENED	2021	ENHANCED ENGAGEMENT
ENHANCED GOVERNANCE	2023	GUIDED “AT RETIREMENT” DECISIONS
PENSIONS TAX RELIEF OBJECTIVE ADOPTED	2024	
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PENSIONS: AUTOMATIC ENROLMENT CONTRIBUTIONS AT 12%	2030	

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FOREWORD

A LOT OF PROGRESS HAS BEEN MADE SINCE 2005, WHEN THE PENSIONS COMMISSION PUBLISHED ITS SECOND REPORT AND RECOMMENDATIONS.

Automatic enrolment has been rolled out successfully across the UK; millions of people who had not previously saved into a pension scheme are now setting money aside for their retirement. Combined with the new State Pension, automatic enrolment will ensure that many more people are better prepared to face the costs of later life than ever before.

However, even for those currently within the scope of automatic enrolment, contributions at the minimum automatic enrolment rate combined with the State Pension will often be insufficient to provide an adequate income in retirement. We believe that the Government, employers and the retirement savings sector must work together to help savers understand how best to meet their retirement income needs and plan accordingly. We are proposing to establish a set of Retirement Income Targets to help savers understand how much they need to set aside for later life.

On their own, though, income targets will not be enough to improve the retirement prospects of future generations. This will require a more supportive public policy framework that is focused on increasing pension contributions and improving support to help savers get the most out of the pension freedoms. It will also require a sector that is fully focused on helping savers get the best out of their savings by delivering value for money at every stage in the journey and providing them with guidance and tools to facilitate good decision-making.

The reforms that we have proposed are wide-ranging. However, the progress made over the course of the last decade shows that, with a clear sense of direction, the Government, regulators, employers and the pension industry can deliver ambitious objectives. We hope that our vision for retirement savings will help to develop a consensus – similar to that which resulted in the creation of automatic enrolment – that will ensure many more people will enjoy retirement with an adequate income.

Richard Butcher, Chair (PLSA)

EXECUTIVE SUMMARY

INTRODUCTION

In October 2017, the PLSA published a consultation: *Hitting The Target: Delivering Better Retirement Outcomes*. This consultation presented our assessment of public policy on retirement income provision and a series of proposals aimed at reforming public policy and industry practices to facilitate better retirement outcomes.

More than 100 stakeholders from over 50 different organisations responded to our consultation. The responses we received were largely supportive of our proposals. They also reinforced our understanding of the challenges the retirement saving system faces. Chief among these is the fact that the vast majority of savers do not understand retirement savings, do not know what sort of income they should aim for in retirement, and do not know how to achieve it. This matters because, despite the success of automatic enrolment, pension contributions, even at the end of phasing, will remain too low and the scope of the policy too narrow.

We believe both the Government and the pensions sector must do more to ensure everyone has an adequate income in retirement. In particular, the public policy framework should guide savers towards good outcomes, and pension schemes and providers need to deliver well-governed, good value products and offer services that support savers in their decision-making. We are proposing a programme of reform that will deliver this vision:

- Widely Used Retirement Income Targets
- Adequate Pension Contributions
- Well Governed Schemes
- Guided 'At Retirement' Decisions
- Accessible Housing Wealth
- Easy to Work in Later Life
- Effective Engagement.

THE ADEQUACY CHALLENGE

The State Pension, private pension savings and property assets are the most significant sources of wealth that most people possess. Ninety-seven per cent of current pensioners are in receipt of the State Pension (median £8,684 per annum) and more than 71% also receive private pension income (median £8,216 per annum). Seventy-six per cent of pensioners have property wealth, with a median value of £105,000. However, many current retirees have very little wealth and there is a wide division between the amount of income and assets possessed by different groups within the existing generation of retirees.

Future generations of retirees are, however, much less likely to have sufficient assets to generate an adequate retirement income. The decline of Defined Benefit (DB) schemes, low Defined Contribution (DC) pension contributions and lower levels of home ownership will reduce the wealth available to them in later life.

PLSA research shows that at a contribution rate of 8% of band earnings the majority (94%) of retirees are likely to achieve the Joseph Rowntree Foundation's Minimum Income Standard (£9,998 in 2017). However, 51% of savers (13.6 million people) are unlikely to meet the Pension Commission's Target Replacement Rate (TRR) (£19,162 for a median earner in 2017) with this level of contributions. The degree to which savers are on track to meet their TRR differs by generation. Of those who will achieve their TRR, the majority in each generation have some DB entitlement. However, for the increasing proportion of pension savers who have only DC pensions, the percentage of those likely to meet their TRR is lower (3%).

At the same time, increasing cost pressures will weigh on the adequacy of future retirees' resources. Longevity has increased and is expected to increase further. Higher social care and housing related costs will also most likely increase the amount required to fund retirement.

Our assessment suggests that unless more money is set aside for retirement, many future retirees will find that their incomes will be insufficient to meet their retirement needs.

RETIREMENT INCOME TARGETS

PLSA research shows that only 23% of people know how much they need to save in order to achieve an adequate retirement income. In part, this is because current industry approaches used to determine an adequate income in retirement (Joseph Rowntree Foundation Minimum Income Standard or the Pension Commission's TRR) are not widely used or understood by savers.

In our *Hitting The Target* consultation, we proposed a new way to help people understand their retirement income needs: a set of easy-to-understand targets. This is the approach used in Australia. PLSA research shows that 74% of people believe that retirement income targets would make it easier to plan for retirement and that 70% of people believe that retirement income targets would encourage them to save more for retirement.

Nearly all consultation respondents supported the creation of retirement income targets and endorsed the PLSA's proposed approach: three target levels, based on a basket of goods approach. Evidence provided by consultation respondents showed that goal-setting can increase contribution rates among savers and a series of simple targets has the potential to transform the retirement savings landscape.

The PLSA believes that the UK should develop and implement a series of targets, which build on the current analysis of what people need in retirement. To that end, the PLSA has commissioned an independent research institute to identify and build the targets. They will be released in early 2019. The PLSA recommends that these targets be adopted across the pensions sector, with usage to include scheme communications, pension statements, the Pensions Dashboard and pension calculators, and by the Single Financial Guidance Body (SFGB).

PENSIONS – AUTOMATIC ENROLMENT SCOPE & CONTRIBUTIONS

Automatic enrolment has been a great success in widening participation in pension saving. However certain groups of people are currently excluded from the scope of the policy (the self-employed, younger workers and multiple job holders), which limits their ability to save for retirement. It is also widely accepted that automatic enrolment contribution levels, even by the end of the phasing process, will be too low to deliver an adequate retirement income for most savers. For example, after a lifetime of saving, someone on median earnings can expect a combined State and private pension of around £14,300 a year.

In our *Hitting The Target* consultation we proposed extending the coverage to the main excluded groups, and this received near-universal support from respondents. Since we launched our consultation the Government has published the Automatic Enrolment Review 2017, which proposed similar changes to the scope of the policy. The PLSA fully supports these proposals. We believe that the right solution for the self-employed will take account of their preference for trust, control and flexibility. We also think that the recommendations in the Taylor Review on the 'gig' economy may help some groups of the self-employed.

According to PLSA research, less than 50% of all savers are on track to achieve an adequate income in retirement, and for those who only have DC pensions, only 3% of savers are likely to achieve this outcome. To improve adequacy levels, we proposed an increase in contributions to 12% of salary over the course of the 2020s and that consideration be given to moving to a 50/50 employer/saver split. Subject to an analysis of the results of the current phasing process, the increase to 12% of salary was universally supported by consultation respondents and there was wide support for increasing the proportion paid by employers to 50%. The PLSA recommends that both policies should be adopted by the government.

The PLSA acknowledges that for a small proportion of savers, contributions at the rate of 12% of salary could lead to them over-saving. As a result, we recommend that research should be carried out into the effective use of additional flexibilities, such as 'opt-down' and the sidecar mechanism.

PENSIONS – PENSIONS TAX

We also raised the question of whether pension tax relief should be reformed to support the retirement income targets. Most consultation respondents felt that now is not the right time for reform.

They were concerned that doing so might slow down the adoption of the targets and introduce unhelpful complexity into the tax system. However, others felt that some reform would be welcome, especially if tax relief could be made easier to understand. There was widespread agreement among respondents on the need for better data. Many stated that the official figures on the cost of tax relief should be reviewed and amended, because they are very misleading at present.

The PLSA, therefore, is not calling for a reform of tax relief – but it proposes, as a first step to achieving a more effective regime, that the government should adopt a clear objective for pension tax relief. In our view, it should be to help as many people as possible achieve an adequate retirement income.

PENSIONS – WELL GOVERNED SCHEMES & VALUE FOR MONEY

Given the complexity of retirement products, it is important that someone is looking after the interests of savers and ensuring that, even if the saver does nothing, their money will be well managed and decisions made in their interests.

UK scheme governance standards remain highly varied. For example, only half of schemes surveyed by TPR said that all their non-professional trustees met the standards set out in the Trustee Knowledge and Understanding (TKU) Code of Practice. In addition, there are limits to the remit of Independent Governance Committees (IGCs) and some feel that they may restrict IGCs ability to safeguard members' interests.

In our *Hitting The Target* consultation, we proposed that TPR should rebalance its priorities and concentrate on the quality of trustee board appointments and their effectiveness. We suggested that the government should also explore giving IGCs new powers to enable them to safeguard members' interests throughout the retirement journey. We also proposed that the pensions sector should develop new value for money (VFM) metrics to help schemes and providers make comparisons.

Stakeholders agreed that there is a clear need to improve the quality of trustees overseeing schemes, especially among smaller schemes. There was also widespread support for extending the remit of IGCs to cover decumulation, and, it was suggested, providers should be given power to alter default funds. The idea of developing new metrics was welcomed by stakeholders, though they cautioned that these would need to be industry-wide if they were to have any impact.

The PLSA, therefore, recommends that TPR should do more to encourage high standards of governance in all schemes. This should include the publication of pension schemes' annual Chair's Statement on TPR's website in order to enable effective scrutiny.

In the case of IGCs, the FCA should ensure that providers have the power to make changes to the default fund in regard to legacy (as well as future) savings. These changes should be made with oversight from IGCs. The FCA should also extend the remit of IGCs to cover not just accumulation, as now, but also decumulation.

Moreover, we believe that TPR/FCA should carry out a joint review of the protection given by the governance arrangements in the trust- and contract-based regimes to ensure that savers in both types of scheme receive equivalent protection. This would help to ensure that savers receive similar outcomes no matter what type of scheme they are in.

The PLSA will work with others in the pensions sector to agree a set of value for money metrics and appropriate benchmarking indices. Where schemes do not deliver value for money, they should consider whether they can improve their performance or if it would be better to transfer members to another scheme or provider.

PENSIONS – GUIDED 'AT RETIREMENT' DECISIONS

The pension freedoms have opened up a new range of possibilities to savers at the point of retirement. Accessing pension pots flexibly has become the new normal for retirees. This presents both opportunities and risks.

Annuity purchases have declined dramatically since April 2015 and the use of non-advised drawdown products has increased substantially. PLSA research shows that 700,000 have used the pension freedoms. Almost 200,000 people have taken only their tax-free lump sum, and more than 100,000 people have taken cash out of their pensions in addition to their tax-free lump sum. Many of these people have put these cash sums in deposit accounts, which, we are concerned, may not be the best investment approach.

Moreover, the FCA's *Retirement Outcomes Review Interim Report* (2017) found little evidence of the market coming forward with innovative products that offer the sorts of features – certainty and flexibility – that savers want from a decumulation product over the course of the retirement journey.

In our *Hitting The Target* consultation, we proposed that savers should be guarded against poor outcomes via the implementation of a reformed regulatory framework. This new approach would enable trustees and IGCs to signpost scheme members to a range of suitable products which conform to a set of government-mandated principles designed to meet the typical needs of savers.

There was widespread support among consultation respondents for these proposals. Stakeholders also proposed improving guidance for savers prior to retirement to promote member understanding and engagement with the decisions they face.

The PLSA, therefore, recommends that the new signposting process and standards regime set out in *Hitting The Target* should be adopted, with minor changes to encourage more active decision-making. Pre-retirement guidance should also be expanded and regularised via default referral (with opt out) to the SFGB prior to pension withdrawal. To avoid people cashing in their retirement savings prematurely, the use of the term 'wake up pack' and the name of the MAS guide *Your Pension: It's Time To Choose* should be reviewed.

ACCESSIBLE HOUSING WEALTH

Savers over 55 years of age hold around £1.5 trillion of housing wealth and this is forecast to increase to £2.9 trillion by 2036. For those people who have not saved a sufficient amount into a pension over the course of their working lives, accessing some of the wealth locked up in their properties through equity release may help them to achieve an adequate income in retirement. Although many products already exist on the market, they are not widely used.

In our *Hitting The Target* consultation, we proposed that product providers should explore how equity release products can be made more flexible to support the variety of needs that retirees experience. We also suggested that providers reconsider how they engage with customers and explain more effectively how property assets can support retirement income.

Consultation respondents agreed that products could be more appealing to retirees if they were more flexible and pointed out that alternative products are being developed, such as the retirement interest-only mortgage. Stakeholders also identified a shortage of advisors in the equity release market as a problem.

The PLSA recommends that providers should seek to make products more flexible, so that payments can be drawn in smaller regular sums, and make it easier to transfer loans to other properties. We support the FCA's proposal to change regulations to enable lenders to offer retirement interest-only mortgage products, though the new regulatory regime needs to promote good decision-making. The PLSA also recommends that the SFGB should provide integrated pension and property asset guidance to savers and that any future mid-life financial health check should take into account property wealth.

EASY TO WORK IN LATER LIFE

For those people who have not saved a sufficient amount into a pension and do not possess enough property wealth in order to make up the difference, working into later life could enable them to achieve their retirement income goals. However, for many people poor health, caring responsibilities or skills shortfalls are a barrier to staying in the workforce. Employment rates for people aged 50-64 (71.7%) are almost 14% lower than those aged 35-49 (85.3%).

In our *Hitting The Target* consultation, we proposed that the pensions industry could help people to work for longer by promoting greater employee engagement with retirement income planning and working with employers to develop a set of principles to help people stay in the workforce for longer. Consultation respondents highlighted the potential of flexible working arrangements and the importance of good guidance to enable people to balance work and other needs. They also drew attention to the CIPD's 'Age Diversity' principles.

The PLSA recommends that employers and the Government should work together to develop an ambitious guidance agenda, including a Mid-Life Financial Health Check at 45. The Government should require default referral (with opt out) to the SFGB at the point at which savers want to start to withdraw pension savings. We also recommend wider uptake of the CIPD's principles on age diversity in order to create a workplace culture that is more adapted to older workers.

EFFECTIVE ENGAGEMENT

Savers have a low level of engagement with their retirement savings. Poor engagement is partly because people feel disconnected from their pension savings and partly the result of a low level of financial understanding. For example, 50% of people focus exclusively on their current needs and wants, at the expense of providing for the future.

In our *Hitting The Target* consultation, we suggested that pension engagement could be improved by embracing technology. The Pensions Dashboard and robo-advice have an important role to play in enabling people to understand how much they have saved and how they can use their wealth effectively. We proposed that retirement income targets be incorporated into the Dashboard, so that people can see how close they are to their desired retirement income. We also suggested that the language of pension statements be standardised and that heuristics/rules of thumb be used more widely.

Consultation respondents stated that work in this area should concentrate on how engagement can fill in the gaps between good defaults and good governance in order to get the best outcome for savers. They supported the development of new retirement income targets and agreed that technology, such as the Pensions Dashboard, could play a fuller role in supporting effective decision-making. Respondents also signalled their support for some form of standardisation of pension communications. Several recommended the adoption of a Mid-Life Financial Health Check.

The PLSA recommends that new Retirement Income Targets should be displayed on the Pensions Dashboard. The PLSA also recommends that there should be at least one high-profile Pensions Dashboard hosted by a major public body, such as the SFGB. Pension providers should pursue better use of technology and, where desirable, work with fintech providers to shape emerging tools that will benefit savers. We also recommend that the pensions industry should do more to standardise the language and layout of key customer communications by adopting the Simpler Annual Statement under development at present. Finally, we recommend the introduction of a Mid-Life Financial Health Check in order to enable people to understand whether they are on track to achieve their retirement goals.

INTRODUCTION

In October 2017, the PLSA published a consultation – *Hitting The Target: Delivering Better Retirement Outcomes* – that made a series of proposals aimed at reforming public policy and industry practices to facilitate better retirement outcomes. Our proposals were designed to make saving easier and more understandable, and enable people to get the most out of their retirement savings.

The PLSA consulted widely with stakeholders from across the pension and lifetime savings sector. Over the course of the consultation period, we heard the views of more than 100 stakeholders from over 50 different organisations. The responses that we received to the proposals set out in *Hitting The Target* were largely supportive and enhanced our understanding of the challenges that need to be overcome in order to deliver adequate retirement outcomes.

In thinking about how to improve retirement income, we set ourselves the challenge of answering the following questions:

- How much income are people likely to need in retirement?
- How can we bring more people into the scope of automatic enrolment?
- How can we best gradually increase the minimum level of contributions without discouraging people from continuing to save?
- Should the current system of tax relief be modified to encourage more saving?
- How can we ensure that pension schemes are well run and provide good value for money?
- How can we ensure that people make good decisions at retirement? What is the right balance between the use of defaults and the need for engaged decision-making?
- Can we do more, where appropriate, to assist those who want or need more income to access property wealth?
- How can we support realistic extensions to working lives?
- How do we let people know about their pension savings in ways and at times that make sense to them and support them in understanding where they are on the journey to achieving an adequate retirement income?

Given the challenges that we have identified, the Government and the retirement saving industry should work together in order to ensure that savers have the support they need to achieve an adequate retirement income. To that end, the PLSA believes that the Government and stakeholders should create a system in which:

i. ***The public policy framework ensures that everyone is guided to achieve an adequate retirement income***. Research in the field of behavioural economics shows that most people find it difficult to make rational choices on retirement income decisions. As a result, the emphasis of public policy on retirement income needs to be placed, principally, on inertia-based interventions (e.g. defaults), rather than on policies grounded on individual choice (engagement).

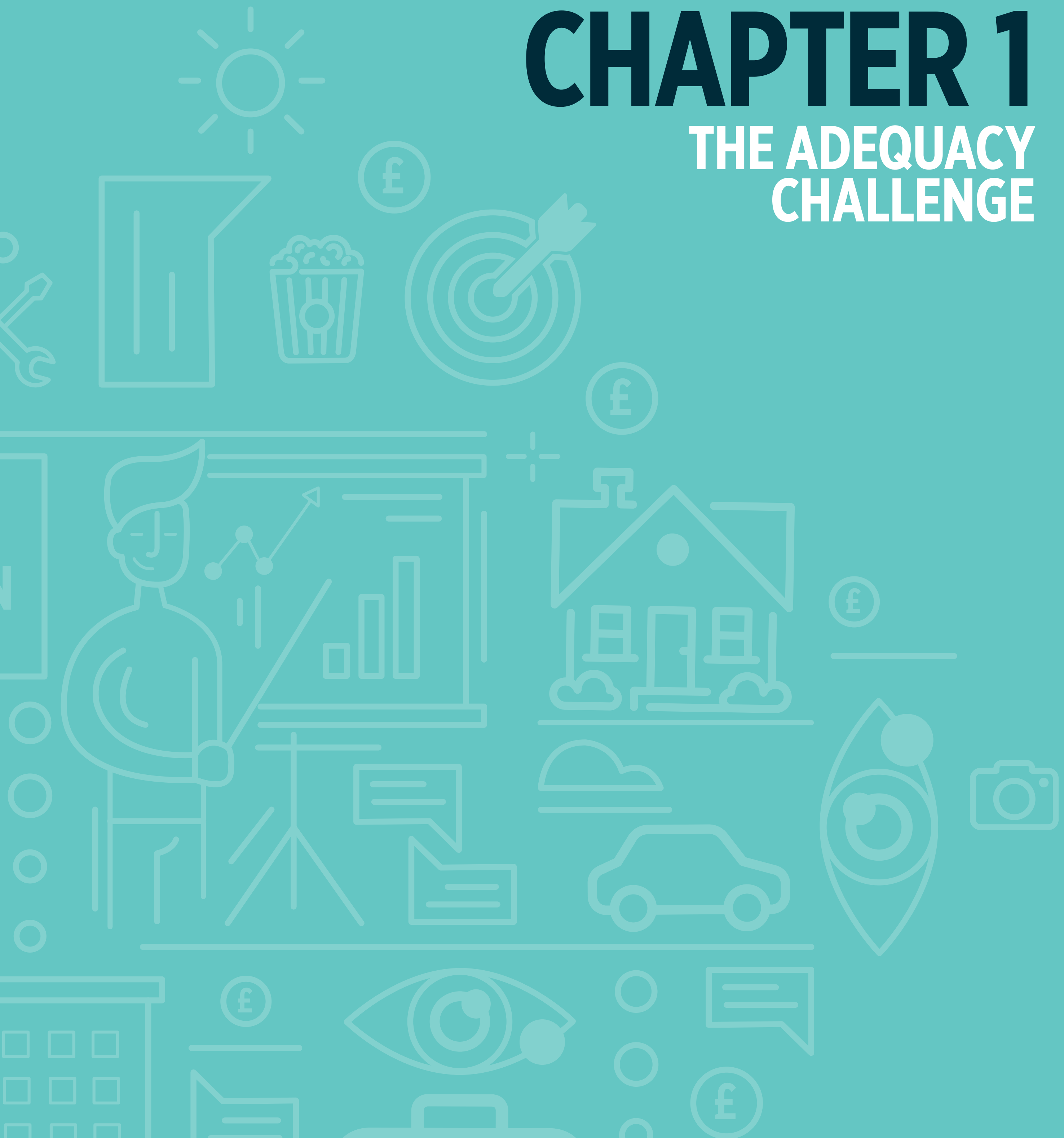
ii. ***Pension schemes and providers deliver well-governed and good value products and offer services that support savers in their decision-making***. Normal market mechanisms do not work effectively in the workplace DC pensions market, because the 'buy side' is weak. Consequently, it is essential that governance and regulation should do as much as possible to strengthen the hand of savers by, for example, ensuring that governance decisions are made by fiduciaries whose interests are aligned with those of the scheme members.

VISION

In order to achieve these goals, public policy and industry practices need to change. The PLSA's vision for retirement income adequacy is set out in this report.

VISION	OUTLINE
Widely Used Retirement Income Targets	Everyone is clear about how much income they want to have in retirement and, therefore, can take the action needed to achieve it.
Adequate Pension Contributions	Most working people are automatically enrolled into pension saving and all contribute at a level at which, if they keep saving over a working lifetime, they will have an adequate retirement income. They receive the right level of financial support from employers and the Government to ensure they find pension saving affordable.
Well Governed Schemes & Value For Money	Pension arrangements are secure, well run and provide value for money. All schemes and providers are well governed, have the powers to support savers throughout the retirement savings journey, and can demonstrate that they offer value for money. If they do not offer value for money, fiduciaries or IGCs recommend that members be transferred to better schemes or providers.
Guided 'At Retirement' Decisions	When people want to convert their pension savings into retirement income or a lump sum, they are supported by signposting and product standards that seek to ensure they avoid poor outcomes. In addition, through guidance and support, they are able to take well informed active decisions to optimise their retirement income.
Accessible Housing Wealth	For those who want or need to supplement their retirement savings, it is possible to access housing equity easily and safely. Home owners can easily access reliable and affordable guidance to support them in making these decisions.
Easy to Work in Later Life	For people who need or wish to work in later life, and are able to do so, it is easy to stay in the workforce, on a full- or part-time basis, up to and beyond State Pension age.
Effective Engagement	It is easy for savers to know how much income they need in retirement (Retirement Income Targets), how close they are to achieving their income goals (Pension Dashboard), and where they can receive free or affordable guidance so they can make effective decisions.

CHAPTER 1
THE ADEQUACY CHALLENGE



SUMMARY

THE STATE PENSION, PRIVATE PENSION SAVINGS AND PROPERTY ASSETS ARE THE MOST SIGNIFICANT SOURCES OF WEALTH THAT PEOPLE POSSESS. NINETY-SEVEN PER CENT OF CURRENT PENSIONERS ARE IN RECEIPT OF THE STATE PENSION (£8,648 PER ANNUM) AND 71% ALSO RECEIVE PRIVATE PENSION INCOME (£8,216 PER ANNUM). SEVENTY-SIX PER CENT OF PENSIONERS HAVE PROPERTY WEALTH, WITH A MEDIAN VALUE OF £105,000.

However, income and asset levels vary greatly among retirees and some have very little. Nevertheless, most of today's pensioners have expenditure in line with the Target Replacement Rates used by the Pension Commission.

Future generations of retirees are less likely to have sufficient assets to generate an adequate retirement income. The decline of defined benefit schemes, low DC pension contributions and lower levels of home ownership will reduce the wealth available to them in later life. PLSA research shows that at a contribution rate of 8% of band earnings the majority (94%) of retirees are likely to achieve the Joseph Rowntree Foundation's Minimum Income Standard (£9,998 in 2017).

However, 51% of savers (13.6 million people) are unlikely to meet the Pension Commission's Target Replacement Rate (£19,162 for a median earner in 2017) with this level of contributions. The degree to which savers are on track to meet their TRR differs by generation. Of those who will achieve their TRR, the majority in each generation have some Defined Benefit entitlement. However, for the increasing proportion of pension savers who have only Defined Contribution pensions, the percentage of those likely to meet their TRR is lower (3%).

At the same time, cost pressures will weigh on the adequacy of future retirees' resources. Longevity at birth has increased by approximately 12 years in the last 65 years, which will increase costs in later life for future generations of retirees. Higher social care and housing-related costs will also, most likely, increase the amount required to fund retirement.

Our assessment suggests that unless more money is set aside for the purpose of retirement, future generations will find that, for many more people, their incomes will be insufficient to meet their retirement needs.

In *Hitting The Target*, the PLSA presented its assessment of the income sources as assets that current and future retirees are likely to have available to them. We also presented our understanding of the trends in costs that were likely to place pressure on the assets of future retirees. This chapter updates that assessment and brings into sharp focus the challenges that future generations of retirees are likely to face.

CURRENT PENSIONERS

Most of the income that existing pensioners have comes from the State Pension and private pensions. The vast majority of retirees (97%) receive the State Pension, though not all receive it at the full rate. Average State Pension income (£8,648 per annum)[1] sits at just under a third of average earnings in the UK (£28,600 per annum).[2] Just under three-quarters (71%) of pensioners also receive income from a private pension, with a median payment of £8,216 per annum.[3]

Many pensioners also possess other forms of wealth, including financial wealth and property wealth. Net financial wealth tends to be low in value (median value of £14,750) and net individual property wealth is also limited (£105,000). Individual pensioners in the bottom 20% of net property wealth possess no or negative property wealth.[4]

FIGURE 1: WEALTH AND INCOME FOR RETIREMENT

FINANCIAL WEALTH
Includes money saved formally in financial assets (ISAs etc) and informally.
94% of retirees have financial wealth, with a median value of **£14,750**.

PROPERTY WEALTH
Includes main property, buy to let, second homes and other property wealth.
76% of pensioners have property wealth, with a median value of **£105,000**.

STATE PENSION
Amount of entitlement is calculated based upon the number of qualifying years/contribution levels.
Received by **97%** of pensioner units providing a median income per annum of **£8,648**.

PRIVATE PENSION
A combination of occupational and personal pension income.
Received by **71%** of pensioner units providing a median income per annum of **£8,216**.

EARNINGS
Includes employee earnings and profit and loss from self-employment.
Received by **17%** of pensioner units providing a median income per week of **£16,744**.

Pensioner expenditure varies widely between different groups (see table below). Those in the bottom 20% of individual household income typically spend £9,662 a year, while those in the top 20% spend nearly four times more (£34,237 per year). The mean expenditure across all single person households is £12,210.[5]

TABLE 1: HOUSEHOLD EXPENDITURE FOR SINGLE/COUPLE PENSIONERS PER YEAR BY GROSS INCOME QUINTILE IN THE UK, 2015/17[6]

	Lowest 20%	Second quintile	Third quintile	Fourth quintile	Highest 20%
Single	£9,662	£14,102	£19,760	£24,872	£34,237
Couple	£15,600	£18,970	£26,551	£35,870	£45,989

ILC research found that both low and high income groups tend to spend progressively less as they move into later life. For example, the ILC concluded that a household headed by someone aged 80 years or more spends, on average, 43% less than a household headed by a 50-year-old. Many households continue saving throughout

1 DWP, Pensioner Incomes Series: financial year 2016/17, https://www.gov.uk/government/statistics/pensioners-incomes-series-financial-year-201617
2 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisional-and2016revisedresults#average-earnings
3 DWP, Pensioner Incomes Series: financial year 2016/17, https://www.gov.uk/government/statistics/pensioners-incomes-series-financial-year-201617
4 Wealth and Assets Survey 2014-2016
5 ONS, Family Spending in the UK, Expenditure of one person and two person retired households by gross income quintile group, 2015-2017
6 Gross income quintile is based on all households in the UK.

retirement. Indeed, individuals aged 80 or over were found to be saving on average £5,870 per annum. Lower levels of consumption in old age appear to be the result of a combination of factors, such as health problems, changing preferences and the desire to leave a bequest. As a consequence of these factors, retirees spend less and save more, either intentionally or accidentally, as they age.[7]

The most widely used measures of retirement income adequacy in the UK are the Joseph Rowntree Foundation's (JRF) Minimum Income Standard and the Pensions Commission's target replacement rate (TRR). Our assessment suggests that current pensioners' expenditure is in line with these targets, particularly the Pensions Commission's TRR.

JRF Minimum Income Standard:

For a single retiree to meet this standard in 2017, they must possess an income of £9,998.

Pensions Commission TRR:

For someone earning a median income of £28,600 the replacement rate of 67% equates to a retirement income of £19,162.

FUTURE PENSIONERS

Future pensioners face a number of pressures that are likely to have an impact on their ability to achieve an adequate retirement income. These pressures fall into two categories: wealth accumulation pressures and retirement cost pressures.

Wealth Accumulation Pressures

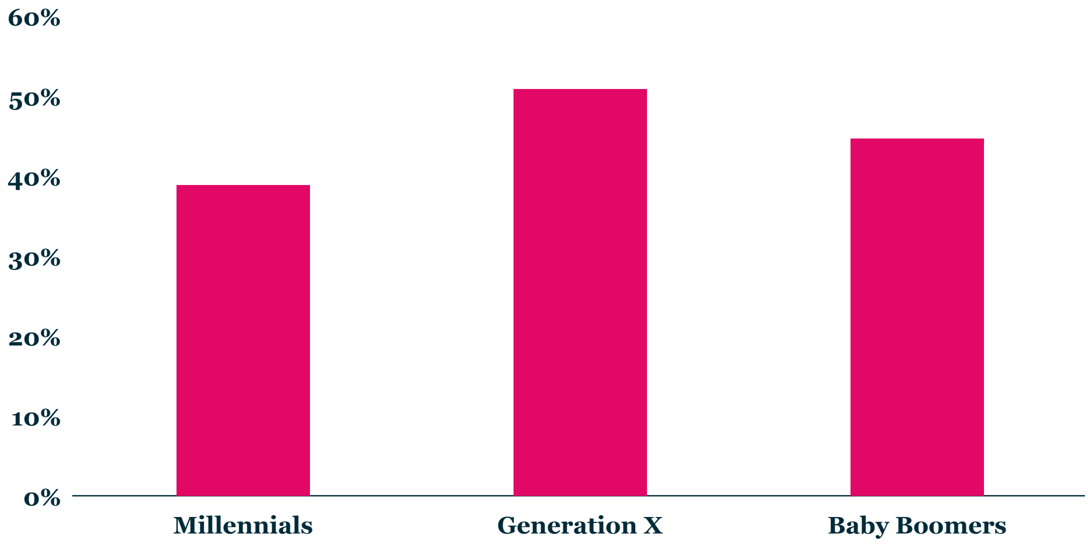
The introduction of automatic enrolment has seen a large increase in the active membership of workplace pension schemes. The proportion of savers has risen from just under half of employees in 2012 (47%) to just under three-quarters in 2017 (73%).[8] However, the adequacy of pension savings is under pressure due to a number of factors. In particular, the provision of Defined Benefit (DB) pension schemes has declined dramatically in recent decades, and average contribution rates for automatic enrolment occupational schemes are lower than pre-automatic enrolment Defined Contribution (DC) schemes.

PLSA research shows that at a contribution rate of 8% of band earnings the majority (94%) of retirees are likely to achieve the JRF's Minimum Income Standard (£9,998 in 2017). However, 51% of savers (13.6 million people) are unlikely to meet the Pension Commission's TRR (£19,162 for a median earner in 2017) with this level of contributions.[9]

The degree to which savers are on track to meet their TRR differs by generation (see chart below). Of those who will achieve their TRR, the majority in each generation have some DB entitlement. However, for the increasing proportion of pension savers who only have DC pensions, the percentage of those likely to meet their TRR is lower (3%).[10]

7 ILC, Understanding Retirement Journeys: Expectations vs Reality (2015)
8 ONS, ASHE Pension Tables 2017
9 PLSA, Retirement Income Adequacy : Generation By Generation (2016)
10 PLSA, Retirement Income Adequacy : Generation By Generation (2016)

CHART 1: PROPORTION OF SAVERS LIKELY TO ACHIEVE AN ADEQUATE RETIREMENT INCOME



Property wealth is unequally divided between and within generations. Among Baby Boomers, median individual property wealth is £105,000. Only among those individuals in the top 10% for property wealth is the value (£340,000 or more) sufficient to make a large contribution to retirement income. Property wealth among other generations is lower.

This is partly a result of the fact that they have had less time to acquire housing assets, though it is clear that owner-occupancy is in decline.[11] Inequality in property ownership will limit the assets that younger generations could draw on in retirement. The Pensions Policy Institute (PPI) forecasts that approximately half of all pensioners in 2030 will possess either little or no housing wealth.[12]

TABLE 2: DISTRIBUTION OF NET PROPERTY WEALTH FOR GENERATIONS BY NET PROPERTY WEALTH IN GB, 2014-16 (£)[13]

	20TH PERCENTILE	40TH PERCENTILE	MEDIAN	60TH PERCENTILE	80TH PERCENTILE
Millennials	£0	£0	£0	£0	£28,750
Generation X	£0	£26,750	£47,000	£67,500	£133,500
Baby Boomers	£0	£75,000	£100,000	£125,000	£212,500

Other forms of wealth, such as financial wealth, are relatively small outside of the top 20% in each generation. Only Baby Boomers possess substantial sums of financial wealth and only those in the top 20% of financial wealth have sufficient wealth to make a tangible difference to their retirement income (£60,700 or more).

TABLE 3: DISTRIBUTION OF NET FINANCIAL WEALTH FOR GENERATIONS BY NET FINANCIAL WEALTH IN GB, 2014-16 (£)[14]

	20TH PERCENTILE	40TH PERCENTILE	MEDIAN	60TH PERCENTILE	80TH PERCENTILE
Millennials	£-2,674	£20	£200	£800	£4,900
Generation X	£-1,192	£250	£1,000	£2,950	£18,250
Baby Boomers	£48	£3,209	£8,700	£17,800	£60,700

11 69% of households in England were owner occupiers in 2003; this had decreased to 63% by 2017. From MHCLG, Live tables on dwelling stocks (including vacants) (2017)
12 PPI, Retirement Income and Assets: How can housing support retirement? (2016)
13 Wealth and Assets Survey 2014-2016
14 Wealth and Assets Survey 2014-2016

Cost Pressures

Cost pressures on retirees are likely to increase in future. This is the case for a number of reasons, which are set out below.

- **Longevity:** Life expectancy at birth has improved consistently over the course of the last century. In 1951, the respective life expectancies at birth of men and women were 66.4 and 71.5 years.[15] By 2014/15, life expectancies at birth had increased for both men and women to 79.2 and 82.9 years.[16] Increased longevity means that living costs will need to be supported for longer.
- **Care Costs:** An increasingly older population will have a higher demand for social care services, which may have a significant and unforeseen impact on their finances. The prevalence of nearly all major chronic and long-term conditions increases significantly with age. Evidence suggests that in England more than one in three older people in their late 80s have difficulty undertaking five or more activities of daily living.[17]
- **Housing Debt:** Age UK has reported on the rise in overall debt for people aged 50 and over between 2002 and 2010.[18] Although consumer debt has increased marginally over the course of this period, it is clear that the upsurge in lending to individuals has been driven by loans secured on houses.[19]
- **Rental Costs:** The Joseph Rowntree Foundation forecasts that by 2040 the number of private renters will be a fifth of the population.[20] As a result, there will be extra pressure on housing-related spending. Moreover, people who rent will not own an asset that can be used to help meet expenses in retirement.

15 ONS, How has life expectancy changed over time? https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/articles/howhaslifeexpectancychangedovertime/2015-09-09
16 ONS, National Life Tables, UK, https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2014to2016
17 Age UK, Health and Care of Older People in England 2017, https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/care--support/the_health_and_care_of_older_people_in_england_2017.pdf
18 https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/money-matters/rb_june13_problem_debt_among_older_people.pdf
19 FCA, Financial Lives (2017)
20 JRF, What Will The Housing Market Look Like In 2040 (2014)

Long-Term Care

Health and social care services face a fundamental demographic challenge: an ageing population, with rising life expectancy, which is not matched by an improvement in healthy life expectancy. The prevalence of nearly all major chronic and long-term conditions increases significantly with age. Current evidence suggests that approximately 1 in 4 men and 1 in 3 women aged 65 will have care needs at some point in their lives.

Costs & Funding

The costs of long-term care vary across the UK and depend on the type of care required. Despite the high costs associated with care provision, relatively few people have some form of insurance protection against these costs. The King's Fund estimates that only around 0.05% of the over-40 population in the UK possesses some form of long-term care insurance.1 According to data released by the Association of British Insurers (ABI), only 21,000 active long-term care policies were in force in 2017.

The Government commissioned Andrew Dilnot to lead a commission into the funding of long-term social care in 2010. Among other things, Dilnot recommended that the contribution any individual should make towards the costs of their care, excluding general living costs, should be capped at between £25,000 and £50,000 (with a recommendation of a cap of £35,000). Dilnot's recommendations were accepted and incorporated, though only in a modified form, into the Care Act (2014) – the provisions of which are due to come into force in 2020. Subsequently, the Government announced in 2017 that it would publish a Green Paper on social care, which is expected to be released in the summer of 2018.

PLSA Perspective

The PLSA believes that the Government should set out a sustainable funding solution that will endure for a generation. In order to be both practicable and desirable, the PLSA believes that any solution must meet the following four tests:

i. Retirement Income Adequacy: Proposals should aim to maintain the level of adequacy of individuals' pension savings, which they will need to support everyday living costs in retirement.

ii. Universality: Proposals should offer a solution that is likely to result in a high degree of coverage for all those in need of long-term social care.

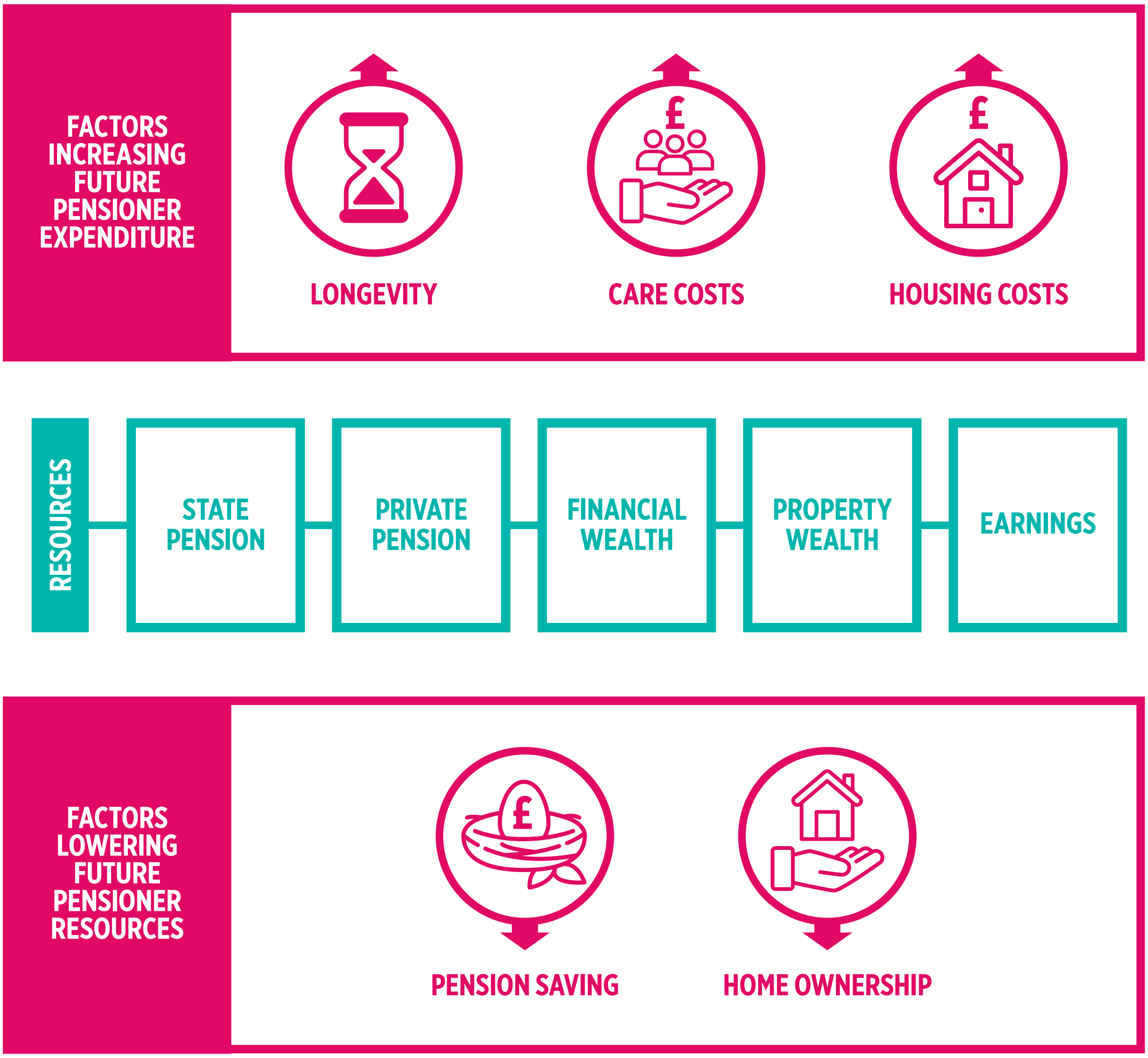
iii. Fairness: Proposals should be grounded on the notion that those who are able to pay the costs of their long-term social care should do so. Those who cannot afford to do so should be supported via public expenditure.

iv. Affordability: Proposals should be affordable for the Government and not create an unsustainable system.

ASSESSMENT AND CONCLUSIONS

The assessment presented above demonstrates that for current retirees resources are, in general, adequate to meet their needs. Indeed, many are enjoying historically high levels of income, though it is important to remember that some groups possess limited means and a small minority (16%) are in poverty.[21] In contrast, future pensioner living standards are likely to come under pressure from a combination of factors, including reduced wealth and higher expenditure.

FIGURE 2: THE EVOLVING ADEQUACY CHALLENGE



If these trends continue, it is clear that future pensioners will not only struggle to achieve the standard of living they desire in retirement, they will also be at risk of poverty. Pensioner poverty, after housing costs, has declined significantly over the course of the last 20 years, from 28% of pensioners in 1998 to 16% in 2015/16.[22] However, without positive changes in saving behaviour, underpinned by appropriate public policy decisions and responsible industry practices, this trend is likely to be reversed.

21 https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/money-matters/rb_apr18_poverty_in_later_life
22 https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/money-matters/rb_apr18_poverty_in_later_life

CHAPTER 2
RETIREMENT INCOME TARGETS

WHAT PEOPLE TOLD US

❝ ...we strongly agree that retirement income targets should be developed. Individuals need to understand what level of savings they will need to meet their retirement income needs and be encouraged to save to meet them. ❞

Institute and Faculty of Actuaries

❝ Neuroscientific and behavioural studies have shown that imagining personal future events or 'mental time travelling' can help to reduce the human tendency to undervalue future rewards. This suggests that developing retirement targets that are relatable to an individual and help them picture future events may be of some benefit. ❞

National Employment Savings Trust

❝ We agree with the PLSA that implementing retirement income targets can be an effective tool toward helping employees understand how much income they can afford in retirement. By setting a goal, members have a better understanding of how much they need to save to achieve that goal. ❞

Dimensional Fund Advisors

SUMMARY

PLSA RESEARCH SHOWS THAT ONLY 23% OF PEOPLE KNOW HOW MUCH THEY NEED TO SAVE IN ORDER TO ACHIEVE AN ADEQUATE RETIREMENT INCOME. IN PART, THIS IS BECAUSE CURRENT INDUSTRY APPROACHES USED TO DETERMINE AN ADEQUATE INCOME IN RETIREMENT (JOSEPH ROWNTREE FOUNDATION MINIMUM INCOME STANDARD AND THE PENSION COMMISSION'S TRR) ARE NOT WIDELY USED OR UNDERSTOOD BY SAVERS.

In our *Hitting The Target* consultation, we proposed a new way to help people understand their retirement income needs: a set of easy-to-understand targets. This is the approach used in Australia. PLSA research shows that 74% of people believe that retirement income targets would make it easier to plan for retirement. This feeling was strongest among young savers, with, for example, 77% of Millennials stating that targets would help them. PLSA research also shows that 70% of people believe that retirement income targets would encourage them to save more for retirement, with Millennials (78%) the most enthusiastic about their potential impact.

Nearly all consultation respondents supported the creation of retirement income targets and endorsed the PLSA's proposed approach: three target levels, based on a basket of goods approach. Evidence provided by consultation respondents showed that goal-setting can increase contribution rates among savers and a series of simple targets has the potential to transform the retirement savings landscape.

The PLSA believes that the UK should develop and implement a series of targets, which build on the current analysis of what people need in retirement. To that end, the PLSA has commissioned an independent research institute to identify and build the targets. They will be released in early 2019. The PLSA recommends that the targets should be adopted across the pensions sector, with usage to include scheme communications, pension statements, the Pensions Dashboard and pension calculators, and by the Single Financial Guidance Body (SFGB).

BACKGROUND

The 2015 UK Adult Financial Capability Survey found that financial literacy in the UK is poor. For example, 22% of people are unable to read a bank statement and 40% of people do not understand the impact of inflation on the real value of money. Moreover, many people are unable to balance current financial needs with future financial needs. According to the survey, 51% of people focus on their current needs and wants, at the expense of providing for the future.[23] Qualitative research carried out by the PLSA shows that understanding of pensions is particularly weak among Millennials.

Pension Understanding – Millennials

During focus group research among Millennials, participants made the following comments:

◆◆ When you're young, you're only really planning for a year ahead. You think about the next few years. It's not until you get past 30 that you start thinking, like, 20, 10 years down the line. ◆◆

◆◆ It doesn't mean anything to me because you don't know what the value of it is going to be. So it doesn't really register with me very well. I'm just like this is ridiculous, it doesn't mean anything. ◆◆

Source: PLSA Research (2017)

Savers very rarely consider how much income they are likely to need in retirement. For those people who do, there are no widely accepted benchmarks that they can use as a guide. The lack of measures of this sort makes it difficult for people to think about the level of retirement income they are likely to need in later life. PLSA research suggests that people do not know how much to save for retirement. It found that only 23% of those aged 18-64 know how much they will need for retirement.

Evidence suggests that goal clarity is an important 'psychological mechanism' that enables individuals to plan for the future. The adoption of a 'goal-setting' approach can promote engagement with savings activities, particularly among those people who have poorly defined goals and those who have done little or no previous planning.[24] One of the most recognisable examples of this sort of approach is the five-a-day campaign, which has increased the average number of fruit and vegetables people in the UK eat.[25]

The Association of Superannuation Funds of Australia (ASFA) has adopted a similar approach to pension target setting. The Retirement Standards that ASFA developed act as a guide to retirees' financial needs in later life.[26] They are based on a basket of goods approach, where each target is related to the cost of buying a number of different goods and services (see table on the next page).

23 Financial Capability in the UK 2015: Initial Findings from the 2015 UK financial capability survey (2015)
24 R. Stawski et al, 'Goal Clarity and Financial Planning Activities as Determinants of Retirement Savings Contributions', International Journal of Aging and Human Development, Vol.64, Iss.1 (2007)
25 For more information, please see https://www.nhs.uk/live-well/eat-well/5-a-day-what-counts/
26 https://www.superannuation.asn.au/resources/retirement-standard

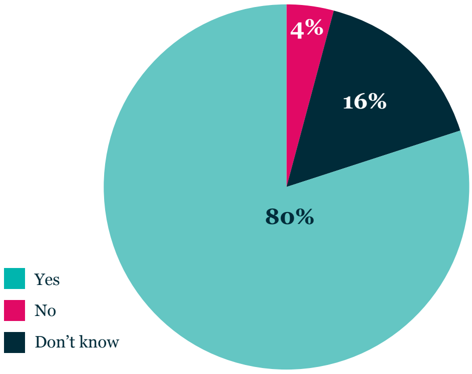
TABLE 4: ASFA BASKETS OF GOODS

	COMFORTABLE RETIREMENT	MODEST RETIREMENT	AGE PENSION
	One annual holiday in Australia	One or two short breaks in Australia near where you live each year	Even shorter breaks or day trips in your own city
	Regularly eat out at restaurants. Good range and quality of food	Infrequently eat out at restaurants that have cheap food. Cheaper and less food than a ‘comfortable’ lifestyle standard	Only club special meals or inexpensive takeaway
	Owning a reasonable car	Owning an older, less reliable car	No car or, if you have a car, it will be a struggle to afford repairs
	Afford bottled wine	Afford cask wine	Home brew beer or no alcohol at all
	Good clothes	Reasonable clothes	Basic clothes
	Afford regular hair cuts at a good hairdresser	Afford regular hair cuts only at a basic salon or pensioner special day	Less frequent hair cuts or getting a friend to cut your hair
	Take part in a range of regular leisure activities	Take part in one paid leisure activity infrequently. Some trips to the cinema	Only taking part in no cost or very low cost leisure activities. Rare trips to the cinema
	A range of electronic equipment	Not much scope to run air conditioner	Less heating in winter
	Replace kitchen and bathroom over 20 years	No budget for home improvements. Can do repairs, but can’t replace kitchen or bathroom	No budget to fix home problems like a leaky roof
	Private health insurance	Private health insurance	No private health insurance

HITTING THE TARGET

In our *Hitting The Target* consultation, we proposed the development of a set of National Retirement Income Targets for the UK. Targets would provide clear and understandable goals which, with the support of bespoke online tools, could be used to calculate how much must be saved into a pension and what role other assets can play in achieving savers' target income. Research carried out as part of the consultation project shows that retirement targets have broad public support (see graph below).[27]

CHART 2: PERCENTAGE OF PEOPLE WHO BELIEVE NATIONAL RETIREMENT INCOME TARGETS WOULD HELP THEM TO SAVE FOR A PARTICULAR LIFESTYLE



CONSULTATION RESPONSE

The PLSA's proposed system of retirement income targets received near-universal support from stakeholders who took part in the consultation process. Hymans Robertson provided evidence that shows that where members are given targets, supported by clear and effective communications, they engage more actively with their pension and, in many cases, increase contributions.

Targets In Action

One example of a goal-setting approach is Hymans Robertson's work with Scottish Power, who implemented Hymans Robertson's Guided Outcomes (GO) technology. The GO suite of solutions helps DC schemes to assess, communicate and guide scheme members. Scottish Power's use of it shows clearly the impact of setting a target for members.

- 69% of staff logged on to online GO portal (vs. 10% for a typical pensions website).
- 50% of staff have had repeated visits to the website (suggesting a real increase in engagement).
- 78% of users surveyed felt well or very well informed about their retirement savings using GO (vs. 40% before using GO).
- 92% of users said the information GO provided was useful or very useful.
- 1 in 5 employees immediately increased contributions.

27 PLSA Commissioned Omnibus Survey Results (2017)

The vast majority of respondents supported a tiered approach to the definition of retirement income targets, though one stakeholder stated that no more than one high level target should be developed, which savers could tailor using tools (fintech) and guidance/advice, while another expressed concern that three targets would not be enough to capture the degree of variation present within the population.

Some stakeholders felt that the inclusion of a ‘minimum’ target might lead to a levelling down process that would result in relatively poor retirement outcomes. There was some concern that the branding and communication of targets might discourage saving, particularly for the ‘minimum’ and ‘modest’ levels. As a result, care needs to be taken when labelling each target level.

The development of baskets of goods was widely accepted as an appropriate means of determining the different targets. However, some alternative approaches were suggested for arriving at these. In particular, although most respondents accepted the JRF MIS as a good basis for the ‘minimum’ standard, two proposed the use of the State Pension plus a top-up (based on either the savings accrued from automatic enrolment contributions at the level of the National Living Wage or an increment of 10-15% on the JRF MIS).

Stakeholders favoured income targets over a pot size target, which would risk appearing unachievable for savers and, as a result, might discourage pension saving. Respondents stated that income targets would be easily relatable to the incomes of savers in working life, which would increase the likelihood of them appearing to be achievable.

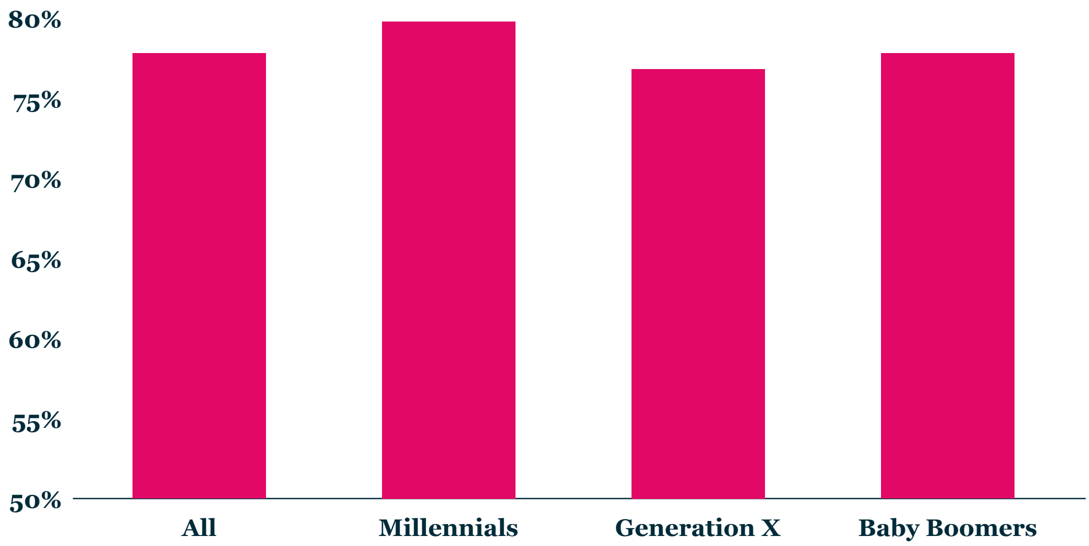
Stakeholders identified long-term care as an important issue. Respondents stated that long-term care costs can have a substantial impact on financial resilience in retirement.

ASSESSMENT

The evidence that the PLSA has received supports the creation of retirement income targets. Financial capability, particularly the ability to plan for long-term financial needs, is low in the UK. In Australia, retirement targets have provided savers with clear goals to aim for, which are communicated in a comprehensible fashion. The available academic evidence supports this sort of goal-setting approach, indicating that it can help savers to plan for the long-term.

PLSA research conducted as part of the consultation project (2017) showed that savers supported the idea of straightforward lifestyle targets that can guide saving behaviour effectively.[28] New research carried out by the PLSA in May 2018 demonstrates that people believe that retirement income targets would help them to understand if they were on track for their desired retirement lifestyle.[29]

CHART 3: RETIREMENT INCOME TARGETS WOULD HELP ME TO KNOW IF I WAS ON TRACK FOR THE LIFESTYLE I WANT IN RETIREMENT



28 PLSA Commissioned Omnibus Survey Results (2017)
29 PLSA Commissioned Omnibus Survey Results (2018)

PLSA research also shows that 74% of people believe that retirement income targets would make it easier to plan for retirement. This feeling was strongest among young savers, with, for example, 77% of Millennials stating that targets would help them. Moreover, our polling indicates that 70% of people believe that retirement income targets would encourage them to save more for retirement, with Millennials (78%) the most enthusiastic about their potential impact.[30]

The consultation also showed that there is widespread support among the pensions and lifetime savings community for the creation of a set of retirement income targets. The PLSA's proposed approach to target development – set out in the *Hitting The Target* consultation – received widespread support from across the pensions and lifetime savings industry. As a consequence, the PLSA is proceeding with the development of targets, according to the methodology set out in *Hitting The Target*.

For retirement income targets to be a success, it is important that the government introduces an effective approach to long-term care, which will enable savers to plan for the costs that they might face in later life.

RECOMMENDATIONS

ISSUE	RECOMMENDATION
Targets	A set of Retirement Income Targets should be developed in order to improve savers' understanding of the amount they need to save to achieve their desired standard of living in retirement. The PLSA has commissioned an independent research institute to identify the targets by early 2019.
Target Levels	There should be three target levels – corresponding roughly to 'minimum', 'modest' and 'comfortable' standards. The titles of the targets will need to be carefully chosen to ensure they are interpreted in the right way.
Target Methodology	The three levels should be determined by the creation of a basket of goods and services for each target standard.
Adoption	The targets should be adopted and used widely by the pensions sector.

30 PLSA Commissioned Omnibus Survey Results (2018)

CHAPTER 3
PENSIONS

WHAT PEOPLE TOLD US

We have also previously argued for auto enrolment to be extended to 18-21 year olds, following our research that showed that 70% of 18-21 year olds thought being auto enrolled by their employer into a workplace pension before the age of 22 was a good idea.

NOW: Pensions

...default automatic enrolment contributions will need to rise in the future from the current target of 8% of qualifying earnings up to at least 12% of salary...

Institute of Chartered Accountants of Scotland

...a more equitable split between minimum employer and employee contributions would lead to lower opt-out rates should the total be increased to 12%.

Hymans Robertson

Overall standards of a board as a whole may be improved and benefit from increasing the diversity of those appointed to the trustee role. Trustees (and the trustee board) should not be homogenous. This allows individuals with differing backgrounds and experiences to bring their own perspective, and the ability to challenge, to the joint decision-making process.

Standard Life

The first change would be to raise the bar in terms of required standards within the TKU model. It also needs to be more specialist between DC and DB. Increasingly, the requirements of trustees between the two are quite different. Just because an individual knows DB inside out, their knowledge and interest in DC can be low.

T. Rowe Price

We believe that there is a clear argument to allow greater Trustee or IGC oversight over decumulation processes for individuals who won't or can't engage... In our view, there is a role for consumers to be guided towards products which protect against consumer detriment.

PIMFA

The key to giving savers a better chance of good outcomes is for the establishment of default pathways, as identified in *Hitting the Target*. These should be well-researched, good value, securely governed solutions that would be suitable for most savers. Those who wished to pursue an alternative approach would be free to do so.

Trades Union Congress

3.1 AUTOMATIC ENROLMENT: SCOPE

SUMMARY

AUTOMATIC ENROLMENT HAS BEEN A GREAT SUCCESS IN WIDENING PARTICIPATION IN PENSION SAVING. SINCE 2012, 9 MILLION INDIVIDUALS HAVE BEEN AUTOMATICALLY ENROLLED AND DWP ESTIMATES THAT AROUND 10 MILLION WORKERS WILL BE SAVING FOR THE FIRST TIME OR SAVING MORE AS A RESULT OF AUTOMATIC ENROLMENT. HOWEVER, SOME GROUPS ARE NOT WITHIN THE SCOPE OF THE CURRENT AUTOMATIC ENROLMENT REGIME, WHICH LIMITS THEIR ABILITY TO SAVE EFFECTIVELY.

In our *Hitting The Target* consultation, we proposed extending the coverage to the main excluded groups (the self-employed, younger workers and multiple job holders). Since we launched our consultation the Government has published the 2017 Review of Automatic Enrolment, which proposed similar changes to the scope of automatic enrolment. The PLSA supports these recommendations. We believe that the right solution for the self-employed will take account of their preference for trust, control and flexibility. We also think that the recommendations in the Taylor Review on the 'gig' economy may help some groups of the self-employed.

There was universal support among our consultation respondents for including these groups within the scope of automatic enrolment. Although all stakeholders who responded to our consultation agreed that the self-employed should be helped to save for retirement, no single solution emerged that would facilitate this end and some were uncertain that inertia would work effectively in this instance.

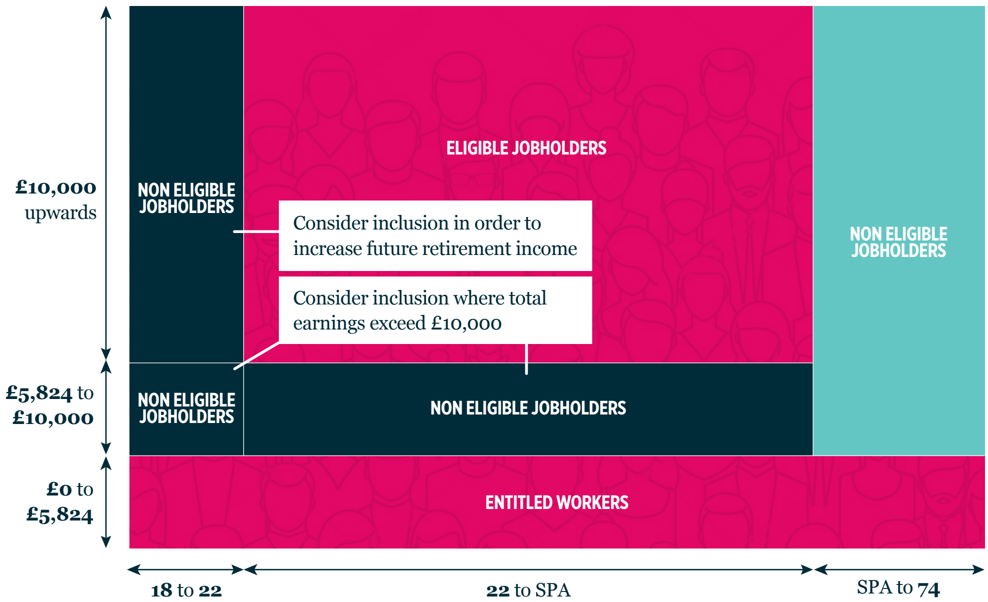
The PLSA, therefore, recommends that the Government should include young people within the scope of the regime as soon as practicable and implement a better statutory definition of a worker which will enable 'gig' economy workers to be included within the scope of automatic enrolment. We support efforts to include the self-employed within pension saving and recommend that any solution should take account of their key preferences – notably trust, flexibility and control.

BACKGROUND

Since 2012, 9 million individuals have been automatically enrolled, with more than 900,000 employers having met their automatic enrolment duties.[31] By the end of the staging process, DWP estimates that around 10 million workers will be saving for the first time or saving more as a result of automatic enrolment.[32] Some groups are not within the scope of the current automatic enrolment regime. In particular, the self-employed, younger workers and those with multiple jobs with earnings of less than £10,000 per annum are excluded.

There are nearly 5 million self-employed people in the UK, from highly-paid management consultants to delivery drivers; an increase of 50% since the turn of the millennium. Research shows that only 12% of the self-employed are actually saving into a private pension.[33] There are around 900,000 workers on zero hours contracts and 800,000 agency workers.[34] These groups have grown markedly in recent years and are variously described as the 'gig' economy, precarious workers or among the 'self-employed'.[35]

FIGURE 3: SCOPE OF AUTOMATIC ENROLMENT – PROPOSALS FOR CHANGE



The Automatic Enrolment (AE) Review 2017 recommended the inclusion of young people within the scope of the regime and the removal of the Lower Earnings Limit (LEL). The AE Review committed to "work to implement the Government's manifesto commitment to improve pension participation and retirement outcomes among self-employed people by testing a number of different approaches aimed at increasing the savings of self-employed people from 2018, with a focus on those with low to moderate incomes."[36]

As part of the Government's response to the Taylor Review, it is consulting on how to clarify employment statuses in order to distinguish the genuinely self-employed from people who are, in fact, employees, which could mean that future 'gig' economy workers will benefit from a workplace pension.[37]

31 DWP, Automatic enrolment review 2017: analytical report (2017)
32 http://data.parliament.uk/DepositedPapers/Files/DEP2017-0808/Auto_enrolment_review_earnings_trigger_and_qualifying_earnings_band.pdf
33 PPI, Policies for Increasing Long-Term Saving of the Self-Employed (2017)
34 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf
35 PPI, Automatic Enrolment in the Gig Economy: Modelling for Zurich (2017)
36 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668971/automatic-enrolment-review-2017-maintaining-the-momentum.PDF
37 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf

If implemented, these reforms will go some way to solving the challenges faced by young workers, multiple job holders and 'gig' economy workers, which is encouraging. However, neither the AE 2017 Review nor the Taylor Review offered recommendations on how the self-employed could be included within the scope of AE. The results of forthcoming Government pilots will be important in exploring potential solutions.

In 2017, the PLSA carried out research into the preferences of self-employed people in regard to pension saving. The results of this research offer a useful guide to policymakers. In particular, any solution should take account of self-employed people's preference for trust, flexibility and control.

FIGURE 4: VIEWS FROM THE SELF-EMPLOYED ON PENSION SAVING

CONTROL

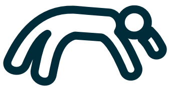
Being self-employed comes with disadvantages – you lose the security of a predictable wage and the support of employer benefits.

But the key benefit is control – for the genuinely self-employed you are your own boss. And this extends to finances – valuing the feeling of having control over where their money goes.

TRUST

When you're ultimately responsible for your own financial wellbeing, having trust in the people and institutions you deal with is crucial.

With the impression that they benefit less from government and other financial institutions, the self-employed are less likely to trust in government to look after them in retirement.



FLEXIBILITY

Being self-employed can feel like a financial rollercoaster – with fortunes fluctuating from month to month.

The self-employed are acutely aware of this – and their anxieties about what the next month(s) will bring mean they place a high premium on financial flexibility.

Overall, there were limited differences between the different groups of self-employed workers. Before the research, we considered the hypothesis that gig economy workers may differ in their attitudes and behaviour from other self-employed workers; however, the majority of gig economy workers were content with their self-employed status and expressed the same preference for autonomy, control and flexibility as other groups.

HITTING THE TARGET

In our *Hitting The Target* consultation, we proposed that the automatic enrolment regime should be modified in order to include the following groups within the scope of automatic enrolment: young people (18-21); multiple job holders with total earning above £10,000; 'gig' economy workers; and the self-employed. In regard to the last group, the PLSA proposed that only the traditional self-employed should be included within the scope of automatic enrolment and not owner/directors, who tend to manage their financial affairs more closely.

CONSULTATION RESPONSE

There was universal support among our consultation respondents for including these groups within the scope of automatic enrolment. Although all stakeholders who responded to our consultation agreed that the self-employed should be helped to save for retirement, no single solution emerged that would facilitate this end and some were uncertain that inertia would work effectively in this instance. Among those who supported using automatic enrolment to bring the self-employed into regular pension saving, various approaches were suggested to achieve this objective, including:

- Increasing National Insurance Contributions and allocating the additional sums to a scheme of the saver's choice via a carousel of options.
- Using the tax system to collect contributions that would be allocated to a NEST fund.
- Encouraging self-employed people to save via an alternative incentive (e.g. higher rate of tax relief).
- Making contributions more default-like once saving has begun. This could be done via common digital transactions (e.g. invoices) from which deductions could be taken.

ASSESSMENT

The PLSA believes that a policy solution in this area for the self-employed would be most acceptable to those in this group if it were to address their particular concerns, which relate to control, trust, and flexibility. In carrying out the announced pilot projects on this issue, the government should take account of self-employed individuals' preferences. The *Making Tax Digital* agenda may provide the technical means necessary to create a viable solution over the course of the medium term.

Making Tax Digital

Making Tax Digital is a key part of the Government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs, and will mean the end of the annual tax return for millions.

Every individual and business now has access to their own personalised digital tax account, and these are being regularly expanded and improved. HMRC's ambition is to become one of the most digitally advanced tax administrations in the world, modernising the tax system to make it more effective, more efficient and easier for customers to comply with.

The modernisation of the means by which the self-employed interact with their tax affairs – in particular, the end of the annual tax return and the implementation of regular tax payments – might make it easier for them to balance their cash flow and long-term saving needs.

The PLSA will have achieved its objective in regard to young workers should the changes proposed by the Automatic Enrolment Review 2017 be implemented. This will also go some way to improving outcomes for multiple job holders. The policy proposals set out in the consultations associated with the government's response to the Taylor Review are in line with PLSA policy in regard to 'gig' economy workers, which is encouraging.

The Automatic Enrolment Review 2017 stated that the removal of the Lower Earnings Limit (LEL) would support those people with low earnings and multiple jobs to save. This is because contributions would be calculated from the first pound earned. We agree that this is an important change and is likely to have a positive impact.

RECOMMENDATIONS

ISSUE	RECOMMENDATION
Young People	The Government should implement the Automatic Enrolment Review 2017's proposal to include young people within the scope of the regime as soon as practicable.
'Gig' Workers	The Government should develop and implement a better statutory definition of a worker that can be aligned with the definition of a worker in PA08, rendering the inclusion of 'gig' economy workers within the scope of Automatic Enrolment almost certain.
Self-Employed	The Government is right in aiming to extend pension saving to the self-employed. We recommend that any solution takes account of their key preferences, notably trust, flexibility and control.

3.2
AUTOMATIC ENROLMENT: CONTRIBUTIONS

SUMMARY

DESPITE THE SUCCESS OF AUTOMATIC ENROLMENT IN INCREASING THE AMOUNT OF PEOPLE SAVING FOR THEIR RETIREMENT, IT IS WIDELY ACCEPTED THAT MINIMUM CONTRIBUTION LEVELS ARE AND WILL CONTINUE TO BE TOO LOW TO DELIVER AN ADEQUATE RETIREMENT INCOME FOR MOST SAVERS, EVEN BY THE END OF THE PHASING PROCESS. ACCORDING TO PLSA RESEARCH, LESS THAN 50% OF ALL SAVERS ARE ON TRACK TO ACHIEVE THE PENSIONS COMMISSION'S TARGET REPLACEMENT RATE. AFTER A LIFETIME OF SAVING, SOMEONE ON MEDIAN EARNINGS CAN EXPECT A COMBINED STATE AND PRIVATE PENSION OF AROUND £14,300 A YEAR.

In our *Hitting The Target* consultation, we proposed an increase in minimum contributions to 12% of salary over the course of the 2020s, and that consideration should be given to moving to a 50/50 employer/saver split. Subject to an analysis of the results of the current phasing process, the increase to 12% of salary was universally supported by consultation respondents and there was wide support for increasing the proportion paid by employers to 50%.

The PLSA, therefore, recommends that the Government should increase minimum automatic enrolment contributions to 12% of salary over the course of the mid-2020s and revise the division of contributions so that employers match employees 50/50. In order to guard against over-saving among low income groups and provide flexibility in times of short-term financial need, we recommend that further research into the effective use of opt-down and sidecar mechanisms should be carried out to ensure that raising contributions from 8% to 12% will be manageable for people on low incomes.

BACKGROUND

Despite the success of automatic enrolment, most people are not currently saving enough to achieve adequate retirement outcomes, nor will they be saving sufficient amounts once the staging process is complete. PLSA research shows that 13.6 million people are at high risk of not saving enough to achieve the Pension Commission's Target Replacement Rate (TRR), though this is not equally divided between generations.[38]

The Automatic Enrolment Review 2017 recommended the removal of the Lower Earnings Limit (LEL), which will ensure that employer/employee pension contributions are made on the whole of an employee's salary and not only on a qualifying amount. The PLSA has long advocated a move to pension contributions being assessed on the basis of an employee's entire earnings and, as a result, supports the removal of the LEL.

HITTING THE TARGET

In our *Hitting The Target* consultation, we proposed that the automatic enrolment regime should be modified in order to:

a. Increase minimum contributions from 8% of band earnings to 12% of salary over the course of the 2020s.

b. Ensure that employers continue to meet the same proportion of minimum contributions as at present (37.5%) following the increase from 8% to 12%, and consider moving to a 50/50 employer/employee split.

c. Reduce the risk of financial hardship for people on low incomes by considering measures to address over-saving.

CONSULTATION RESPONSE

An increase in minimum contributions from 8% of band earnings to 12% of salary during the 2020s was universally supported by our consultation respondents, though most noted that a full analysis of the current phasing process would be required before any final decisions are taken. Some consultation respondents stated that an increase in minimum contributions to 12% of salary might result in low income savers over-saving, which could result in them needing new flexibilities to help them manage short- and long-term priorities.

A rebalancing of employer/employee contributions was also widely supported by consultation respondents. In the past, it was common among UK employers to offer two-thirds of all contributions paid into an employee's pension savings. Under automatic enrolment, employers are only required to pay 37.5% of total pension contributions. The UK is an outlier in the context of the international community, where employers tend to pay a much higher proportion into employees' pensions than is the case in Britain.[39]

Higher employer contributions will become increasingly important, especially if the Government decides to increase minimum contributions beyond 8%.

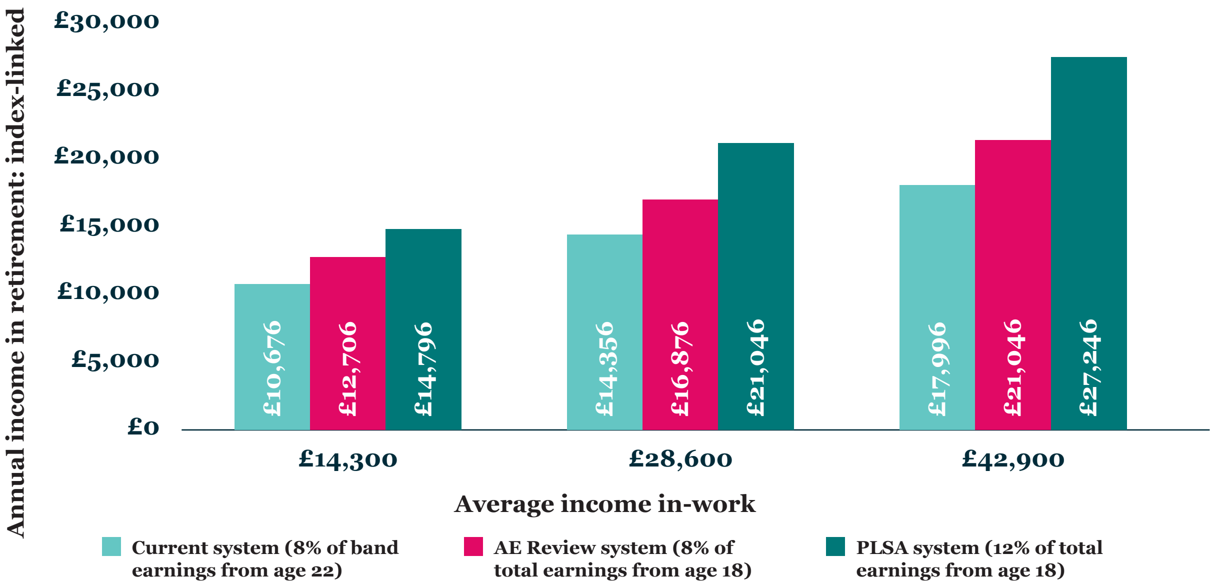
ASSESSMENT

Although automatic enrolment has been very successful in increasing the number of people saving in a workplace pension, it is clear that more needs to be done to help people to achieve an adequate income in retirement. We believe that there is a strong case for increasing automatic enrolment contributions to 12% of salary, though this needs to be done in light of a full analysis of the phasing process.

38 PLSA, Retirement Income Adequacy: Generation By Generation (2016)
39 http://www.pensionspolicyinstitute.org.uk/uploaded/documents/2017/20171013%20PPI%20Who%20pays%20the%20piper%20report.pdf

The graph below shows the outcomes for different contribution scenarios for individuals on 50%, 100% and 150% of median earnings. These income projections are calculated on the basis that the individual works continuously from the stated age (18 or 22) to State Pension age. In practice, many people do not do so for a wide variety of reasons, including unemployment, parental and other caring responsibilities, poor health, and study breaks. As a result, these projections are likely to overestimate retirement income for many people.

CHART 4: PLSA RETIREMENT INCOME PROJECTIONS[40]



It seems likely that some savers will find it difficult to cope with significant increases in pension contributions. As a result, further increases in pension contributions need to be weighted towards the employer rather than the employee if increased opt-out/cessation rates are to be avoided.

Although we recognise that asking employers to play a greater role in supporting employees' pension savings will increase the costs they have to bear, we believe that employers may be willing to do so, because they recognise the benefits of automatic enrolment. PLSA research carried out in 2017 found that 74% of employers support automatic enrolment. Support for the policy is even stronger among large employers (92%).[41]

In line with the PLSA's view, only a small number of employers (26%) believe that automatic enrolment contributions of 8% of band earnings are enough for an adequate retirement, and a majority (54%) believe that contributions at a rate of 12% of salary would more effectively deliver an adequate income in retirement.[42] In the event of minimum pension contributions increasing to 12% of salary, 87% of employers felt that this should be implemented over three years or more to make it affordable for employers.[43]

Some people argue that increasing contributions to 12% of salary may result in over-saving for those on low incomes. It is very unclear whether this is likely to happen, as most people on low earnings are on them temporarily or have other household income.

40 These estimates assume that the individual works continuously from the stated age to State Pension age (though an unbroken employment record is uncommon); real earnings are constant over this individual's lifetime; real investment returns are 3% per annum net of all charges; the individual purchases an index-linked annuity at State Pension age; and everyone gets a State Pension of £8,300 per annum.

41 PLSA Commissioned Omnibus Employer Results (2017)

42 PLSA Commissioned Omnibus Employer Results (2017)

43 PLSA Commissioned Omnibus Employer Results (2017)

Over-Saving

There has been significant debate about the potential for over-saving by pension savers in low income groups. However, the evidence on this issue is unclear.

Earnings are highly dynamic across savers' working lives and very few people have persistently low earnings over the course of their careers. Research by the Low Pay Commission found that minimum wage jobs tend to be entry level positions that are of relatively short duration. A substantial number of those paid the minimum wage move, after a short duration, into higher paid employment and the increase in pay is in excess of 10% above the minimum for over half of them.

The degree to which an individual can be considered to be over-saving is also dependent on the economic status of the family unit as a whole. The Making Automatic Enrolment Work (MAEW) Review examined this issue and found that of those individuals with gross earnings of between £5,000 and £10,000, just over two-thirds (69%) were part of a couple, with or without children. Whether that partner is earning, and how much, is an important factor in determining whether a particular individual should save or not.

The MAEW Review found that nearly half of those in the lowest earning group were in couples where one was in part-time work and the other in full-time work. A further quarter were single people in part-time work; of these, 43% were lone parents and 40% were single people living with others, typically their parents. The evidence suggests that this risk of over-saving is highest among single persons.

Nevertheless, low income savers may need additional flexibilities to avoid the possibility of over-saving to enable them to reduce contributions at points of pressing financial difficulty. Such flexibilities should be limited in nature, as it is important that long-term financial security remains at the forefront of the retirement saving system.

One way of achieving this outcome might be to allow savers to step contributions down to a lower level for a defined period of time, before being automatically re-enrolled at the full AE rate. An alternative might be to adopt the 'Sidecar' proposal, where some of the funds saved through automatic enrolment could be allocated to a liquid account that could be used to meet short-term costs.

Balancing Savers' Priorities

A number of means of balancing savers' short- and long-term financial needs have been proposed. Among the most promising ideas are the NEST Sidecar research proposal and the Local Government Pension Scheme (LGPS) 'opt-down' mechanism.

NEST SIDECAR

In a sidecar structure, a liquid account would sit alongside the saver's pension funds. A proportion of monthly contributions would be diverted into the liquid account in order to enable savers to manage short-term costs. It is hoped that this would create an optimal level of liquid savings, while also maximising long-term savings. This process would be administered as follows:

1. Contributions paid into the combined account structure would at first be distributed between the liquid and illiquid accounts.
2. When the balance in the liquid account reaches a predetermined threshold level, known as the 'savings cap', all contributions would start 'rolling' into the illiquid retirement account.
3. If at any point the saver withdraws funds from the liquid account, and so reduces the balance to a level below the savings cap, future contributions would once again start being divided between the liquid and illiquid accounts.

LGPS 'OPT-DOWN' MECHANISM

The Local Government Pension Scheme (LGPS) offers an 'opt-down' mechanism. LGPS regulations allow active scheme members to opt-out of the main scheme and into an arrangement where 50% of normal contributions can be paid in exchange for 50% of the normal benefits for the same period.

This was introduced in April 2014 to enable financially stretched members to stay in the scheme rather than opt out. However take up of the LGPS 'opt-down' facility has been low, with less than 1% of the membership opting for the 50/50 arrangements.

PLSA PERSPECTIVE

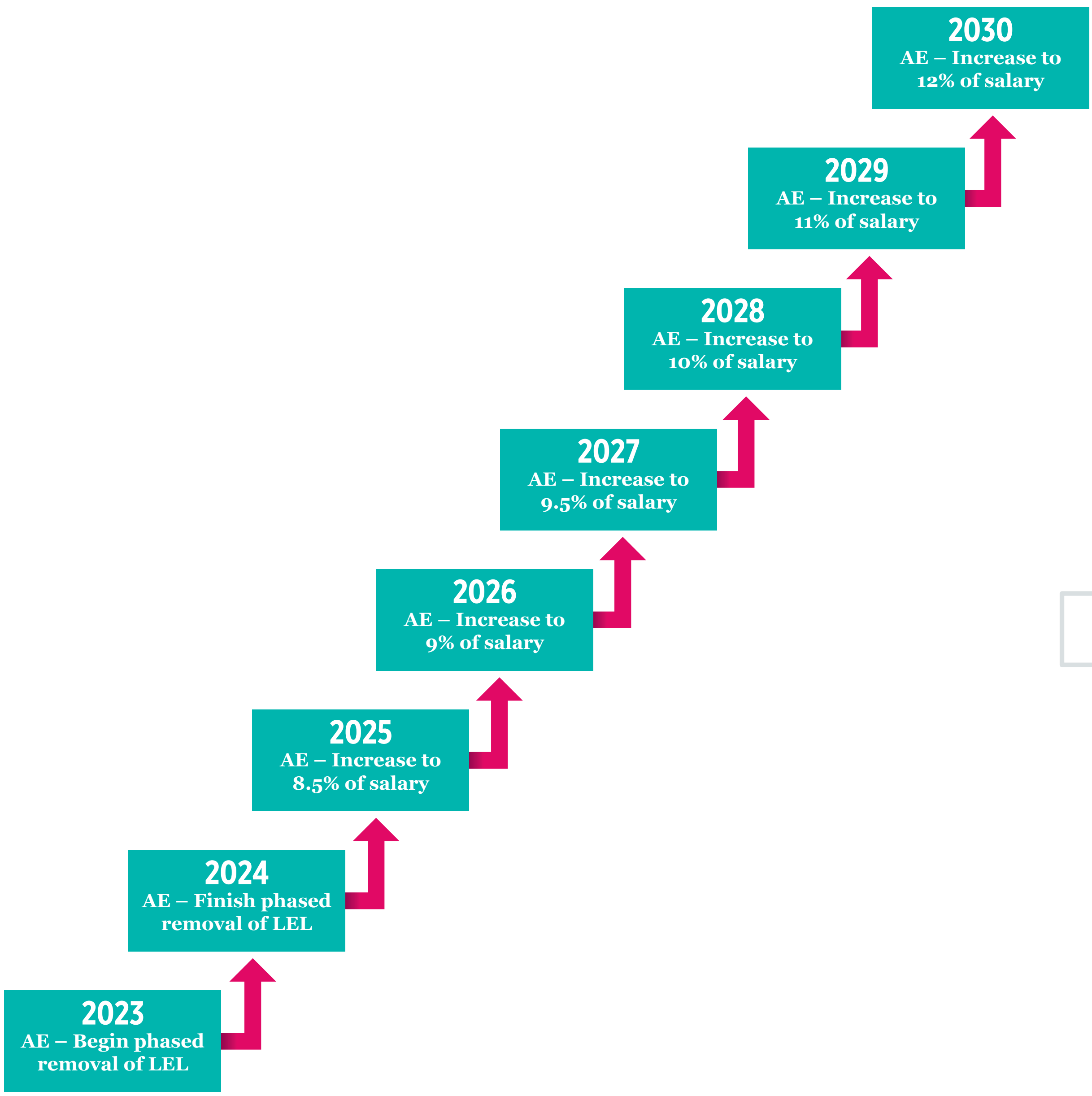
The PLSA believes that mechanisms might be needed in order to help low income savers manage their short- and long-term saving priorities. However, more research is required to determine if such a mechanism is necessary and, if so, which means would be most effective in helping savers to set aside adequate resources for their retirement while managing short-term needs.

In conclusion, to address low saving levels, the PLSA believes that further increases in pension contributions need to be weighted towards the employer, rather than the employee, if increased opt-out/cessation rates are to be avoided. This is particularly important for low income savers, who may need additional flexibilities if they are to avoid over-saving for retirement or are facing short-term financial difficulties.

RECOMMENDATIONS

The PLSA's proposal is that minimum automatic enrolment contributions should increase to 12% of salary by 2030. These increases should be weighted towards the employer in order to minimise the potential for employee opt-outs and cessations. According to our proposed timetable (see below), employer contribution increases would progress at a rate of 0.5% per annum between 2025 and 2030. In 2029 and 2030 employee contributions would also increase by 0.5%.

FIGURE 5: PROPOSED TIMETABLE: CONTRIBUTION INCREASES/SPLIT



The PLSA's recommendations regarding automatic enrolment contributions are set out in the box below.

ISSUE	RECOMMENDATION
Contribution Level	The Government should increase minimum automatic enrolment contributions from 8% of band earnings to 12% of salary over the course of the mid-2020s. The Government should prioritise the removal of the LEL, recommended in the Automatic Enrolment Review 2017, and implement this recommendation as soon as possible.
Employer / Employee Split	The Government should rebalance employee/employer contributions, moving to a 50/50 split over the course of the phasing of minimum contributions to 12%.
Flexibility	The pensions sector should carry out research into the effective use of opt-down and sidecar mechanisms to ensure that raising contributions from 8% to 12% will be manageable for people on low incomes.

3.3 PENSION TAX

SUMMARY

PENSION CONTRIBUTIONS RECEIVE FAVOURABLE TAX TREATMENT AT THE POINT OF SAVING. THE AMOUNT OF TAX RELIEF SAVERS RECEIVE IS BASED ON THEIR INCOME TAX RATE. HIGHER SAVINGS LEVELS BY PEOPLE ON ABOVE AVERAGE INCOMES AND THE NATURE OF MARGINAL RATE RELIEF MEAN THAT HIGHER EARNERS RECEIVE A LARGER PROPORTION OF FISCAL SUPPORT. THE UNEVEN OUTCOMES THAT THE EXISTING SYSTEM PROMOTES ARE ALSO THE RESULT OF THE FACT THAT NOT ALL TYPES OF PENSION SAVING ARE REWARDED EQUALLY AT PRESENT.

In our *Hitting The Target* consultation, we proposed that the Government should consider whether tax relief should be modified to help savers achieve our proposed Retirement Income Targets. Most consultation respondents felt that now is not the right time for reform. They were concerned that doing so might slow down the adoption of the targets and introduce unhelpful complexity into the tax system. However, others felt that some reform would be welcome, especially, if tax relief could be made easier to understand. There was widespread agreement among respondents on the need for better data. Many stated that the official figures on the cost of tax relief should be reviewed and amended, because they are currently very misleading.

The PLSA, therefore, is not calling for a reform of tax relief, but as a first step to achieving a more effective regime we propose that the government should adopt a clear objective for pension tax relief – and that, in our view, should be to help as many people as possible achieve an adequate retirement income.

BACKGROUND

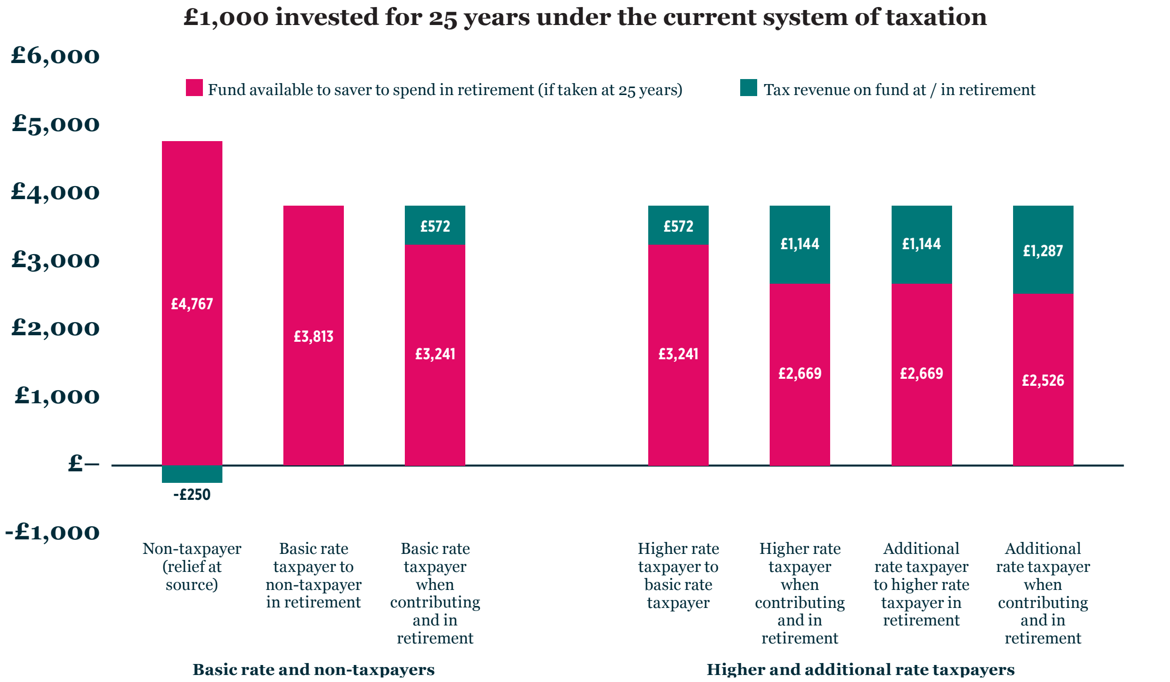
Pensions are a form of deferred pay, with taxation occurring when that pay is received (i.e. in later life). Tax relief is provided by the Government upfront on pension savings up to a certain limit (defined by the Annual Allowance and Lifetime Allowance). The amount of tax relief savers receive is based on the income tax rate they pay while working and when they retire. At the point of withdrawal, savers are entitled to 25% of their total pension savings tax-free. The table below shows the estimated distribution of tax relief broken down by category of pension and type of expenditure.

TABLE 5: PLSA ESTIMATES OF THE DISTRIBUTION OF TAX RELIEF

TYPE	PLSA ESTIMATE
Defined Benefit (Total)	£20.5 bn
Public sector future accrual	£11.2 bn
Private sector future accrual	£2.1 bn
Deficit Contributions	£7.2 bn
Defined Contribution (Total)	£9.2 bn
Occupational Defined Contribution	£2.5 bn
Contract based Defined Contribution	£6.7 bn

Where people pay the same rate of Income Tax both before and after retirement, they will pay in tax much of the relief that they receive. However, where they switch from being higher rate taxpayers in work to basic rate taxpayers in retirement, they receive an advantage compared to those who maintain the same tax status over the course of their lives. People who save into a pension but do not pay income tax also benefit proportionately (see graph below).

CHART 5: TAX AND RETIREMENT INCOME FOR DIFFERENT TYPES OF TAXPAYER FROM £1,000 INVESTED FROM GROSS PAY AND TAXED UNDER THE CURRENT SYSTEM[44]



44 https://www.plsa.co.uk/portals/0/Documents/0447-Strengthening-the-incentive-to-save-A-consultation-response-on-tax-relief%20(2).pdf

Higher savings levels by people on above average incomes and the nature of marginal rate relief mean that higher earners receive a larger proportion of the fiscal support provided by the Government to pension savers. This is limited by both the Annual Allowance and the Lifetime Allowance, and by tapered reductions in tax relief for the highest earners (Additional Rate taxpayers).

At present, the uneven outcomes that the existing system promotes are also the result of the fact that not all types of pension saving are rewarded equally. With the Lifetime Allowance set at £1 million, someone in a DB pension can accrue a tax relief-supported pension of up to around £50,000 per year, while someone in a DC pension, at current annuity rates, would only be able to buy an equivalent pension of about £30,000 per year. However, this disparity will change or even cease to exist, depending on interest rate fluctuations.

HITTING THE TARGET

In our *Hitting The Target* consultation, we proposed that consideration should be given to whether the pension tax relief regime should be modified to help savers achieve our proposed Retirement Income Targets.

CONSULTATION RESPONSE

Some consultation respondents rejected the idea of modifying current tax relief arrangements on the basis that the adoption of new retirement income targets should not be hindered by a debate about tax relief. Others argued that changing the tax system would introduce more complexity into the pension system.

The current EET system received support from most respondents, though some did so with caveats. Many stakeholders stated that more should be done to inform people about the benefits of the existing tax relief regime and some respondents argued that the Lifetime Allowance should be abolished.

Reform of the tax system was supported by other stakeholders who responded to the consultation, one of whom proposed a 'root and branch' review of the complex regime (including the inconsistencies between DB and DC). Other supporters of reform were more specific in their recommendations. Moving to a flat rate income tax relief regime was proposed by one respondent on the basis that it would redistribute income tax relief from high earners to low and middle earners.

All stakeholders were also clear that no changes should be made to pension tax relief unless there is evidence that they will have a beneficial effect. Any future modification should be comprehensive, as opposed to piecemeal, in order to ensure that it endures for the long-term.

There was widespread agreement among respondents on the need for better data. Many stated that the official figures on the cost of tax relief should be reviewed and amended, because they are very misleading at present. For example, rather than showing the actual lifetime cost, the current approach merely compares the funds used to support today's savers and the tax raised on current pensioners. As a result, the existing data is, to a large degree, mismatched, which makes the real cost of tax relief unclear.

ASSESSMENT

In light of the responses we do not believe that the time is right to recommend a fundamental reform of the fiscal support that the Government gives to pension savers. However, the PLSA does believe that the Government should adopt a clear objective for its fiscal support for pension saving. To that end, the PLSA is proposing a new objective for pension tax relief, which is *to help as many people as possible to achieve an adequate retirement income*.

A new objective would help the Government and stakeholders to assess whether the pension tax relief regime is successful, and would guide any future thinking on the design and operation of pension tax relief. It would also help to raise awareness about the fiscal support available to savers, which could encourage further long-term saving.

RECOMMENDATIONS

ISSUE	RECOMMENDATION
Objective	The Government should state its objective for pension tax relief. The PLSA believes that this objective should be *to help as many people as possible achieve an adequate retirement income.*

3.4 WELL GOVERNED SCHEMES

SUMMARY

GIVEN THE COMPLEXITY OF RETIREMENT PRODUCTS, IT IS IMPORTANT THAT SOMEONE IS LOOKING AFTER THE INTERESTS OF SAVERS AND ENSURING THAT, EVEN IF THE SAVER DOES NOTHING, THEIR MONEY WILL BE WELL MANAGED AND DECISIONS MADE IN THEIR INTERESTS. UK SCHEME GOVERNANCE STANDARDS REMAIN HIGHLY VARIED. FOR EXAMPLE, ONLY HALF OF SCHEMES SURVEYED BY TPR SAID THAT ALL THEIR NON-PROFESSIONAL TRUSTEES MET THE STANDARDS SET OUT IN THE TRUSTEE KNOWLEDGE AND UNDERSTANDING (TKU) CODE OF PRACTICE. IN ADDITION, THERE ARE LIMITS TO THE REMIT OF IGCS AND SOME FEEL THAT THESE MAY RESTRICT THEIR ABILITY FULLY TO SAFEGUARD MEMBERS' INTERESTS.

In our *Hitting The Target* consultation, we proposed that TPR should rebalance its priorities and concentrate on the quality of trustee board appointments and their effectiveness. We suggested that the government should also explore giving IGCs new powers to enable them to safeguard members' interests throughout the retirement journey. Stakeholders agreed that there is a clear need to improve the quality of trustees overseeing schemes, especially among smaller schemes. There was also widespread support for extending the remit of IGCs to cover decumulation, and it was suggested providers should be given the power to alter default funds.

The PLSA therefore recommends that TPR should do more to encourage high standards of governance in all schemes. This should include the publication of pension schemes' annual Chairs' Statements on TPR's website in order to enable effective scrutiny. In regard to IGCs, the FCA should ensure that providers have the power to make changes to the default fund in regard to legacy (as well as future) savings. These changes should be made with oversight from IGCs. The FCA should also extend the remit of IGCs to cover not just accumulation, as now, but also decumulation.

Moreover, we believe that TPR/FCA should carry out a joint review of the protection given by the governance arrangements in the trust- and contract-based regimes to ensure that savers in both types of scheme receive equivalent protection. This would help to ensure that savers receive similar outcomes no matter what type of scheme they are in.

BACKGROUND

Research suggests that funds with robust governance structures outperform their peers by between 1% and 2% a year.[45] High-quality governance can, therefore, play a role in helping savers to achieve their desired standard of living in retirement. Good governance of pension schemes relies on two essential elements: high quality people and effective processes.

Scheme governance standards in the UK remain highly varied. Only half of schemes surveyed by TPR said all their non-professional trustees met the standards set out in the Trustee Knowledge and Understanding (TKU) Code of Practice. Twenty-four per cent say they never disagree with external advisors and 58% say they 'rarely' do so, which implies a lack of capacity to challenge expensive advice.[46]

A number of initiatives currently underway have the potential to improve the quality of pension scheme governance (see box below).

Governance Reform Initiatives

- **Pensions Schemes Act 2017:** The Act introduces an authorisation regime for DC Master Trusts, including extensive fit and proper requirements for trustees.
- **TPR's 21st Century Trustee Initiative:** This initiative aims to raise the standard of governance across the remainder of the occupational pension schemes sector. This is primarily an educational initiative but may, in time, involve some other actions (e.g. more enforcement).
- **APPT's Professional Pension Trustees Minimum Standards:** This project aims to set out the standards in six areas that professional trustees should meet.
- **IORP2 Directive:** New EU requirements, which will come into force in January 2019, will alter the existing legal requirement on trustee boards; the main change being that the obligation to have the right skills, knowledge and qualifications apply at the level of the trustee board as a collective rather than on each individual.

In contract-based schemes, providers are regulated by the FCA and subject to its rules. In particular, 'Treating Customers Fairly' is a requirement of one of the FCA's Principles for Businesses. In addition, contract-based workplace pensions have Independent Governance Committees (IGCs), whose role is to:

i. Act solely in the interests of relevant policyholders;

ii. Assess the ongoing value for money for relevant policyholders delivered by relevant schemes;

iii. Raise with the firm's governing body any concerns it may have in relation to the value for money for relevant policyholders delivered by a relevant scheme;

iv. Escalate concerns as appropriate where the firm has not, in the IGC's opinion, addressed those concerns satisfactorily or at all;

v. Meet, or otherwise make decisions to discharge its duties, using a quorum of at least three members, with the majority of the quorum being independent; and

vi. Produce (the Chair) an annual report for members.[47]

45 K. Ambachtsheer, Pension Revolution: A Solution to the Pensions Crisis (2007)
46 TPR, Trustee Landscape: Quantitative Research (2015)
47 https://www.handbook.fca.org.uk/handbook/COBS/19/5.html?date=2017-08-01

However IGCs do not have the remit to safeguard member interests in the decumulation phase of the retirement journey.

HITTING THE TARGET

In the *Hitting The Target* consultation, the PLSA proposed that pension scheme governance should be modified as follows:

a. TPR should rebalance its regulatory priorities and place a greater focus on the scrutiny of trustee board appointments and effectiveness.

b. The Government should explore if it is possible to give IGCs additional powers that will enable them to safeguard members' interests throughout the retirement journey.

CONSULTATION RESPONSES

Consultation respondents stated that although schemes have different needs, there is a clear need to improve the overall quality of trustees overseeing schemes. However, respondents argued that high standards should not be achieved via a move towards full professionalisation, because there are insufficient professional trustees to service the number of schemes. Respondents also noted that professionalisation could reduce the number of Member Nominated Trustees (MNTs), who can bring valuable diversity to scheme governance.

Trustee Diversity

Governance is about the structures and processes that support decision-making as much as it is about resources. For pension funds, this means having a skilled board or committee, with a good balance of knowledge and experience, and, crucially, the cognitive diversity which that brings.

Research suggests that pension funds' record on diversity is poor. Just 28% of trustees responding to a PLSA survey said their board was diverse in terms of ethnicity while only 49% thought it was diverse in terms of gender. The PLSA's annual survey has previously found that around 83% of scheme trustees are male.

The PLSA recognises the importance of having a diverse range of voices in any decision-making process, and would like to see schemes improve their record on diversity in future.

Source: PLSA, *Good Governance – How To Get There (2017)*

Consultation respondents suggested that IGCs should be given sufficient powers to safeguard the best interests of scheme members. In particular, providers should be given powers to transfer funds to more suitable investments – provided that IGCs agree. Moreover, stakeholders stated that IGCs should have an oversight role in regard to the decumulation phase. However, while there was unanimous support for the former, some providers were concerned that extending IGCs' remit further would dilute their focus on the accumulation phase, with negative outcomes for savers.

ASSESSMENT

Progress has been made improving governance standards in recent years, led by both TPR and the FCA. Far fewer schemes are now characterised by very poor governance arrangements. However, it is clear that there is an appetite, both across the industry and within government, to improve governance standards further.

We believe that reforms should focus on further improving the quality of trustees. As well as building on current initiatives, such as TPR's 21st Century Trustee Initiative and the APPT's Professional Pension Trustees Minimum Standards, we consider that the role of the Chair's Annual Statement should be expanded to support further the evidencing of trustees' capabilities.

It is also essential that providers (insurance companies) have the powers necessary to act in the interest of savers. One area in which they could make a real impact on savers' outcomes relates to legacy default funds, many of which are not suitable. As a result, we believe that providers should be given the power to make changes to the default fund in regard to legacy (as well as future) savings. These changes should be made with oversight from IGCs.

Finally, reforms should focus on supporting the FCA and TPR objective of ensuring member outcomes are similar no matter which type of workplace pension scheme they are saving in.[48] A joint TPR/FCA review of the level of protection currently given by the governance arrangements in the trust- and contract-based regimes should be carried out in order to assess areas for improvement.

RECOMMENDATIONS

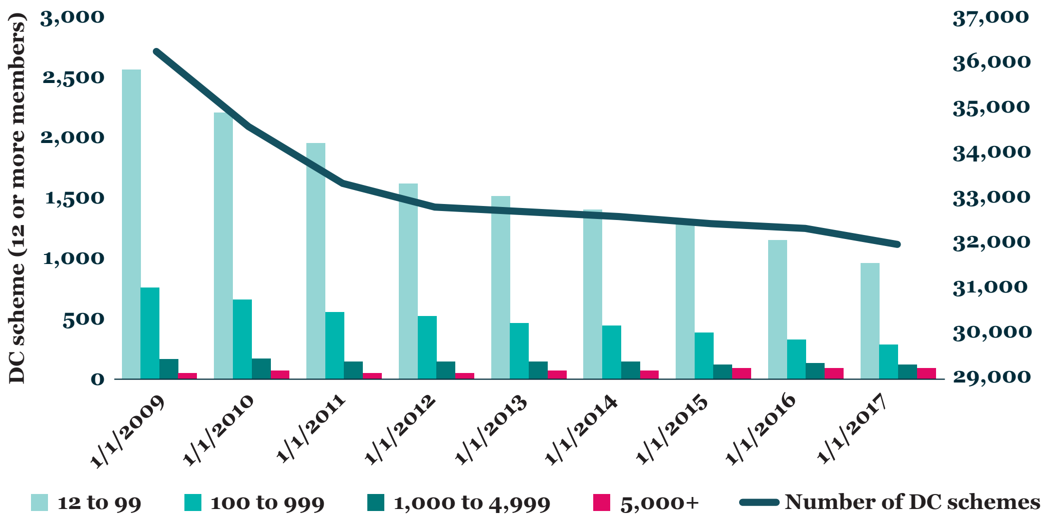
ISSUE	RECOMMENDATION
IGCs	The FCA should ensure that providers (insurance companies) have the power to make changes to the default fund in regard to legacy (as well as future) savings. These changes should be made with oversight from IGCs. The FCA should extend the remit of IGCs to cover not just accumulation, as now, but also decumulation.
Trustees	TPR should seek to encourage high standards of governance in all schemes. To help achieve this, TPR should publish pension schemes' annual Chair's Statement on their website in order to enable effective scrutiny. TPR should require the Chair's Statement to demonstrate the competence and qualifications of the governance body, including the training trustees have undertaken in the year under review. Professional trustees, who have a key role to play in achieving high standards of governance, should be required to meet high and rigorous standards of competence.
FCA/TPR	The FCA and TPR should carry out a joint review of the protection given by the governance arrangements in the trust- and contract-based regimes to ensure that all types of saver receive equivalent protection.

48 In March 2014, the FCA and TPR published a joint guide to the regulation of workplace defined contribution pensions, which stated that 'The Pensions Regulator and the FCA have similar expectations for scheme quality and member outcomes.'

THE BENEFITS OF SCALE

The total number of DC schemes has declined significantly over a prolonged period. At the same time, the number of large scale, low cost DC schemes has increased. TPR data show that the number of schemes with between 12 and 5,000 members has declined significantly over the course of the last decade, while, at the same time, the number of schemes with 5,000 members or more has doubled since 2009. Part of this is the result of new savers entering the market and part of it is the result of consolidation among schemes. The new Master Trust Authorisation Regime may increase the pace of consolidation.

CHART 6: CHANGE IN DC WORKPLACE SCHEMES



PPI ASSESSMENT

The Pensions Policy Institute has identified four main areas where asset pooling could result in benefits for scheme members. These are:

- Reduced administrative and/or investment costs;
- The implementation of improved governance practices on a scheme and fund level;
- The capacity to increase or access expertise, which also has the potential to reduce costs, as well as potentially leading to better returns and/or reduced volatility; and
- Scope for greater portfolio diversification and access to alternative asset classes.

PLSA PERSPECTIVE

The PLSA seeks to increase the quality and performance of workplace pension schemes. Large scale schemes tend to score more highly on these tests, so we welcome the current trend towards consolidation. However, smaller schemes may also deliver some or all of these benefits, so scale should not be pursued as an end in itself.

Data Source: TPR, *DC trust: Presentation of Scheme Return Data 2017-2018* (2018)

3.5 VALUE FOR MONEY

SUMMARY

TRANSPARENCY IS A VITAL ELEMENT IN ENABLING GOVERNANCE BODIES TO UNDERSTAND HOW SCHEMES ARE PERFORMING. CURRENTLY, THE LAW REQUIRES TRUSTEE BOARDS TO CALCULATE, ON AN ANNUAL BASIS, THE CHARGES AND TRANSACTION COSTS TO WHICH MEMBERS' FUNDS ARE SUBJECT, AND TO ASSESS THE EXTENT TO WHICH THEY REPRESENT GOOD VALUE FOR MEMBERS.

In our *Hitting The Target* consultation, we proposed that the pensions sector should develop new value for money metrics to help schemes and providers make comparisons. The idea of developing new metrics was welcomed by stakeholders, though they cautioned that these would need to be industry-wide if they were to have any impact.

The PLSA will work with others in the pensions sector to agree a set of value for money metrics and appropriate benchmarking indices. Where schemes do not deliver value for money, they should consider whether they can improve their performance or if it would be better to transfer members to another scheme or provider.

BACKGROUND

Pension schemes and providers need to have access to the right tools if they are to be able to assess the degree to which they are delivering value for money to members. Transparency is a vital element in enabling governance bodies to understand how schemes are performing.

Currently, the law requires trustee boards to calculate, on an annual basis, the charges and transaction costs to which members' funds are subject, and to assess the extent to which they represent good value for members. TPR has developed a definition of value for money. It states that schemes offer 'value for money where the costs and charges deducted from members provide good value in relation to the benefits and services that they receive.' In relation to value for money, TPR requires schemes to assess, as a minimum, four areas: scheme governance and management, investment, administration, and communications.[49]

In regard to IGCs, the FCA requires them to assess the ongoing value for money for relevant policyholders delivered by relevant schemes.[50] We are aware that for contract-based schemes a group of IGCs is already engaged in working with consultants to carry out benchmarking research.

HITTING THE TARGET

In our *Hitting The Target* consultation, we proposed that the pensions industry should develop a set of metrics, which cover the full range of elements that constitute value for money. We also proposed that where schemes do not deliver value for money, they should consider whether they can improve their performance or if it would be better to transfer members to another scheme and wind up. The regulator should support and encourage schemes in adopting a rigorous assessment.

CONSULTATION RESPONSES

Stakeholders felt that new value for money metrics could prove to be helpful to trustees. However, they should not result in a focus on cost alone. A focus on cost rather than value can deny savers exposure to asset classes that might appear comparatively expensive, despite delivering higher long-term returns (e.g. infrastructure and property) or other benefits.

Respondents felt that new metrics could be particularly helpful to trustees. However, they should not be developed unless useable, nor should they be used as a proxy or a replacement for expert judgement. Several proposals have already been made in this field. For example, metrics exist that focus on administration, communication, charges, governance, plan design, investment arrangements, at/post-retirement services, sponsor DC covenant and transition. Any effort to bring forward new metrics must be industry-wide if it is to have any impact.

Some stakeholders argued that Collective Defined Contribution (CDC) might be able to provide higher returns for the same contribution.

49 http://www.thepensionsregulator.gov.uk/trustees/value-for-money-in-your-dc-scheme.aspx#s22376
50 https://www.handbook.fca.org.uk/handbook/COBS/19/5.html?date=2017-08-01

COLLECTIVE DEFINED CONTRIBUTION

Collective Defined Contribution covers a spectrum of different approaches to pension provision. The main difference between CDC and individual DC is that CDC has a collective element. This involves the pooling of contributions and the sharing of investment risk between scheme members. In the most commonly described model, individuals would make contributions to a scheme, which would entitle them to a target income at retirement. Unlike a DB pension, this income would not be guaranteed; the ability to pay a given level of income would depend on the financial health of the scheme.

POTENTIAL ADVANTAGES

Proponents of CDC argue that it offers two main benefits, which are that:

1. It could lead to higher pension incomes from equivalent contributions than individual DC. In a CDC scheme, some argue that it would be possible to take more investment risk through a member's life than an individual DC arrangement.
2. It could smooth the retirement outcomes of different cohorts. As individuals carry all of the investment risk in individual DC, there is the potential for different retirement cohorts to experience different outcomes from the same amount of contributions. CDC could smooth out these differences by paying a target income to all cohorts.

POTENTIAL DRAWBACKS

CDC has some drawbacks. These relate mainly to governance, funding and communications. Regarding governance, the challenge for trustees lies in deciding what level of income to pay, based on the scheme's funding position, anticipated future investment return and anticipated future contributions. This could advantage retirees over those paying contributions and, as a result, create intergenerational unfairness.

CDC schemes will also need to attract a constant flow of contributions in order to maintain their funding position. This means that schemes that do poorly in the market and lose members may become unsustainable. The potential variability of a target income may also be hard to explain to scheme members. The pressure on trustees to pay a higher income than a scheme's funding position merits could be substantial, highlighting the feedback loops between the communications, funding and governance challenges.

PLSA PERSPECTIVE

The PLSA sees two primary uses for CDC. First, there are a small number of open DB schemes that, for future accrual, may decide to convert to CDC. Second, many of the principles of CDC may be of value in decumulation. Given the right conditions, the application of CDC principles may offer a high return alternative to annuity or income drawdown products.

ASSESSMENT

There is a clear appetite among participants in the industry to have a series of industry standards against which scheme performance can be measured. This would help trustees and IGCs to do their job more effectively. In light of the consultation process, there appears to be an appetite for the PLSA to contribute to the development of a pan-industry approach to the development of value for money metrics. However, such standards will only work in the interest of savers if they do not encourage a race to the bottom in terms of charges or focus on investment returns to the exclusion of other areas valued by scheme members.

RECOMMENDATIONS

The PLSA believes the four key areas that should be covered in any VFM assessment are engagement, investment governance, scheme governance, and administration. We have suggested some features to be measured for each of the areas. However, more work is required to assess whether these are the right ones.

Once a set of features covered by the proposed metric areas has been settled upon, agreement on how the areas will be measured will be required. The table below sets out how VFM could be assessed under each of the areas identified above. This methodology provides both a view of the VFM to the member (charges) and the employer (costs).

TABLE 6: VFM METRICS: A PROPOSAL

METRIC AREA	FEATURE	MEASURE
Engagement	Engagement has a clear purpose, an appropriate channel and a measurable impact	X
Investment Governance	Process for reviewing defaults, including accumulation and decumulation pathways Investment performance in line with appropriate objective Number and type of investment options, and flexibilities in line with scheme membership Security of assets	X
Scheme Governance	Quality of trustees (training, diversity) Presence of professional advice to trustees Presence of scheme audit processes or otherwise	X
Administration	Handling of member contributions Effective data protection processes Maintenance of member records Suitable customer service, including complaints processes Cyber security	X

As well as the areas identified above, security of pension assets is key to the value of a scheme to its members. This includes secure deposit of assets, cyber security, and what arrangements are in place to protect member benefits in the event of the scheme being wound up.

The approach presented above is intended to identify the key inputs, work out how to measure them and identify the charges to members and costs to employers. The next step is to assess and benchmark the costs of comparable services used by similar schemes, defined by factors such as size, scheme offering and membership profile.

ISSUE	RECOMMENDATION
VFM Metrics	The pensions sector should work collaboratively to develop and implement a set of key VFM metrics to provide a guide to VFM for trustees and sponsors.
Benchmarking	The pensions sector should establish a benchmarking index to help schemes and sponsors compare the value of their scheme to others.
Performance Review	Where pension schemes and providers do not deliver value for money, they should consider whether they can improve their performance or if it would be better to transfer members to another scheme or provider and wind up. The Regulator should support and encourage schemes in adopting a rigorous assessment.

3.6
GUIDED 'AT-RETIREMENT' DECISIONS

SUMMARY

THE PENSION FREEDOMS HAVE OPENED UP A NEW RANGE OF POSSIBILITIES TO SAVERS AT THE POINT OF RETIREMENT. ACCESSING PENSION POTS FLEXIBLY HAS BECOME THE NEW NORMAL FOR RETIREES. THIS PRESENTS BOTH OPPORTUNITIES AND RISKS.

Annuity purchases have declined dramatically since April 2015 and the use of non-advised drawdown products has increased substantially. PLSA research shows that 700,000 have used the pension freedoms. Almost 200,000 people have taken only their tax-free lump sum and more than 100,000 people have taken cash out of their pensions in addition to their tax-free lump sum. Many of these people have put these cash sums in deposit accounts – which, we are concerned, may not be the best investment approach.

Moreover, the FCA's *Retirement Outcomes Review Interim Report* (2017) found little evidence of the market coming forward with new innovations that offer the sorts of features – certainty and flexibility – that savers want from a decumulation product over the course of the retirement journey.

In our *Hitting The Target* consultation, we proposed that savers should be guarded against poor outcomes via the implementation of a reformed regulatory framework. This new approach would enable trustees and IGCs to signpost scheme members to a range of suitable products which conform to a set of government-mandated principles designed to meet the typical needs of savers. There was widespread support among consultation respondents for these proposals. Stakeholders also proposed improving guidance for savers prior to retirement to promote member understanding and engagement with the decisions they face.

The PLSA, therefore, recommends that the new signposting process and standards regime set out in *Hitting The Target* should be adopted, with minor changes to encourage more active decision-making. Pre-retirement guidance should also be expanded and regularised via default referral (with opt out) to the Single Financial Guidance Body (SFGB) prior to pension withdrawal. To avoid people cashing in their retirement savings prematurely, the use of the term 'wake up pack' and the name of the MAS guide *Your Pension: It's Time To Choose* should be reviewed.

BACKGROUND

While the pension freedoms have opened up new possibilities, 'at-retirement' decisions have become much more complicated, with people expected to make decisions about how to spread capital across different product types. Annuity purchases have declined dramatically since April 2015 and the use of non-advised drawdown products has increased substantially.

In comparison to the previous regime, the pension freedoms have created a higher level of risk that savers will exhaust their funds in retirement. This is the result of a number of features of the decumulation environment. For example, cash withdrawals are common, drawdown, if used, is no longer subject to withdrawal limits, and funds left in growth assets until later life expose savers to poorly rewarded investment risk.

In 2017, the PLSA analysed the behaviour of those people able to access their pension savings via the pension freedoms.[51] Our findings show that of the more than 3 million people aged 55-70 with DC pensions not yet in payment[52], 700,000 have used the pension freedoms. Almost 200,000 people have taken only their tax-free lump sum and more than 100,000 people have taken cash out of their pensions in addition to their tax-free lump sum. Many of these people have put these cash sums in deposit accounts – which, we are concerned, may not be the best investment approach.

In order to make the most of the opportunities presented by the pension freedoms, savers need to have access to suitable decumulation products or solutions. However, the FCA's *Retirement Outcomes Review: Interim Report* (2017) found little evidence of the market innovating to offer products with the sorts of features – certainty and flexibility – that savers want from a decumulation product over the course of the retirement journey.

For example, providers have yet to develop a mass market product that combines flexible access in one part of retirement with an element of guaranteed income in another. Several barriers have been cited in order to explain the lack of innovation that has characterised the decumulation market to date. The reasons given to the FCA for low levels of market innovation include:

a. Providers lack the incentive to innovate due to poor demand and the inertia of existing customers. This inertia is primarily the result of members struggling to understand their retirement options and the range of products on offer.[53]

b. Members find it difficult to assess their needs and, as a result, find it difficult to select the most appropriate products. This is a result of a variety of behavioural biases and low levels of financial literacy, which mean that members may not be able to identify the products that would best meet their needs.[54]

c. The market is going through a period of significant policy change, which is creating uncertainty around future developments. Alongside the impact of policy changes and regulation on providers' costs, this was cited as a reason for firms' reluctance to invest in product development.[55]

In its April 2018 report on the pension freedoms, the Work and Pensions Select Committee (WPSC) recommended that the Government should take forward proposals to introduce default decumulation pathways. The same charge cap that applies to automatic enrolment schemes, 0.75%, should apply to default drawdown products. The Committee stated that were this system to be introduced, people would still be free to choose to invest and spend their own money as they wished. However, if they did not make an active choice, they would be moved into a suitable and regulated default product.[56]

51 https://www.plsa.co.uk/Policy-and-Research/Document-library/Decumulation-decisions-pension-freedoms-journeys
52 The population for the survey was representative of 55-70-year-olds in the UK who had a private pension that they have yet to convert to a regular income between October 2015 and March 2016. However, as we were looking to understand the experiences of those who had accessed their pension a year on, we sampled those who had taken action under pension freedoms between April 2016 and October 2016.
53 FCA, Retirement Outcomes Review: Interim Report (2017)
54 FCA, Retirement Outcomes Review: Interim Report (2017)
55 FCA, Retirement Outcomes Review: Interim Report (2017)
56 https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/917/917.pdf

OF THE MORE THAN 3 MILLION INDIVIDUALS WITH DC PENSIONS NOT YET IN PAYMENT AGED 55-70:

700,000
People have used the freedoms

2.1 MILLION
Have investigated their pensions options

300,000
People have taken no action

CASH

- 44% saved/invested some and spent some
- 28% saved or invested it all
- 20% spent it all
- 9% did something else

TOP 5 ACTIONS WITH CASH

ACTIONS

- 60% put in a savings account
- 43% spent on home improvements
- 39% bought a one off purchase
- 33% invested in a share ISA
- 27% saved into a cash ISA

28%
HAVE JUST TAKEN THEIR 25% TAX FREE LUMP SUM

15%
HAVE TAKEN CASH IN ADDITION TO THEIR 25% TAX FREE LUMP SUM

36%
HAVE PUT THEIR POT INTO A DRAWDOWN PENSION
(WITH OR WITHOUT 25% TAX FREE LUMP SUM)

5%
HAVE TAKEN A COMBINATION OF OPTIONS

17%
HAVE USED THEIR POT TO BUY AN ANNUITY
(WITH OR WITHOUT 25% TAX FREE LUMP SUM)

DRAWDOWN

- 47% intended to draw a regular income
- 53% intended to draw money as and when they need it
- 53% took their drawdown product with a different provider
- 46% said they would be using an Independent Financial Adviser (IFA) to manage their portfolios

ANNUITIES

- 46% bought from their existing provider or scheme
- 24% bought by shopping around on the internet
- 18% bought from an IFA
- 6% bought through an annuity broker
- 6% bought through a service provided by existing employer/provider

OF THE 700,000 USING THE FREEDOMS

The WPSC also recommended that the Government should allow NEST to provide decumulation products from April 2019 (so long as NEST can give assurances that it will be able to repay its start-up loan). The Committee stated that these new powers should include the ability to establish a default drawdown pathway.[57] Some innovation is already taking place in this area in the UK. Decumulation pathways of this sort have been rolled out by some UK providers (see box below), including Thomson Reuters and JP Morgan.

Thomson Reuters – In-Scheme Drawdown

- Thomson Reuters developed an in-scheme flexi-access drawdown option for its members that offers the following benefits to savers:
    1. **Cost –** It is more cost-effective for members to remain in the scheme than transfer out into a retail arrangement;
    2. **Continuity –** It benefits from long-term strategy planning aided by continued investment in institutional funds; and
    3. **Convenience –** It enables members to take advantage of the new pension flexibilities without the need to transfer out.
- This approach enables Thomson Reuters to reduce administrative complexity and cost for members. It also allows the company to maintain its approach to employees beyond the scope of their employment.

Source: Thomson Reuters (2017)

JP Morgan – Cost-Effective Decumulation

- The trustees worked with the employer and TPR to develop a decumulation approach for scheme members that would make drawdown an active decision, guard against the 'risk of ruin' and provide some protection against 'Alzheimer's risk'.
- In-scheme decumulation was considered to be impractical in this case, so JP Morgan worked with Willis Towers Watson Lifesight Master Trust and Wealth At Work to create a master trust and SIPP solution for scheme members.
- The solution JP Morgan arrived at avoided transfer costs, offered the same range of funds as the accumulation phase, retained low institutional investment costs and offered institutional – not retail – drawdown wrapper costs.

Source: JP Morgan (2017)

57 https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/917/917.pdf
On the 22nd June 2018, the Government responded to the WPSC's report on this issue, stating that 'There is insufficient evidence to suggest a common default pathway would be suitable for the majority of people at this time.'

HITTING THE TARGET

In our *Hitting The Target* consultation, we proposed a new vision for retirement decisions in which:

a. The Government and the pensions industry would adopt a new regulatory framework for decumulation. This would provide for a new decumulation process and new product/solution principles.

b. A new decumulation process would support active saver decision-making by signposting savers towards suitable products/solutions that had been selected by an independent body, a trustee or an IGC.

c. New government-mandated product/solution principles would be adopted to ensure that the decumulation choice is in the members' interest, provides a sustainable income, and offers flexibility for capital withdrawals. These principles would also provide a 'safe harbour' for the trustees/IGCs that selected the solution.

CONSULTATION RESPONSES

There was widespread support for the idea of trustees providing strong signposting for savers at the point of retirement. Respondents felt that for customers who do not want to make an active decision, signposting to retirement solutions is an appropriate approach. Stakeholders stated that effective signposting towards appropriate decumulation pathways has the potential to improve outcomes for such savers.

The adoption of a series of common principles underpinning the proposed decumulation product rules was widely supported. This could be achieved through changes to FCA regulations. International examples of where this approach has been pursued could help to generate a consensus among policymakers. The Australian Government is in the process of implementing a similar approach to decumulation as part of its emerging retirement income framework (see box on next page).

A minority suggested that the process proposed in the consultation assumed that savers would enter a drawdown product by default and that this pathway would not necessarily be the best or the safest choice for scheme members. This was a misunderstanding of the PLSA's approach and, in order to address this issue, we have amended the description to make our intention clearer.

It is important to encourage members to make active choices (reflecting the intention behind the introduction of the pension freedoms), but also to have provision for those who don't feel they can decide or won't take advice. Stakeholders thought that the pensions industry and the government could play a fuller role in delivering improved and more consistent guidance to savers, which could improve engagement.

A number of stakeholders stated that guidance in particular can play a fuller role in helping savers to make the right choices prior to and *throughout* retirement. However, better guidance and advice options are needed to help savers make an active choice about their decumulation routes. The Single Financial Guidance Body (SFGB) has an important role to play in ensuring that appropriate guidance is available to savers.

AUSTRALIAN INNOVATION – COMPREHENSIVE INCOME PRODUCTS FOR RETIREMENT

As part of its *More Choices for a Longer Life* reform package, the Australian government has started the process of implementing its new retirement income framework. Integral to this reform agenda is the introduction of comprehensive income products for retirement (CIPRs), which will form part of a new retirement income covenant that will codify the requirements and obligations for superannuation trustees to improve retirement outcomes for individuals.

The retirement income covenant will operate according to a series of principles and sub-principles, which are set out below.

PRINCIPLES

1. Trustees should assist members to meet their retirement income objectives throughout retirement by developing a retirement income strategy for members.
2. Trustees should assist members to meet their retirement income objectives by providing guidance to help members understand and make choices about the retirement income products offered by the fund.

SUB-PRINCIPLES

1. A CIPR is a retirement income product which is designed to provide: efficient, broadly constant income; longevity risk management (income for life); and some access to capital.
2. All trustees should offer a flagship CIPR to members at retirement, subject to limited exceptions.
3. Trustees can fulfil their obligation in part or in full by using a third party.
4. Consent should be required for a CIPR to commence.
5. Trustees may offer an alternate CIPR or another retirement income product to a particular person or cohort of people through any form of personal financial advice, including scaled personal advice, intra-fund advice, or full financial planning.
6. Trustees may choose not to offer a CIPR at all to a particular person if the trustee has reliable information that a CIPR would not suit that person.

The Australian government argues that the retirement income covenant will ensure that Australian retirees have greater choice in how they take their superannuation benefits in retirement and will be able to choose, more effectively, a retirement product that aligns with their preferences, improving outcomes in retirement. The covenant will be supported by regulations to provide additional guidance and outline in more detail how trustees will be required to fulfil their obligations.

PLSA PERSPECTIVE

The PLSA's recommendations on the creation of new decumulation pathways, with strong signposting to suitable retirement products is, in many ways, very similar to the Australian CIPR approach. We will continue to watch the development of this new initiative with interest and incorporate any lessons into our recommended solution.

Source: ***Retirement Income Covenant Position Paper*** **(2018)**

ASSESSMENT

The freedom and choice reforms have increased the degree of complexity in the decumulation market. Savers must now take more decisions than was previously the case. Evidence suggests that people tend to take the path of least resistance, which implies either that they do not wish to make a decision or they find it hard to do so.[58]

Responses to the consultation make it clear that there is a widespread feeling that the market for decumulation products requires significant reform. We have developed a new regulatory framework that would enable trustees and IGCs to support savers in making effective decisions.

Therefore the PLSA will continue to advocate the adoption of strong signposting strategies and appropriate product standards for those savers who cannot or do not want to make an active choice at the point of decumulation. However, this approach has been enhanced to encourage active decision-making.

The PLSA also believes that the Single Financial Guidance Body (SFGB) will have an important role to play in ensuring that appropriate guidance is available to savers. Savers should be automatically defaulted (with an option to opt out) to a SFGB guidance session at the point at which they want to access their pension savings. To avoid people cashing in their retirement savings prematurely, the use of the term 'wake up pack' and the name of the MAS guide *Your Pension: It's Time To Choose* should be reviewed.

RECOMMENDATIONS

The PLSA believes that a new framework should work as follows:

- Schemes and providers, where possible, should seek to support members to make active decisions;
- They should also help savers in their decumulation choices by signposting them towards suitable products/solutions;
- An independent body (a trustee or IGC) would select a suitable decumulation product/solution for members. The product or solution selected should be appropriate to the membership of the scheme as a whole; and
- The product/solution selected must conform to government-mandated principles, which would also provide a 'safe harbour' for trustees and IGCs who have selected the suggested pathway.

58 FCA, Retirement Outcomes Review: Interim Report (2017)

Our proposed approach for entering the decumulation pathway would involve a limited number of stages (see below).

FIGURE 6: PROPOSED DECUMULATION SIGN-POSTING PROCESS

Members would be encouraged to make an active decision. No member would be moved into the signposted decumulation product/solution without their explicit consent, and all communications with the member would present the full range of options open to them (e.g. cash, annuity, drawdown, transfers, and other product options). Information about typical scheme member decumulation choices would also be provided as standard, alongside information on where further guidance and advice can be obtained.

The widespread adoption of suitable product/solution principles is essential if members are to secure good outcomes. These should aim to operate in the members' interest, provide a sustainable income, and provide flexibility for capital withdrawals.

PLSA Product/Solution Principles

- Operate in the members' interest: Products/solutions should be overseen by an independent body that operates in the interests of members. That is to say that it should be a trust-based vehicle or governed by a suitably empowered IGC. This is intended to provide a default investment strategy that operates in the interest of members; set recommended minimum and maximum income levels of drawdown to protect against someone outliving their capital; protect against cognitive decline; limit the need for people to take complex unadvised decisions in later life; and comply with regulatory requirements, such as ensuring value for money.
- Provide a sustainable income: Products/solutions should be able to provide an income that the scheme member can use throughout later life. PLSA research demonstrates that 84% of savers want to achieve a regular income stream in retirement from their accumulated savings.
- Provide flexibility for capital withdrawals: Savers appreciate the ability to access capital sums and prefer products/solutions that allow them to do so. As a consequence, products should offer a sufficient degree of flexibility to enable savers to vary their income and capital withdrawals. This might be a drawdown product or some other product, such as a variable annuity or CDC product, provided there is scope for some cash withdrawal.

ISSUE	RECOMMENDATION
Regulatory Framework	The Government and the pensions industry should adopt a new regulatory framework for decumulation. This will provide for a new decumulation process and new product/solution principles.
New Decumulation Process	The new decumulation process should work as follows: • Schemes and providers, where possible, should seek to support members to make active decisions; • They should also help savers in their decumulation choices by signposting them towards suitable products/solutions; • The products/solutions are to be selected by an independent body, a trustee or IGC, which has responsibility to operate in the interests of members; and • The products/solutions must conform to government-mandated principles which would also provide a 'safe harbour' for the trustee or IGCs which have selected them.
New Product/ Solution Principles	New product/solution principles should be adopted to ensure that the decumulation pathway operates in the members' interest, provides a sustainable income, and offers flexibility for capital withdrawals.
Guidance	The Government should require default referral (with opt out) to the SFGB at the point at which savers want to start to withdraw pension savings. The PLSA endorses the ABI's recent recommendation that the Government and the FCA should review use of the term 'wake up pack' and the name of the MAS guide *Your Pension: It's Time To Choose.*

CHAPTER 4

ALTERNATIVE RETIREMENT INCOME SOURCES

WHAT PEOPLE TOLD US

The importance of including property wealth in long-term financial planning will increase over time, driven by the growth in property prices and the decline of generous final salary pension schemes for many. Aviva believes we will see a continued growth in the demand for equity release to facilitate this consideration and utilisation of property wealth.

Aviva

Lifetime mortgages provide funds either as a single cash lump sum, or a series of smaller cash sums... As a result, the cash released can be 'lumpy' and may not match the day to day income needs of a customer. In view of increasing shortfalls in retirement income, there may be a growing need for lifetime mortgages that provide a guaranteed regular monthly income stream.

Legal and General

The industry will need to continue to be flexible to best meet customer need, while taking into account the realities of the housing market – for example that many specialist retirement properties do not offer the same level of investment returns as conventional property.

Equity Release Council

We support the concept of the Mid-Life MOT which was first espoused in the Cridland Review... We see pension schemes and providers signposting to TPAS and to the Mid-Life MOT as the best way of supporting members make crucial decisions at this life event.

The Pensions Advisory Service

The most successful employers encourage staff to have open conversations about their retirement plans. Whilst this can be challenging, if staff can see the benefit of discussing their plans, the benefit to the employer is significant in terms of recruitment and training.

Hargreaves Lansdown

4.1
ACCESSIBLE HOUSING WEALTH

SUMMARY

SAVERS OVER 55 YEARS OF AGE HOLD AROUND £1.5 TRILLION OF HOUSING WEALTH, AND THIS IS FORECAST TO INCREASE TO £2.9 TRILLION BY 2036. FOR THOSE PEOPLE WHO HAVE NOT SAVED A SUFFICIENT AMOUNT INTO A PENSION OVER THE COURSE OF THEIR WORKING LIVES, ACCESSING SOME OF THE WEALTH LOCKED UP IN THEIR PROPERTIES – THROUGH EQUITY RELEASE – MAY HELP THEM ACHIEVE AN ADEQUATE INCOME IN RETIREMENT. ALTHOUGH MANY PRODUCTS ALREADY EXIST ON THE MARKET, THEY ARE NOT WIDELY USED.

In our *Hitting The Target* consultation, we proposed that product providers should explore how equity release products could be made more flexible to support the variety of needs that retirees experience. We also suggested that providers reconsider how they engage with customers and explain more effectively how property assets can support retirement income.

Consultation respondents agreed that products could be more appealing to retirees if they were more flexible. Alternative products are being developed, such as the retirement interest-only mortgage, which could encourage greater innovation among equity release providers. Stakeholders also identified a shortage of advisors in the equity release market.

The PLSA recommends that providers should seek to make products more flexible, so that payments can be drawn in smaller regular sums, and make it easier to transfer loans to other properties. We support the FCA's proposal to change regulations to enable lenders to offer retirement interest-only mortgage products, though the new regulatory regime needs to promote good decision-making.

The PLSA also recommends that the SFGB should provide integrated pension and property asset guidance to savers and that any future Mid-Life Financial Health Check should include an assessment of whether an individual has enough property wealth to use in retirement.

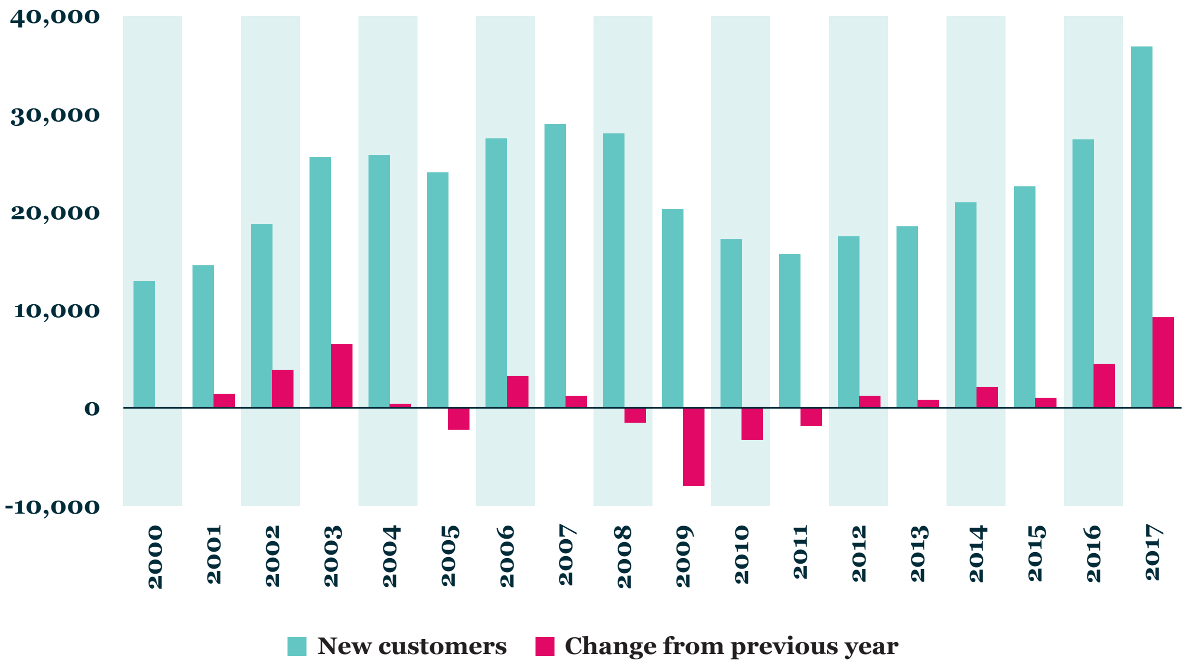
BACKGROUND

Many future retirees are likely to have insufficient pension savings to provide them with the standard of living they would like in retirement. Aside from pensions, the other main source of wealth held by people is housing-related. In October 2016, consumers aged over 55 in England held approximately £1.5 trillion of UK housing wealth. This is projected to increase to £2.9 trillion by 2036.[59]

Although for many the sums are small relative to the costs of retirement, some groups in society, notably Baby Boomers, have enough equity (median: £105,000) that it may be used to help achieve their desired retirement income.[60] Lenders advanced more than 94,000 mortgages to those aged over 55 in 2016.[61] Thirty per cent of all mortgages sold to over-55s were lifetime mortgages, rising to 53% for those aged over 60 and 72% for those aged over 65.[62]

A lifetime mortgage is the main form of equity release used in the UK; it is a loan used to provide an income or a capital sum that is secured on the borrower's home. It is repaid, with interest, by selling the property when the borrower (or borrowing couple) dies or moves out (perhaps into a care home). The trend in equity release mortgage sales can be seen in the chart below. Sales fluctuated between 2000 and 2017, though the overall trend tended in an upward direction and 2017 was a record year in terms of equity release products purchased.

CHART 7: NEW EQUITY RELEASE CUSTOMERS 2000-2017 [63]



The PLSA would like people to be able to use, where necessary, the equity they have in their home to provide retirement income and/or capital. However, the inflexibility of current equity release products is restricting the extent to which this can happen. According to PLSA research, only 15% of current retirees use property as a source of retirement income, though a higher proportion of younger savers and non-retirees over the age of 55 claimed that they plan to use property as a source of retirement income.[64]

59 https://www.fca.org.uk/publication/occasional-papers/occasional-paper-31.pdf
60 Wealth and Assets Survey 2014-2016
61 https://www.fca.org.uk/publication/occasional-papers/occasional-paper-31.pdf
62 https://www.fca.org.uk/publication/occasional-papers/occasional-paper-31.pdf
63 http://www.equityreleasecouncil.com/document-library/equity-release-market-report-spring-2018/spring-market-report-2018-final.pdf
64 https://www.plsa.co.uk/portals/0/Documents/The-home-stretch-PLSA-DJS-research-2017.pdf

HITTING THE TARGET

In our *Hitting The Target* consultation, we highlighted the role that property can play in supporting retirement income and proposed that:

- Equity release providers should explore how products can be made more flexible and how new features can be incorporated to support the needs that retirees experience.
- Providers should reconsider how they engage with customers to explain how property assets can support retirement income.

CONSULTATION RESPONSES

Consultation respondents stated that equity release products would be more appealing to retirees if they were more flexible. For example, minimum loan amount requirements and processing costs could be reduced, so that the products can be used more like bank accounts. They argued that this would make sums drawn from lifetime mortgages less 'lumpy' and make it easier to use these funds to provide an income in retirement. Stakeholders also stated that there are specific regulatory challenges that could prevent equity release from reaching its full potential, such as the EU's Solvency II regime.

Stakeholders argued that a further market-limiting factor related to the portability of equity release mortgage products. Although innovation among providers is making it easier to transfer products from one property to another in retirement, concerns remain about the degree to which this is possible. In particular, some stakeholders stated that consumers who want to move into sheltered accommodation or long-term care face specific difficulties.

Consultation respondents also highlighted the FCA's recent consultation on the possibility of amending regulation to enable providers to offer retirement interest-only mortgages, which would increase choice for later life borrowers. At present, more than 700,000 over-55s hold interest-only mortgages or mortgage products that are a middle ground between repayment and interest-only mortgages (known as 'part and part' mortgages).[65] Stakeholders noted that, in many cases, holders of these types of mortgage have no means of repaying the original sum borrowed once the mortgage term matures. Currently, the only way of remaining in such a property is to take out an equity release product.

Retirement Interest-Only Mortgages

The FCA recently consulted on the possibility of amending regulation in order to enable providers to offer retirement interest-only mortgages. There are currently regulatory barriers that constrain providers' ability to offer such mortgages and this proposal is intended to remove these barriers.

The proposal is intended to help those with maturing interest-only mortgages and no repayment vehicle as well as those seeking to release equity from their homes without the cost of interest roll-up.

Source: FCA (2017)

65 https://www.fca.org.uk/publication/occasional-papers/occasional-paper-31.pdf

Stakeholders also identified a shortage of advisors in the equity release market. Although there are approximately 9,000 qualified equity release mortgage advisors, only around 1,000 are currently active. They argued that the advice market is also behind others in its use of technology. The tools available do not enable easy comparison of the products offered by providers.

Moreover, stakeholders stated that the cost of advice in the equity release market is high: typically 3% of the amount borrowed is paid as commission. Technology could help to reduce these costs. They argued that the high cost of sale could be restricting the availability of equity release mortgages and that online tools could be developed to enable consumers to make product comparisons directly.

ASSESSMENT

For a significant minority of the population, the purchase of a lifetime mortgage could provide them with a useful supplement to their retirement income.

Improving the flexibility of equity release products present in the marketplace could help savers to make greater use of their property assets should they need to do so. In particular, reducing minimum loan amounts to enable savers to take small sums to supplement income from other sources could improve the uptake of equity release mortgages. Moreover, product innovation that makes it easier to transfer equity release mortgages to new properties, particularly for those who require long-term care, could also make them more attractive to potential customers.

For those who do not possess enough equity to take out an equity release product, use of a retirement interest-only mortgage could help them to remain in their home following the expiry of the term of their existing loan. The introduction of retirement interest-only products would also increase competition among retirement lenders in general, which could reduce costs and charges across the market.

However, it is clear that easy access to guidance and advice is crucial if borrowers are to make the choice that is right for them and achieve the best possible outcomes. The government and the industry need to do more to ensure that appropriate guidance and advice facilities are available. In particular, the SFGB can play an important role in delivering integrated guidance on pensions and property retirement options, as well as signposting savers to regulated equity release advisers.

RECOMMENDATIONS

ISSUE	RECOMMENDATION
Guidance	▸ The SFGB should offer savers retirement income guidance which takes account of both pension and property assets. ▸ Mid-Life Financial Health Checks should include a realistic assessment of whether an individual has sufficient property wealth to use some of it to help fund their retirement income.
Products	▸ Providers should explore how equity release products can be made more flexible so that, for example, they are able to: a. Be transferred to other properties more easily, especially in the event of people moving to sheltered accommodation or into care; and b. Be drawn in smaller, more regular sums, as opposed to large amounts. ▸ The FCA should change regulation to enable lenders to offer retirement interest-only mortgage products provided that an active choice is made by the saver.

4.2
EASY TO WORK IN LATER LIFE

SUMMARY

FOR THOSE PEOPLE WHO HAVE NOT SAVED A SUFFICIENT AMOUNT INTO A PENSION AND DO NOT POSSESS ENOUGH PROPERTY WEALTH IN ORDER TO MAKE UP THE DIFFERENCE, WORKING INTO LATER LIFE COULD ENABLE THEM TO ACHIEVE THEIR RETIREMENT INCOME GOALS. HOWEVER FOR MANY PEOPLE POOR HEALTH, CARING RESPONSIBILITIES OR SKILLS SHORTFALLS ARE A BARRIER TO STAYING IN THE WORKFORCE. EMPLOYMENT RATES FOR PEOPLE AGED 50-64 (71.7%) ARE ALMOST 14 PERCENTAGE POINTS LOWER THAN THOSE AGED 35-49 (85.3%).

In our *Hitting The Target* consultation, we proposed that the pensions industry could help people to work for longer by promoting greater employee engagement with retirement income planning and working with employers to develop a set of principles to help people stay in the workforce for longer. Consultation respondents highlighted the potential of flexible working arrangements and the importance of good guidance to enable people to balance work and other needs. They also drew attention to the CIPD's 'Age Diversity' principles.

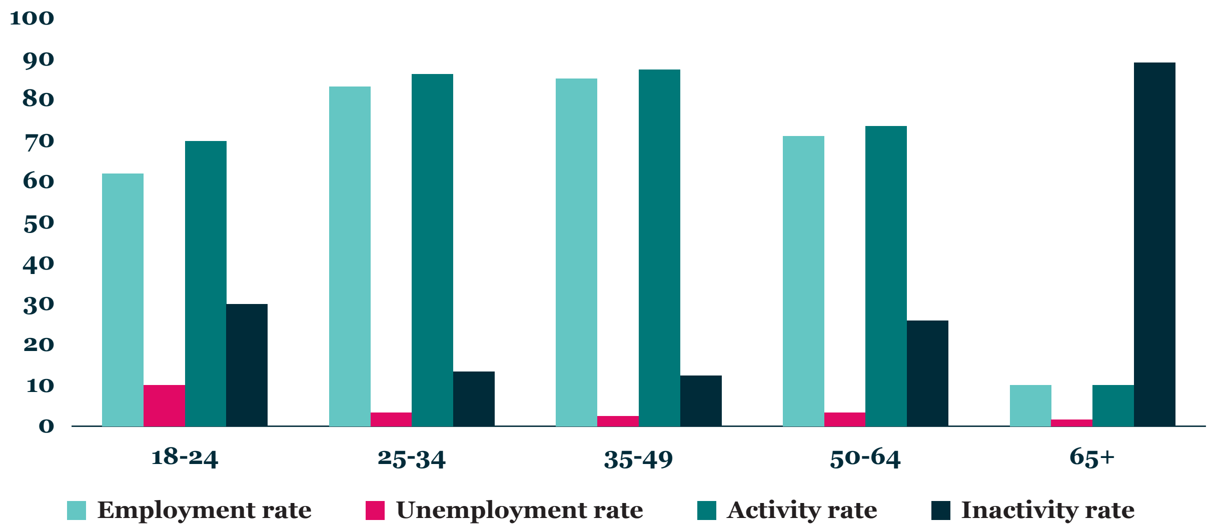
The PLSA recommends that employers and the Government should work together to develop an ambitious guidance agenda, including a Mid-Life Financial Health Check at 45. The government should require default referral (with opt out) to the SFGB at the point at which savers want to start to withdraw pension savings. We also recommend wider uptake of the CIPD's Principles on Age Diversity in order to create a workplace culture that is more adapted to older workers.

BACKGROUND

Where people are not on track to achieve their desired standard of living in retirement they may have to work longer. Even for those with significant savings, improving longevity may require them to stay in the workforce for longer if they want to maintain their standard of living in retirement.

The employment rate among those people aged 50 and above is significantly lower than those under this age.[66] The most recent data (January-March 2018) show that the employment rate for those aged 35-49 is 85.3%, compared to 71.7%[67] for those aged between 50-64 and 10.2% for those aged 65 and above.[68]

CHART 8: WORKFORCE PARTICIPATION RATES



A total of 1.1 million people over the age of 65 were in employment in 2015, which is double the number employed in 2001.[69] Recently retired pensioners are more likely to have some income from earnings.[70] It is good news that older people have more opportunities to remain in the workforce.

However, while some people possess extensive human capital that could enable them to work for longer, others do not have the skills or are not healthy enough to continue working. We would like to support as many people as wish to do so to stay in the workforce for longer in order to ensure that they have sufficient savings to achieve their desired income level.

66 DWP, Fuller Working Lives: Evidence Base (2017)
67 This figure includes some women over the State Pension age; as a result, the de facto employment rate may be slightly higher than the official figure suggests.
68 ONS, UK Labour Market: May 2018
69 DWP, Economic Labour Market Status of Individuals Aged 50 and Over Since 1984 (2016)
70 DWP, Pensioners' Income Series 2016-2017 (2018)

Why Do People Stop Working?

Evidence presented in the *Hitting The Target* consultation shows that people stop working prematurely for a variety of reasons. However, the main ones are:

- **Health:** Declining health is known to be a significant factor cited by individuals aged 50-64 for leaving the labour market early. 'Involuntary' labour market exit becomes increasingly likely as self-reported health declines. Just under half (44%) of 50-64-year-olds report having a long-term health condition (LTC) with nearly a quarter (23%) reporting two or more LTCs.
- **Caring:** As the UK population ages, a greater proportion of working age people will provide informal care to friends and relatives. The likelihood of being a carer increases significantly with age. The 2011 Census found that 24% of women and 17% of men aged 50-64 provide unpaid care for a family member or friend. Currently, three in five adult carers are aged 50 years and over, with the peak age of caring between 50-54 years.
- **Skills:** People aged 50 years and above are less likely than younger age groups to possess formal qualifications, which can reduce employment prospects as they are often used by employers to judge skill levels. The prevalence of job-related training also declines with age. For example, 18% of 18-24-year-olds stated that they had recently taken part in a training course compared with 10% of 50-64-year-olds.

Source: DWP, *Fuller Working Lives (2017)*

The Government's *Fuller Working Lives* strategy sets out a pathway for future reform, including measures to support particular groups in need of assistance, such as carers and people with health conditions, reforms to the adult skills system and greater help for older people seeking work through JobCentre Plus.

HITTING THE TARGET

In our *Hitting The Target* consultation, we highlighted the role that longer working lives can play in supporting retirement income and proposed that:

- The pensions industry should help scheme members to be aware of the options around drawing their pension while working.
- The pensions industry should work with employers to develop a set of principles to help people in later working life, where they desire it, to stay in the workforce for longer.

CONSULTATION RESPONSES

Consultation respondents stated that retirement should be a point at which people have achieved their financial objectives, rather than the point at which they are forced out of the workforce. They also suggested that a better understanding of the different factors that lead people to stop working should be developed.

Stakeholders stated that better co-ordination across government is required to help people to continue working. Employees' relationship with their employer, particularly their line manager, is crucial in helping people to stay in the workforce. A line manager who takes a flexible approach (e.g. time off for caring responsibilities) can make a big difference. A number of employers, such as Whitbread and Aviva, have already taken steps to incorporate more older people into their workforce. As UK demographics change, more employers will need to adapt their practices in order to attract older workers.

The Promise of Flexible Working

Flexible working is often cited as one of the main solutions to the barriers to longer working lives. For example, research by Carers UK found that the 'top priority for workplace support was improved and consistent manager awareness of caring issues (37%) and more flexible/special leave arrangements (again 37%)'. DWP research (2015) reveals that:

- 35% of employers reported providing an opportunity for older workers to work part-time;
- 33% provided the opportunity for older workers to work flexibly;
- 29% offered older workers the chance to gradually decrease working hours; and
- 32% did not offer any opportunities specifically to support later-life working.

However, research carried out by the CBI (2017) demonstrates that businesses feel that there are substantial barriers that prevent them from being able to deliver inclusive workplace practices. Three-quarters of respondents (75%) report that there are obstacles to implementing fully inclusive workplace practices – an increase from 67% in the 2016 survey. The most commonly reported obstacles concern mindsets. More than half (55%) see changing the mindset of management as a key obstacle and only slightly fewer respondents cite changing the mindset of the workforce as a barrier (48%).

Nearly half of respondents (48%) also report that developing the appropriate infrastructure to facilitate flexible working can be a barrier. Although new systems and technologies can make flexible working more viable, this is equally the case across all occupations and sectors. Just under a third indicate that ensuring the continuity of key business activities is a challenge (32%), and a similar proportion (32%) feel there are obstacles in terms of having sufficient knowledge and expertise within the organisation to implement initiatives successfully.

Sources: Carers UK, Caring and Isolation in the Workplace: Impact report and recommendations (2015), DWP, Employer Attitudes to Fuller Working Lives (2015) and CBI, Working together: CBI/Pertemps Employment Trends Survey (2017)

Respondents made a number of practical suggestions that could help older workers to remain in the workforce. The most common proposal was the introduction of a Mid-Life Financial Health Check that would enable savers to understand where they are on the retirement savings journey and what they need to do in order to remain employable should they need or want to continue working. Similarly, retirement seminars for the over-50s in the workplace could help savers to understand their options.

In order to help older workers to remain in employment for longer, the CIPD has proposed a series of best practice principles that employers could adopt and implement.

CIPD Principles for an Age-Diverse Workforce

According to the CIPD, if employers are to create an age-diverse workforce, then they should seek to:

1. Support employee health and well-being;
2. Design more creative and cohesive provision for people with caring responsibilities;
3. Improve flexibility in working time;
4. Provide training and development support;
5. Manage retirement actively;
6. Build an inclusive and age-diverse culture; and
7. Tailor solutions to suit individual need.

Source: CIPD, *Creating Longer, More Fulfilling Working Lives: Employer Practice In Five European Countries* (2017)

ASSESSMENT

The retirement saving industry should focus on helping people to achieve their financial objectives so that they are able to leave the workforce at a time of their choosing. This should take the form of improved guidance and information and could include better information about the opportunities for staying in the workforce.

For those who are forced or choose to stay in employment, the government, employers and the savings industry should attempt to support older workers to remain in the workforce. The CIPD's principles provide a guide to best practice that businesses should adopt and implement in the workplace.

There is widespread consensus that flexible working arrangements are among the most important changes that can be introduced in order to help older workers stay in the workforce. Where possible, employers should consider implementing greater flexibility for all workers, but older employees in particular.

RECOMMENDATIONS

ISSUE	RECOMMENDATION
Guidance	Employers and the Government should work together to develop an ambitious guidance agenda, including: a. A Mid-Life Financial Health Check at 45; and b. Default referral (with opt out) to guidance sessions with the SFGB prior to withdrawal of pension funds should include information on how savers can combine income from earnings with pension income.
Employment Practices	Employers should adopt and implement the CIPD's principles on age diversity in the workplace.

CHAPTER 5
EFFECTIVE ENGAGEMENT

WHAT PEOPLE TOLD US

◆◆ We welcome the Pensions Dashboard as a window that could enable members to see the range of their pension policies, giving visibility and building awareness… There has to be a non-commercial version to build both trust and usage… ◆◆

National Employment Savings Trust

◆◆ The language of key customer communications should be accessible to the customers. The assumptions and minimum level of content should be standardised. The usage of standardised language should help towards reducing confusion arising from the inconsistent usage of the same terms. ◆◆

Cardano

SUMMARY

SAVERS HAVE A LOW LEVEL OF ENGAGEMENT WITH THEIR RETIREMENT SAVINGS. POOR ENGAGEMENT IS PARTLY BECAUSE PEOPLE FEEL DISCONNECTED FROM THEIR PENSION SAVINGS AND PARTLY THE RESULT OF A LOW LEVEL OF FINANCIAL UNDERSTANDING. FOR EXAMPLE, 50% OF PEOPLE FOCUS EXCLUSIVELY ON THEIR CURRENT NEEDS AND WANTS, AT THE EXPENSE OF PROVIDING FOR THE FUTURE.

In our *Hitting The Target* consultation, we suggested that pension engagement could be improved by embracing technology. The Pensions Dashboard and robo-advice have an important role to play in enabling people to understand how much they have saved and how they can use their wealth effectively. We proposed that retirement income targets be incorporated into the Dashboard, so that people can see how close they are to their desired retirement income. We also suggested that the language of pension statements be standardised and that heuristics/rules of thumb be used more widely.

Consultation respondents stated that work in this area should concentrate on how engagement can fill in the gaps between good defaults and good governance in order to get the best outcome for savers. They supported the development of new retirement income targets and agreed that technology, such as the Pensions Dashboard, could play a fuller role in supporting effective decision-making. Respondents also signalled their support for some form of standardisation of pension communications. Several recommended the adoption of a Mid-Life Financial Health Check.

The PLSA recommends that new Retirement Income Targets should be displayed on the Pensions Dashboard. The PLSA also recommends that there should be at least one high-profile Pensions Dashboard hosted by a major public body, such as the SFGB. Pension providers should pursue better use of technology and, where desirable, work with fintech providers to shape emerging tools that will benefit savers. We also recommend that the pensions industry should do more to standardise the language and layout of key customer communications by adopting the Simpler Annual Statement under development at present. Finally, we recommend the introduction of a Mid-Life Financial Health Check in order to enable people to understand whether they are on track to achieve their retirement goals.

BACKGROUND

Savers have a low level of engagement with their retirement savings. Poor engagement results partly from the fact that people feel disconnected from their pension savings compared to other forms of wealth they hold. This is exacerbated by low levels of financial understanding, which hinders savers' ability to understand complex financial products, and a lack of trust in pensions. As a result of poor understanding and low levels of trust in pensions, many people are under-saving for their retirement. Better engagement could go some way to improving this situation.

Financial Capability – Planning & Literacy

The UK Adult Financial Capability Survey found that financial literacy in the UK is poor. Among other things, it found that:

- Only 1 in 3 people have financial goals and a plan in place to achieve these.
- 50% of people focus on their current needs and wants, at the expense of providing for the future.
- Only 28% of people at retirement age have any form of plan for funding long term care.
- 22% of people are unable to read a bank statement.
- 40% of people do not understand the impact of inflation on the real value of money.

Source: MAS, *UK Adult Financial Capability Survey* (2015)

In the accumulation phase, savers need to understand how their pension contribution rate and other savings decisions could influence their retirement outcomes. In particular, it is important that they are aware that saving at a rate of 8% of band earnings is unlikely to result in them achieving an adequate income in retirement. PLSA research shows that 51% of people believe that the level of pension contributions (8% of band earnings) is the government's recommended rate of retirement saving.[71]

In the decumulation phase, savers need to understand the variety of options available to them to ensure that they take effective decisions. This is particularly important for pension savings, where the options available have changed radically since 2015, but it also has implications for the use of other assets, such as property.

71 PLSA Polling (2018)

HITTING THE TARGET

In our *Hitting The Target* consultation, we highlighted the role that engagement can play in supporting retirement income and proposed that:

a. A set of National Retirement Income Targets should be developed in order to improve savers' understanding of the amount they need to save in order to achieve their desired standard of living in later life.

b. There should be at least one high-profile dashboard hosted by a major public body, probably the SFGB, and robo-advice should be rolled out across the pensions industry in order to improve member awareness of their options.

c. The pensions industry should develop a series of rules of thumb.

d. Pension providers and employers should work together to identify the most appropriate teachable moments.

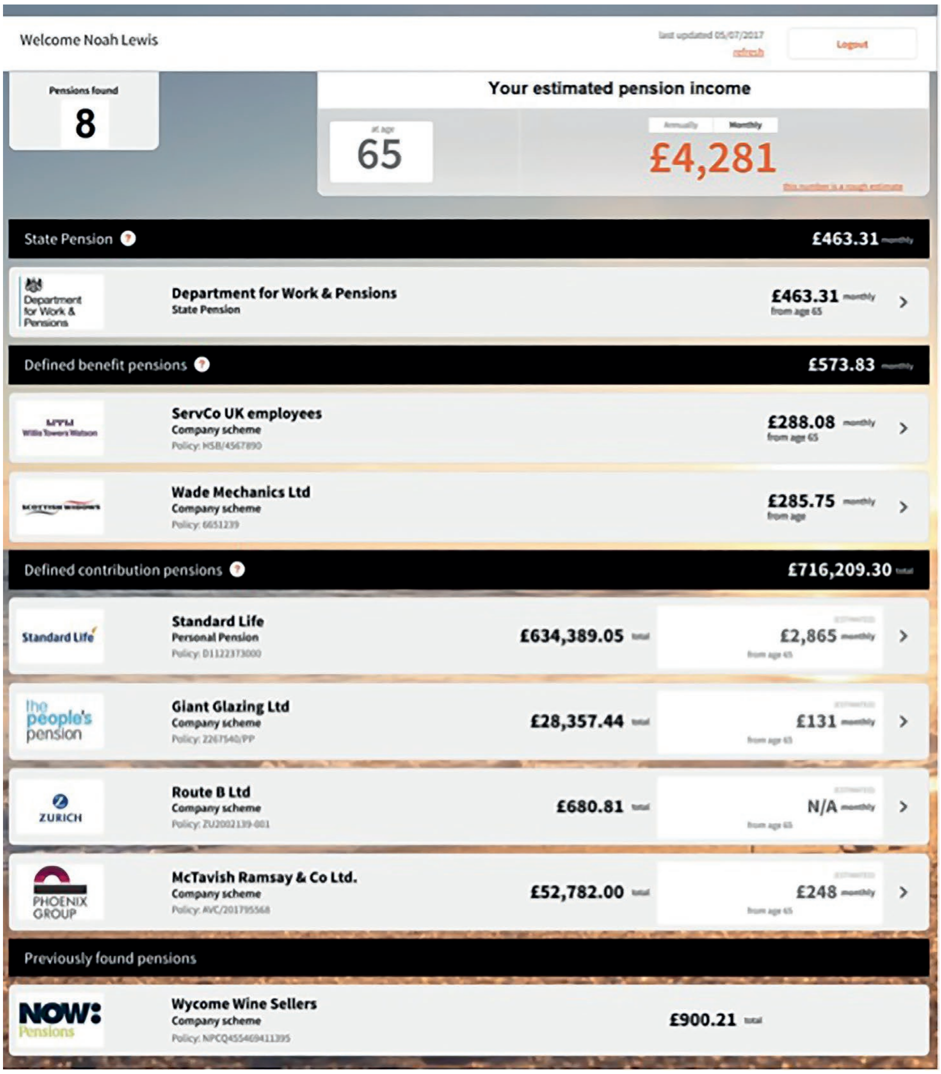
e. Pension providers should do more to standardise the language and layout of key customer communications.

CONSULTATION RESPONSES

Respondents stated that engagement with savers is hampered by the persistence of legacy communication systems, which are difficult and costly for pension providers to change. However, the industry is changing as a result of commercial pressure and some best practice has emerged. If further progress is to be made, the view was that the industry needs to define the goals of engagement, as well as improving its own processes and products.

Stakeholders emphasised that no single action will transform saver engagement with pensions. A fundamental culture change among savers, providers and regulators is required. Fintech is likely to be the key factor in driving reform of the way the pensions industry engages with the people it serves. Developments such as the Pensions Dashboard will be crucial. Used effectively, respondents stated that fintech could drive better engagement by making personalised communications possible *en masse* and enabling savers to tailor their savings targets to suit their needs.

FIGURE 7: PENSIONS DASHBOARD – HOW IT MIGHT LOOK



Respondents stated that the pensions industry has not used ‘teachable moments’ and heuristics effectively in the past. They told the PLSA that more work needs to be done to identify the most relevant moments and assess their effectiveness – including the proposed Mid-Life Financial Health Check. Schemes, employers and the Government need to find opportunities to create a new social norm among savers that favours appropriate engagement.

MID-LIFE FINANCIAL HEALTH CHECK

Age UK recently proposed a format for the Mid-Life Financial Health Check, including its content and how it could be delivered.

CONTENTS

- An exploration of what job the participant might want to do for the rest of their working lives.
- When and how they envisage retiring (i.e. making the transition), as well as a State Pension forecast, an assessment of private pension saving and an explanation of why it is worth increasing contributions.
- An assessment of their transferable skills, occupational skills, and experience.
- Information on job search (including signposting to any local provision offering more detail) and interview techniques, if appropriate.
- Options for formal, semi-formal and informal training – including where to go to get further advice.

DELIVERY

Age UK identified several organisations that could deliver the Mid-Life Financial Health Check, including:

- The National Careers Service: The government could charge the NCS with developing a health check at 50, with support from Pension Wise about pension saving decisions. This would require the expansion of the Pension Wise remit to allow it to develop tools to help people see the benefits of saving, and government funding.
- A light-touch pensions intervention: This could be simply an extension of the Mid-Life Career Review pilots, or further developments on that theme, with an additional nudge towards encouraging people to check their entitlement and increase their pension contributions or opt-in to saving.
- A community learning model: A two-session intervention led by local (community) providers with relevant expertise, with the first being a group session aimed at discussing future work and training-related possibilities. The second session would be an individual discussion about pensions – how much pension saving people have, and how much they are able to save in the future.
- An employer-led session: Every large employer could have a duty to offer the MOT to staff, backed by a government-sponsored service for smaller employers. This could give employers flexibility to decide on its precise nature, but be based on prescribed 'key features'.
- A pension scheme-led session: As part of automatic enrolment, schemes could offer an MOT at 50 to all members, through employers where appropriate. This could include careers and retirement content, as well as all the information about savings choices.
- A combination of employers, pension schemes and other actors: This could partner key delivery stakeholders on the work side, such as the National Careers Service and Union Learn, with the pension schemes and Pension Wise to deliver a pension saving engagement tool as part of the intervention.

PLSA PERSPECTIVE

The PLSA believes that a Mid-Life Financial Health Check should be developed and delivered to savers at around the age of 45. This would give savers adequate time to make meaningful changes to their retirement saving behaviour. We believe that the health check should cover the material proposed by Age UK. It should also draw attention to the role that property assets can play in supporting retirement income.

PLSA research shows that people trust a government service to deliver the Mid-Life Financial Health Check more than any other type of organisation. Thirty-seven per cent of people surveyed stated that it should be delivered by Pension Wise, the Money Advice Service or the Citizens' Advice Bureau, and a further 26% stated that a combination of government bodies, financial advisors and pension schemes/providers should deliver it.

Source: Age UK, *Creating a 'Career MOT at 50'* (2017)

There was widespread support for a broad standardisation of communications. However, there was no consensus regarding the degree to which particular documents should be standardised. Suggestions included the inclusion of a minimum level of data in all industry communications, the development of a standard glossary of terms by the SFGB, the use of common terminology across the pensions industry, and the full standardisation of annual statements and other documents (e.g. pre- and post-sales materials). Below is a section of the proposed Simpler Annual Statement, which is part of a project being led by Ruston Smith. Retirement Income Targets could be inserted as demonstrated.

FIGURE 8: THE SIMPLER ANNUAL STATEMENT

What you could do to give yourself more money

Before you do anything, have a look at the National Retirement Income Targets. You can find them at [websiteaddress.co.uk]. They'll give you an idea of how much money you're likely to need when you retire.

Save more money

If an extra £50 went into your plan every month, it could be worth an extra £8, 950 by the time you're 67.

Your plan could be worth
£112,310

There are lots of different ways you can use the money in your plan. One way is to turn it into a guaranteed income for the rest of your life.

That income could be worth
£250
a month

Give your money more time to grow

You don't have to use your money when you're 67. Leaving it to grow a bit longer could mean you have more money when you do use it.

Much of the discussion with stakeholders during the consultation focused on the purpose of engagement, as well as the characteristics of good engagement. The general view was that work in this area should concentrate on how engagement can fill in the gaps between good defaults and good governance in order to get the best outcome for savers. Respondents also highlighted the lack of trust in pensions (and in financial services in general) and the contrast between people's attitudes to 'near money' (such as their monthly pay and bills) and 'far money' (such as pensions), which are so distant that they struggle to relate to them.

Pensions – Trust Issues

Research carried out by Close Brothers Asset Management and published in combination with the PLSA explored employees' most trusted sources of financial information.

This research found that the most trusted sources of financial information among employees were personal finance websites (39%), independent financial advisors (37%) and government organisations (30%). Employers ranked seventh on the list of most trusted sources of financial information.

Despite the relatively low placement of employers on the list of most trusted sources of financial information, 59% of employees trust communications from their employer about their workplace pension, share plans and other savings.

Source: Close Brothers, *The Lifetime Savings Challenge 2017* (2017)

ASSESSMENT

Improved engagement practices have an important role to play in helping savers to achieve an adequate retirement income. Our consultation exercise shows us that a significant change in culture is required – among both savers *and* providers – in order to deliver better engagement. Clearly, this will not happen overnight.

The PLSA believes that it should be easy for savers to know how much income they need in retirement (retirement income targets) and where they are on the journey to achieving an adequate income (Pensions Dashboard). Savers should have access to affordable and easy to use guidance. These tools should be supported by a Mid-Life Financial Health Check that will help savers to understand whether they are on track to achieve their retirement goals.

Automated advice/guidance is likely to grow over the course of the next decade and could play a key role in helping to plug the advice/guidance gap in the UK. Some effective tools already exist, which are helping savers to make better decisions about their financial needs in retirement. Innovation is occurring rapidly and, although this is encouraging, it is clear that many fintech providers require specific financial services expertise in order to create tools that will work for the mass market. Pension providers have an opportunity to shape the next generation of automated advice/guidance tools by partnering with the fintech sector and, in so doing, shaping the direction of innovation with the knowledge and experience required to develop solutions that work for savers.

In addition, the PLSA believes that pension schemes can kickstart this process by adopting a set of principles for engagement with savers. These would focus particularly on securing the 'right engagement, at the right time, for the right purpose'. The PLSA has developed a set of high-level principles, which are outlined in the box below.

PLSA Pension Engagement Principles

1. **Engagement should help savers identify their overall retirement income objective and how much further saving is needed to achieve that goal.**

   In practice, this is likely to involve providing guidance and tools on savers' retirement income objectives or targets and on how decisions by the saver, e.g. extra contributions or retiring later, can alter those outcomes.

2. **Engagement should be based on a good understanding of the saver and their needs.**

   This will involve analysis of those saving in order to identify their needs, including how best to communicate with them and the frequency at which communications should occur.

3. **Engagement should be with a specific purpose, in a manner appropriate to the target saver, and at an appropriate time.**

   In practice, engagement should always seek to achieve a desirable outcome. To achieve this end, clear and consistent language should be used across the pensions sector, as this will make communications more easily understandable to the saver. The purpose is likely to be different in the accumulation stage, when it is likely to need to support savers in staying automatically enrolled and accepting phased contribution increases, as compared to the decumulation stage when, due to the greater complexity of the decision needed, it will need to encourage more active decision-making.

RECOMMENDATIONS

ISSUE	RECOMMENDATION
Retirement Income Targets	A set of National Retirement Income Targets should be developed in order to improve savers' understanding of the amount they need to save in order to achieve their desired standard of living in retirement.
FinTech	The Pensions Dashboard should be adopted by the pensions sector. In order to achieve trust and high use, there should be at least one high-profile dashboard hosted by a major public body, probably the SFGB. The Retirement Income Targets should be incorporated within the Pensions Dashboard. Pension providers should pursue better use of technology and, where desirable, work with fintech providers to shape emerging tools that will benefit savers.
Consistent Presentation	The pensions industry should do more to standardise the language and layout of key customer communications by adopting the Simpler Annual Statement.
Mid-Life Financial Health Check	Develop and implement a Mid-Life Financial Health Check in order to enable people to understand whether they are on track to achieve their retirement goals.
PLSA Pensions Engagement Principles	Pension schemes should adopt and implement the PLSA's Pension Engagement Principles as a support to retirement income planning.

CONCLUSION

Recent governments have taken important strides forward that have improved the income prospects for generations of retirees. Reforms to the State Pension and the introduction of automatic enrolment will ensure that future retirees have access to a higher level of pension wealth than would otherwise have been the case, but far fewer people will receive an income from DB pensions.

Additionally, future expenditure pressures arising from people living longer, the increased likelihood of incurring significant care costs and for many people higher housing-related costs mean that more needs to be done to improve future retirement outcomes.

Improving retirement outcomes requires a firm commitment from the government and the retirement savings sector to work together to ensure that savers understand how much they need to save to achieve the retirement they want. It requires a policy framework that is focused on achieving higher contribution levels, providing more support to savers when making retirement savings decisions, and a framework to ensure that they get the best out of the pension freedoms. Finally, it requires a sector that is fully focused on delivering value for money in the interests of savers and facilitating better decisions throughout the retirement savings journey by employing technological solutions and other techniques.

The recommendations set out in this report encompass the retirement savings journey in its entirety. They provide the groundwork for a new retirement settlement that will enable savers to feel secure in the knowledge that they will have adequate savings to meet the costs of later life. In short, our recommendations offer a settlement fit for a generation.

APPENDIX A – A ROADMAP FOR REFORM

YEAR	MILESTONE
2018	Targets – Development of Retirement Income Targets AE – Phasing to 5%
2019	AE – Phasing to 8% Governance – TPR Action to Raise Governance (ongoing) Governance – VFM Metrics Engagement – Retirement Income Targets Working Longer – Promotion of Principles
	Retirement Income Targets
	VFM Metrics
2020	Property – Property assets to be incorporated into general guidance Property – More Flexible Products Engagement – SFGB Pensions Dashboard with Targets Engagement – Regulation for Private Sector Pension Dashboards Working Longer – Adopt 'Age Diversity' Principles
	Later Life Age Diversity Principles
	Accessible Housing Wealth
2021	AE – Widen Scope to include Self-Employed and Younger Workers AE – Widen Scope to include Gig Economy Decumulation – Primary legislation for new regime Engagement – Mid-Life Financial Health Check Engagement – Pension Sector Uses Dashboard, Targets Engagement – Private Sector Pension Dashboards Launched
	Enhanced Engagement Regime Active
	Automatic Enrolment Scope Widened
2022	General Election Year – assuming Fixed Term Parliament Act term limits
2023	AE – Begin phased removal of LEL Governance – Extend IGC powers to cover decumulation Decumulation – New Regime Implemented Engagement – Retirement Income Targets (Major Review)
	Guided At-Retirement Signposting Achieved
	Enhanced Governance Regime Implemented
2024	AE – Complete phased removal of LEL Fiscal Support – Government to adopt a new objective for pension tax relief
	Tax Relief Objective Adopted
2025	AE – Start AE Increases from 8% to 12% – increase to 8.5% (0.5% employer)
2026	AE – Increase to 9% (0.5% employer)
2027	AE – Increase to 9.5% (0.5% employer)
2028	AE – Increase to 10% (0.5% employer)
2029	AE – Increase to 11% (0.5% employer/0.5% employee)
2030	AE – Complete AE increases to 12% (0.5% employer/0.5% employee)
	Adequate Contributions Secured

APPENDIX B – RECOMMENDATIONS

1. RETIREMENT INCOME TARGETS

ISSUE	RECOMMENDATION
Targets	A set of Retirement Income Targets should be developed in order to improve savers' understanding of the amount they need to save to achieve their desired standard of living in retirement. The PLSA has commissioned an independent research institute to identify the targets by early 2019.
Target Levels	There should be three target levels – corresponding roughly to 'minimum', 'modest' and 'comfortable' standards. The titles of the targets will need to be carefully chosen to ensure they are interpreted in the right way.
Target Methodology	The three levels should be determined by the creation of a basket of goods and services for each target standard.
Adoption	The targets should be adopted and used widely by the pensions sector.

2. AUTOMATIC ENROLMENT – SCOPE

ISSUE	RECOMMENDATION
Young People	The Government should implement the Automatic Enrolment Review 2017's proposal to include young people within the scope of the regime as soon as practicable.
'Gig' Workers	The Government should develop and implement a better statutory definition of a worker that can be aligned with the definition of a worker in PA08, rendering the inclusion of 'gig' economy workers within the scope of Automatic Enrolment almost certain.
Self-Employed	The Government is right in aiming to extend pension saving to the self-employed. We recommend that any solution takes account of their key preferences, notably trust, flexibility and control.

3. AUTOMATIC ENROLMENT – CONTRIBUTIONS

ISSUE	RECOMMENDATION
Contribution Level	The Government should increase minimum automatic enrolment contributions from 8% of band earnings to 12% of salary over the course of the mid-2020s. The Government should prioritise the removal of the LEL, recommended in the Automatic Enrolment Review 2017, and implement this recommendation as soon as possible.
Employer / Employee Split	The Government should rebalance employee/employer contributions, moving to a 50/50 split over the course of the phasing of minimum contributions to 12%.
Flexibility	The pensions sector should carry out research into the effective use of opt-down and sidecar mechanisms to ensure that raising contributions from 8% to 12% will be manageable for people on low incomes.

4. PENSION TAX RELIEF

ISSUE	RECOMMENDATION
Objective	The Government should state its objective for pension tax relief. The PLSA believes that this objective should be *to help as many people as possible achieve an adequate retirement income.*

5. GOVERNANCE

ISSUE	RECOMMENDATION
IGCs	The FCA should ensure that providers (insurance companies) have the power to make changes to the default fund in regard to legacy (as well as future) savings. These changes should be made with oversight from IGCs. The FCA should extend the remit of IGCs to cover not just accumulation, as now, but also decumulation.
Trustees	TPR should seek to encourage high standards of governance in all schemes. To help achieve this, TPR should publish pension schemes' annual Chair's Statement on their website in order to enable effective scrutiny. TPR should require the Chair's Statement to demonstrate the competence and qualifications of the governance body, including the training trustees have undertaken in the year under review. Professional trustees, who have a key role to play in achieving high standards of governance, should be required to meet high and rigorous standards of competence.
FCA/TPR	The FCA and TPR should carry out a joint review of the protection given by the governance arrangements in the trust- and contract-based regimes to ensure that all types of saver receive equivalent protection.

6. VALUE FOR MONEY

ISSUE	RECOMMENDATION
VFM Metrics	The pensions sector should work collaboratively to develop and implement a set of key VFM metrics to provide a guide to VFM for trustees and sponsors.
Benchmarking	The pensions sector should establish a benchmarking index to help schemes and sponsors compare the value of their scheme to others.
Performance Review	Where pension schemes and providers do not deliver value for money, they should consider whether they can improve their performance or if it would be better to transfer members to another scheme or provider and wind up. The Regulator should support and encourage schemes in adopting a rigorous assessment.

7. GUIDED AT-RETIREMENT DECISIONS

ISSUE	RECOMMENDATION
Regulatory Framework	The Government and the pensions industry should adopt a new regulatory framework for decumulation. This will provide for a new decumulation process and new product/solution principles.
New Decumulation Process	The new decumulation process should work as follows: ▸ Schemes and providers, where possible, should seek to support members to make active decisions; ▸ They should also help savers in their decumulation choices by signposting them towards suitable products/solutions; ▸ The products/solutions are to be selected by an independent body, a trustee or IGC, which has responsibility to operate in the interests of members; and ▸ The products/solutions must conform to government-mandated principles which would also provide a 'safe harbour' for the trustee or IGCs which have selected them.
New Product/ Solution Principles	New product/solution principles should be adopted to ensure that the decumulation pathway operates in the members' interest, provides a sustainable income, and offers flexibility for capital withdrawals.
Guidance	The Government should require default referral (with opt out) to the SFGB at the point at which savers want to start to withdraw pension savings. The PLSA endorses the ABI's recent recommendation that the Government and the FCA should review use of the term 'wake up pack' and the name of the MAS guide *Your Pension: It's Time To Choose*.

8. ACCESSIBLE HOUSING WEALTH

ISSUE	RECOMMENDATION
Guidance	The SFGB should offer savers retirement income guidance which takes account of both pension and property assets. Mid-Life Financial Health Checks should include a realistic assessment of whether an individual has sufficient property wealth to use some of it to help fund their retirement income.
Products	Providers should explore how equity release products can be made more flexible so that, for example, they are able to: a. Be transferred to other properties more easily, especially in the event of people moving to sheltered accommodation or into care; and b. Be drawn in smaller, more regular sums, as opposed to large amounts. The FCA should change regulation to enable lenders to offer retirement interest-only mortgage products provided that an active choice is made by the saver.

9. EASY TO WORK IN LATER LIFE

ISSUE	RECOMMENDATION
Guidance	Employers and the Government should work together to develop an ambitious guidance agenda, including: 1. A Mid-Life Financial Health Check at 45; and 2. Default referral (with opt out) to guidance sessions with the SFGB prior to withdrawal of pension funds should include information on how savers can combine income from earnings with pension income.
Employment Practices	Employers should adopt and implement the CIPD's principles on age diversity in the workplace.

10. EFFECTIVE ENGAGEMENT

ISSUE	RECOMMENDATION
Retirement Income Targets	A set of National Retirement Income Targets should be developed in order to improve savers' understanding of the amount they need to save in order to achieve their desired standard of living in retirement.
FinTech	The Pensions Dashboard should be adopted by the pensions sector. In order to achieve trust and high use, there should be at least one high-profile dashboard hosted by a major public body, probably the SFGB. The Retirement Income Targets should be incorporated within the Pensions Dashboard. Pension providers should pursue better use of technology and, where desirable, work with fintech providers to shape emerging tools that will benefit savers.
Consistent Presentation	The pensions industry should do more to standardise the language and layout of key customer communications by adopting the Simpler Annual Statement.
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PLSA Pensions Engagement Principles	Pension schemes should adopt and implement the PLSA's Pension Engagement Principles as a support to retirement income planning.

APPENDIX C – HITTING THE TARGET STEERING GROUP MEMBERS

RICHARD BUTCHER (CHAIR)

Richard joined PTL in 2008. He became Managing Director in 2010. He has responsibility for a wide and diverse range of clients, both DB and DC. Prior to joining PTL, he ran his own small independent trustee and consultancy business.

Richard has been involved in pension scheme governance since 1985 and has worked with, or as, a pension scheme independent trustee since 1989. He is a Fellow of the Pensions Management Institute and is on the PMI Council and, in 2017, he was appointed to the position of Chair of the Pensions and Lifetime Savings Association.

ZOE ALEXANDER

Zoe has been at NEST for nearly three years, initially joining as Director of Public Policy, and has been Director of Strategy for the last year. Her role comprises considering the long-term strategy for the organisation, as well as acting as the interface with government and the public policy community.

Before joining NEST, Zoe was a civil servant for over a decade, in a variety of roles. She was Private Secretary to the Secretary of State for Work and Pensions during the passage of the legislation that established automatic enrolment, and recently led a Treasury programme to set up the national pension guidance service, Pension Wise.

CHRISTOPHER BROOKS

Chris is Senior Policy Manager at Age UK, the national charity for older people. He leads Age UK's public policy work on private pensions, and employment and skills, which involves representing the interests of consumers and older people to government, regulators and industry. He also manages a team covering a diverse range of policy issues, including housing and transport policy.

He has worked at Age UK since May 2010, and previously worked at the awarding body City & Guilds, where he managed its Parliamentary and public policy activity, and before that at Lansons, a public affairs agency specialising in financial services.

CHRIS CURRY

Chris is the Director of the Pensions Policy Institute (PPI). He originally joined the PPI as Research Director in July 2002 and was responsible for the research programme for 11 years. At the PPI, Chris has authored a number of research reports analysing pensions, pension reforms and other provision for retirement income. Chris started his career as an Economic Adviser at the Department of Social Security (now the Department for Work and Pensions), before joining the ABI as Senior Economist.

In February 2017 Chris was announced as one of the three co-chairs for the DWP AE Review Advisory Group. Chris led on providing advice on the theme of Contributions. The Review, published in December 2017, focused on how to ensure that workplace pensions continue to meet the needs of individual savers and employers, while remaining fair, affordable and sustainable for future generations.

EMMA DOUGLAS

Emma joined Legal and General Investment Management (LGIM) in January 2014 and is Head of Defined Contribution Solutions. She is responsible for LGIM's bundled and unbundled defined contribution business. Her role involves working with LGIM's defined contribution clients and delivering innovative solutions to the market.

Emma joined LGIM from Mercer where she was Head of Mercer Workplace Savings. Prior to Mercer she was Head of Defined Contribution Sales at BlackRock and Head of Defined Contribution Pensions at Threadneedle Investments. She has more than 20 years of experience in the investment management industry and has been Vice Chair of the Pensions and Lifetime Savings Master Trust Committee since its formation in 2016.

MEL DUFFIELD

Mel is Head of Pensions Strategy and Insight at the Universities Superannuation Scheme (USS), the hybrid pension scheme for academics and related roles in the UK higher education sector. Her remit covers employer and member insight, product strategy and employer liaison, and she has been heavily involved in the design and implementation of the scheme's new DC section, USS Investment Builder.

Before joining USS, Mel was Deputy Director at the Pensions Policy Institute and, prior to that, Head of Research and Strategic Policy at the Pensions and Lifetime Savings Association. She started her career in the UK Civil Service, working as a senior economic advisor at HM Treasury, the Department for Work and Pensions and the Department for Education.

ALAN RITCHIE

Alan is Head of Strategy Development at Standard Life, with a particular focus on driving long-term value for customers and shareholders in DC pensions and long-term savings. Prior to this, he led Standard Life's Workplace channel through major changes such as Automatic Enrolment, Pension Freedoms and the introduction of an Independent Governance Committee and a Master Trust Committee.

Alan has held a number of other positions at Standard Life over 19 years, each linked to helping consumers achieve the best outcomes possible from their pensions. He has been active in driving forward the industry benchmarking of DC pensions. He has also led industry working parties relating to closing the savings gap and transforming consumer information. Alan is a member of the Institute and Faculty of Actuaries.

ANDY TARRANT

Andy Tarrant is Head of Policy and Government Relations at the People's Pension. Previously he was senior Parliamentary Adviser to the Shadow Europe Minister and to the Shadow Pension Minister.

He has also been responsible for features, specialist press and BAME media at Labour Party central office; Head of Government and Regulatory Affairs for BT Plc's Global Services Division; Director of Regulatory Affairs at the European Competitive Telecommunications Association; Senior Competition Lawyer at BT Plc; and Head of the International Section at OFTEL. He qualified as solicitor into the Competition Law department at Herbert Smith Solicitors.

Andy studied history at Oxford University. He has a PhD in Political Science and postgraduate degrees in economics, European law, European politics and political journalism.

LESLEY WILLIAMS

Until May 2018, Lesley was Group Pensions Director at Whitbread, with responsibility for corporate pensions strategy and to the Trustee Company for the operation of the Pension Fund and its investments. Lesley worked in the pensions industry for just over 30 years, with previous positions in Gateway Foodmarkets, Abbey National, the Pearl Group and Henderson Global Investors.

She is a Fellow of the PMI and has an MBA. She is a past Chair of the Pensions and Lifetime Savings Association and is currently a Board Director, leading the PLSA's diversity advisory group. She is also a Director of Pensions Quality Mark Ltd. She contributes widely to policy debate on pensions.

CAROL YOUNG

Carol is Director of Reward, Pensions & Benefits at Royal Bank of Scotland (RBS). She leads the teams responsible for all aspects of remuneration across the bank, the flexible benefits programme for over 60,000 colleagues and DB and DC pension arrangements for over 300,000 members (circa £45bn liabilities) worldwide.

Carol is Chair of the Pensions and Lifetime Savings Association's Defined Contribution Council; she is Chair of the Confederation of British Industry's Pension Panel; and is a governor of the Pensions Policy Institute. Carol's career spans 20 years across in-house and consulting roles, and includes a decade as an investment consultant. She has served as an independent trustee on a number of boards and is a trustee of RBS's UK DC scheme.

APPENDIX D – LIST OF CONSULTATION RESPONDENTS AND WORKSHOP PARTICIPANTS

Aberdeen Standard Investments

Age Partnership

Age UK

AHC

Akzo Nobel UK Limited

Association of British Insurers

Association of Consulting Actuaries

Augentius UK Ltd

Aviva

The People's Pension

British Medical Association

Bruce Sayers Associates Ltd

Burness Paull LLP

Capital Cranfield

Capital Cranfield Trustees Pension Scheme

Cardano

Carillion Construction Ltd

Centre for Policy Studies

Citi

Dean Wetton Advisory Ltd

Department for Work and Pensions

Dimensional Fund Advisors Ltd

Equity Release Council

Ferrier Pearce

FirstGroup PLC

Federation of Small Businesses

Hargreaves Lansdown

HM Treasury

Hymans Robertson

Institute of Chartered Accountants of Scotland

Institute and Faculty of Actuaries

Irrational Insights Ltd

JLT Benefit Solutions Ltd

Johnston Press PLC

Just

KPMG

LGIM

LV=

Mercer

Money Advice Service

National Employment Savings Trust

NOW: Pensions

Pensions Policy Institute

PIMFA

Prudential Corporation

Resolution Foundation

River and Mercantile Group

Royal London

Sackers

Smart Pension Ltd

Spence & Partners Pension Scheme

Standard Life

Standard Life Pension Fund

T. Rowe Price

The Pensions Advisory Service

TPT Retirement Solutions

Trades Union Congress

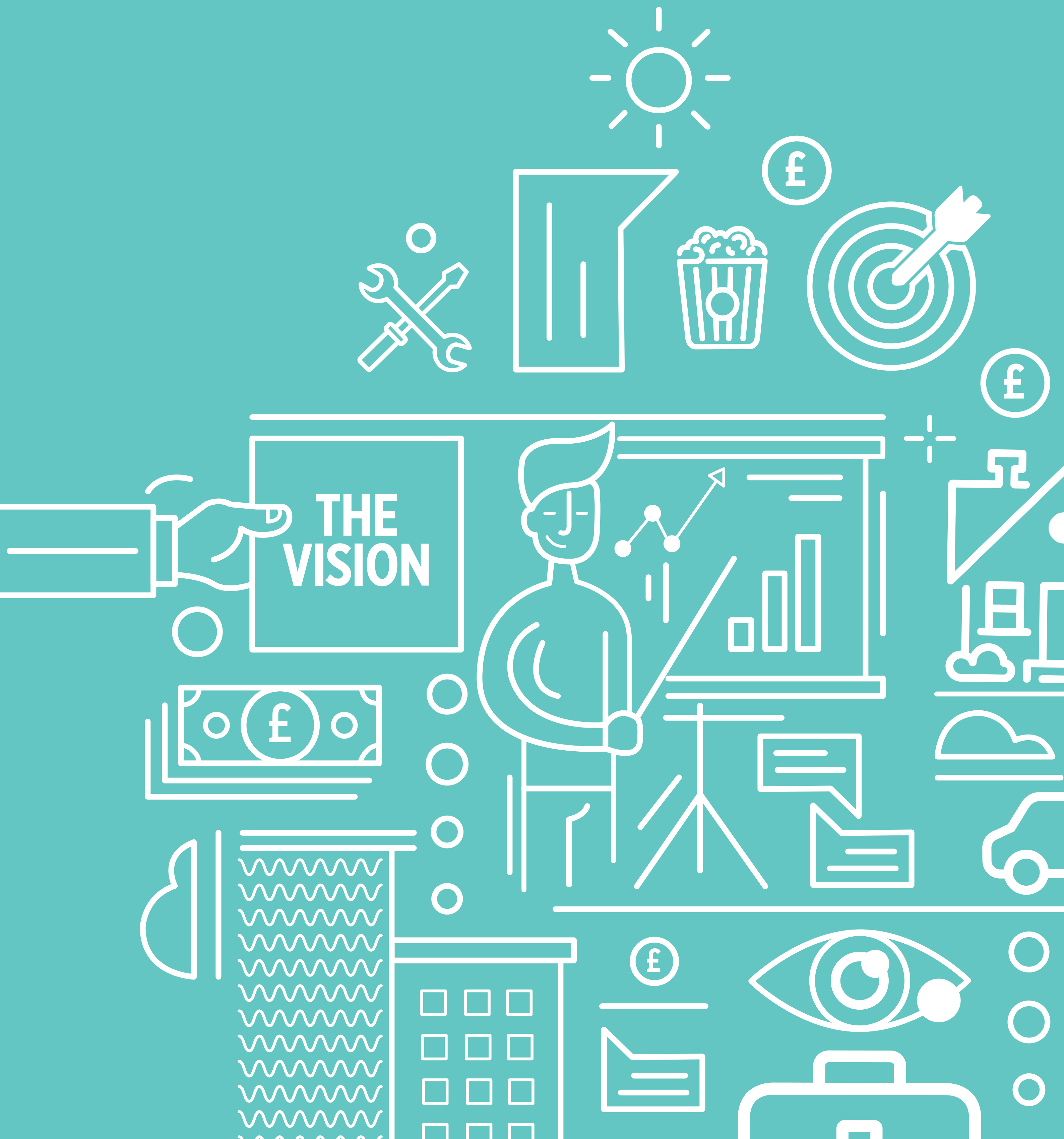
Which?

Willis Towers Watson

Zurich Insurance PLC

GLOSSARY

TERM	DEFINITION
Additional Rate	Refers to the tax paid on income over £150,000. It is the highest tax bracket in the UK.
Annual Allowance	The Annual Allowance is a limit to the total amount of contributions that can be paid to defined contribution pension schemes and the total amount of benefits that you can build up in defined benefit pension schemes each year, for tax relief purposes. It is based on an individual's earnings and is capped at £40,000.
Automatic Enrolment	Automatic enrolment refers to the process by which UK employers must establish a qualifying workplace pension scheme and enrol their qualifying workers into it. Employers then have to make contributions to their workers' pensions every pay period.
Defined Benefit	A defined benefit or 'DB' pension scheme is one where the amount a retiree is paid is based on how many years they worked for a given employer and the salary they earned while working.
Defined Contribution	A defined contribution or 'DC' pension scheme provides a retirement income that is determined by factors including the amount a saver pays in, the fund's investment performance and the choices savers make at retirement. Unlike DB schemes, DC schemes do not promise a specific, guaranteed income in retirement.
Equity Release	Equity release refers to the use of financial arrangements that provide the owner of a house or other property with funds derived from the value of the property while enabling them to continue using it.
Exempt, Exempt, Taxed	Exempt, exempt, taxed or 'EET' refers to the prevailing UK pension tax regime in which savings at the stages of contribution and accumulation are not subject to tax, but, at the time of withdrawal, tax is paid on the sum acquired.
Gig Economy	Gig economy refers to a labour market characterised by the prevalence of short-term contracts or freelance work as opposed to permanent jobs.
Investment Governance Committee	Investment Governance Committees or 'IGCs' are oversight bodies that have a duty to scrutinise the value for money of the providers of contract-based workplace personal pension schemes, taking into account transaction costs, raising concerns and making recommendations to providers as appropriate.
Lifetime Allowance	The Lifetime Allowance is a limit on the value of payouts from an individual's pension schemes – whether lump sums or retirement income – that can be made without triggering an extra tax charge.
Lower Earnings Limit	The Lower Earnings Limit or 'LEL' refers to the amount of earnings that allow an employee to qualify for certain state benefits (such as qualifying years for the basic State Pension). The lower earnings limit is set each tax year by the government.
Minimum Income Standard	The Minimum Income Standard or 'MIS' identifies what incomes different types of households require to reach a socially acceptable living standard.
Pension Freedoms	The term pension freedoms or 'freedom and choice' refers to reforms introduced in April 2015 that mean savers are no longer required to purchase an annuity with their DC pension savings.
Phasing Process	The term 'phasing process' refers to the increase in minimum automatic enrolment contributions.
Target Replacement Rate	A replacement rate is the percentage of a worker's pre-retirement income that is paid out by a pension upon retirement. Replacement rates can be used to estimate future retirement income.
Trustee	A trustee is an individual or firm that holds and administers property or assets for the benefit of a third party. A trustee may be appointed for a wide variety of purposes, such as in the case of bankruptcy, for a charity, for a trust fund or for certain types of retirement plans or pensions. Pension trustees have a fiduciary duty to act in the scheme members' best interests.


THE VISION

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