"I took a trip to the year 2037…"

Jeremy Goodwin looks at the pensions landscape for the next 20 years

The past two decades have seen significant changes in the UK pensions landscape. The Maxwell scandal in the early-1990s coupled with ballooning deficits in defined benefit (DB) schemes started the era of greater regulation. Growing deficits also led employers to switch to defined contribution (DC) schemes; a trend which continues to this day.

Recognition of both the lack of people saving for retirement and the ageing population created the conditions for almost universal consensus behind a radical social experiment known as 'automatic enrolment'. Before the impact of this could be known, the former Chancellor, George Osborne, turned things on their head by removing the requirement for people to secure an income for life - a 'pension'.

This will have profound effects in the future, perhaps even in the words we use. Goodbye 'pension', hello 'retirement savings'? More fundamentally, what will the retirement savings world look like in 2037?

"Let them eat cake"?

Many people retiring today with a workplace pension will have some form of DB pension and will have benefited from rising house prices. A recent study by the Resolution Foundation showed that pensioner household incomes this year have overtaken the average income of working age people for the first time. This reflects the fact that the number of wealthier pensioners is on the rise.

The rise of the 'DB generation' will continue for another decade or more. But a 'lost generation' of pensioners will emerge by 2037. Many in this lost generation, which missed out on DB and began working life before auto-enrolment, will hit retirement age with a thud. Even the 'auto-enrolment generation' will have a rude awakening, because auto-enrolment is a long way short of solving the adequacy problem. We could see huge inter-generational unfairness between different eras of pensioner.

Here for much longer, in sickness not in health

While the average income for pensioners looks set to rise and then fall, the number of people over pensionable age in the UK will only rise. With more baby-boomers set to reach pensionable age and with life expectancy continuing to rise, the ONS anticipates the number of people above pensionable age rising from 12.4 million to 16.5 million by the end of the 2030s. The number of people above age 75 is expected to increase by 89 per cent, to 9.9 million, in this time and a six-fold increase in the number of centenarians is expected.

This significant demographic change will cause social and political reforms as we adapt to an ageing population. Similarly, while life expectancy rises, we also see obesity rising for example. A challenge for our (flexible) retirement savings is how to fund a much longer life, with material social care costs and where poor health means people cannot work into their 70s and beyond.

There will be many more BHS schemes…

History may judge the DB generation as a high point in pension provision. However, the flight path for DB schemes will not be without turbulence. By 2037, the majority of DB schemes will have been bought out or restructured. However, the economic climate, Brexit and substantial deficits may mean that scheme and sponsor failures will, sadly, continue over the coming decades.

The professionals

The current emphasis around governance, transparency and value for money and the growing calls for professional standards and qualifications for trustees indicates the direction of travel. The workplace pensions landscape looks set to become the preserve of the professional as we move into the next decade and beyond.

Just another bank account?

The concepts of flexible retirement, flexible working and greater flexibility over how people can access their retirement savings have now taken root. These trends will continue as more people want, or need, to continue working for longer and as people get used to the idea of being able to do what they want with their retirement savings.

We should also expect to see greater flexibility over how people save and when they can access their savings. With Millennials carrying significantly higher levels of debt and also facing a growing challenge to get on the housing ladder, more flexible long-term savings products will need to be developed to cater for this new saver.

This article was written by Jeremy Goodwin, head of London pensions at Eversheds Sutherland

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