Summary
- Trust in financial services and pensions remains low.
- Auto-enrolment's success, as well as charge caps and other costs controls, have given pensions a much needed confidence boost.
- Dangers still lurk however and the growing popularity of the ISA puts pressure on the pensions sector to build trust with the public.

During a speech at the Just 2018 Retirement Leaders' Annual Summit in February 2018, the ABI's director of long-term savings and protection policy, Yvonne Braun, delivered a bleak summary of the pensions industry's standing within the collective mind of the general public.

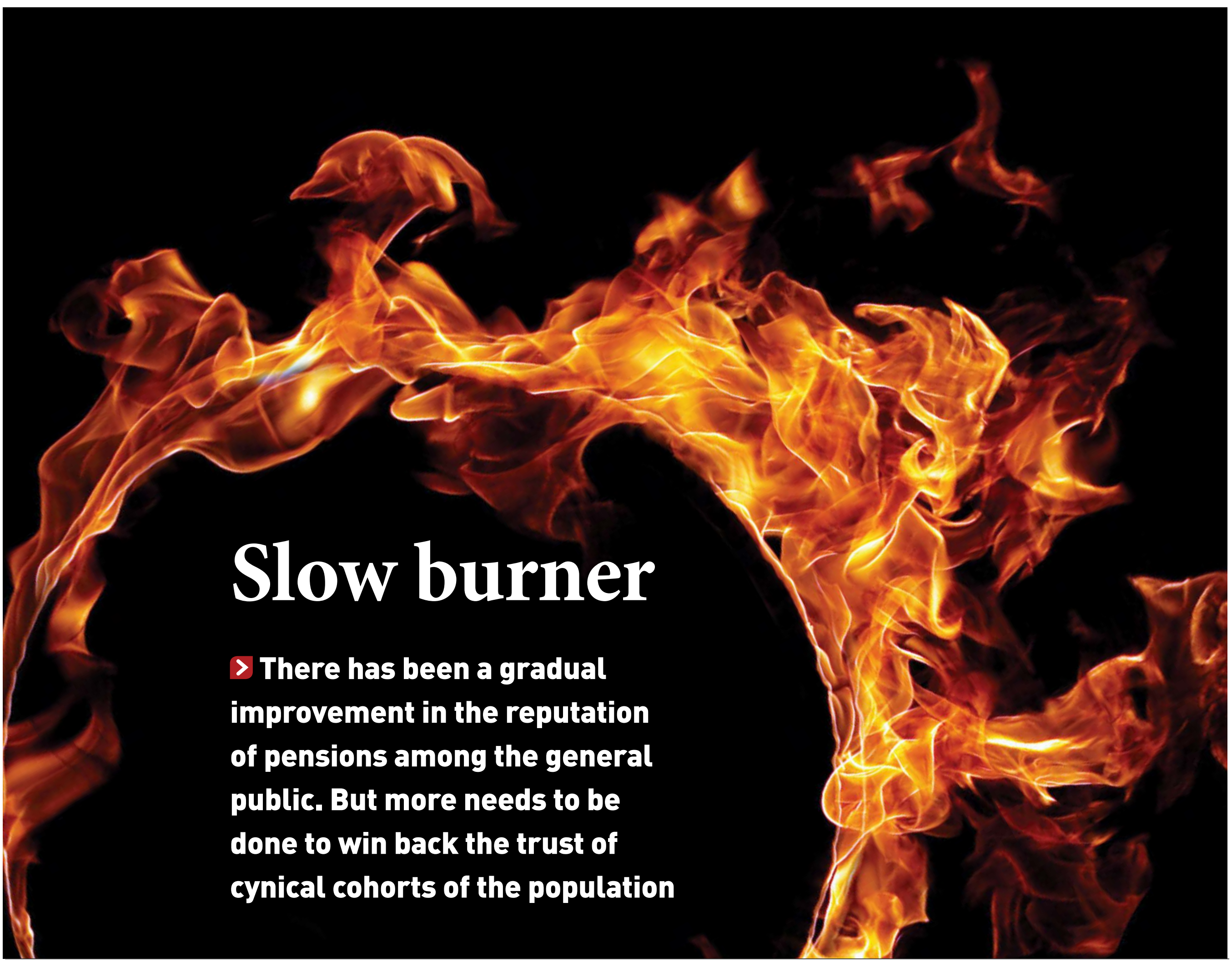
"The sheer number of alarming headlines, be it on state pension age changes, BHS, or British Steel, amounts to a drip-drip effect in people's minds that affects the reputation of the sector as a whole," she said. "Adding to that the well-known scandals of yesteryear — Robert Maxwell, Equitable Life — and it isn't surprising the sector has significant challenges in rebuilding its reputation."

Not much has changed over the course of the past 11 months or so. In the summer, The Wisdom Council, which analyses consumer attitudes for the financial services sector, found that there was still a widespread lack of trust in pensions and investments across all demographic groups: Millennials are scarred by the 2007 credit crunch; Generation X still remembers the pensions mis-selling scandal of the 90s; and Baby Boomers cannot forgive the fallout from endowment shortfalls and are wary of what they feel is an industry that hides behind obfuscation and a wall of words.

Broadstone technical director, David Brook, laments that there has – as ever – been plenty of discussion over how to overcome these fears, but precious little action.

"There's a lot of talk about the dashboard and better comms, but none of these things are really happening at the moment and we don't know when they will happen," he says. "And when they happen, will they actually have an impact? I don't want to be too cynical, but we have a long, long way to go."

For Salvus Master Trust's head of sales, Bill Finch, efforts to connect



Slow burner

There has been a gradual improvement in the reputation of pensions among the general public. But more needs to be done to win back the trust of cynical cohorts of the population

in a more meaningful way with savers have enjoyed minor success at best. He advocates more radical thinking. "We are seeing steps in this direction through simplified statements prescribed by TPR, but there is definitely more to be done," he says.

Rather than trying to simply upgrade old systems, Finch is adamant that the pensions world needs to think more innovatively if it is going to capture people's attention and portray a more positive image.

"If the pensions industry does want to be more appreciated by people then it needs to stop treating them as policy holders and start to treat them as customers," he warns. "That means speaking their language and engaging with them in a way that makes sense to them."

Innovation was one of the calling cards of the 2010-2015 coalition government, which introduced pension freedoms, now widely regarded as having had a positive effect on how people perceive pensions. However, as Altus Consulting's head of retirement strategy Jon Dean points out, it has also, perversely enough, highlighted the ongoing deep-seated mistrust of pensions.

"Many people feel they have benefited from pension freedoms because they have been able to get their hands on more of their money earlier," explains Dean. "However, given that many consumers are withdrawing it and putting it into bank accounts, cash or investment ISAs, this suggests many still don't trust their pension provider like they do their bank."

Room for optimism?

The good news is that there remains a solid base to work from. Since 2010, the Office for National Statistics' Wealth and Assets survey has consistently found that more employees identify a workplace scheme as the best way to save for their retirement than any other, with property and a personal pension the second and third most popular choices. ISAs come

in fourth.

"We always talk largely about the public being anti-pensions but I don't agree," Finch says. "People aren't anti-pensions. The issue is just a lack of understanding about the full benefits that pensions can provide and the general importance of long-term savings."

Secondsight's business development director, Ian Bird, is also optimistic. The employee benefits company's stance is that pensions are viewed more positively than compared to 10, or even five, years ago. He believes that the 0.75 per cent administration and investment charge cap and 1 per cent limit on exit penalties have played a significant role in this improvement. "You originally had very expensive personal pensions and some horrific penalties built into older pensions," Bird says. "Hopefully the realisation by most people that most pensions are penalty-free has helped the industry quite a lot."

Reducing complexity, streamlining choices

Auto-enrolment has also gone some way to building trust. Despite having an advertising campaign headed up by a D-list of celebrities, the message that pensions are secure and fully supported by employers and the government has started to seep through into individual members' consciousness, according to Redington's director of DC & financial wellbeing, Jonathan Parker.

"The feeling that I get from talking to clients that we advise, typically trustees, pension managers, employer representatives, is that they have definitely seen an increase in the amount of activity and questions that come through from members of their schemes over the last three years," he says.

Another benefit of auto-enrolment is how it has stripped away some of the bewilderment that the public feel when approaching pensions. As State Street Global Advisors' head of EMEA pensions and retirement strategy, Alistair Byrne, says, many people know that they need to save for retirement but struggle to do something about it, so they value the help that they get from being auto-enrolled in a good workplace scheme.

"Anything that makes matters simpler helps the reputation of pensions," Byrne says. "There's too much choice and people not knowing who to trust or who to go with hurts that. Auto-enrolment simplifies that. It takes away some of the decision."

What's more, says Royal London's pensions specialist, Helen Morrissey, the continued growth of auto-enrolment has the ability to increase the reputation of pensions further as more people are enrolled and begin to understand the importance of tax relief and the employer contribution.

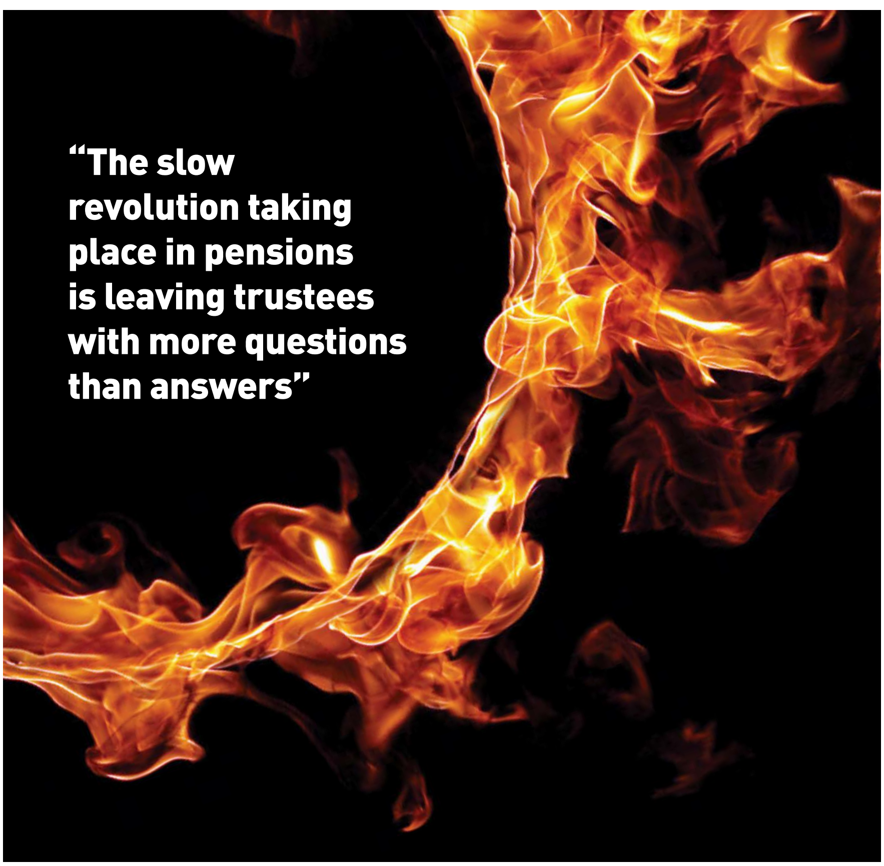
Lurking dangers

The UK's soft compulsion regime does, however, still have some hidden dangers. Brooks predicts that the next pensions sector's scandal could actually emerge from its current success story. "When people start to retire on minimum contributions and find out that that's not enough, whose fault is that going to be? Is it going to be the government's for not getting it right? Or the industry's for not pushing for higher rates and allowing the government to push back the auto-escalation phasing?"

Avoiding such a scenario – and making sure that it does not coincide with other bad headlines – can only be done by increasing levels of education and regulation, Morrissey says.

"We need to help people understand the importance of contribution levels, the role of fees and the consequences of their choices in retirement," she says.

"It is also important that lessons are learned from the situations seen at BHS and Tata Steel. Sponsoring employers must understand they cannot dodge their pension obligations and that people taking advantage of their pension freedoms are not taken advantage of by unscrupulous people. With this in mind it is important that regulators are seen to take strong action where necessary and that more work is done to make people aware of the hallmarks of scam activity. If people feel they are protected by regulators and empowered to make good decisions then they will view pensions in a more positive light."



The ISA threat

Increasing confidence in pensions gains importance when set alongside the growing role of the ISA. This is particularly true in the case of personal pensions, whose captive audience appears to be dwindling. In contrast to its findings with the employed workforce, the ONS has discovered that self-employed people view both property and ISAs as safer bets than pensions.

Three years, ago, the Centre for Policy Studies' research fellow Michael Johnson, called for ISAs and pensions to become blended products. Part of his reasoning was based on evidence that the lure of 20 per cent tax relief on contributions was insufficient in the eyes of many basic rate taxpayers to overcome pension products' complexity, inflexibility, and general poor image. He also argued that pensions were "increasingly at odds" with Generation Y, which values ready access to savings above tax relief.

Then, in December 2018, workplace savings platform, Smarterly, advised by Johnson, launched what it believes to be the first Lifetime ISA available through payroll deduction. Should this become a popular employee perk over the next few years, then workplace pensions may well suffer, particularly if young scheme members start to feel the pinch from contribution auto-escalation.

With the ISA's untainted brand on the march, the pension has much work to do.

Written by Marek Handzel, a freelance journalist