

UPDATE

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Getting an update

■ The pensions sector is shaking off its image as a static and archaic monolith and could soon, with a little help from the government, match the expectations of a new workforce that values personalisation and flexibility above all

Ask your typical 20-something-year-old about what they expect from retirement saving products and you'll probably get an answer sprinkled with the following: Accessibility, simplicity, flexibility, immediacy, and a personal service.

The problem for the pensions sector however, is that it still has a reputation for harbouring opaque mechanisms, hidden costs, jargon and red tape. It's no wonder, therefore, that so many young people still have their suspicions about the pensions sector. A YouGov survey conducted earlier this year found that 44 per cent of 18-34 year olds have no pension provision whatsoever.

But this could soon change. Whether by accident or design, today's pensions industry is well positioned to match Millennials' savings expectations.

Royal London's director of policy Steve Webb puts it like this: "In many ways, the move from old-style final salary

to new defined contribution fits much better with the labour market of the future."

"Instead of workplace pensions being linked to a specific employment and salary level, and perhaps being the preserve of the better-paid, DC pensions in a world of automatic enrolment enable people to build up one or more pot of money which can be combined at retirement to generate an income," says the former pensions minister.

To redress young people's disengagement from pensions, the first thing to do is to get them saving in the first place. And given today's fluid work environment, that means extending auto-enrolment to the far peripheries of the labour market.

To make this happen, The People's Pension head of policy, Darren Philp, says that auto-enrolment must be simplified and include the self-employed.

He suggests that the government could achieve the former by getting

► Summary

- Today's young savers expect their pension schemes to be flexible, accessible and understandable.
- Many of them could end up as DC millionaires if auto-enrolment is extended and reformed to capture the far peripheries of the labour market.
- Technology and the pensions dashboards should allow for better member engagement.
- State pension reform and deferred annuities could help smooth phased retirement in the future.

rid of band earnings and allowing for contributions from the first pound. This would make auto-enrolment easier to understand and administer, and ensure that more young people on low wages start saving.

The latter could be made a reality by using the National Insurance system and a carousel of providers willing to take on the self-employed. These would pick up members who would then see part of their NI contributions diverted into their pension as a way of mimicking the employer contribution.

As well as catering for the gig economy, the pensions industry needs to take a further step and start using a bit more empathy, as Philp explains: "We talk about engagement and choice, but we put barriers in the way of those things."

The way to pull down those barriers, he says, is to increase the personalisation of pensions. This means allowing people to stay with a scheme that they were happy with during their time with a previous company and not losing their employer contributions, for example.

"Imagine a world where I say to my new employer, 'here are my bank account details, and here are my pension account details.' I can see that coming."

The unsuspecting millionaires

With these further auto-enrolment foundations in place, Millennials will

be able to build up substantial pots, says Standard Life's head of pensions strategy, Jamie Jenkins. Challenging conventional DC doomsday scenarios, he believes that many people starting out in work today are set to become millionaires in retirement.

"If a person has a minimum of 8 per cent that goes into their pension over their working life wherever they go, then they can walk away with an amount which doubles their state pension lump sum which is worth somewhere between £250,000 to £300,000 in today's terms," he says.

However, a conflation of a generous employer, gradually increased personal contributions and decent investment returns could see workers build up anything from £500,000 to a million pounds in private savings.

"It's like the option of winning the lottery really slowly.

"It means you can be comfortable saying that you've done the right things early in life and that you have choices after 55, such as taking a year out, or moving to a less strenuous job."

To make the best of the options Jenkins speaks of, however, the pensions sector must help workers with multiple pots to be able to see their overall position.

As Xafinity head of pension investment Ben Gold says: "This is critical so they have a chance of making informed investment and financial planning decisions through their lives. Technology will have a key role to play."

The power of tech

A big part of that technology will be the pensions dashboards.

With near on 20 providers, covering most of the market, expressing a willingness to build them for 2019, Jenkins believes that is can do much more than just act as an online pension scheme aggregator.

"It's a leap in technology that opens up a whole host of possibilities," he says.

If people can retrieve all their retirement savings data and view it

online or in an app, then, asks Jenkins, what's to stop them from looking at the charges, consolidating, transferring and even conducting DB transfers – with the help of some advice, be that artificial or human?

"The move from old-style final salary to new defined contribution fits much better with the labour market of the future"

The Netherlands has had a dashboard since 2011. To date, it has only truly caught the interest of those aged 50 and over. Jenkins sees this as a valuable lesson that the financial services and insurance sectors can use to draw younger savers in.

"Millennials are also more inclined to live their lives through their smart devices so perhaps more likely to keep an eye on what they've got."

With some clever use of gamification techniques, they may become quite happy to begin managing their wealth accounts on a regular basis.

"The dashboard is not a narrow piece of technology, it's a step change in how customers interact with their pensions," says Jenkins.

And if such interaction does take off, then technology could be used to nudge people into saving more, says Webb. So an app could easily prompt someone to review their savings at key points such as turning 40, or receiving a pay rise.

Decumulation

It's clear that morphing the delivery of pension schemes will not stop at the accumulation phase in the future.

Part of that is down to pension freedoms and the flexibility the reforms have handed over to savers, but part of it is also down to the end of the clear demarcation line between work and retirement.

"There is now a clear generational gap," says Gold.

"Older workers are more likely to

have a significant DB pension. For these lucky ones, the concept of retiring, i.e. completely stopping work on a given date may still apply. [But] for most workers, they are likely to have some combination of DB and DC benefits, or even no DB benefits. For many of these people, work may wind down over an extended period.

"Businesses will need to consider how they accommodate and get the best out of this ageing workforce who will certainly have plenty to offer. The quid pro quo requires businesses, with support from the pensions sector, to help their workers achieve their lifestyle aspirations."

How this can be achieved is something that SSGA's head of European DC investment strategy, Alistair Byrne, says still needs to be worked out. However, the blueprint will be based on supplementing part-time incomes with a combination of state and private ingenuity.

"One idea we've been toying with is letting people to partially access their state pension," he says. "To fund the gap between what they were used to earning and what they're earning with reduced working hours."

"That's something that has happened in Sweden and we could consider it here."

Later on in retirement, however, Byrne says that annuitisation still has a strong appeal.

"In the early stages of retirement flexibility is valuable. But later on, having the security of a regular payment coming into your bank account is highly prized. You don't need to worry about budgeting and how long you're going to live, or making your money last."

"So we believe that some form of annuitisation will come back to the fore."

The right product for this way of retiring will eventually grow out of the currently nascent deferred annuity market, says Byrne.

From tech to at retirement, the pensions sector is waking up to new possibilities.

► Written by Marek Handzel, a freelance journalist