Summary

- The pensions sector is undergoing the biggest change in its history.
- Consolidation of schemes will lead to a shrinking of many, if not all, of its service providers.
- New roles will emerge in the areas of advice, data, marketing and technology.
- The potential of an 'Amazon-style' disruptor cannot be ignored.

The winds of change

Unprecedented change within pensions and advances in technology are threatening to destroy traditional roles and leave the industry with a very uncertain future

The pensions industry has, in the past, been notoriously slow moving. In its heyday it was easier to observe change within a secluded monastic community in the depths of Tibet than in a trustee board meeting. But you would have had to have been a resident at one of those monasteries for the past 10 years to not know that it is now undergoing an unprecedented metamorphosis.

The migration in the occupational arena from defined benefit to defined contribution – in the private sector at least – is all but complete. And as this shift reaches its conclusion, another has begun in earnest. Trust-based schemes under both guises are set to undergo an unstoppable wave of consolidation. Meanwhile, at a micro level, pension freedoms, tech disruption and increasing member awareness could challenge traditional savings routes and mechanisms to breaking point.

How the pensions job market will adapt to these new realities is unclear. But there are some professions within it that already have to face up to a very different future.

Out with the old

"An obvious one is the actuarial profession," says Altus Consulting's head of retirement strategy, Jon Dean, referring to estimations that the UK's DB fund universe could be reduced to less than a thousand schemes by the early 2030s.

"It will be a lot less about the funding of DB schemes and a lot more about helping DC customers to plan their retirement needs with stochastic forecasting."

Investment consultancy and management, as well as professional trusteeship, are other threatened areas. As ARC Pension Law partner Jane Kola explains, with occupational DC rapidly consolidating due to an unpalatable regulatory environment, there is a possibility that standalone DC trusts will become an endangered species within a few years. And DB's current slower rate of amalgamation may turn out to have provided a false sense of security.

"As funding improves more will look to move schemes to the bulk annuity providers," says Kola. "That market is now very busy and the much-talked-of capacity crunch seems to have arrived with the insurers being more picky about which schemes to insure leaving some in a close to buyout limbo.

"For the less well funded but still solvent there is a respectable chance that some sponsors will see the attractions of the commercial consolidators just entering the fray now. It will take time for those to get traction, but if the buyout market becomes crunched these might fill the void for the schemes in limbo and those heading in that direction."

Automation and tech is also likely to lead to the demise of numerous back office jobs within the investment management and contract-based provider worlds. Last year, Japan's Fukoku Mutual Life Insurance replaced its team of claims handlers with IBM AI Watson, an artificial intelligence programme that can analyse data, text, images, audio and video. And, as Dean says, if the investment industry builds a true blockchain trading mechanism, then a lot of middlemen such as custodians and transfer agents — to name but two — will no longer be needed.

For TPT Retirement Solutions' head of direct distribution, Adrian Cooper, this means an inevitable shrinking of the fund management universe – as well as significant M&A activity in other service provider areas to the occupational pensions market within the next 10 years. He highlights Marsh Mac's takeover of JLT in September, as a glimpse of what may be to come.

New opportunities

However, as doors start to close on traditional roles, new ones crack open.

For BoringMoney.co.uk's founder, Holly Mackay, one of those opportunities lies in marketing and communications. "So many people don't know the basic idea that you get at least £20 for every £80 you put into a pension, up to certain limits," she says.

"The basic product sets we have are fine – we need marketeers and customer-centric leaders from outside of the pensions industry to come in and lead us. There is a reason Audi is not managed exclusively by engineers."

Communications to members is also set to become much more individualised. Standard Life's head of pensions strategy, Jamie Jenkins, says tailoring messages will become more possible with the use of big data and tech. For bespoke messaging to work to its full potential, however, Jenkins believes that providers and schemes will have to hire many more data scientists and tech-minded professionals.

Mackay's point becomes particularly pertinent when the spotlight is turned onto the self-employed. Currently outside the auto-enrolment regime, only 12 per cent of the UK's 4.5 million self-employed save into a personal pension, according to the PLSA.

Once new savers have been drawn in and encouraged to save more, however, a new problem arises, thanks to pension freedoms.

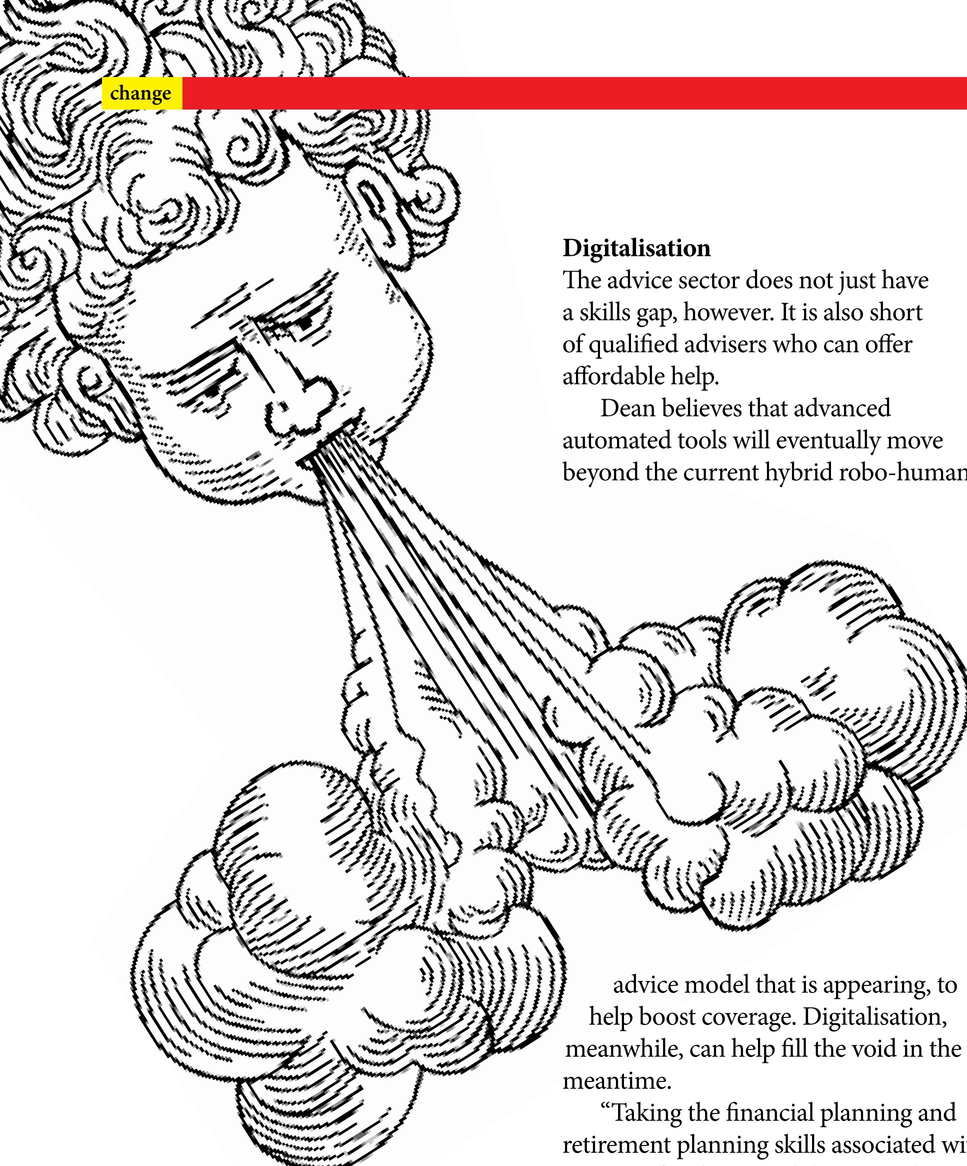
"Our research increasingly points to the replacement of the traditional three stage life (education, work, retirement) with a more flexible multi-stage life," explains State Street Global Advisors' EMEA head of pensions and retirement strategy, Alistair Byrne.

"The pensions industry needs to adapt to that. People may need earlier access to some of their savings, for example for retraining, while the ability to draw down some savings in retirement alongside income from part-time work will be valuable."

Added to that is a chronic lack of understanding when it comes to the use of pension pots at retirement. As the Society of Pension Professionals president Paul McGlone points out, there are increasing numbers of members with decent amounts of money who "do not have a clue" as to how to manage or spend their savings.

McGlone argues that improved solutions are needed to give people some hope of spending their pots in a way that doesn't let them run out of money too early or results in them leaving a large amount for HMRC when they're gone.

All of this presents a huge opening for the IFA sector. Royal London pensions specialist Helen Morrissey says that more



advisers will need to go beyond their current at-retirement responsibilities, such as making sure that income drawdown clients are invested in the right assets, and begin offering guidance on potential future care needs and the role of housing and equity release.

This will also result in an increased focus on inheritance planning for financial advisers. KW Wealth's head of wealth, David Inglesfield, says that in 20 to 30 years' time, many people will be leaving large amounts of money to the next generation, with pensions playing a big part. This will also lead to many more retirees choosing to transfer pensions into IHT efficient products such as SIPPs.

"That IHT sector will become a mass sector as many people will have to deal with it," he says.

Digitalisation

The advice sector does not just have a skills gap, however. It is also short of qualified advisers who can offer affordable help.

Dean believes that advanced automated tools will eventually move beyond the current hybrid robo-human advice model that is appearing, to help boost coverage. Digitalisation, meanwhile, can help fill the void in the meantime.

"Taking the financial planning and retirement planning skills associated with *[pension freedoms]* and digitising them to enable them to help more customers, more quickly and cheaply is key," says Moneyfarm's head of UK investment consultants Will Hedden.

"I would expect longer term to see more product innovation around drawdown and managing customers living longer in retirement."

Given the amount of tech disruption that large parts of the economy have had to grapple with in the last decade, there is no reason to believe that pensions will be immune to game-changing new entrants. Jenkins says that it is a certainty that savers will be able to view all their pensions products on one webpage before too long, probably in the form of the long-anticipated dashboard. And, Morrissey predicts, as people become more familiar with the dashboard, this will likely fuel demand for more online offerings to help people track their savings.

This will act as the cue for market disruption, says Dean. "With masses of self-employed needing to get engaged in pensions I suspect we'll see at some point some Amazon-type new entrant that gets people excited and engaged in pensions for the longer term, just using digital tech."

If that were to happen, then large numbers of previously gainfully employed pensions professionals may think about booking themselves in for a retreat at a Tibetan monastery.

There, in the quiet mountains, they can contemplate their change in fortune and ponder an uncertain future.

Written by Marek Handzel, a freelance journalist