Taking the initiative

With pension changes on the horizon, Jack Gray speaks to The Investing and Saving Alliance (Tisa) strategic policy director, Charles McCready, and retirement policy manager, Renny Biggins, about what the changes mean for savers and what the industry can do to support them

What is the biggest problem facing savers?

McCready: The biggest problem for savers is the, generally, low level of financial education and ability for individuals to manage money over the short, medium and long term.

The most imminent challenges include consumers experiencing turbulent markets without the basic skills to know how to react appropriately. Current ambiguities around financial guidance and advice means that firms are constrained in what they can communicate without this being construed as advice. There needs to be a concerted effort on the part of financial services – the Financial Conduct Authority (FCA), Department for Work and Pensions (DWP) and potentially the Cabinet Office – to ensure appropriate support to help the mass market avoid further detriment and to encourage continued contributions to auto-enrolment (AE).

What can the industry and government do to help?

McCready: The DWP can seek to integrate this enhanced financial guidance within AE schemes, encouraging all users of AE to reflect on their own personal circumstances and align their savings to what is required to meet their objectives. Whilst AE has been a force for good, too many people assume that it will deliver the security they expect.

The pensions dashboard will be a key tool in helping people to start engaging with and managing their pension. However, it will need to be underpinned by a financial guidance proposition that helps consumers understand what actions are required to get from their current position to where they want to be, which will include how much they need to save and how they can hone their current pensions to work better for them, by for instance consolidating into lower charge schemes.

The FCA's Open Finance initiative is another key way of getting consumers engaged and helping them to manage their money and financial security. Open Finance is looking at all asset classes, not just pensions, and could deliver a range of tools that help people be much smarter about making their savings work for them.

The Money and Pensions Service (Maps) has a critical role to play and is in the process of defining how it can deliver upon its ambitions set out in its UK strategy. We believe that, to be most effective, Maps needs to build closer working relationships with financial services to develop a partnership that ensures consumers receive broadly the same guidance. We would also like Maps to lead the charge on defining what financial guidance people need and how this will be delivered.

Putting it all together, the combination of pension dashboard and Open Finance, with a review of guidance rules to support those propositions and AE, could be one of the biggest game changers for industry and consumers.

Does the Pension Schemes Bill go far enough?

Biggins: The Pension Schemes Bill was generally designed to attend to some housekeeping rather than new bold ideas.

In terms of helping savers, the biggest impact would be through AE, but this scheme was excluded. The government has committed to removing the lower earnings limit and reducing the minimum participation age to 18. Both measures are due to be introduced in legislation by the mid-2020 proposals. By not being included in the current bill, it seems likely that any further bill could take additional years to be drawn up and submitted to parliament, with implementation following some time

later. This currently points towards the end of the 2020s.

What impact will the Budget announcements have?

Biggins: The forthcoming call for evidence on the net-pay anomaly is very welcome. This is a social injustice and affects an estimated 1.7 million low-paid workers and will only increase when the proposed changes to remove the lower earnings limit and reduce the minimum age to 18 commence.

McCready: Rather than simply taking away the higher rate relief, we propose making this a more progressive policy that subsidises those that need it most, using some of the tax relief that might otherwise have gone to the higher paid. With the recently increased allowances, there is now even more scope to achieve this outcome as contributions from higher paid individuals are likely to increase. Specifically, introducing a flat rate of pension tax relief at 30 per cent would boost low- and medium-income pension contributions and would add an extra 0.5 per cent per annum contribution to the average household's pension savings.

We also advocate a complete review of pensions tax relief, including abolishing the tapered annual allowance and a review of money purchase annual allowance, which penalises people for phasing in retirement and wanting to work for longer.

AE has worked well in greatly increasing the numbers of people currently saving into a pension. Both Tisa and a growing number of leading industry firms and bodies are supportive of AE contributions moving to 12 per cent. Aside from the enormous benefit this would bring to savers, this would bring a cost to Treasury.

Recent self-employed trials for incentivising pension saving outcomes were released from DWP, which involved initiatives with Nest and the Association of Independent Professionals and the Self-Employed. The results were disappointing and further thinking is required in order to incentivise this group. A simple message to nudge is shown to not work; we need to give them incentives which deliver a fundamental change. The government also needs to consider other groups not covered through AE such as the gig economy workers and multiple job holders.

The coronavirus pandemic is having a huge impact on pensions and their investments. What should savers be doing in this environment?

McCready: Many people will not have made the connection between their AE savings and the recent stock market drops. This will become more apparent to them when they start to receive annual statements. The current rules on guidance restrict what AE providers can say and we are looking at how to provide comfort by allowing providers to explain that these are long-term savings and markets are likely to recover and continue growing, plus keep saving into AE. The DWP and FCA should also be encouraged to focus on this issue with a view to supporting consumers through this current bout of volatility and ensure that this does not undermine the great success of AE to date.

We are also concerned about the impacts of the significant market falls on people who are in drawdown and taking an income from assets that have experienced a significant drop in value. This may have a profound impact on their pension pot's ability to provide the level of sustained income that had been forecast even three months ago.

What can the industry be doing to help savers during the crisis?

McCready: As well as focusing on the issue of pension statements, we are aware of industry already taking proactive steps to help support their customers. As part of this, firms are looking at upcoming regulation, such as investment pathways, with a view to assessing how appropriate these changes are in the current environment.

It would be helpful if the government also provided some soothing messages to re-enforce the efforts of industry. We have plenty of messages around how they are protecting health, jobs and the economy, but stepping in to calm the mass public regarding their long-term savings may also be required.

Written by Jack Gray