Engaging with a Trojan horse

Newly-elected Society of Pension Professionals (SPP) president, James Riley, talks to *Pensions Age* about engagement successes and potential improvements, the impact of Covid-19 on the progress of increasing engagement, and why ESG investing may be a Trojan horse in encouraging people to take an interest in their pensions

What has been done successfully to increase pension engagement and what can still improve?
The big success with engagement is auto-enrolment (AE). You have got 10 million people who are making pension savings that otherwise might not have done. AE has been a massive success. We now have an opportunity to extend the range of people AE is available to.

The challenge with AE is that contributions that are being made are not enough. To properly make sure people have the savings they need in retirement we need to look at the amount of money that goes into AE, which is going to be hugely challenging with where we are with Covid-19 and coming out the other side of it. The message that corporates and individuals need to spend more on pensions is not necessarily going to be particularly popular in the current climate, but there is this underlying issue when it comes down to engagement that employees turn to their employer for financial education. There is an underlying risk when the employer is contributing the statutory minimum under AE, individuals may well perceive this as being enough. The challenge comes in how to get members to voluntarily save more.

People need to understand the amount of money they might need in retirement and how they might go about achieving that. There are a lot of levers to pull here. You look at people, they retire later now, they phase out of working, it is not simply that everyone needs to save more, although clearly that would be good. It is about knowing when they want to retire and what they want their retirement to look like. We as an industry and as a country therefore need to help people better understand pensions.

Is the current AE system too voluntary for members and should it become more conscriptive?
I think it is less about conscription, it's more about how we make sure as many people as possible are using guides and tools to better understand the standard of retirement they want and how to get there. When it comes to the education it is less about the conscription being prescriptive and more about making it available in a way that people want to understand that information. Part of that, fundamentally, comes down to financial education. The industry can do things like retirement guidelines, but we need to have a look at how successful we are as a country about broader-based financial education. When you talk about that, it all feels quite difficult and that is a challenge we need to overcome.

What do SPP members believe can be done to improve AE?
We did a survey of our membership a while back and 80 per cent of our members favoured removing the minimum age criteria and two-thirds favoured increasing it to include all employees up to the age of 75. Then there is a whole host of things you can do to make things easier for the employer, which has a knock-on benefit for the member. Nearly 85 per cent of the members surveyed supported PLSA's suggestion of increasing contributions over time. We accept that, as how you would do that was probably a challenge before Covid-19, it is clearly going to be a challenge after Covid-19.

What impact has Covid-19 had on the progress of engagement?
It is one of those where you could look at it with a 'glass half empty' or 'glass half full' view. I would like to take the glass half full view, which is if you think about all the engagement that has happened during Covid-19. You have seen some really good and really bad corporate behaviour, and what we have seen is that the public do not necessarily want to go back to the way things were and I think good responsible behaviour will be remembered. The relatively good financial returns from environmental,

social and governance (ESG) funds, and the focus on good corporate behaviour, is going to drive people to think more about their pension pots. If you want to take a positive out of this, I think people will become more aware of ESG factors and that could be the Trojan horse in getting people to engage with their pension a bit more. Once people cotton on to the fact that they have this money that they could invest in a way that sits well with them, that could really drive engagement.

On the other hand, you are going to see tightening household budgets and tightening corporate spending and, while we will see that over the short term, how long that will last, I do not know. The willingness of government to encourage corporates to spend more on pensions may be somewhat limited, we shall have to wait and see.

Has the progress of campaigns and initiatives been hampered?

While a lot of these consultations have been delayed, they still seem to be pushing forward. Things like the dashboard seem to be moving forward and are not just being swept away as a result of the pandemic.

We as an organisation are hugely supportive of the dashboard. Because, how do people make sensible decisions if they do not know what their pension is likely to be? In the past, people moving employers and losing touch with their pension pots was fairly commonplace. So, the dashboard as an idea that, in due course, you can see everything and understand what you might get at retirement, is hugely valuable to individuals and will indirectly improve engagement. Once you can engage with it electronically, I believe people seeing how much they will get in retirement will be much more likely to then instinctively pose the question of how much they will need in retirement. Whereas, I think in the past as an industry, we have provided fairly infrequent and static indications of what people might get at retirement.

But the beast big question is how long will it take? I think the Money and Pensions Service (Maps) has said it may be three years. We did a survey of our membership about this, which is due to be published fairly shortly, but I think you could probably get defined contribution pensions on there in the next couple of years, but with defined benefit pensions and their data challenges it would take three or more years. You would need meaningful data on it to avoid people going on and being disappointed. What you want is people to go on wowed, and I worry that if there is not a significant amount of data on the dashboard, people might feel a bit underwhelmed by what they see. There is this tension in that you want it as soon as possible but you want that critical mass of data so that when it is public, it gives at least the majority of people most of what they need.

What is SPP doing now and in the future?

Some of the indirect things that we have been really focusing on have a more indirect impact on engagement. These are around simplifying and extending AE, supporting the dashboard in any way we can, and I think that the ESG agenda is a way to meaningfully engage people. There are ways here that we can drive really meaningful engagement with people's pensions.

Written by Jack Gray