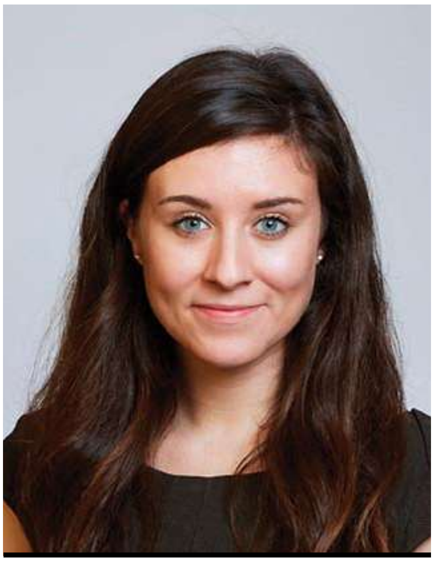

Shirking responsibility

With the shift from DB to DC and pension freedoms, individuals are increasingly shouldering the financial risk when it comes to their retirement savings. Jack Gray speaks to Institute and Faculty of Actuaries (IFoA) head of policy, Rebecca Deegan, about its recently launched campaign – The Great Risk Transfer – to investigate this growing trend

Why did the IFoA launch this campaign?
We kicked off the campaign officially in February. The impetus for this is that we want to investigate the extent to which financial risks that were previously managed by the government, large organisations like insurers and pension funds, and, to a certain extent, employers, are now the responsibility of individuals. We have seen this happen across all the different financial services. Individuals have got complex financial decisions to make and we are concerned around whether they have the right level of information to do that, the financial capability to engage with that information and whether the right consumer protections are in place.

We have launched a call for evidence, which is open until the end of April, to better understand how this trend is manifesting across the financial services sector and to try and look at whether there are potential solutions that may transfer to another area. We also wanted to raise the issue that this is happening across all these different financial products. We are now asking individuals to be informed consumers on motor, life, home insurance, their pension, navigating the care market, and we're investigating the compounding impact of this on consumers and whether this is in their best interest.

Why has risk increasingly been transferred to the individual?
This is the first question in our call for evidence. What is great is that, within two weeks, we had over 20 responses. One of the things that is being mentioned is the risk appetite amongst the government, insurance companies, pension funds, employers, and whether they still have the same paternalistic outlook that they did in the past and, if not, whether that has changed their appetite for risk and whether they want to have responsibility for these risks.

The other thing we are seeing is that for those consumers who do have a high level of financial literacy or means to access advice, this is quite a positive trend. They would like to have more control over their finances and be able to make decisions that better meet their needs.

To what extent is this an issue in relation to pension risk?
When we speak to people, even those who don't work in pensions, the first example they cite is the defined contribution (DC) pension environment and the unique issues that it brings. In the shift from defined benefit (DB) to DC and now pension freedoms, both in the saving and retirement phase, there's a lot of complexity for individuals to work through.

In terms of saving for retirement, a lot of DC savers have been auto-enrolled into their pension and this really capitalises on inertia. There's a massive shift towards becoming informed consumers and understanding how much they need to save from the outset.

We did some work based on the PLSA's Retirement Living Standards and found that people's state pension plus their auto-enrolment scheme, for most people, will get them to a minimum income standard. That is very basic. If people want to have even a moderate income in retirement, they need to save above the auto-enrolment amount. The sooner that they do that the more manageable those additional savings will be and the more return they will get from those savings.

In the pensions landscape there are already efforts to improve this. The pensions dashboard is hopefully going to be a game changer in that regard, but that is not enough. Individuals need to know not just how much they are saving but what does that mean and how will that translate to an income in retirement.

As part of the project, we did a survey and 48 per cent of respondents were not confident that they were on track to build what they would consider a good pension pot and 44 per cent said that savings guidelines would help them to plan for retirement. So that is where we have been working and talking about getting these guidelines out to consumers to help them interact with the dashboard and their savings in a more meaningful way.

When it comes to them spending money in retirement, even getting to the starting point of how much have they saved, probably across multiple different types of pension pot, how can they access these different pots and how long do they need them to last compared to how much income they need on a monthly basis, and when can they retire without reducing the quality of their life is massively complicated to even get to that point, before they have to then think about and understand the different options that are now available to them.

Has the campaign identified any potential solutions?
We're exploring the options. For some consumers, enhancing their financial literacy would be useful. For others that are probably never going to engage, then different kinds of solutions or protections will need to be in place.

One of the things we are really concerned about is that this could deepen inequalities that exist, whereby those consumers who are financially savvy or have access to financial advice can really benefit from this transfer of risk and responsibility. But for those consumers that have a low level of financial literacy, the amount of knowledge that they will need to acquire to make informed decisions should not be underestimated. A consumer has to year-on-year think about home, motor, travel insurance, on top of that how much they are saving for their pension and then when they come to retire what to do with it.

A lot of people are also thinking about care needs for themselves or their loved ones, and we are worried that for those people who have the lowest level of financial capabilities, which the Money and Pensions Service has described as the most likely to be struggling households anyway. They are already quite vulnerable in terms of being lower-income households; for them the consequences will be even more stark. So how do we, within the financial services system, provide the right kind of support and products for those consumers, as well as those who have a higher level of income and financial capabilities?

What are the campaign's next steps?
We're gathering evidence between now and the end of April, then we're going to give ourselves a month to analyse all of that then the idea is to then spend the next few months having some round tables and debates to hash out some of the themes that arise and some of the potential solutions. We will discuss what the barriers are, which levers we need to use and who we need to speak to make some positive changes for consumers. The idea is to then produce a report with recommendations and various calls to action for the government, regulators and the industry.

Written by Jack Gray