Making time for freedoms

Age UK senior policy manager, Christopher Brooks, talks to Sophie Smith about Age UK's *Fighting the freedoms* research report and what action the industry could take to better support members through the ups and downs of pension freedoms

You published a key research report, fighting the freedoms, earlier this year. What key issues from the report do you want the pensions industry to act upon? Equally, what role do you think the government and regulators should play in addressing these problems?
We'd like to see the industry doing more to help people take the best long-term decisions and putting in place the right systems and products to help people get the most from their savings. We're concerned that, particularly at the lower end of the market, too many people may be cashing out in full or giving up valuable guarantees. I appreciate that freedom and choice was sprung on everyone, and the industry has had to think and act fast, but now five years later, we really should be reaching a point where there are processes and tools in place to make life easier. Our research found that this really hasn't happened so far, although there are signs of some development, particularly from master trusts.

In the short term, any new government should seriously consider allowing Nest to enter the drawdown market. I think this would kickstart some competition at the lower end, and also help Nest savers who access their money and currently have nowhere obvious to go. While the government and Financial Conduct Authority (FCA) can also promote the development of money management tools to non-advised customers, our research uncovered that existing tools been developed for the advised marketplace, so we need to get these or similar tools available for everyone. Also fees and charges are always relevant, and the FCA research found that drawdown charges are very complex and often too high, so we'd like to see a drawdown charge cap – obviously finding the right level is an issue, but there's no reason it couldn't be initially set on the 'high' side – at, say, 1 per cent, and then reviewed in two or three years.

Your research found that pension freedoms have been popular since they were introduced in 2015. Have you found that consumers are genuinely aware of the various options available to them? If so, are they able to navigate these options reasonably well, or is the industry expecting too much from members?
The freedoms have been popular – so far – but unfortunately many people accessing their pension do not understand the full range of options available or factors they should consider. Many people struggle with numbers and lead busy lives, which mean they can't put the effort in to finding out what they ideally should do. Unfortunately, this is unlikely to change, so people will need far greater support when they take decisions. Often this support will need to be independent from the industry, as although it has improved a lot in recent years commercial incentives will still lead to misaligned incentives and ultimately poor outcomes for the saver. Pension Wise can help, and we're hopeful that the pilots currently being run by Money and Pensions Service (MAPS) about 'defaulting' savers in will make a difference, but we're going to need far, far more from industry, government and regulators to ensure everyone is able to take good decisions.

Unless something is done to help people we may see freedom and choice unravel as poor outcomes become more obvious, so rather than wait for something bad to happen everyone needs to take action now, for example by looking at 'lifetime pathways' – including investment pathways, products and guidance/advice – and the industry clearly has a lead role in developing these. In the end any sort of scandal will damage the whole industry and pensions will be the loser, so it's in everyone's interest to do something sooner rather than later.

Pension scams have been an increasing concern since the freedoms, so how can the industry better support vulnerable customers? Equally, how should vulnerable members be defined/identified?

I'm pleased that vulnerability is taken much more seriously by the industry in recent years. Many more firms are improving their vulnerability policies and developing better processes to identify and support such customers. The FCA definition of vulnerability is perfectly sufficient, and it can be interpreted that anyone who isn't well informed about the decision they are taking, especially when it's a life-changing one, is potentially vulnerable – so this could include a huge number of people accessing their pension. The industry should make sure everyone gets a high level of support and is taking the appropriate decision to match their needs.

With pension freedoms it's important to remember that many more people will grow older – and develop vulnerabilities – while still having to take regular, proactive decisions about their pension. This is likely to create lots of difficulties for the industry. It's still early days for freedom and choice, so it's a great time to start thinking about how to deal with this in years to come, for example by testing the support on offer to people with dementia, or how smooth processes are for powers of attorney.

Pension freedoms can leave consumers vulnerable to 'too much' choice. How should the industry approach issues such as investment pathways?

It's time to take all forms of defaults seriously, as making an appropriate and informed choice is beyond the scope of most consumers. Our research found that these were widely supported by the industry, and investment pathways are a really good start. This will help lots of people in drawdown with their investments – it shouldn't be seen as taking choice away from people, but actually helping them think ahead and get more from freedom and choice. A similar approach with products is needed and I believe will eventually come – hopefully sooner rather than later. Pension schemes know their customers and have an important role to play in this.

With the expected arrival of the pensions dashboard, do you think older members would engage well with an online platform? What potential issues, or benefits, could the dashboard present?

As lots of older people are not digitally inclined, so we'd still support an offline version. But as the government has made it clear that's not going to happen, we need to ensure that people are supported to use it – there's a danger that the dashboard may open up opportunities for scammers so we need to absolutely prioritise prevention and the FCA and DWP need to be all over this.

What role should innovation play when providing retirement products, and how should these products be offered to members most effectively?

Product innovation has been limited so far, and perhaps this shouldn't be the priority. Most people will prefer the comfort of knowing their money is secure, invested wisely, and the certainty that they will have a long-term income. The majority of people use their pension for day-to-day expenditure rather than anything overly flashy, although no doubt a few extra holidays have been had!

I think people will need to choose a full pathway to help them navigate their later life, including investments and products, but so far debate has been very limited about what these should look like. The Nest Blueprint is still the leading candidate, although I think what's needed differ from person to person. The schemes will know their customers best so are well placed. But someone needs to get the ball rolling, and perhaps this would happen if and when Nest can enter the retirement income marketplace.

Without such 'lifetime pathways', in the longer term there's a very big risk that freedom and choice will become a policy failure, and in 20 years there will be large numbers of people relying on Pension Credit because they didn't get the most out of their private savings.

With an ageing population, what future issues could the pensions industry, and beyond, face?

With more people postponing active decisions until later life, there are clear risks around declining cognitive capability. There's a lot of variation in normal cognitive ageing, so it won't affect everyone, but it's clear that the industry needs to be prepared as it's a huge reputational risk, and solutions need to be clearly thought through and implemented.

I'd love to see the regulators take more responsibility too – the FCA has done some very good work with its Retirement Outcomes Review and it would make sense to build on this, rather than let things lie for a number of years before undertaking further work.

With more people retiring with small DC pots only, we're also likely to see increased need for suitable products and tools for this group of savers. A further issue could arise if the social norm becomes cashing out at the point of access, which could distort longer-term outcomes.

People need to have confidence in the system and that their money will be looked after, including when they purchase a product. Age UK wants people to trust their pension, as it's a vital part of boosting income in later life, so we have an interest in things working too.

Written by Sophie Smith