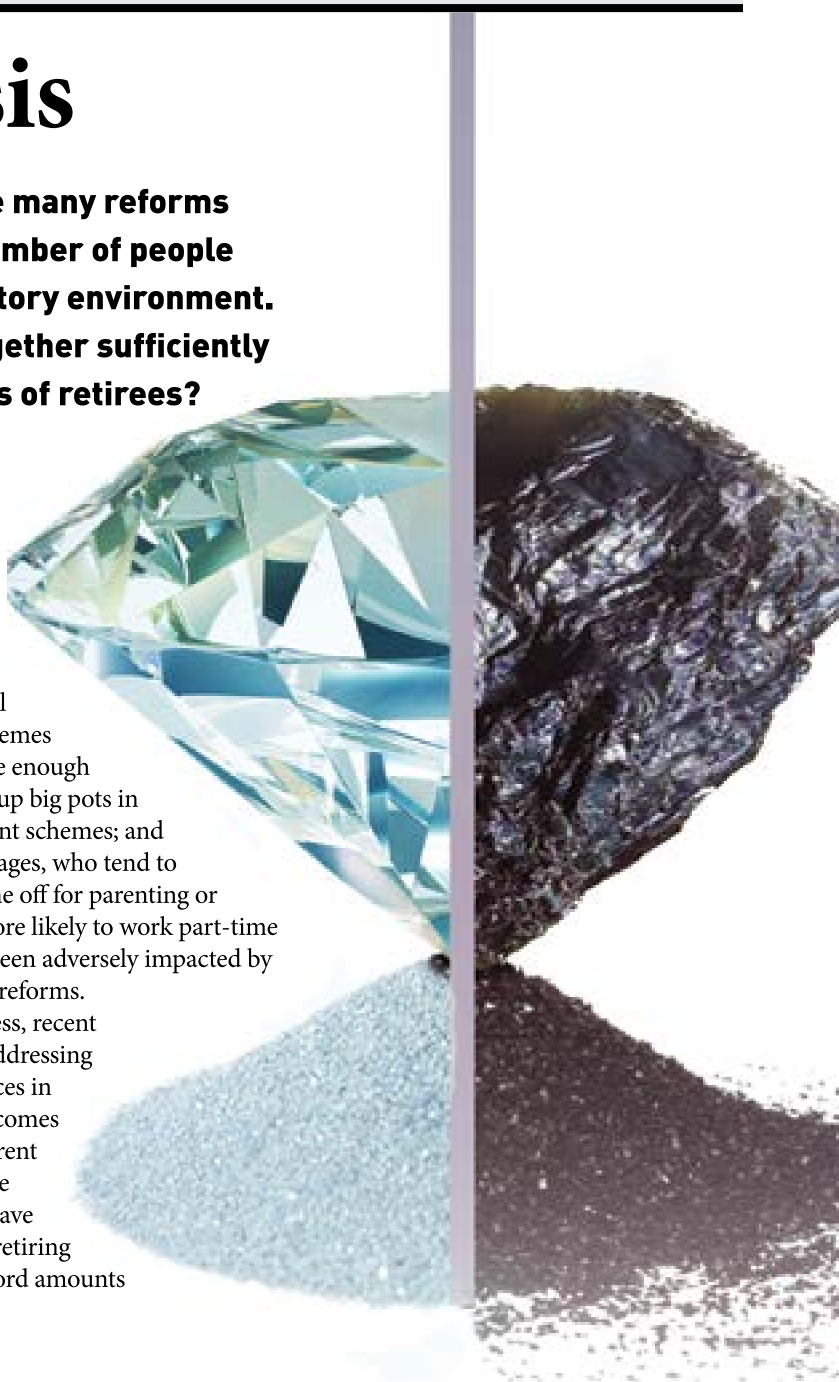
Summary

• Despite multiple reforms and the success of auto-enrolment to date, many people in the UK may end up with a low income in retirement, including women, the self-employed and the Generation X cohort.
• The pension freedoms are not complemented by an effective system for ensuring retirees can access good guidance or advice.
• The industry has not yet evolved new products to serve the changing needs of the growing number of people who will be more dependent on DC pension savings to fund their retirement.
• Other savings priorities, particularly those related to property, may undermine both pension saving and retirement incomes.
• While there are grounds for optimism in the longer term, there is much more policymakers and the industry can do to improve outcomes for more workers over the years ahead.

Metamorphosis

The pensions industry has undergone many reforms in recent years, resulting in a higher number of people saving more within an improved regulatory environment. However, are these changes coming together sufficiently to cater to the needs of new generations of retirees? David Adams finds out



In a sense, every *Pensions Age* article is about this question: are government policy and the work of the pensions industry combining to ensure that most people will have an adequate income in retirement?

As with so many questions in life, the answer is, 'yes and no'. It is perhaps easier to be optimistic about pension saving outcomes for the youngest generations of UK workers, if one assumes that the progress of auto-enrolment will continue as contribution levels rise, with self-employed and gig economy workers also ultimately brought into the fold.

For older workers, the outlook is mixed. Despite the advent of auto-enrolment, well-intentioned reforms to the state pension; and improved regulatory oversight and scheme governance, some people will still end up with a very low retirement income. They include those who lose out through mismanagement of workplace schemes, Generation X workers who were too young to get the full benefit of final salary DB schemes but won't have enough time to build up big pots in auto-enrolment schemes; and women of all ages, who tend to take more time off for parenting or caring, are more likely to work part-time and/or have been adversely impacted by state pension reforms.

Nonetheless, recent reforms are addressing huge differences in retirement incomes between different groups. "At the moment we have some people retiring who have record amounts

"At the moment we have some people retiring who have record amounts of pension, and we have some who are almost entirely dependent on the state pension," says Pensions and Lifetime Savings Association (PLSA) director of external affairs Graham Vidler. "But we now have some cause to be optimistic about the way ahead, because we now have a system that has the potential to reach more widely, thanks to auto-enrolment."

The Pensions Regulator head of policy Fiona Frobisher also describes auto-enrolment as "a barnstorming success". "Officially I'm not supposed to say that yet, but we are very happy," she says. "It's brought 8.5 million new savers into the system and opt-out rates have been much lower than was expected."

No-one left behind

The government's review of auto-enrolment, published in December 2017, outlined intentions to extend the initiative to cover younger workers aged 18 and over and to remove a lower earnings limit for calculating contributions. However, these changes will not be implemented until at least the mid-2020s – and there is no plan yet for how to bring the self-employed into the system.

The next milestone will be the increase in minimum contributions planned for 2018. If, as seems reasonably likely, opt-out rates remain low, there will be pressure to increase contributions further, quickly, because auto-enrolment pensions accumulated using statutory minimum contribution rates will produce small pension pots, particularly for low earners.

"There is concern about the low level of contributions at the moment, and the idea that people think they've been auto-enrolled, so that's it, they're going to be safe for retirement," says Pensions Policy Institute (PPI) head of policy research Daniela Silcock. "As contributions rise it will be a challenge ensuring that more people don't opt out." The PLSA has suggested introducing national retirement income targets to help savers understand how much they need to save for retirement.

Some groups need additional support. "Our recent report on inequalities in later life showed that women who have spent most of their lives working part-time are no better off in retirement than women who have never worked," says Centre for Ageing Better director of evidence Claire Turner. "State pension and auto-enrolment schemes should not penalise those without an uninterrupted full-time employment history. There is also evidence which suggests that people from ethnic minority backgrounds are less likely to have adequate pension savings."

Despite the decline of DB provision, there are still millions of people in the UK who should continue to benefit from private and public sector DB schemes for decades to come. But in an era of economic volatility and public sector pay cuts, there is no absolute certainty that the full value of those benefits will be paid to retirees. The PLSA has suggested that in some cases consolidation could be a useful way to ensure that private DB schemes pay out the benefits promised to their members.

TUC pensions policy officer Tim Sharp would like to see the introduction of new regulations enabling full implementation of the shared risk/defined ambition model for pension schemes outlined in the 2015 Pensions Act. "We need the regulations for defined ambition to be established," he says. "It could be really important in providing efficient collective schemes."

New opportunities

Another reform that was introduced in 2015, the pension freedoms, may have a significant effect on retirement incomes in future decades. There are significant concerns around what happens when individuals have to decide what to do with DC pension savings. Efforts made to date to improve access to adequate guidance and reasonably-priced financial advice have had mixed results. Turner cites research from the Centre for Ageing Better. "A recent survey we conducted showed that over half of people – 56 per cent – who retired in the last five years didn't seek any advice or help," she says.

Aviva policy manager for workplace benefits Dale Critchley is among many in the industry who believe employers will have an important role in helping their employees access the information they need as they approach retirement, but he also expects to see pension providers make greater use of digital technologies to help individuals understand how much money they are saving.

There is also some support for the creation of default pathways through retirement, which help ensure people are guided towards ways of securing a risk-protected retirement income.

Nest director of investment, development and delivery, Paul Todd, says it is wrong to assume people with smaller pots will simply decide to cash them in.

Nest's research suggests many of its members who are approaching retirement with pots as small as £10,000 still want to turn this money into an income. Todd is concerned that the pensions industry as a whole has yet to do enough to cater for people approaching retirement "with pots that have not generally been attractive to the industry".

Vidler expects to see some maturing of the market serving the growing number of people retiring who only have DC savings, which may be quite modest, yet want more flexibility than moving straight to annuitisation would provide. "It seems to us that there is a huge gap in the market at the moment, for a mass market product that would give people that flexibility," he says.

Another factor to consider is the various ways that the UK's housing crisis might affect pension saving and retirement incomes. Younger people may put pension saving on the back burner when struggling to pay rent (alongside other outgoings, such as student debt repayments), save for a mortgage deposit, or meet mortgage payments.

Those who own or believe they will inherit property may think saving for retirement is less of a priority. But there will also be a growing group of people who retire while still living in rented accommodation, significantly increasing their income requirements.

There are other measures that might be taken to improve retirement incomes. In November the PPI published a study suggesting that more pooling of DC schemes' assets could lead to better outcomes for scheme members. But Association of British Insurers (ABI) assistant director and head of retirement policy Rob Yuille believes the most important policy change that could be made in government would be to implement a more coordinated mix of policies. "There have been interactions between policies that have not been well thought through," he says. "We need a strategy for long-term savings that combines pensions, welfare, care and ageing."

Auto-enrolment may help to engender a cultural savings habit, but there is clearly more that both industry and government could do.

"Pension saving can't just be landed on the shoulders of individuals: it has to be a partnership between employers and the state," says Sharp. "We know that very few people feel so awash with cash that they can plough lots of money into pensions. But with auto-enrolment, and if the legislation were put in place for Ddfined ambition pensions, we would have something we can build on for the future. The opportunities are there, but we need to grasp them."

Written by David Adams, a freelance journalist

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