Forward thinking

Natalie Tuck speaks to Pensions Policy Institute director Chris Curry about the institute's latest research, and his thoughts on the pensions topics currently hitting the headlines

You have been at the Pensions Policy Institute since 2002, first as research director before becoming director in 2013. What do you love about the PPI that has kept you there so long?
The time seems to have flown by! I remember that the Pensions Commission was announced not long after the PPI was set up, and being concerned that they would solve all the pensions issues and that we would be short-lived. In fact we have been busier every year since then. I love the fact that at the PPI we are led by the evidence, and are able to look at issues with an open mind and no agenda. Being involved in helping to inform policy, to improve outcomes for everybody in retirement is what I really enjoy. And there has been plenty of policy change to enjoy since 2002 – increases in state pension age, major state pension reform, automatic enrolment and public sector pensions to name just a few. Added to that the PPI is a great place to work, with a brilliant team well supported by a highly knowledgeable council and I can see why the time has passed so quickly.

The PPI publishes a number of reports throughout the year, along with its briefing notes. What is next on the agenda for the institute?
With two of our current larger projects we are looking into the future. The evolving retirement landscape, with the first report published in May with follow ups over the summer, is looking at how the market for retiring with assets from defined contribution (DC) pensions might need to change as the number of people becoming more dependent on their DC pension increases. While that project is covering the next decade or two, our report *Living the Future Life* (and the subsequent report *Funding the Future Life*) looks even further ahead, considering how lifestyles generally – work, health, spending patterns, families, housing – might change, and what this might mean for how people save to support those lifestyles. Both reports are challenging to research, but with the current parliamentary focus on things Brexit-related we are taking the opportunity to look long term.

As one of the members of the independent advisory group for the government's auto-enrolment review published last year, you were focused on increasing contributions. Personally, how do you think contributions should be increased, and to what percentage? Do you think there needs to be more equality in employer/employee contributions?
It was a real privilege to work on the automatic enrolment review, and we managed to collate a large amount of evidence and to make recommendations that I think will help take automatic enrolment to the next level. While there are still some uncertainties – for example how individuals will respond to the phasing in of the higher contribution levels – it is clear that the majority of people will need to save more than just the minimum contribution levels up to state pension age to avoid seeing a drop in living standards in retirement. But after factoring in how long people might want to work for, how much they might have in other forms of saving or wealth to help them in retirement, and what their expectations are, it is clear there is no simple answer as to how much is enough.

But if contributions do increase, they should be increased gradually to reduce the threat of individuals stopping pension saving. And if individual response is an issue, it would seem to make sense to look at whether it would be better for the increases to come through the employer contribution rather than the employee contribution. The more someone gets back and the less they lose by changing behaviour, the more likely they are to change. So design has to be smart. It is also worth remembering that there is also a third party making contributions – the government.

You have previously said that inertia will continue to be the biggest driver for the success of auto-enrolment, but is that sustainable for the long-term success of the policy?
I have often heard the debate as to whether policies should concentrate on inertia or engagement. The answer, of course, is both. They both have their place, and neither by itself will give a complete solution for everybody. Inertia is great at moving people from no saving to some saving. Once some saving is established, engagement can be used to increase amounts. But our research has shown that you need to be very clear as to what you are looking to achieve with engagement, and to do it in the right time and the right way. There are certain 'teachable moments' – such as starting a new job, getting married, buying a house, having children – when engagement can work really well. And individuals like to be engaged in such a way that it is clear that their needs are understood. So personalisation and specific engagement can be much more appropriate that blanket messaging.

Collective defined contribution schemes are back in the spotlight due to Royal Mail and the Work and Pensions Committee's inquiry. Has the PPI conducted any research into the schemes? Do they have the potential to transform DC pension saving?
The PPI looked at the potential outcomes from CDC schemes in research for the Department for Work and Pensions in 2015. The modelling we undertook then showed that, in the schemes we modelled, outcomes (in terms of a replacement rate) were higher than in comparable DC schemes, even allowing for aggressive drawdown patterns in retirement. Outcomes were also less varied. However, there are also some concerns over lack of flexibility and transparency, as well as sharing risks across generations. Every international CDC scheme is different as well, so it is hard to pick up too much from international experience. A lot will depend on the final design implemented by Royal Mail, if the scheme goes ahead. But if it does go ahead, and is successful, it could be another useful option for employers and individuals who prefer something more flexible that DB but more certain than DC.

The pension freedoms have made DB transfers very attractive, but some have said they are the next mis-selling scandal. What are your thoughts on this? What needs to be done to protect members?
I think if there is one major lesson from pension flexibility in DC for us in the policy world it is that not everything can be considered in strictly financial terms. People value flexibility, access and tangibility, even if it comes at a cost. So even if, in strictly financial terms, people are getting a lower financial return from transferring from DB to DC they may not feel as if they are in a worse position. The big challenge however is making sure that people are aware of just how much financial benefit they are giving up in return for these harder to measure benefits. This is not something with a quick, easy solution, and the (lack of) understanding, capability, guidance and advice issues are similar to those seen through both DC and DB pensions. Interestingly, perhaps more flexibility in DB – such as partial transfers – might help avoid an all DB or al DC type approach.

Are you worried about the number of high profile companies that have seen their pension schemes enter the Pension Protection Fund? Do you think the government is right to make the 'wilful neglect of a pension scheme' a criminal offence, and do you think it will bring about change?
While there are certainly difficulties for The Pensions Regulator in ensuring that companies take their pension responsibilities seriously and pay appropriate contributions, there are much broader corporate issues at play as well. If a company is perfectly well run in every other area other than pensions, that is one thing, but many examples see bad corporate practice in many different areas. Additional powers will help, but there is not enough evidence to tell if in themselves they will be enough to change corporate behaviours significantly.

Looking into the future, what do you see happening within the pensions market, in terms of policy and product development?
The biggest challenge for the pensions market is coping with the increase in diversity, flexibility, and complexity that future retirement is likely to bring. Some will want to be very creative and hands on in managing money, others will want it done for them, and the market will need to provide for both. Longer term, with more flexibility and variety in working and living patterns, the framework for long-term savings as a whole may need to evolve to cope. But whatever happens, there will be plenty of evidence to be gathered and analysis to be undertaken by the PPI.

Written by Natalie Tuck