



# Passing the torch

➤ **Ahead of his retirement, Aries Insight co-founder, Ian Neale, sits down with Sophie Smith to discuss his more than 30 years in the pensions industry**

**A**fter more than 30 years in the pensions industry, Ian Neale has built a reputation as a key figure and spokesperson, helping pension professionals understand one complex legislative change after another. According to Neale however, auto-enrolment (AE) ranks as the number one improvement in his time in the industry.

“Many criticisms can be made of the 12-year delay in full implementation, from the Pension Commission’s final recommendations in November 2005; and of all the complexity introduced along the way,” he acknowledges, noting that compliance is also not a simple exercise at all, for any employer.

However, Neale clarifies that that has to be set against the fact that, before AE, no private sector employer had to pay a penny into a pension for any worker.

He also points out that there are other pressures on savers amid rising inflation, stressing that “the last thing people would welcome” is a requirement to, in a way, reduce their monthly income.

Yet he says that it is “a little bit harder to understand the government’s delay in setting a firm date for implementation

of the review recommendations”, particularly as they were widely accepted.

## Room for improvement

Despite the accumulation improvements brought in by AE, Neale says that decumulation remains a “major challenge”, as savers must decide how to convert their defined contribution (DC) pension pot into a sustainable pension in retirement, which can be a particular concern amid the decline in defined benefit (DB) pension provision.

“Unless you purchase an annuity, you’re not going to get an assured income stream for the rest of your life,” he says, explaining that for many savers with just a few thousand pounds saved, cashing out may be the only sensible option, as they won’t be able to buy a worthwhile annuity.

“It’s just not going to last, with many people drawing down about 8 per cent a year, that’s not sustainable,” he says.

In an ideal world, Neale says he could see “real signs of hope for a renaissance of the pooling principle that underpins all of human societies - and, in my view, all genuine pension schemes whose purpose is to provide an income in retirement.”

“This principle is embedded in DB schemes, but very few in the private sector are still open. Instead, most workers today, if they are saving at all, are in a money purchase scheme and simply accumulating an individual pot

of money. After they cease working, they’re faced with the challenge of converting their capital into income, without knowing how long it will need to last. Pooling this longevity risk, for example via collective money purchase arrangements, is the way forward.”

There have also been missed opportunities to improve the landscape, particularly the failure to include provisions in drafting the bill that became the Pensions Act 1995 to abolish contracting-out, which Neale describes as “a failed experiment that for 60 years has cast a long shadow over the UK pensions landscape”.

“The idea should have been strangled at birth in 1961,” he says. “Instead, contracting-out limped on to 2016, and while the protected rights route introduced in 1988 was abolished altogether in 2012, of course the legacy of GMPs is very much an ongoing burden today.”

## Pressing restart?

Despite the missed opportunities and unintended consequences of past legislative changes, Neale clarifies that, in pensions, it is not really possible to ‘rip it up and start again’, no matter how tempting this may be.

“Simplification has been the holy grail for over 20 years, at least since Alan Pickering’s report in July 2002, and yet we despair,” he says. “A fundamental limitation, more significant for

pensions than many other areas of law, is that retrospective effect is normally unacceptable: accrued pension rights are property rights subject to the rules in force at the time.

“Any attempt at genuine simplification, such as the original objective behind the Finance Act 2004, is bedevilled by the perceived need to load it with provisions to protect accrued rights.

“The starting point here should be to recognise the sources of the problem, ie primarily lawmakers and regulators, and their inability to plan for the long term,” Neale states. “That is where the greatest need for education lies. Pension professionals who have to wrestle with this expanding morass have my sympathy”.

Instead, Neale argues that it would be better to “stop tinkering with pensions legislation and take a considered long-term view of what the requirements of people are in later life”, emphasising that “politicians can’t see past the next election” five years away.

In light of this, Neale suggests that, perhaps the best hope for simplification might lie in a completely new, perhaps parallel, way of saving for later life.

### Looking to the long term

“This might, for example, integrate retirement provision and state benefits with funding for social care and transition from one form of housing to others,” he explains, suggesting that oversight should be taken out of the hands of politicians and vested in a “later life commission”.

“I think we need real long-term vision that is not constrained by the Treasury and that’s why we need what I’ve called a later-life commission to look at this kind of integration, and that of course also means integration with the state benefit system,” he adds.

Indeed, Neale highlights the limited take-up of pension credit as an example of how the “state benefit system is and always has been inordinately complicated” and a “nightmare” for savers, emphasising that “it’s no surprise that so many people are reluctant to jump through the hoops”.

However, Neale says that whilst the pensions industry would likely be willing to work with other sectors to tackle these issues in the remit of a later life commission, which would be “wider-ranging and more ambitious” than a pensions commission, he warns that other “unremitting” pressures on the industry show no signs of slowdown.

### Helping others to help themselves

Despite these challenges, Neale encourages those just starting out in the pensions industry to “stick at it”, emphasising that it’s one of the very few

industries where you can still talk about the possibility of having a career, as well as offering genuine job satisfaction as, almost by definition, you are helping others.

“That’s what we’re here for,” he stresses, “fundamentally, if we’re not actually helping others, then why are we here? No one is completely self-sufficient, and we all have different abilities and talents so we must work together, and that’s what pension provision and administration is all about.”

Looking back on his career, Neale adds: “First and foremost, it has been an honour and a privilege to have served in such a vital sphere of life, and to have contributed to making a difference in building the Aries Pensions System. The recognition we have received has been the reward of which I am most proud. All that I know about pensions I have learned from colleagues and the many experts, past and present, with whom I have worked since 1988. Like Isaac Newton, I have been standing on the shoulders of giants (although I would never claim to have emulated his foresight).”

Looking ahead meanwhile, armed with his own pension savings and having just moved to Scotland, Neale is looking forward to working on his new home, helping his large extended family with their own projects, and most importantly, reading something other than pensions legislation!

“I’m looking forward to actually reading some of the books that I bought over the past 50 years, always thinking that’s an important book that I must read, but never got around to it,” he says.

That’s not to say that pensions will be forgotten though, as Neale stresses that “for so long as I retain the intellectual capacity, I shall retain an interest in the vibrant future that the pensions industry potentially should have”.

 Written by Sophie Smith

