Daniela Silcock

# Solving the puzzle

**Jack Gray sits down with Pensions Policy Institute (PPI) head of policy research, Daniela Silcock, to explore the primary issues affecting the UK pensions landscape and the work the PPI is doing to help address these challenges**

**Which current areas of policy are creating the most issues?**

There is a lot. The thing we are caught up in right now is what is happening with DC and CDC because DC is, along with the state pension, going to be the main source of income for a lot of future pensioners. There are still quite a few issues to iron out. The introduction of auto-enrolment and the decline of DB pensions meant that there are now millions more saving into DC. We've come from a place where DC was a lot more rarefied and used more by higher income people, to being the dominant form of pension saving and, because it was introduced so quickly, there are a lot of wrinkles to iron out. The approach to investment is an issue that is becoming more and more important. Also, because of pension freedoms, so is the approach to accessing pensions in retirement. One thing we have seen over the past few years is that people aren't all making the best decisions.

We are so reactive at the moment. For example, when the FCA saw people going into drawdown were mainly going into cash drawdown, they made a rule that they have to opt into cash drawdown.

What we're trying to do, and we are doing this with an upcoming project on decumulation where we're going to look at how other countries have approached it, is look at the system as a whole, rather than saying piecemeal, we need to fix this and this, say what the approach to decumulation should be on a national level, and what roles different organisations should play.

**What other projects are the PPI working on?**

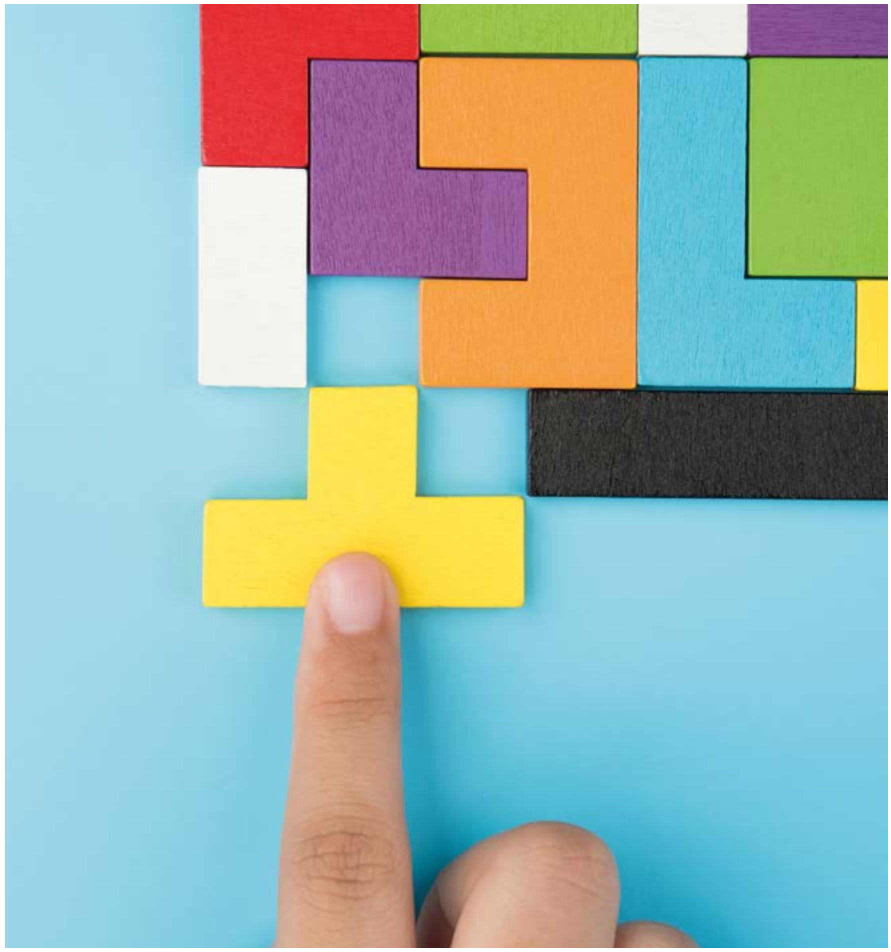
Alongside that we are also focusing on engagement, which again mostly comes back to DC because it is with DC that people have to make active decisions. Within this project, we are looking at whether some people won't benefit from any type of engagement or intervention. We're also doing a project on CDC itself and the practical applications of different types of decumulation scenarios.

The cost-of-living crisis has thrown up some real significant affordability issues, which were already present but have become perhaps exacerbated or highlighted by what is happening in the economy. We do an annual report on the under-pensioned, which includes women, people from particular ethic minority groups, carers, disabled people and the self-employed. This report looks at how people who, on average, have lower levels of pension saving and lower levels of pension income, are faring. Unsurprisingly, since Covid, it's got worse, particularly for people from ethnic minority groups and disabled people. We do that every year, and we tend to do other pieces on inequalities. It's difficult with the cost-of-living crisis, because a lot of the data is anecdotal, about whether or not people have stopped saving. There isn't a lot of actual hard data out there, it takes a really long time to produce these things; we are always a year or two behind.

Those are a lot of our priorities at the moment. It all comes back to DC. People aren't saving enough in DC, people can't afford to save in DC, and access to DC is difficult. That's not to say that we aren't going to look at other things, that just seems to be what is dominating at the moment. We were really active on state pension reform 10 years ago, but a lot of that is now seeing the policies play out. If something happened to the triple lock, we'd delve back into that. We do things on and off with DB, but nothing at the moment.

**Which areas are the most immediate priorities?**

Levels of contributions and affordability of contributions are vital because those are going to affect people the most going forward. The next one down, which is really important, is investment. DC investment for auto-enrolment has been built up around relatively cheap assets that can be traded daily. We have



this environment now where people are competing to have the lowest costs. There is a push for more investment in potentially higher return assets, which are more expensive and more resource heavy, such as illiquids, infrastructure and private market assets. Alongside this, we have all the issues around smaller schemes and whether or not they are consolidating, and if you're consolidating can you have any illiquid assets? And can you access these assets on platforms? It seems at the moment that it is only the larger schemes that have the funds to do any sort of creative investment and bring it in-house. But even they are somewhat hindered by the environment, which I know the government is trying to change, but that's not a fast process. We also have all the ESG and climate change considerations, which are up there with the top priorities. This is quite a thorny puzzle to sort out.

I was looking at our DC-style investments compared to other countries, and our investment approach is so much more conservative and risk-averse than other OECD countries, which is unsurprising considering the way the system was built up, but is that providing the best value for money? Value for money is also a priority, but we have done quite lot of work on that and there is movement from TPR and the DWP. I don't think the story ends here with the current consultation, it will require finessing; I know the industry wants to change some of the benchmarks.

**What can the industry be doing to address some of these issues?**

It's pretty difficult for industry. They can't give advice. They can provide communications, but a lot of that is subject to regulations and that hinders the extent to which they can be creative. They can offer products but there's no assurance that these products are going to be taken up. What the industry can do will be somewhat affected by what the government helps them to do. There is a lot they can do if, for example, the government changes regulations.

There is an expectation on the industry to solve the engagement issue, and that doesn't seem fair. We expect them to communicate with members in a way that produces better outcomes and more engagement, and they need help to do that. We could do something such as having industry and employers paying a levy, and that levy goes into a pot that provides financial education to everybody that's working. There are things we can do, but I don't think industry can do it all by themselves.

It's quite frustrating for the industry. A lot of them do studies of their members and try and adapt their engagement strategies, but it's really difficult. You can't really engage with people through letters and emails; it just doesn't work. There are two issues here: A lot of people just won't engage. They can't, and maybe they shouldn't, it's a really complicated system and we don't want people to become engaged without the ability to make good decisions. Then there are those that might benefit from engagement who we should be trying to reach and those who are engaged regardless. For those who might engage, you need a more face-to-face approach, and that takes a lot of resources. I don't understand why individual employers and pension providers are expected to come up with their own approach when we could have a national approach. When you look at other countries, that's generally how they do it.

**Written by Jack Gray**