Shaping the future

⌄ **University of Leeds associate professor, Iain Clacher, talks to Natalie Tuck about his research on pensions, and what changes he would like to see for the industry in the future**

The pensions industry is often criticised for being 'behind the times' on several issues such as technology, diversity and communications. What are your thoughts on this?
I think it's probably fair. I have done research on trustee boards, and so in terms of diversity, it shows the average age of a trustee is about 55. They are generally well educated, they are generally male; a trustee board on average will be made up of 80 per cent white men aged 55-60.

That's not particularly diverse and that leads to problems because you're not going to get diversity on a board where everybody is very similar, and that can potentially lead to some sub-optimal decision making.

If you look at technology and you compare pensions to many other industries then pensions is quite far behind. Look at all the technology we have; things like artificial intelligence is really advancing. Look at what is being developed around blockchain; and while this is all new and emerging, you don't see it being adopted anywhere

in pensions. If we look at pensions, innovation in pensions is the pensions dashboard – to call that innovation is quite damning.

The pensions dashboard seems so dated when you compare it to banking?
With banking you're seeing an agenda personalisation, and that means you have real-time access to your finances, you have apps and various other things that can help you, you've got great visualisation on your finances, little nudges, such as rounding up whenever you buy anything. All these little things that sit in financial services don't really exist in pensions. Pensions is very far behind the curve in that respect.

If you look at communications that's another area where you think wow – pension communications is an annual statement that has been simplified to two pages and people still don't understand it. Actually people need something different because you can't really engage with your pensions, and so that creates problems further down the line where people don't understand what they are saving and what they are going to get.

Why are pension schemes/providers so slow to bring in new technology to help with pension communications?
I think that in general pensions is quite a conservative industry and that's a good thing in many respects. If you see somebody come in and disrupt pensions with these types of innovations you'll very quickly see other people come on board. I think a fast second mover is probably quite common in pensions; the problem is you need a first mover.

You have done some research into collective DC (CDC) schemes. What did that focus on? Do these types of schemes have the power to revolutionise UK pension saving?
Yes I do, I am actually a strong believer in CDC schemes because there are many advantages to that idea of collective vehicles and scaling up on the asset side because of the advantages you get, so there clearly has to be advantages to something on the decumulation side. I do think that if you build the system properly then you can make a meaningful shift in pension savings. The generational apartheid of the haves and haves not *[DB/DC]* is really quite stark, and there needs to be something better that comes through for people. If there's not, then we're going to end up with some quite serious societal problems as people age.

Is there a way for CDC schemes to help with balancing the burden of pensions between employers and employees?
The problem with that is people are proposing different models of CDC. I have a paper on one particular model of CDC, which was developed by Con Keating. His model works very well as far as I can see based upon the simulations. However, to get these models into practice and see them start to run then it's really difficult to see whether (UK) CDC works. Some CDC schemes will not work, and some might fail, and some will be better than others. But that's also the state of pensions we have generally, because some DC pensions are better than others, some DB pensions are better than others, so the idea of CDC being

a sort of a panacea and a one-size-fits all and everything works, I don't see as correct.

However, I can see something where there is a better balance between the responsibilities that people face in terms of managing their money, because currently everything is pushed onto the individual and I think there are ways in which you can probably help people make better decisions. So employers I think will put in the money but I think the way in which the scheme runs could be done in such a way that there is much greater support of the people receiving the pensions.

Blockchain technology is gaining traction in the financial sector. From your research, what role do you think it has within the pensions industry?
Yes, the CDC work I undertook actually looked at a blockchain-type system to run the scheme on. Blockchain is not the right description for what you would want but it's the technology that is most relatable in this area. However, what we were interested in was smart ledgers and smart contracts. If you think that people paid money into a pension 30 years ago

and they don't even realise that they've got a small pot sitting somewhere, that's lost within the pensions administration system and that is not efficient. Having a blockchain-type solution via smart ledgers and smart contracts, means that you know exactly where everything is because it is in an immutable ledger and so things don't get lost. So people could keep all their small pots and they could even aggregate them at some point given the quality of the data that such a system would generate.

The other thing that a blockchain-type solution brings is increased governance and accountability. Because many of the decisions that are made in pensions happened a long time ago, we don't quite understand the rationale and reason for why a particular decision was made. From a trustee governance perspective, having such decisions recorded on a system is very powerful. Having that kind of system also means you can have a macro view of the scheme and all the different people in it and you can also have a micro view of the scheme and create a dashboard for an individual. The idea of being able to aggregate and disaggregate without much effort I think

is really quite compelling.

How do you envisage pensions communications will look like in the future?
What I would like to see is communications and advice starting to merge together. Communications can be very sophisticated, it can be really appealing and intuitive. But as it stands now, if you put in a request to your pensions manager on some sort of basic query you would be lucky if you got a reply within two weeks. That idea of having some sort of integrated system where you can query, you can ask questions, and you don't get decision-tree type answers, and you get specific answers to the context that you're in, I think is very powerful. It would be an artificial intelligence that could reason; a basic version is 'well people like you made this decision', but that doesn't make it the right approach where everything is comparative – it should be tailored and it should be personalised. However, if you can have an interface that can reason, it will bear a much closer resemblance to financial advice, which is what people need.

In half a century's time, how much do you think will have changed within pensions? Will pensions even exist?
If pensions looks like it does today in 50 years then there has been a failure of the public, from government, the private sector, from academics, and anybody that you can think of currently involved in pensions. What I would hope to see are solutions for retirement that suit people's needs that are fairly priced, and that people can get the support and guidance that they need. What people actually want is relatively simple; they want to save money and be reasonably financially secure in retirement. The fact that we've not arrived at a point where we can do that yet, I think, is really quite telling.

▶ **Written by Natalie Tuck**