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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

The Pensions and Lifetime Savings Association is the national association with a 90 year history of helping pension professionals run better pension schemes. Our members include more than 1,300 pension schemes with 20 million members and £1 trillion in assets, and over 400 supporting businesses. They make us the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels. Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

THE HITTING THE TARGET STEERING GROUP

This work was supported by a Steering Group of PLSA members and experts from the sectors covered by the report. The members of the Steering Group were:

Richard Butcher
Christopher Brooks
Chris Curry
Emma Douglas
Mel Duffield
Darren Philp
Alan Ritchie
Carol Young

The biographies of the members of the Steering Group are provided in Annex D.

Disclaimer

This consultation and the recommendations made are the views of the PLSA. It was drafted with the guidance and advice of a Steering Group of PLSA members and non-PLSA specialists. Members of the Steering Group took part in a personal capacity. The recommendations made do not necessarily reflect the views of individual Steering Group members. We are very grateful for the time and effort given by each member.

THE CONSULTATION PROCESS

This document is a consultation paper by the Pensions & Lifetime Savings Association. An electronic copy of it is available at www.plsa.co.uk/Policy-and-Research.

The PLSA would like to know what you think of our proposals. Questions are posed throughout this consultation paper and are also collated in Annex B. Respondents are encouraged in their submissions to add any additional information they feel is relevant to this consultation.

We ask that responses to this consultation are submitted by **12 January 2018**. The PLSA cannot guarantee that responses received after this date will be considered, although we will endeavour to do so.

We will also engage with PLSA members and relevant stakeholders before and after this date. We will be holding a series of roundtable events with PLSA members and stakeholders from the pensions and lifetime savings industry, as well as other interested parties.

Hard copy responses to this consultation should be sent to the following address:

Hitting The Target
Pensions and Lifetime Savings Association
Cheapside House
138 Cheapside
EC2V 6AE

Alternatively, please send soft copy responses to the following email address:
hittingthetarget@plsa.co.uk

We will consider all feedback and aim to publish a summary of responses in early 2018.



FOREWORD

AUTOMATIC ENROLMENT MEANS MORE PEOPLE THAN EVER BEFORE ARE SAVING FOR THEIR RETIREMENT. THE PENSION FREEDOMS MEAN THEY HAVE MORE CHOICE THAN EVER BEFORE ABOUT HOW TO ENJOY THE BENEFITS OF THEIR SAVING. THIS IS A CAUSE FOR CELEBRATION, BUT THERE ARE ALSO GROUNDS FOR CONCERN. IN PARTICULAR, WITH MANY PEOPLE TAKING THE AUTOMATIC ENROLMENT MINIMUM AS SHORTHAND FOR 'ENOUGH', SAVINGS RATES AT HISTORIC LOWS, AND PROPERTY OWNERSHIP FALLING, THERE IS A RISK OF MILLIONS HEADING FOR DISAPPOINTING INCOMES IN RETIREMENT.

This report is the start of a journey to build on the successes of the past decade. It's a journey to help people hit the target of a decent income in retirement. It's a journey that needs input from millions of savers, growing in confidence as they are supported in taking decisions about their retirement futures. It's also a journey that requires the attention of the savings industry, which must help savers build up their own understanding and confidence while the industry manages their savings with skill and a relentless focus on their needs. Finally, this is a journey on which all branches of government have to be constructive partners, by providing a stable framework to support savers in achieving their goals.

We start that journey in the only logical place, with the question 'How much is enough'? People know they need to save, but they lack guidance on how much to save. Simple targets, presented in straightforward pounds and pence, could help them get on top of their savings needs. This report asks the question, 'How can we develop a set of retirement income targets for the UK'?

Wherever those targets are set people will need to be supported in achieving them. The remainder of the report sets out our views on the areas where more needs to be done, by asking:

- How can we bring more people into the scope of automatic enrolment and spread the benefits of a successful implementation?
- How can we gradually increase the level of minimum contributions into automatic enrolment without discouraging people from saving?
- Should the current system of tax relief be modified to support savers in achieving the new retirement income targets?
- Can we do more to help people turn their property wealth into retirement income? Can pension schemes play a role in helping unlock the supply of housing which people need?
- How can we support realistic extensions to working lives?
- How can we ensure that pension schemes are well run and provide good value for money for savers?
- How can we ensure that people get good outcomes in retirement? What are the respective roles of defaults and engaged decision-making?
- How do we let people know about their money in ways and at times which make sense to them? How do we improve engagement by using simple, standardised messages?

We need your help to answer these questions. We're inviting responses to the detailed questions set out in this report by 12 January 2018 and we'll be touring the country over the next six months, listening to anyone with an interest in helping people hit the target.

Richard Butcher, Chair of the PLSA Hitting the Target Steering Group

EXECUTIVE SUMMARY



THE PURPOSE OF THIS CONSULTATION IS TO EXPLORE HOW CHANGES IN POLICY, REGULATION AND INDUSTRY PRACTICES COULD IMPROVE RETIREMENT OUTCOMES FOR FUTURE GENERATIONS.

It proposes the introduction of a set of National Retirement Income Targets to help savers understand more easily how much they need to save in order to achieve their desired standard of living in later life. Alongside our proposals for a new system of targets, we consider how public policy needs to change in order to deliver them, as well as the areas in which the pensions and lifetime savings industry can help.

Our proposals build on the success of the changes that have been implemented since the conclusion of the Pensions Commission. This consultation will be complemented by a subsequent paper in 2018, which will refine our proposals following a period of discussion with PLSA members and interested stakeholders.

RETIREMENT INCOME AND EXPENDITURE: FUTURE PRESSURES

People have a variety of wealth and assets that they are able to use in retirement. Most of the wealth of current pensioners is located in pension savings (both state and private). However, a minority of pensioners possess a substantial amount of property wealth. Our

analysis suggests that the assets and expenditure of today's pensioners are broadly in balance.

Future pensioners face a number of pressures on their later life income. In particular, younger generations are not accumulating pension and property assets at the same rate as previous generations. Moreover, our analysis suggests that younger savers are likely to face higher costs in later life than existing retirees. Longer life expectancies and the associated care needs, as well as a higher likelihood of paying rent or mortgage costs in later life, could add substantially to the costs younger savers will face in retirement. Our assessment suggests that the income and expenditure of future retirees risk being out of balance.

SETTING THE TARGET: HOW MUCH IS ENOUGH?

Automatic enrolment has enabled more people than ever before to save for their retirement. This has been a major policy success, but there are also grounds for concern. In particular, many people believe the minimum contribution rates required under the automatic enrolment regime are enough to

provide them with a good quality of life in retirement. As a result, millions of savers are currently on course for disappointing retirement outcomes.

Research published in our report, *Retirement Income Adequacy: Generation by Generation*, last November shows that 13.6 million current workers are at high risk of failing to achieve an adequate income in later life. Part of the problem, though, is that people are not clear about what income they will need. In a recent poll, only 16% of people stated that they know how much they would need to achieve the standard of living they hope to enjoy in retirement.¹

It is for this reason that we are proposing that a set of National Retirement Income Targets should be developed. Offering savers clarity about the costs they will need to meet in later life, not to mention the amount of money that they will need to enjoy the lifestyle they desire, is crucial to encouraging them to save enough. Indeed, 80% of people believe that having a series of defined targets would be helpful for the purpose of retirement planning.²

¹ PLSA commissioned Omnibus Survey Results (2017)

² PLSA commissioned Omnibus Survey Results (2017)

GETTING MORE MONEY INTO RETIREMENT SAVINGS

Successive governments have made important changes to the pensions and lifetime savings policy landscape that will facilitate improved outcomes for future retirees. However, more needs to be done if current savers are to receive good outcomes in later life. In our view, the level of minimum automatic enrolment contributions needs to increase to 12% of salary over the course of the 2020s if savers are to be adequately resourced for later life. The scope of automatic enrolment also needs to be widened to include the self-employed, gig economy workers and those holding multiple jobs with aggregate earnings over £10,000 a year; otherwise there is a risk that many people will enter retirement without enough.

Tax relief on pension contributions helps to increase the amount of money savers have available to them when they retire. However savers receive differing amounts of support. We are interested in exploring whether tax relief could be modified to help people achieve our proposed retirement income targets.

Some people who are pensioners, or who are nearing retirement, have substantial equity in their homes. Indeed, for the majority of people, the only substantial source of wealth they own, other than their pension is their property. Finding ways to take account of property wealth when planning retirement income, measures to improve the flexibility of equity release products, and action by pension schemes to invest in housing are all avenues to explore.

For those who have not saved enough or who do not own property assets, working into later life might help them achieve their desired standard of living. We believe

the pensions industry could help by promoting greater employee engagement with retirement income planning, in particular, helping scheme members be aware of the options around drawing their pension while working. Moreover, we believe the pensions industry should work with employers to develop a set of principles to support people who want or need to work for longer. These might involve measures to make it easier for older employees to work part-time or reskill.

MAKING THE MOST OF SAVERS' MONEY

Regulation has a key role to play in ensuring that people's retirement savings are managed efficiently. We believe there should be greater focus on the governance inputs in pension schemes, in particular the quality of trustees and Independent Governance Committees (IGCs). We also need to ensure that they have the appropriate powers to give members value for money.

The industry also has a clear duty to improve governance practices. Where governance bodies have the necessary powers available to them to increase the value for money savers receive, they should use them. In order to make the assessment of value for money more straightforward, we believe the industry should develop a series of clear and consistent metrics that cover all elements of performance. Where pension schemes do not deliver value for money, they should consider whether they can improve their performance or if it would be better to transfer members to another scheme and wind up. The regulator should support and encourage the adoption of rigorous assessments.

RETIREMENT DECISIONS: MAKING THE MOST OF THE NEW PENSION FREEDOMS

To help savers make the most of the new opportunities offered by Freedom and Choice, we are proposing that the government introduces a new regulatory framework for decumulation. This new approach will enable trustees and IGCs to signpost scheme members to a range of suitable products which will conform to a set of government-mandated principles designed to meet the typical needs of savers. This will be in addition to measures to promote member understanding and engagement with the decisions they face.

ENGAGEMENT: BUILDING CONFIDENCE

Savers' engagement with their savings is too low and needs to improve significantly if they are to enjoy the best possible outcomes in later life. The National Retirement Income Targets will provide the central element for better engagement in the future. However, to be fully successful, they need to be supported by a range of other initiatives.

Technology offers new and exciting routes through which people can maintain engagement with their savings. In particular, the pensions dashboard has a crucial role to play in enabling people to see how far they are on the journey to their preferred retirement income – it will tell people how much they have saved and where the money is held. In order to achieve trust and high use, there should be at least one high-profile dashboard hosted by a major public body, probably the Single Financial Guidance Body. National Retirement Income Targets should be incorporated into the pensions dashboard, so that people can see their retirement savings and savings goals in a single location.

CHAPTER 1

INTRODUCTION



OVER THE DECADE SINCE THE PENSIONS COMMISSION'S FINAL REPORT IN 2006, EXTENSIVE REFORM OF UK PENSION POLICY HAS TAKEN PLACE. THE KEY CHANGES HAVE BEEN THE INTRODUCTION OF AUTOMATIC ENROLMENT, NEW FLEXIBILITIES AND FREEDOMS ON HOW TO TAKE A PENSION INCOME OR LUMP SUM, AND A NEW, SIMPLER STATE PENSION. DESPITE THESE REFORMS, CURRENT TRENDS INDICATE THAT MANY FUTURE PENSIONERS ARE UNLIKELY TO AMASS ADEQUATE RETIREMENT SAVINGS.

In 2016, the PLSA undertook a major research project that examined the likelihood that current workers would have a pension equivalent to the Pensions Commission's target replacement rate (TRR). The findings showed that, of the 25.5 million people presently in employment, just over 50%, or 13.6 million people, are at high risk of failing to meet their TRR.³

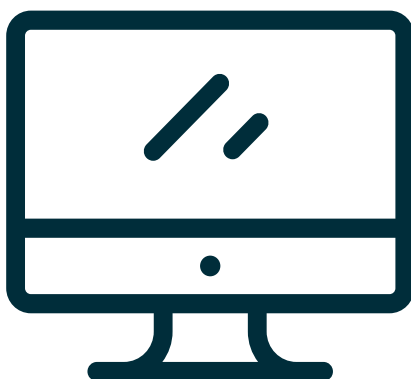
Given the challenges that savers face throughout the generations, the PLSA believes that new initiatives are required in order to ensure that people of all ages and situations are able to live with dignity in their old age. This consultation paper suggests a variety of changes to the existing pension system. These proposals are intended to build on the many strengths of the current regime. The principal aims of this paper are:

1. **To highlight the current and future challenges that savers face** in amassing adequate lifetime savings;
2. **To propose the development of a set of new retirement income targets** that will be easy to understand and help with retirement income planning; and
3. **To propose changes to the current retirement and lifetime savings system** that will enable savers to achieve better outcomes in retirement.

The consultation will remain open until 12 January 2018. We would like to hear the views of others in the pensions and lifetime savings sector, representatives of scheme members and employees, and all those with an interest in the success of pensions and lifetime saving.

This consultation paper is structured as follows:

- **Chapter 2 – Retirement Income and Expenditure: Future Pressures** – outlines the current financial position of those generations in the workforce at present, and how this is likely to evolve in the future.
- **Chapter 3 – Setting The Target: How Much Is Enough?** – sets out the case for a set of retirement income targets and asks how they can be developed.
- **Chapter 4 – Hitting The Target** – sets out the changes that need to be made to pensions and lifetime savings policy in order to help as many people as possible to achieve the retirement income targets.
- **Chapter 5 – Engagement: Building Confidence** – highlights how an improved approach to interacting with savers could help to underpin efforts to achieve better outcomes for them.
- **Chapter 6 – Conclusion**



CHAPTER 2

RETIREMENT INCOME AND EXPENDITURE: FUTURE PRESSURES

SUMMARY

- THE WEALTH AND ASSETS THAT PEOPLE ARE ABLE TO ACCESS IN ORDER TO SUPPORT THEIR RETIREMENT DIFFER MARKEDLY WITHIN AND BETWEEN GENERATIONS.
- THE MOST SIGNIFICANT SOURCES OF WEALTH THAT PEOPLE POSSESS RESIDE IN THEIR PENSION SAVINGS (STATE AND PRIVATE) AND PROPERTY ASSETS. BEYOND PENSION AND PROPERTY, THE VAST MAJORITY OF PEOPLE POSSESS LITTLE WEALTH.
- PENSIONERS FACE A VARIETY OF COSTS, MANY OF WHICH ARE EXPECTED TO INCREASE IN THE FUTURE: RISING LONGEVITY, CARE COSTS, AND THE CURRENT TENDENCY FOR PEOPLE TO CARRY DEBT INTO LATER LIFE. THIS SUGGESTS THAT THE COSTS PRESSURES ON RETIREMENT ARE MORE LIKELY TO RISE THAN FALL.
- OUR ASSESSMENT SUGGESTS THAT UNLESS MORE MONEY IS SET ASIDE FOR THE PURPOSE OF RETIREMENT, MANY PEOPLE WILL FIND THAT THEIR INCOME WILL NOT BE SUFFICIENT.



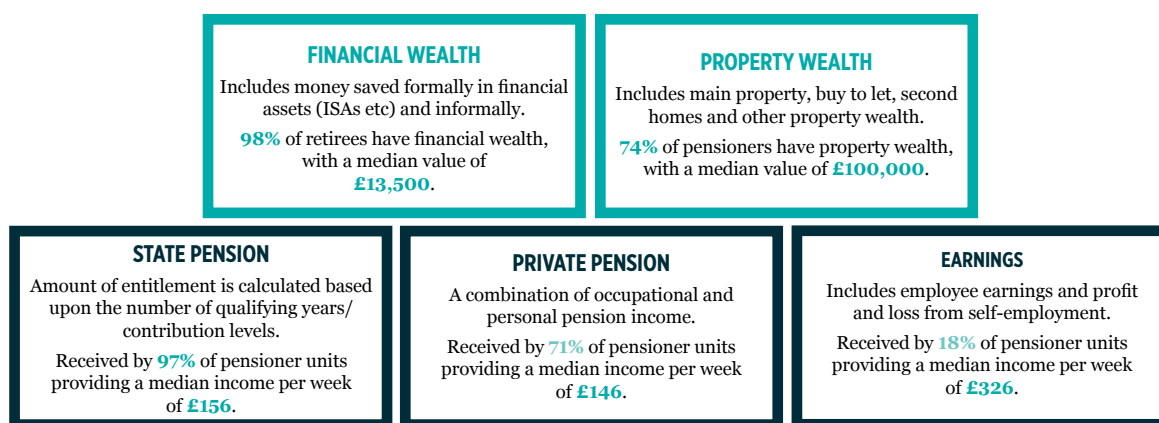
INTRODUCTION

OVER THE COURSE OF THEIR LIVES PEOPLE BUILD UP A VARIETY OF ASSETS THAT THEY ARE ABLE TO USE TOWARDS MEETING THE COSTS OF LATER LIFE. THIS SECTION EXPLORES THE ASSETS THAT CURRENT AND FUTURE GENERATIONS ARE LIKELY TO HAVE AVAILABLE TO THEM AND THE COST PRESSURES THAT AFFECT THEIR ADEQUACY.

CURRENT PENSIONERS: ASSETS AND INCOME

Current retirees generate income from a range of sources. The key categories of wealth and income that can be used to meet expenditure requirements are shown in Figure 1.

FIGURE 1:
WEALTH AND INCOME FOR RETIREMENT⁴



For the majority of people, most of their income in retirement is likely to come from state and private pensions. Around 97% of pensioners are in receipt of the State Pension, though due to insufficient National Insurance contributions, some pensioners do not receive the full State Pension. At present, average weekly State Pension income is £156.⁵ Moreover, 71% of pensioners are also in receipt of private pension income, with an average payment of £146 per week.⁶ However, there is a wide degree of variation in regard to private pension income; the bottom 20% of pensioners have no income from this source, while those in the top 20% receive at least £9,600 per annum.^{7, 8}

Many pensioners also possess other forms of wealth, including financial wealth and property wealth. However, for the bottom 60% of pensioners, financial assets are relatively low in value (£21,400 or less) and are unlikely to make a sizeable contribution to retirement incomes. Net property wealth is also limited for this group (£100,000 or less). Even for the top 20% (£150,000 or more) it would not convert into a sizeable retirement income. Those in the bottom 20% possess no property wealth at all⁹. It should be noted that very few pensioners use their property to generate additional income in retirement. This may be because they do not need to use it.¹⁰

4 Please note that the data presented is taken from the Pensioner Income Series and the Wealth and Assets Survey. The Pensioner Income Series includes those who are under State Pension age if part of a pensioner couple (i.e. one half of the couple is over SPA and one can be under). This means that for some couples there may still be a significant amount of income from a working partner under SPA.

5 DWP, Pensioners' Incomes Series - An Analysis of Trends in Pensioner Incomes: 1994/95-2015/16 (2017)

6 DWP, Pensioners' Incomes Series - An Analysis of Trends in Pensioner Incomes: 1994/95-2015/16 (2017)

7 For more information on the distribution of income amongst pensioner groups, please refer to Annex A.

8 ONS, Wealth and Assets Survey 2012-2014.

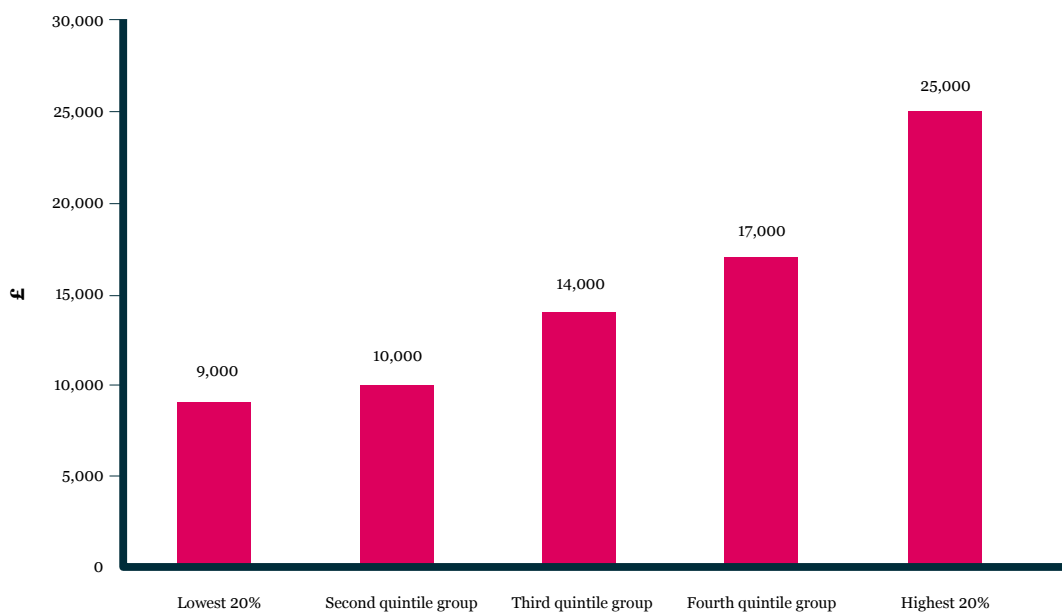
9 ONS, Wealth and Assets Survey 2012-2014.

10 Further information on the income and assets of pensioners is in Annex C.

EXPENDITURE

The level of expenditure between pensioners varies widely. Those in the bottom 20% typically spend £9,000 a year, while those in the top 20% for income spend nearly three times more (£25,000 per year). The mean expenditure across all households is £12,000¹¹.

FIGURE 2:
HOUSEHOLD EXPENDITURE PER YEAR BY GROSS INCOME QUINTILE FOR PENSIONERS IN THE UK, 2013-14¹²



ILC research found that the pattern of expenditure differs between income groups over the course of retirement. However, both low and high income groups tend to spend progressively less as they move into later life. For example, the ILC concluded that a household headed by someone aged 80 years or more spends, on average, 43% less than a household headed by a 50-year-old.¹³

Lower levels of consumption in old age appear to be the result of a combination of factors. The ILC identified health problems as a particular driver of reduced consumption as well as retirees' changing preferences, such as the desire to leave a bequest. As a consequence of these factors, retirees appear to save more, either intentionally or accidentally, as they age.¹⁴ However, if a pensioner is amongst the one in three who will require some form of long-term care in later life, they may need a far higher amount of money than was previously the case.

ASSESSMENT: CURRENT PENSIONERS

The assessment presented above demonstrates that for current retirees resources are, for many, adequate to meet their needs. Indeed, many are enjoying historically high levels of income – although it is important to remember that some groups possess limited means and others are in poverty. However, for most pensioners, overall income and expenditure are in balance.

11 www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/financialyearending-march2016/relateddata

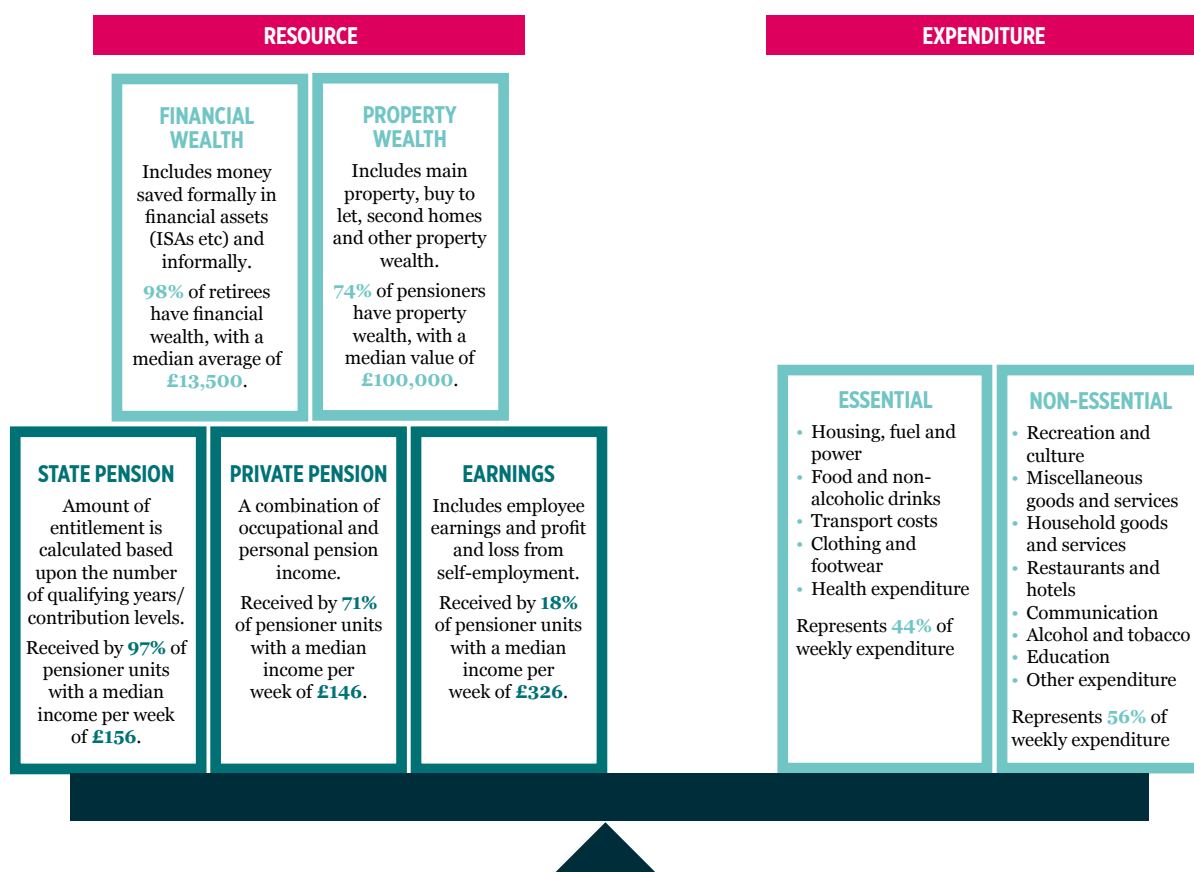
12 www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/financialyearending-march2016/relateddata

13 ILC, Understanding Retirement Journeys: Expectations vs. Reality (2015)

14 ILC, Understanding Retirement Journeys: Expectations vs. Reality (2015)

FIGURE 3:

COMBINED RESOURCES PROVIDE AN INCOME TO MEET ESSENTIAL AND DISCRETIONARY EXPENDITURE NEEDS



FUTURE SITUATION: INCOME AND ASSETS

Future pensioner living standards will come under pressure from a combination of factors, including reduced wealth (lower pension savings, lower other savings, lower house ownership) and pressures on expenditure (increasing longevity, higher care costs, increased housing debt held for longer, and more people renting). This section examines the challenges faced by those in different generations who are currently saving for retirement. The generations considered below are those that are currently in the workforce: Millennials, Generation X and Baby Boomers.

Millennials: Those aged between 22 and 34 years.

Generation X: Those aged between 35 and 54 years.

Baby Boomers: Those aged between 55 and 64 years.

Low levels of pension saving

Average contribution rates for Defined Contribution (DC) occupational schemes are low, at around 4%¹⁵, though the phasing process will increase minimum contributions to 8% of band earnings which, *Retirement Income Adequacy Generation by Generation* shows that a contribution rate of 8% of band earnings will result in many retirees being unlikely to meet their Target Replacement Rate (TRR), though the majority (94%) are likely to achieve the Joseph Rowntree Foundation's Minimum Income Standard (JRF MIS).¹⁶

JRF Minimum Income Standard:

For a single retiree to meet this standard in 2017, they must possess an income of £9,998.

Pensions Commission TRR:

For someone earning a median income of £28,028 the replacement rate of 67% equates to a retirement income of £18,779.

The degree to which savers are on track to meet their TRR differs by generation. Using the TRRs adopted by the Pensions Commission, our analysis found that at a contribution rate of 8% on band earnings:

- Around 39% (3 million of 7.5 million) working Millennials are more likely than not to achieve their TRR¹⁷.
- Around 51% (6.9 million of 13.6 million) working Generation X members are more likely than not to reach their TRR¹⁸.
- Around 45% (2 million) of working Baby Boomers are more likely than not to reach their TRR¹⁹.

Of those who will achieve their TRR, the majority in each generation have some DB entitlement. However, for the increasing proportion of pension savers who only have DC pensions, the percentage of those likely to meet their TRR is lower. In sum, automatic enrolment contribution rates are likely to result in a significant shortfall for future retirees. Many are likely to fall well below their TRR, which will make it difficult for them to maintain their working age standard of living.

Declining property wealth

Property wealth is unequally divided between and within generations. Amongst Baby Boomers, median property wealth is £90,000. It is only amongst those in the top 20% that property wealth is of a value (£184,000 or more) sufficient to make a contribution to retirement income. Property wealth amongst other generations is lower.²⁰ This is partly a result of the fact that they have had less time to acquire housing assets. However, it is also a consequence of the declining level of home ownership, which has been decreasing since the early 2000s. In 2001, 71% of the population were owner occupiers; this had decreased to 63% by 2015/16.²¹

Inequality in property ownership will limit the assets that younger generations will be able to draw on in retirement. The Pensions Policy Institute (PPI) has forecast that approximately half of all pensioners in 2030 will possess either little or no housing wealth.²² However, nearly half of 35-54 year olds believe that they will use property to help finance their retirement.²³

15 ONS, Occupational Pension Schemes Survey 2015
 16 PLSA, Retirement Income Adequacy: Generation By Generation (2016)
 17 PLSA, Retirement Income Adequacy: Generation By Generation (2016)
 18 PLSA, Retirement Income Adequacy: Generation By Generation (2016)
 19 PLSA, Retirement Income Adequacy: Generation By Generation (2016)
 20 ONS, Wealth and Assets Survey 2012-2014
 21 ONS, UK Perspectives 2016: Housing and Home Ownership in the UK (2016)
 22 PPI, Retirement Income and Assets: How Can Housing Support Retirement? (2009)
 23 PLSA, The Home Stretch: Property As Retirement Income (2017)

Low levels of financial wealth

Financial wealth is relatively small outside of the top 20% of each generation. The bottom 40% of Millennials (£50 or more of debt) and the bottom 20% in Generation X (£1,100 or more of debt) have net financial debt.²⁴ Only Baby Boomers possess substantial sums of financial wealth; however, only the top 20% have sufficient financial wealth to make a tangible difference to their retirement income (£51,400 or more).^{25 26}

EXPENDITURE

Cost pressures on retirees are likely to increase in future. This is the case for a number of reasons, including increasing longevity, increasing care costs and higher housing costs.

Longevity

Life expectancy at birth has improved consistently over the course of the last century. In 1951, the respective life expectancies of men and women were 66.4 and 71.5 years. By 2011, life expectancies at birth had increased for both men and women to 79 and 82.8 years.²⁷

Despite recent increases to the State Pension age, the number of people reaching this marker is projected to increase by 33% from 12.4 million in mid-2014 to 16.5 million by mid-2039. This is the result of those people who were born in the 1960s 'baby boom' reaching the State Pension age between now and 2039.²⁸

Increased longevity means that living costs will need to be supported for longer. This will require people to have accumulated a larger amount of wealth and assets than previous generations in order to maintain their standard of living in retirement.

Care costs

An increasingly older population will have a higher demand for social care services. The prevalence of nearly all major chronic and long-term conditions increases significantly with age. The percentage of people with at least one difficulty increases from 16% at age 65 to around half of those aged 85. Evidence suggests that more than one in three older people have difficulty undertaking five or more activities of daily living.²⁹

The demand for social care amongst older people is expected to rise substantially in the coming years. By 2035, it is estimated that 4.8 million will have some form of disability that will require care assistance and 2 million will have a severe disability with which they will require help. A further 3.5 million are likely to be in receipt of some form of informal care.³⁰

Increased housing debt

The impact of debt on retirement outcomes is two-fold: rising levels of debt limit the degree to which individuals are able to accumulate assets prior to retirement and increase the likelihood of them carrying debt into later life. Age UK has reported on the rise in debt for people aged 50 and over between 2002 and 2010.³¹ Although consumer debt has increased marginally over the course of this period, it is clear that the upsurge in lending to individuals has been driven by loans secured on houses.

Analysis by the Council of Mortgage Lenders (CML) shows that housing debt amongst older generations has already started to increase. There has been an increase of 45% in the amount of mortgage debt held by this group since 2006-2008³². CML analysis also suggests that the proportion of outstanding mortgage loans that are currently expected to extend into retirement has increased to 35%.³³ Younger generations in particular, therefore, are much more likely to carry property debt into retirement than older ones, which will affect their standard of living.

24 Net refers to the overall savings vs. debt position excluding mortgage saving.

25 ONS, Wealth and Assets Survey 2012-2014

26 Further information on financial wealth is in Annex C.

27 ONS, How Has Life Expectancy Changed Over Time? (2015)

28 ONS, National Population Projections: 2014-based Statistical Bulletin (2015)

29 Age UK, The Health and Care of Older People (2017)

30 PSSRU, Projections of Demand for and Costs of Social Care for Older People and Younger Adults in England, 2015-2035 (2015)

31 Age UK, Problem Debt Among Older People (2013)

32 CML, Later Life Borrowing New Mindsets: Old Silos (2017)

33 CML, Retirement Borrowing: Reality, Perceptions, Projections and Potential (2016)

Rental costs

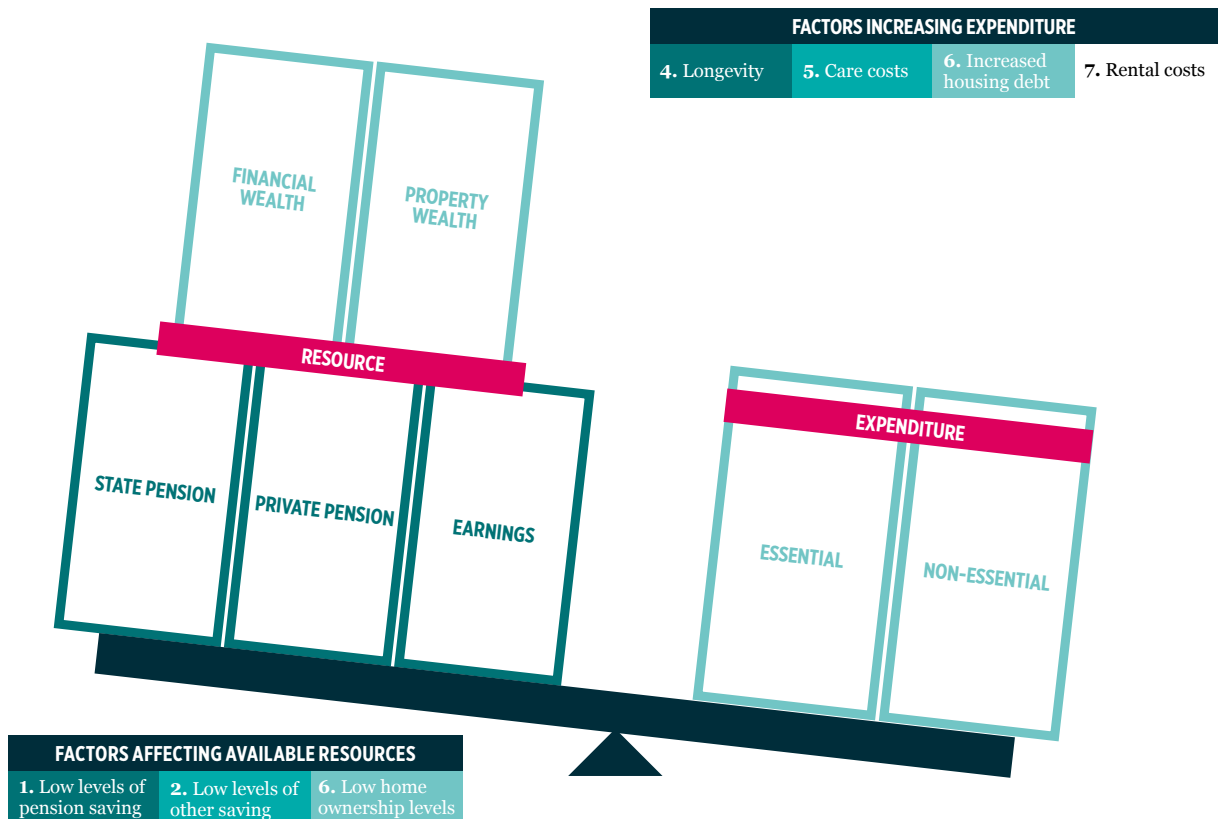
Historically, the majority of retirees owned their own property. In 2015/16, 73% of those aged 65 owned their property outright, with 5% owning their property with a mortgage; 16% rented through social housing; and 6% rented privately.³⁴ However, due to changes in home ownership rates, the Joseph Rowntree Foundation forecasts that by 2040 the number of private renters will be a fifth of the population³⁵. As a result, there will be extra pressure on housing-related spending. Moreover, people who rent will not own an asset that can be used to help meet expenses in retirement.

ASSESSMENT: FUTURE PENSIONERS

For future pensioners, state and private pensions provide by far the majority of their income. Property wealth is unlikely to make a material contribution to the retirement income of most people, with only the top 20% of Baby Boomers having significant amounts of equity. There is little reason to expect financial wealth to be used more than in the minor way that it is currently, although for some an inheritance may make a difference. On the expenditure side, increasing longevity, rising social care needs and the current tendency for people to carry debt into later life, suggests that the cost pressures on retirement are more likely to rise than fall.

Finding a way to give people tools to help them think about their likely future income requirements and understand what more they might need to do to improve the chances of achieving a desired lifestyle in retirement is important. Unless the amount of money saved for the purpose of retirement increases, many more people will find that their income in later life will not be sufficient to meet the costs they face.

FIGURE 4:
FUTURE PENSIONERS – MANY FACTORS ARE LIKELY TO PUT RESOURCES AND EXPENDITURE OUT OF BALANCE



34 DCLG, English Housing Survey Headline Report 2015-2016: Section 1 Household Tables (2017)
 35 JRF, What Will The Housing Market Look Like In 2040 (2014)

CHAPTER 3

SETTING THE TARGET: HOW MUCH IS ENOUGH?

SUMMARY

- MOST PEOPLE DO NOT KNOW HOW MUCH THEY NEED TO SAVE IN ORDER TO ACHIEVE AN ADEQUATE RETIREMENT INCOME.
- THE CURRENT APPROACHES TO DETERMINING AN ADEQUATE INCOME IN RETIREMENT (JRF MIS OR THE TRR) ARE NOT WIDELY USED OR UNDERSTOOD BY SAVERS.
- ONE APPROACH TO HELPING PEOPLE UNDERSTAND RETIREMENT INCOME ADEQUACY IS TO ADOPT TARGETS THAT ARE EASY TO UNDERSTAND AND WIDELY USED AND PROMOTED. THIS IS THE APPROACH USED IN AUSTRALIA.
- 77% OF PEOPLE SAY THEY DO NOT KNOW HOW MUCH INCOME THEY WILL NEED IN RETIREMENT. 80% SAY THAT A SET OF NATIONAL RETIREMENT INCOME TARGETS WOULD HELP THEM IN RETIREMENT PLANNING.
- THE TARGETS WOULD PROVIDE CLEAR AND UNDERSTANDABLE GOALS WHICH, WITH THE SUPPORT OF BESPOKE ONLINE TOOLS, COULD THEN BE USED TO CALCULATE HOW MUCH MUST BE SAVED AND WHAT ROLE OTHER ASSETS CAN PLAY IN ACHIEVING THEIR TARGET.
- THE PLSA BELIEVES THAT THE ADOPTION OF AN AUSTRALIAN-STYLE SYSTEM OF TARGETS IS NEEDED. THE UK SHOULD DEVELOP AND IMPLEMENT A SERIES OF TARGETS ('MINIMUM', 'MODEST', 'COMFORTABLE'), WHICH BUILD ON THE CURRENT ANALYSIS OF WHAT PEOPLE NEED IN RETIREMENT PLUS NEW WORK TO IDENTIFY WHAT HIGHER LEVELS OF INCOME ARE DESIRABLE.



INTRODUCTION

IN CONSIDERING WHAT LEVEL OF INCOME THEY MIGHT NEED IN RETIREMENT, PEOPLE DO NOT HAVE ACCESS TO A WIDELY ACCEPTED SERIES OF BENCHMARKS THAT THEY CAN USE AS A GUIDE. THE LACK OF MEASURES OF THIS SORT MAKES IT DIFFICULT FOR PEOPLE TO THINK ABOUT THE LEVEL OF PENSION SAVING AND OTHER WEALTH THEY ARE LIKELY TO NEED IN ORDER TO ACHIEVE AN ADEQUATE INCOME IN RETIREMENT.

This section asks how we can develop a new set of retirement income targets to help savers understand how much to save, encourage public debate on the right level, and guide policymakers .

CURRENT APPROACHES TO ASSESSING THE ADEQUACY OF RETIREMENT INCOME

The most widely used measures of retirement income adequacy in the UK are the Joseph Rowntree Foundation's (JRF) Minimum Income Standard (MIS) and the Pension Commission's target replacement rate (TRR).

MISs were developed in the UK and are based on feedback from a sample of the population on the types of goods and services they deem necessary for a socially acceptable minimum standard of living. The value of this standard 'basket' of goods and services is used to assess whether a person's income is above or below this level.³⁶ Currently, the level of the JRF MIS for single pensioners is £9,998.³⁷

TRRs are measures that indicate whether an individual is able to achieve a standard of living in retirement that is broadly comparable to that which the individual had during their working life. Income needs in retirement are typically lower than income needs in working life and, as a result, replacement rates are typically expressed as a proportion of the individual's pre-retirement income.³⁸

The latter approach was used by the Pensions Commission during its deliberations between 2003 and 2005. The Commission's TRRs constitute a best judgement of what it thought constituted an adequate income in retirement and are based on market research that it carried out at the time.³⁹

TABLE 1: REPLACEMENT RATES USED BY THE PENSIONS COMMISSION

PRE-RETIREMENT GROSS EARNINGS (2004)	REPLACEMENT RATE THRESHOLD
<£9,500	80%
£9,500 to £17,499	70%
£17,500 to £24,999	67%
£25,000 to £39,999	60%
£40,000 or more	50%

These replacement rates are used by both the industry and policymakers to assess the adequacy of people's current levels of saving for retirement.

However, both sets of measures have substantial drawbacks. The JRF MIS is designed to only give an indication of the minimum income for a socially acceptable standard of living. Given that the State Pension, for most people, already provides most of this amount, and most people aspire to far higher levels of retirement income, it is of only limited use to savers.

36 PPI, What Level of Pension Contribution is Needed to Obtain an Adequate Retirement Income? (2013)

37 JRF, A Minimum Income Standard for the UK in 2017 (2017)

38 PLSA, Retirement Income Adequacy: Generation By Generation (2016)

39 Pensions Commission, A New Pension Settlement for the Twenty-First Century (2005)

While the concept of a replacement rate appears a sound guide, in practice, if an individual's salary reduces in the years close to retirement, it may understate the necessary replacement rate.⁴⁰ In addition, TRRs do not take account of the likely profile of expenditure over a retiree's life. Research carried out by the ILC shows that spending tends to decline from an individual's early 70s.⁴¹ On the other hand, for those retirees who need access to social care services, it may rise substantially. Moreover, neither measure is widely used or understood by savers. These shortcomings suggest that an alternative approach is needed.

THE AUSTRALIAN APPROACH – DEFINING RETIREMENT INCOMES

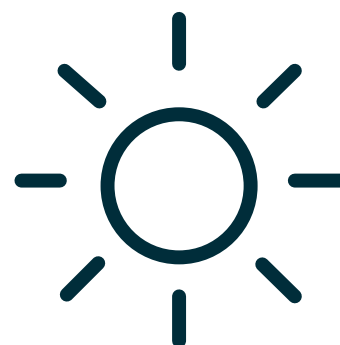
The ASFA Retirement Standard is groundbreaking because Australians now have a tangible saving target with a clear idea of what type of lifestyle that amount of money can give them in retirement.

Trish Power, *DIY Super For Dummies* (2011)
(a consumer guide to pension saving.)

In 2004, the Association of Superannuation Funds of Australia (ASFA) introduced the Retirement Standard. The ASFA Retirement Standard was developed in order to help people plan for retirement, given that research suggested that many people struggle when it comes to developing a budget for their future needs, especially when their retirement is many years away.⁴²

It does this by outlining three distinct income levels, as well as the sorts of goods that can be purchased with each. The first income level is tied to the Australian State Pension, the Age Pension. The second and third income levels identify the sort of goods and services that can be purchased with a 'modest' and 'comfortable' retirement income. For the 'modest' and 'comfortable' levels, ASFA has constructed estimates of the annual budgets required by individuals to fund the chosen standard of living in post-work life.

The ASFA benchmarks estimate the budgets required by both singles and couples in order to enjoy a 'comfortable' and 'modest' standard of living in retirement. They are updated quarterly to reflect changes to the Consumer Price Index (CPI) and also differentiate between older and younger retirees, who often have different needs that require appropriate funding.⁴³ For each retirement standard, a basket of goods is constructed taking account of expert opinion, national surveys of expenditure and focus groups.













40 PPI, What Level of Pension Contribution is Needed to Obtain an Adequate Retirement Income? (2013)

41 ILC, Understanding Retirement Journeys: Expectations vs. Reality (2015)

42 ASFA, ASFA Retirement Standard (2017)

43 ASFA, ASFA Retirement Standard (2017)

FIGURE 5:
ASFA RETIREMENT STANDARDS⁴⁴

	COMFORTABLE RETIREMENT	MODEST RETIREMENT	AGE PENSION
	One annual holiday in Australia	One or two short breaks in Australia near where you live each year	Even shorter breaks or day trips in your own city
	Regularly eat out at restaurants. Good range and quality of food	Infrequently eat out at restaurants that have cheap food. Cheaper and less food than a 'comfortable' lifestyle standard	Only club special meals or inexpensive takeaway
	Owning a reasonable car	Owning an older, less reliable car	No car or, if you have a car, it will be a struggle to afford repairs
	Afford bottled wine	Afford cask wine	Home brew beer or no alcohol at all
	Good clothes	Reasonable clothes	Basic clothes
	Afford regular hair cuts at a good hairdresser	Afford regular hair cuts only at a basic salon or pensioner special day	Less frequent hair cuts or getting a friend to cut your hair
	Take part in a range of regular leisure activities	Take part in one paid leisure activity infrequently. Some trips to the cinema	Only taking part in no cost or very low cost leisure activities. Rare trips to the cinema
	A range of electronic equipment	Not much scope to run air conditioner	Less heating in winter
	Replace kitchen and bathroom over 20 years	No budget for home improvements. Can do repairs, but can't replace kitchen or bathroom	No budget to fix home problems like a leaky roof
	Private health insurance	Private health insurance	No private health insurance

A required income is drawn from the sum of the items included in the basket of goods designed for each lifestyle level. The necessary income levels required in order to achieve the different lifestyles in 2017 are shown in the table below.

TABLE 2: ASFA INCOME STANDARDS⁴⁵

	MODEST LIFESTYLE		COMFORTABLE LIFESTYLE	
	Single	Couple	Single	Couple
Total annual expenditure for those aged 65	AUD 24,270 (£14,193)	AUD 34,911 (£20,416)	AUD 43,695 (£25,553)	AUD 60,063 (£35,125)
Total annual expenditure for those aged 85	AUD 23,878 (£13,964)	AUD 35,369 (£20,684)	AUD 39,443 (£23,066)	AUD 55,382 (£32,387)

The ASFA Retirement Standard has been hailed in Australia as 'ground breaking', because it enables savers to plan according to 'a tangible savings target with a clear idea of what type of lifestyle that amount of money can give them in retirement.'⁴⁶ It offers 'an invaluable starting point for looking at your requirements in the future and making plans on that basis'.⁴⁷

44 ASFA, ASFA Retirement Standard (2017)

45 ASFA, ASFA Retirement Standard (2017)

46 www.superguide.com.au/boost-your-superannuation/comfortable-retirement-how-much-super-need

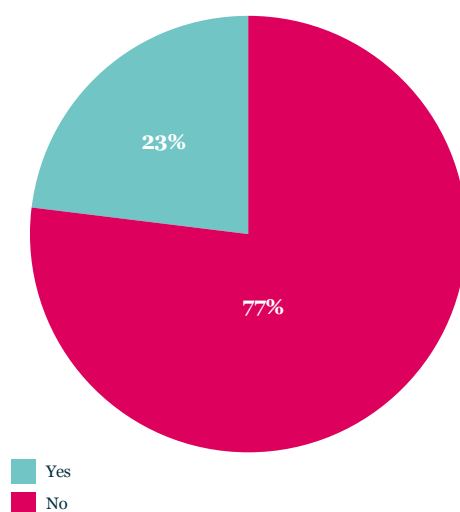
47 www.avsuper.com.au/members/how-much-is-enough-super/

COULD DEFINED INCOME TARGETS WORK IN THE UK?

Evidence suggests that goal clarity is an important ‘psychological mechanism’ that enables individuals to plan for the future.⁴⁸ The adoption of a ‘goal-setting’ approach can promote engagement with savings activities, particularly among those people who have poorly defined goals and those who have done little or no previous planning. This works most effectively where the suggested retirement savings goals are ‘clear and specific’.⁴⁹ The Australian approach to setting defined income targets offers the sort of clarity that the research suggests is effective.

In practice, ‘goal-setting’ already exists to a limited extent in the UK pension system. Heuristics or ‘rules of thumb’ are used by pension providers in order to help savers understand how much they should save for retirement. By providing clear and comprehensible messages about appropriate savings rates, heuristics enable those with limited time, resources and understanding to make effective choices about complex issues by reducing the ‘cognitive load’ and shortening the ‘decision process’.⁵⁰ Rules of thumb do not necessarily provide a means of achieving the best outcome for every individual, but they do offer a guide to action that is appropriate for most people most of the time.⁵¹

FIGURE 6:
PERCENTAGE OF PEOPLE STATING THAT THEY KNOW HOW MUCH MONEY THEY WILL NEED IN RETIREMENT TO PROVIDE THE STANDARD OF LIVING THEY WANT.⁵²



Consumer research carried out by the PLSA supports the use of targets that make it easier for savers to understand how much they need to save for retirement. In particular, it supports the idea of a series of national retirement income targets for the UK, which would provide savers with goal clarity. Of the participants who took part in the PLSA’s research, only 23% stated that they know how much they would need for retirement; 77% stated that they did not know. Of the 23% who claimed to know how much they would need, only 16% could provide an exact value.

48 R. Stawski et al, ‘Goal Clarity and Financial Planning Activities as Determinants of Retirement Savings Contributions’, *International Journal of Aging and Human Development*, Vol.64, Iss.1 (2007)

49 R. Stawski et al, ‘Goal Clarity and Financial Planning Activities as Determinants of Retirement Savings Contributions’, *International Journal of Aging and Human Development*, Vol.64, Iss.1 (2007)

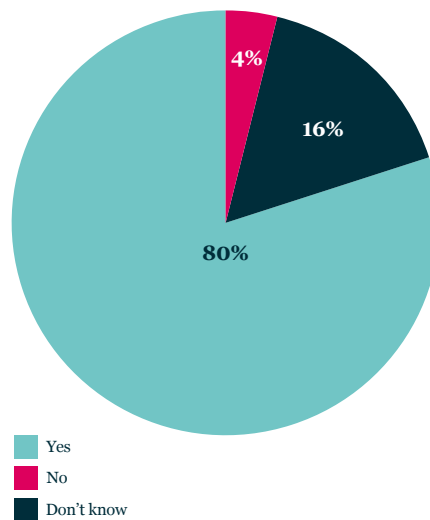
50 EIOPA, *Good Practices on Information Provision For DC Schemes* (2013)

51 PPI, *Myths and Rules of Thumb in Retirement Income* (2015)

52 PLSA commissioned Omnibus Survey Results (2017)

Survey participants were asked if they believed that a series of targets would be helpful for their retirement planning. Eighty per cent of those polled said yes. Moreover, 80% of those polled believe that a set of new retirement income standards should be set up in the UK.⁵³

FIGURE 7:
PERCENTAGE OF PEOPLE WHO BELIEVE NATIONAL RETIREMENT INCOME TARGETS WOULD HELP THEM TO SAVE FOR A PARTICULAR LIFESTYLE.⁵⁴



Given the demand amongst savers for clear retirement income targets that they can work towards, the PLSA proposes that the UK should adopt a new set of retirement income standards.

IDENTIFYING DEFINED INCOME TARGETS

As part of the PLSA's research regarding retirement income targets, survey participants were told that the proposed targets would identify three different retirement lifestyle options: 'minimum', 'modest' and 'comfortable' lifestyles. Respondents were asked about their perception of the level of income required in order to have a 'minimum', 'modest' and 'comfortable' standard of living in retirement.

As expected, many (20%) said they did not know how much would be appropriate for an individual to meet these income goals. However, for those who did have a view the highest proportion of respondents for each income level were:

- **£10,000 to less than £15,000** is adequate to provide an individual with a 'minimum' standard of living in retirement (23%);
- **£20,000 to less than £25,000** is adequate to provide an individual with a 'modest' standard of living in retirement (20%); and
- **£35,000 or more** is adequate to provide an individual with a 'comfortable' standard of living in retirement (27%).⁵⁵

53 PLSA commissioned Omnibus Survey Results (2017)

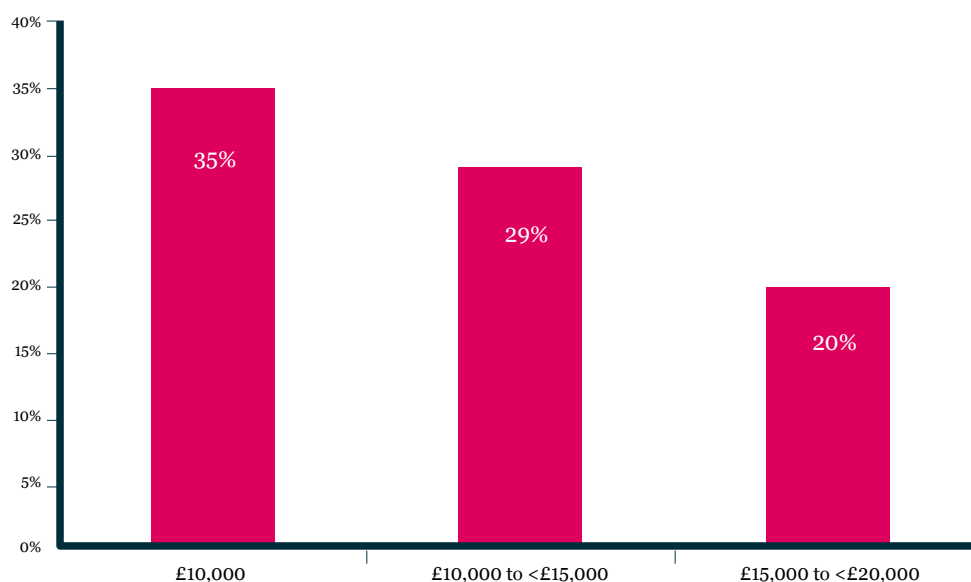
54 PLSA commissioned Omnibus Survey Results (2017)

55 PLSA commissioned Omnibus Survey Results (2017)

However, when the same question was asked of a group of people closer to retirement, 55-64-year-olds, the targets were lower, and the highest proportion of respondents for each income level were:

- **£10,000** is adequate to provide an individual with a ‘minimum’ standard of living in retirement (35%);
- **£10,000 to less than £15,000** is adequate to provide an individual with a ‘modest’ standard of living in retirement (29%); and
- **£15,000 to less than £20,000** is adequate to provide an individual with a ‘comfortable’ standard of living in retirement (20%).⁵⁶

FIGURE 8:
WHAT AMOUNT WOULD PROVIDE A ‘MINIMUM’, ‘MODEST’ AND ‘COMFORTABLE’ INCOME IN RETIREMENT FOR AN INDIVIDUAL (55-64-YEAR-OLDS)?⁵⁷



The consumer group Which? has carried out similar research. It surveyed its retired members in an effort to ascertain how much money they believe is required to enjoy a comfortable retirement. The survey identified two lifestyle types – ‘comfortable’ and ‘luxury’. Which? found that for a couple to have a ‘comfortable’ lifestyle, they would require an annual income of £26,000 and, for a luxury lifestyle, £39,000. The key drivers behind a luxury lifestyle were extended/long-haul holidays, leisure club membership and driving a fairly new car.

HOW MIGHT TIERED INCOME TARGETS BE DEVELOPED?

Any approach to a new income target or series of income targets needs to be easily understandable to savers in order to improve engagement. The Australian model appears to fit these criteria. It presents two different levels, with clear, tangible descriptions of the types of lifestyle that can be expected in each. The PLSA proposes that the UK follows a similar approach, with ‘minimum’, ‘modest’ and ‘comfortable’ levels of retirement standard.

56 PLSA commissioned Omnibus Survey Results (2017)

57 PLSA commissioned Omnibus Survey Results (2017)

The JRF MIS already provides a generally accepted baseline, used by policymakers and the industry, for the income necessary for a socially acceptable minimum standard of living. It is based on detailed research with groups of members of the general public. The PLSA views the MIS as a suitable choice for the ‘minimum’ level retirement income standard. There are not, though, any pre-existing income targets that we are aware of that might be utilised for the ‘modest’ and ‘comfortable’ levels. Two possible approaches can be followed in order to develop targets for these levels:

1. A basket of goods and services – based on expert advice and social research; and
2. Percentage uplifts to the basic level – based on typical expenditure habits.

A basket of goods-based approach has the attraction of having a bottom-up rationale. In practice though it is possible that focus groups and/or experts might have difficulty in agreeing how to distinguish in each category of expenditure between minimum, modest and comfortable levels. At a high level the main distinctions are likely to be in the areas of holidays, restaurants, cars and home refurbishments.

Applying simple uplifts above the basic level (e.g. modest +75% and comfortable +150%) would avoid the need to make such granular-level judgements. While it is perhaps easier to understand, it does not fit as well with describing to savers the difference between the levels at main categories of expenditure.

As a result, the PLSA believes that developing different underlying baskets of goods is the best approach. Our expectation is that this will also identify changing patterns of expenditure in retirement and might well result in different income targets for, say, those aged over 75. Regional variations could be built into the targets to take account of geographic differences in living costs and people’s preferences. Allowance could be made for whether someone is living in a single or dual person household.

An indication of the possible levels of income to support the ‘modest’ and ‘comfortable’ standards for an individual can be estimated by examining people’s stated preference for retirement income and the expenditure of current retirees. Considering the initial evidence set out in this chapter, it appears that single pensioner gross income targets of around £15,000-20,000 (‘modest’) and around £20,000-£30,000 (‘comfortable’) could be appropriate.

If the approach of developing different baskets of goods were used, then a credible, independent body would need to be selected to carry out both the initial development and the regular updating of both the contents and prices.

HOW MIGHT RETIREMENT INCOME TARGETS BE USED?

The identification of a target annual income to achieve a desired standard of living would help savers by giving them a clear and understandable goal. On the basis of this goal, savers would then be able to calculate the amount of savings necessary to deliver the target income.

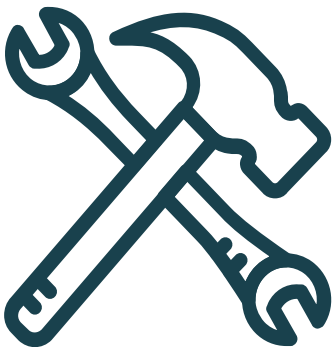
We envisage that the body which calculates the National Retirement Income Targets would host a range of bespoke tools which would allow a saver to select their preferred retirement income target level and be adjustable according to their age, whether the person is in a household made up of one or more people, and the cost of living where the person lives.

In the many cases where people will only be relying on pension saving to achieve their target income, it will be possible to adopt and promote standard rules of thumb. In more complex cases, where people are able to draw on a wider range of assets, eg. property, inheritance or other savings, the targets could be used in conjunction with online tools which would support savers, and where applicable their advisors, in planning their retirement income.”

ISSUE	PROPOSAL
People do not know how much they need to save for retirement	A set of National Retirement Income Targets should be developed in order to improve savers’ understanding of the amount they need to save to achieve their desired standard of living in later life. These should have three levels: ‘minimum’, ‘modest’ and ‘comfortable’.

CONSULTATION QUESTIONS

1. Do you agree that retirement income targets should be developed?
 - a. If so, do you agree that there should be three levels: broadly minimum, modest and comfortable?
 - b. How should we best deal with single and dual occupancy households?
 - c. How should we approach housing costs to reflect rental vs ownership?
 - d. Should the targets differ across regions and if so how would you suggest we approach developing these?
2. Do you agree that the JRF Minimum Income Standard (MIS) is a suitable minimum retirement standard? If not, why not?
3. Do you agree that developing a basket of goods and services for each level is the best approach? If not, why not?
4. Do you have views on alternative approaches to setting the target levels?
5. Who do you think should be responsible for developing and updating the target?
6. In what ways should the retirement income targets be used to help people plan for their retirement income?

A light grey background collage of various icons representing retirement and financial planning, including a sun, a piggy bank, an airplane, a house, a person, a t-shirt, and stacks of money with pound symbols (£).

THINK
ABOUT
TOMORROW
TODAY!

CHAPTER 4

HITTING THE TARGET



AS THE PENSIONS COMMISSION, BEHAVIOURAL ECONOMISTS AND SUCCESSIVE GOVERNMENTS HAVE FOUND, INDIVIDUALS FIND IT DIFFICULT TO TAKE LONG-TERM FINANCIAL DECISIONS.

When making financial decisions behavioural factors, such as an inbuilt desire to value present over future consumption, are important. So is financial capability: while people are often highly skilled at financial tasks they perform frequently they often struggle with tasks that they perform less frequently or which are intrinsically complicated. These result in saver disengagement from retirement saving, which has negative consequences both for the individual saver and the market as a whole.

Disengagement can lead to detriment at the level of the individual and at the level of the market. Some people opt out of automatic enrolment even when it is in their interests to stay in. Even if they do save they may not save enough and they may be poorly placed to make an active good investment choice.

Disengagement can also have negative impacts at the market level. In order to work well markets require well-informed consumers taking rational decisions. Where the information and understanding available to one party is greater than the other, there is potential for an unfair outcome. In the past, this has resulted in poorer quality higher charge pension products, with these issues only being curtailed by regulatory action.

Therefore, in thinking about the policy solutions in the area of pensions, we believe that two overlapping sets of policy tools are needed to address the impact of disengagement. The first set can be used to address the engagement issue on the individual level. The second set are more about correcting problems at the market, scheme or product level.

INDIVIDUAL LEVEL

- **Defaults/choice architecture:** including whether the default is to save or not to save into a workplace pension, whether there is a default investment fund and whether there is a default savings rate.
- **Engagement:** interventions that better enable or equip the individual to make choices on their own behalf. This includes communication tools that simplify matters for people and also interventions like advice that give a personal recommendation to the individual.

MARKET/ SCHEME/PRODUCT LEVEL

- **Governance:** putting in place a structure or individuals that act as a surrogate customer, charged to act in the customer or scheme member's best interests.
- **Regulation:** rules intended to correct specific failings in the market and reduce or eliminate specific causes of consumer detriment.

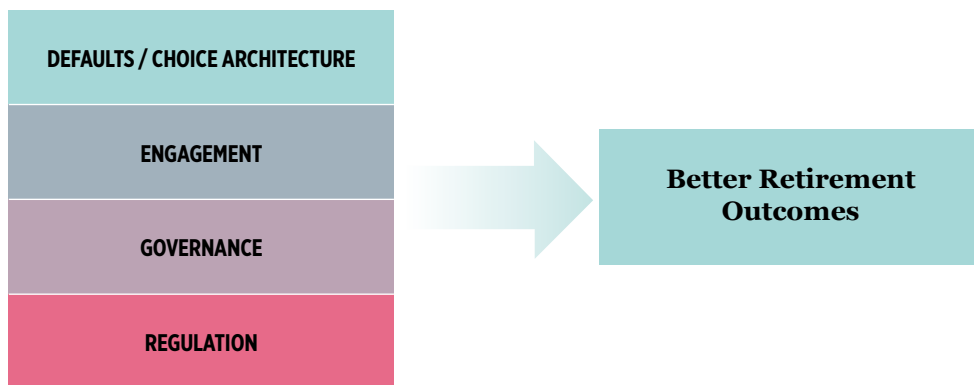
It is important not to see each of these sets of tools as discrete interventions. Rather, we believe they need to be used to complement each other and function as part of a coherent whole. We suggest that consumer decision-making in both the accumulation and decumulation phases should be underpinned by a series of preferred pathways. These should be designed to suit most people most of the time.

The purpose of communications and engagement tools in this vision is twofold. First, it is to get people comfortable with the default set-up and ensure that they know, or can easily find out, what is being done on their behalf. Second, it is to identify people for whom the default is not suitable and enable them to make choices that better match their aspirations or individual circumstances.

At the higher level, we see the role of trustees, and increasingly IGCs, as designing and policing this system of default options and engaged choices. Interventions based on insights from behavioural economics deliberately short-cut human decision-making and, from an ethical standpoint, should be overseen by people with the end-customer's best interests at heart. We see robust independent governance as a very important policy lever present to ensure high-quality pensions provision.

We see regulation as essential to do what product and scheme-level governance cannot. Regulation exists both to provide a framework within which trustees and IGCs can operate effectively and to reduce the risk of consumer detriment where governance is not fully effective. Transaction cost reporting is a good example of this latter point.

FIGURE 9:
POLICY TOOLS TO ACHIEVE GOOD OUTCOMES



Achieving the right combination of these different policy levers is essential if savers are to experience better outcomes in retirement. In this section, we set out how government policy and the pensions industry can use these different levers to support them to reach the targets that we have identified. In order to do this, we consider three areas:

1. Getting more money into retirement savings
2. Making the most of savers' money
3. Turning savings into income



PEOPLE

TO HELP ILLUSTRATE THE IMPACT OF OUR POLICY PROPOSALS, WE HAVE IDENTIFIED SIX CASE STUDIES FROM THE THREE GENERATIONS CURRENTLY IN THE WORKFORCE (MILLENNIALS, GENERATION X, BABY BOOMERS) AND UNDERTAKEN AN ASSESSMENT OF HOW EACH PACKAGE OF PROPOSALS IS LIKELY TO AFFECT THEM. THE ASSESSMENT OF THE EFFECT OF OUR PROPOSALS IS SET OUT IN EACH OF THE SECTIONS THAT FOLLOW.

7.5 MILLION
MILLENNIALS



MILLENNIALS

OCCUPATION: Cleaner

AGE: 26

GENDER: Female

LOCATION: The North West

Paige currently earns £14,000 per annum. She has not yet started saving into a pension; she feels that she does not understand enough about pensions to make decisions about saving for retirement.

She has a nominal level of savings.

Paige is single, with no children.

OCCUPATION: Accountant

AGE: 31

GENDER: Male

LOCATION: East of England

Luke currently earns £54,000 per annum. Although he believes he knows enough about pensions to make decisions about saving for retirement, Luke has no pensions savings and believes that investing in property will make the most money for his retirement.

Luke has amassed more than the typical level of wealth for his generation: with £7,000 savings and £60,000 of equity in his property.

Luke is married and has two dependent children at home.

13.6 MILLION
GENERATION X



GENERATION X

OCCUPATION: Management Consultant

AGE: 39

GENDER: Male

LOCATION: South East

Andrew currently earns £66,000 per annum, but has no pension savings. However he has amassed £16,000 in other savings and £75,000 of equity in his property.

Andrew is planning to invest in property to save for retirement and trusts his financial advisor most to provide him with advice about saving.

Andrew is married, and has two dependent children at home.

OCCUPATION: HR Manager

AGE: 49

GENDER: Male

LOCATION: West Midlands

Stephen currently earns £30,000 per annum and is contributing to a DC pension. He additionally has £6,000 in savings.

Stephen has £90,000 of equity in his property, however he is not currently considering releasing equity or downsizing to support his retirement.

Stephen is married, and has two older children who are no longer dependent.

4.4 MILLION
BABY BOOMERS



BABY BOOMERS

OCCUPATION: Administration

AGE: 57

GENDER: Female

LOCATION: North East

Linda currently earns £18,000 per annum and has accrued 20 years of DB benefits.

Linda owns her own property with £80,000 of equity, however she is unlikely to consider releasing that equity to support her income; she is more likely to consider downsizing.

She is not planning to continue working in her retirement and is planning to work until State Pension age (65).

Linda is divorced, and has two older children who are no longer dependent.

OCCUPATION: Customer Services

AGE: 60

GENDER: Male

LOCATION: Yorkshire

Peter earns £17,000 per annum but has no pension and has less than £1,000 in savings.

Peter has £75,000 of equity in his property, but similar to others in his generation is not looking to release equity or downsize.

He is not planning to continue working in his retirement; planning to retire at State Pension age (65).

Peter is married, and has two older children who are no longer dependent.



4.1 GETTING MORE MONEY INTO RETIREMENT SAVINGS PENSIONS

SUMMARY

- AUTOMATIC ENROLMENT HAS BEEN A GREAT SUCCESS IN WIDENING PARTICIPATION IN PENSION SAVING. HOWEVER, RESEARCH FROM THE USA AND NEW ZEALAND SHOWS THAT WORKERS RELY ON DEFAULT CONTRIBUTIONS AS A GUIDE TO HOW MUCH TO SAVE.
- IT IS WIDELY AGREED THAT CURRENT SAVING LEVELS ARE TOO LOW TO ACHIEVE ADEQUATE OUTCOMES IN RETIREMENT FOR MOST.
- IT IS ALSO CLEAR THAT THE SCOPE OF THE AUTOMATIC ENROLMENT POLICY IS TOO LIMITED.
- THE PLSA BELIEVES THAT THE AUTOMATIC ENROLMENT REGIME SHOULD BE REFORMED IN ORDER TO HELP MORE PEOPLE ACHIEVE AN ADEQUATE INCOME IN RETIREMENT. REFORMS SHOULD INCLUDE:
 - AN INCREASE IN MINIMUM CONTRIBUTIONS FROM 8% OF BAND EARNINGS TO 12% OF SALARY OVER THE COURSE OF THE 2020'S, ONCE THE EXPERIENCE OF RAISING AUTOMATIC ENROLMENT CONTRIBUTIONS FROM 2% TO 8% IS WELL UNDERSTOOD.
- EMPLOYERS CONTINUING TO MEET AT LEAST THE SAME PROPORTION OF MINIMUM CONTRIBUTIONS (37.5%) AS UNDER THE CURRENT REGIME, AND CONSIDERATION SHOULD BE GIVEN TO MOVING TO A 50/50 SPLIT.
- CERTAIN GROUPS (SELF-EMPLOYED, MULTIPLE JOB HOLDERS EARNING OVER £10,000 IN AGGREGATE AND YOUNG WORKERS) THAT ARE CURRENTLY EXCLUDED SHOULD BE BROUGHT WITHIN THE SCOPE OF THE POLICY.
- TAX RELIEF PLAYS AN IMPORTANT ROLE IN BUILDING UP INDIVIDUALS' PENSION POTS. WE ARE INTERESTED IN CONSIDERING WHETHER TAX RELIEF SHOULD BE MODIFIED TO HELP SUPPORT PEOPLE IN ACHIEVING THE RETIREMENT INCOME TARGETS.

INTRODUCTION

DEFAULT SAVING THROUGH THE AUTOMATIC ENROLMENT REGIME HAS BEEN A GREAT SUCCESS IN INCREASING PENSION COVERAGE AND SAVINGS LEVELS AMONGST MEMBERS OF THE UK WORKFORCE. HOWEVER, DESPITE THE SUCCESS OF AUTOMATIC ENROLMENT, THE MAJORITY OF PEOPLE ARE NOT CURRENTLY SAVING ENOUGH TO ACHIEVE ADEQUATE RETIREMENT OUTCOMES, NOR WILL THEY BE SAVING SUFFICIENT AMOUNTS ONCE THE STAGING PROCESS IS COMPLETE. THIS IS PARTLY A RESULT OF LOW PENSION CONTRIBUTION RATES AND PARTLY A CONSEQUENCE OF THE FACT THAT A NUMBER OF GROUPS ARE EXCLUDED FROM THE AUTOMATIC ENROLMENT REGIME UNDER THE CURRENT RULES.

Our proposal for the creation of a new set of National Retirement Income Targets is intended to help guide individuals and policymakers in their efforts to achieve better incomes for all in later life. We would like to build a pension system that ensures that everyone achieves the ‘minimum’ level of the national retirement income target, and the maximum number of people possible are able to achieve the ‘modest’ and ‘comfortable’ levels.

In this section we ask how the UK could gradually increase the level of automatic enrolment contributions without discouraging people from saving, how the scope of automatic enrolment might be broadened, and whether tax relief could be modified to support savers in achieving the retirement income targets.

THE LEVEL OF PENSION CONTRIBUTIONS

Although more people are saving for their retirement than was previously the case, average pension contributions are too low. Average employer and employee contributions have decreased since the introduction of automatic enrolment and this is probably because most people save at the default level. Studies in New Zealand and the United States have identified the tendency of participants to stick to default contribution levels. One study, for example, found that 65%-87% of participants save at the default contribution level.⁵⁸

TABLE 3: AVERAGE UK PRIVATE PENSION CONTRIBUTION RATES⁵⁹

	OCCUPATIONAL DEFINED CONTRIBUTION		GROUP PERSONAL PENSIONS	
	Employee	Employer	Employee	Employer
2011	4.0%	8%	3.2%	5.2%
2014	1.0%	3%	2.4%	4%

The Pensions Commission proposed that automatic enrolment should deliver around 45% of pre-retirement earnings for a median earner and that the remainder of their proposed TRR (67%) should be achieved through voluntary saving.⁶⁰ In other words, automatic enrolment was never intended to deliver an income at the TRR for median earners. However, it is clear that little additional voluntary saving is taking place.⁶¹

As we outlined last year in our report on *Retirement Income Adequacy: Generation by Generation*, 13.6 million people are not saving enough to achieve the Pension Commission’s TRR. Those in the Millennial generation are the most at risk, with 61% unlikely to achieve an adequate income, followed by Baby Boomers (55%) and Generation X (49%).⁶² Indeed, although 74% of employers support the automatic enrolment policy, 40% do not think that 8% of qualifying earnings is a sufficient contribution to ensure an adequate retirement income.⁶³

58 PPI, The Impact of Automatic Enrolment in Italy, New Zealand and the USA (2017)

59 ONS, Pensions short stories: Employees eligible for automatic enrolment: contributions to workplace pensions, 2005 to 2014 (last updated in 2016)

60 Pensions Commission, A New Pension Settlement for the Twenty-First Century (2005)

61 ONS, Households & NPISH: Saving Ratio (2017)

62 PLSA, Retirement Income Adequacy: Generation By Generation (2016)

63 PLSA commissioned Omnibus Survey Results (2017)

Our analysis found that there is a strong case for increasing minimum automatic enrolment contributions to around 12% of salary. This increase, along with a later retirement date, would probably bring Millennials close to the TRR proposed by the Pensions Commission. In addition, a median earner (£27,000 p.a.) saving at this level could expect to receive a combined income from private and state pension of around £15,000 p.a. which aligns with the range for the modest level of income target suggested by our assessment.

However, no increase should take place until the staging process is complete and the impact on employees of saving at a rate of 8% of band earnings is fully understood. If employees respond negatively to their contributions rising from 2% to 5%, there may be a strong case for employers to pay a higher proportion of pension contributions than employees in future. Evidence suggests that matching employer pension contributions exert a powerful behavioural impact on employees, which encourages participation.⁶⁴

In the event of contributions increasing to 12% of salary, the PLSA believes employers should continue to pay at least the same proportion of employee pension savings as they do today (37.2%) and consideration should be given to increasing this proportion up to 50%. PLSA research into employer attitudes to automatic enrolment found that nine in ten believe that any increase in contributions should be phased over three years or more in order to make it affordable for the business community.⁶⁵ We believe that any increase in contributions should take place according to a clear timetable, which should be set out by the government at least five years in advance in order to give employers sufficient time to adapt to the changes.

LOW INCOME SAVERS

Despite the evident need to increase minimum contributions to a level that will enable savers to achieve their desired standard of living, it is clear that any increase might result in those from low income groups being faced with affordability or over-saving issues. Consequently, we believe that the government should explore means of protecting the minority of savers most affected by these risks. For example, one way of guarding against over-saving amongst individuals on low incomes would be to allow some form of limited early access to pension savings.⁶⁶ Another option, once contribution rates have been increased to 12%, would be to allow people to 'opt-down' back to the current default level of 8%. There is also the question of whether savers are making the right kind of savings, in particular whether they have adequate short-term or 'rainy day' savings. One means of addressing this issue would be to divert a portion of people's automatic enrolment savings into a 'sidecar' account.⁶⁷

NEST'S SIDECAR MODEL

In a sidecar structure, contributions would be managed through a mechanism designed to create an optimal level of liquid savings, while also maximising long-term savings. This would be administered as follows:

1. Contributions paid into the combined account structure would at first be distributed between the liquid and illiquid accounts.
2. When the balance in the liquid account reaches a predetermined threshold level, known as the 'savings cap', all contributions would start 'rolling' into the illiquid retirement account.
3. If at any point the saver withdraws funds from the liquid account, and so reduces the balance to a level below the savings cap, future contributions would once again start being divided between the liquid and illiquid accounts.

64 CIPD, Show Me The Money: The Behavioural Science of Reward (2015)

65 PLSA commissioned Omnibus Survey Results (2017)

66 For more information on how early access for the purpose of financial hardship could work in practice, please see: PPI, Using Accessible Pension Savings to Provide a Financial Safety Net (2017)

67 For more information on how a 'sidecar' account could work, please see: NEST Insight, Liquidity and Sidecar Savings (2017)

CONTRIBUTIONS – PLSA PROPOSALS SUMMARY

ISSUE	PROPOSAL
Low Pension Savings Rates	Increase minimum automatic enrolment contributions from 8% of band earnings to 12% of salary over the course of the 2020s, once the experience of raising automatic enrolment contributions from 2% to 8% is well understood.
Employer Contribution	When contributions are increased from 8% to 12%, employers should continue to meet the same proportion of minimum contributions (37.5%) as under the current regime and consideration should be given to moving to a 50/50 split.
Low Income Groups	The risk of financial hardship for people on low incomes should be managed by considering measures to address affordability or over-saving, e.g. allowing early access on specific conditions, opt-down choices or other alternatives.

THE SCOPE OF AUTOMATIC ENROLMENT

Automatic enrolment has increased participation in pension saving by 6.5 million people since its introduction in 2012. By 2020, 10 million people will be saving into a private pension scheme who were not doing so previously. Automatic enrolment has been a particular success in the private sector, where participation rates have increased markedly.

The increase in the number of people saving for their retirement is welcome and should be celebrated. Nevertheless, a number of groups remain outside of the scope of the automatic enrolment regime, which makes it more difficult for them to save for later life. Approximately 5.3 million people in employment⁶⁸ are not eligible to participate in the regime (see diagram below).⁶⁹

FIGURE 10:
SCOPE OF AUTOMATIC ENROLMENT – PROPOSALS FOR CHANGE



68 The Resolution Foundation estimates that there are approximately 1.1 million multiple job holders in the UK (2016), which represents 3.6% of the total work force. For further details, see Double Take: Workers with Multiple Jobs and Reforms to National Insurance (2016)

69 PPI, The Impact of Automatic Enrolment in the UK as at 2016 (2016)

A further 4.5 million self-employed people do not meet the automatic enrolment criteria⁷⁰ and an additional 1.3 million people (4% of all in employment) work in the gig economy, which gives them no entitlement to a pension.⁷¹

We believe that there is a strong case for including a number of these groups within the scope of a reformed automatic enrolment regime. In particular, younger people aged 18-22, multiple job holders earning above £10,000 in aggregate and some categories of the self-employed, including 'gig' economy workers, should be incorporated into default pension saving via a modified version of the automatic enrolment regime. Owner directors should not be included within the scope of automatic enrolment; they will not usually be registered as self-employed and tend to manage their affairs proactively in order to optimise their businesses.

COVERAGE – PLSA PROPOSALS SUMMARY

ISSUE	PROPOSAL
18-21 Year Olds	Younger people should be included within the scope of automatic enrolment by lowering the minimum age threshold to 18.
Multiple Job Holders	Multiple job holders earning above the earnings trigger (£10k) in aggregate should be included within the scope of automatic enrolment.
Traditional Self-Employed	The traditional self-employed should be included within the scope of automatic enrolment. Contributions should be achieved via an automatic deduction from declared profits. The deduction would be paid into a pension scheme that could be selected from a carousel of options.
'Gig' Economy Workers	'Gig' economy workers should be included within the scope of automatic enrolment.

THE PLACE OF TAX RELIEF

Tax relief plays an important role in building up individuals' pension pots throughout the course of working life. Savers are, in effect, rewarded by the government for the contributions that they make to their pensions. If adopted, the proposed National Retirement Income Target would provide a series of defined goals – the 'minimum', 'modest' and 'comfortable' standards – that people could save towards. We are interested in considering whether tax relief should be modified to provide additional support to savers in achieving a set of National Retirement Income Targets.

The existing approach to tax relief does enable saving to the 'comfortable' level identified in Chapter 3. However, it does not provide additional support to help those with the smallest pots achieve the 'minimum' and 'modest' levels. This is a consequence of the way in which the present tax relief regime rewards savers.

The nature of marginal rate relief means that higher earners receive a larger proportion of the fiscal support provided by the government to pension savers. We estimate that 59% of current spending on tax relief goes to those savers with earnings of £45,000 or more and 41% goes to those earning £44,999 or less.⁷² However, where people are higher rate taxpayers both before and after retirement, they will pay in tax much of the relief that they receive. But, where they switch from higher rate taxpayers in work to basic rate taxpayers in retirement, they receive a disproportionate advantage compared to those who maintain the same tax status over the course of their lives.

70 PPI, The Impact of Automatic Enrolment in the UK as at 2016 (2016)

71 CIPD, To Gig Or Not To Gig? Stories From The Modern Economy (2017)

72 PLSA estimates.

Moreover, the uneven outcomes that the existing system promotes are also the result of the fact that not all types of pension saving are rewarded equally. Someone in a DB pension can accrue a tax relief-supported pension of up to around £50,000 per year, while someone in a DC pension, at current annuity rates, would only be able to buy an equivalent pension of about £30,000 per year.

Altering the contributions made by the government to pensions is extremely complex and administratively difficult. There has been a vigorous debate about the design of pension tax relief in recent years. The government consulted on the possibility of tax relief reform in 2015 (*Strengthening the Incentive to Save*). In the wake of this consultation, the government concluded that there was not a strong case for tax relief reform. It found that “the current system gives everyone an incentive to save into a pension, and people like the 25% tax free lump sum”. Nevertheless, the government recognised that existing arrangements are “also inflexible and poorly understood.”⁷³

The PLSA (then the NAPF) argued against any reform on the basis of the options being considered, which were a move to a Taxed, Exempt, Exempt (TEE) system; and a move away from Exempt, Exempt, Taxed (EET) based on marginal rate relief to EET with a flat rate subsidy. We maintain our view that neither of these systems will deliver better outcomes than the current tax relief arrangements. The PLSA remains an advocate for the current EET system.

However, we are interested in exploring whether the current approach could be modified to provide additional support in achieving the retirement income targets. Ideally, a reform should ensure that people reach the ‘minimum’ level of the national retirement income target, are enabled to achieve the ‘modest’ level and are encouraged to save for the ‘comfortable’ level.

TAX RELIEF – PLSA POLICY PROPOSALS

ISSUE	PROPOSAL
Government Contribution	Consider whether tax relief should be modified to help savers achieve the retirement income targets.

PEOPLE

PENSION POLICY - ASSESSMENT

Our proposals will be of most benefit to the Millennials and Generation X groupings.

They will benefit most from the increase in contribution rates and the extension in scope because they still have many years before they are likely to retire.

Millennials in particular would be helped by the introduction of bonuses as they are the group who will have the lowest accrued pension savings.

MILLENNIALS

GENERATION X

CONSULTATION QUESTIONS

Minimum Contribution Rates

7. Do you believe that the level of pension saving that we have identified (12%) is sufficient to provide people with an adequate income in retirement?
8. In the event that automatic enrolment default contributions increase from 8% to 12%, how should they be divided between the employer and employee?
9. Over what period do you believe an increase in contributions to 12% should be phased?
10. Do you believe there is a risk of over-saving for those on low incomes and, if so, what solutions might be worth considering? Should early access in the case of 'financial hardship' be one of them?

Automatic Enrolment Scope

11. Can you see any impediments to our proposed approach to the inclusion of the self-employed, multiple job holders and younger workers within the automatic enrolment regime? If so, can you suggest a solution to those problems?

Tax Relief

12. Do you believe that it is desirable to change the existing system of tax relief so that it would more effectively support the achievement of our proposals for a set of National Retirement Income Targets?
13. From a practical perspective, what would be the best way to alter the current regime so that savers are helped to achieve our proposals for a set of National Retirement Income Targets?



GETTING MORE MONEY INTO RETIREMENT SAVINGS PROPERTY

SUMMARY

- FOR THOSE PEOPLE WHO HAVE NOT SAVED A SUFFICIENT AMOUNT INTO A PENSION OVER THE COURSE OF THEIR WORKING LIVES, ACCESSING SOME OF THE WEALTH LOCKED UP IN THEIR PROPERTIES MAY HELP THEM ACHIEVE AN ADEQUATE INCOME IN RETIREMENT.
- ONE OF THE PRINCIPAL WAYS IN WHICH THEY ARE ABLE TO ACCESS PROPERTY WEALTH IS THROUGH THE USE OF AN EQUITY RELEASE PRODUCT. ALTHOUGH MANY PRODUCTS ALREADY EXIST ON THE MARKET, THEY ARE NOT WIDELY USED – THOUGH THIS IS INCREASING.
- THERE ARE A NUMBER OF REASONS FOR THIS INCLUDING CONCERNS ABOUT PRODUCT FLEXIBILITY, TAKING ON DEBT AND A DESIRE TO PASS ON EQUITY AS AN INHERITANCE. IMPROVEMENTS TO PRODUCT DESIGN MAY HELP ADDRESS SOME OF THESE CONCERNS.
- ANOTHER WAY FOR PEOPLE TO ACCESS THEIR PROPERTY WEALTH IS LIKELY TO BE VIA DOWNSIZING. HOWEVER, THERE IS BOTH AN OVERALL SHORTAGE OF HOUSING IN MANY PARTS OF THE UK AND, IN PARTICULAR, THERE IS AN INSUFFICIENT NUMBER OF PROPERTIES SUITABLE FOR OLDER PEOPLE.
- IN ORDER TO ENABLE MORE PEOPLE TO ACCESS THEIR PROPERTY WEALTH IN RETIREMENT, THE PLSA BELIEVES THAT:
 - PROVIDERS SHOULD EXPLORE HOW EQUITY RELEASE PRODUCTS CAN BE MADE MORE FLEXIBLE AND HOW NEW FEATURES CAN BE INCORPORATED TO SUPPORT THE VARIETY OF NEEDS THAT RETIREES EXPERIENCE OVER THE COURSE OF LATER LIFE.
 - PROVIDERS SHOULD RECONSIDER HOW THEY ENGAGE WITH CUSTOMERS IN ORDER TO BETTER EXPLAIN HOW PROPERTY ASSETS CAN SUPPORT RETIREMENT INCOME. THIS COULD BE INCORPORATED INTO A ‘MID-LIFE MOT’ OF RETIREMENT OPTIONS.
 - PENSION FUNDS SHOULD EXPLORE OPPORTUNITIES TO INVEST MORE OF THEIR FUNDS IN THE BUILDING OF NEW HOMES.



INTRODUCTION

MANY PEOPLE ARE LIKELY TO HAVE INSUFFICIENT PENSION SAVINGS TO PROVIDE THEM WITH THE STANDARD OF LIVING THEY WOULD LIKE IN RETIREMENT. AS WE OUTLINED IN CHAPTER 2, ASIDE FROM PENSIONS, THE OTHER MAIN SOURCE OF WEALTH HELD BY PEOPLE IS HOUSING-RELATED. ALTHOUGH FOR MANY THE SUMS ARE SMALL RELATIVE TO THE COSTS OF RETIREMENT, SOME GROUPS IN SOCIETY, NOTABLY BABY BOOMERS, HAVE ENOUGH EQUITY (MEDIAN £90,000) THAT IT MAY BE USED TO HELP ACHIEVE THE DESIRED RETIREMENT INCOME.

We would like to enable people to use property, where necessary, to support them in financing the costs involved in retirement. Concerns about the flexibility of equity release products, and barriers to acquiring and using property, including inadequate supply of suitable accommodation for both young and old, are restricting the extent to which this can happen.

In this section we ask whether more can be done to help people to use their property wealth to provide retirement income and whether pension schemes can play a role in increasing the supply of suitable housing.

TARGETING EQUITY RELEASE

Despite the widespread availability of products and the growing importance of the equity release market, with product sales surpassing £2 billion for the first time in 2016, PLSA research suggests that only a minority of pensioners currently use their property to supplement their retirement resources. This is supported by data released by the Equity Release Council which shows that 27,534 lifetime mortgage agreements were entered into during 2016, which represented only 2% of all mortgage agreements.⁶⁴

It may be that part of the reason for the relatively low take-up of these products is the historically high level of pension income being received by many of today's retirees. However there are a number of other reasons for the limited use of equity release products. These include people being anxious about the consequences of the progressive impact of accumulating debt interest and declining equity. Many, particularly less affluent individuals, fear 'ending up with nothing' and worry about the impact this might have on the inheritance they could leave or their own future financial needs.

The lack of important product flexibilities might also hinder equity release uptake.⁶⁵ Restrictions on lending against some types of retirement property, due to their limited resale value, could be preventing some people from moving into such accommodation. Additionally those who want to transfer their existing equity release plan to a different property, as a result of health problems, isolation issues or other challenges, are often prohibited from doing so.

Finally, social convention plays a role in the limited use of equity release products. There is a widespread feeling that mortgage acquisition debt is 'acceptable', but debt accumulated as part of an equity release scheme is 'unacceptable'. This perpetuates the idea that later life debt is 'abnormal'.⁶⁶ Younger generations however indicate a willingness to use property wealth to provide retirement income but this may change as they get older.

There are some implications in the above for product design. Ensuring that equity release products are flexible enough to support retirees' changing needs over the course of later life is essential if they are to play a prominent role in facilitating good retirement outcomes. This is particularly relevant in view of the social care challenges that current and future retirees will face. New product features and flexibilities could enable more people to use their property wealth to pay for the costs involved in accessing long-term care services.⁶⁷ This would help to support their overall income and could enable them to maintain their desired standard of living.

64 Equity Release Council, *The Future of Housing Equity as Retirement Income* (2017)

65 Equity Release Council, *The Future of Housing Equity as Retirement Income* (2017)

66 Equity Release Council, *The Future of Housing Equity as Retirement Income* (2017)

67 Equity Release Council, *The Future of Housing Equity as Retirement Income* (2017)

However we think effective communications and engagement are also important. Providers might need to reconsider how they engage with members. In particular, it may be worth exploring how equity release can be incorporated into retirement planning more effectively. For example, the Cridland Review of the State Pension Age recommended a ‘mid-life MOT’ “to encourage people to take stock, and make realistic choices about work, health and retirement.”⁶⁸

BARRIERS TO DOWNSIZING

There are two distinct challenges with property supply that affect the ability of retirees to use property wealth to support their retirement income.

The first challenge relates to retirees’ access to downsizing opportunities. In urban areas, downsizing opportunities might be sufficient, but in rural areas this can be a particular challenge. Individuals who have built their social lives in a particular community and who have strong ties to that community may be very reluctant to move away in search of the right property for downsizing. But planning restrictions may mean that only very limited new-build housing can take place. As a result, there is a high degree of under-occupation of large family homes in rural areas as those in later life are sometimes unable to downsize in the same locality.⁶⁹

The second challenge relates to the ability of retirees to access suitable accommodation in later life. Many older people do not live in accommodation that is appropriate to their needs; around 90% of older people live in non-specialist accommodation and more than 50% of over 65s are considered to be ‘under-occupying’.⁷⁰ Living in appropriate accommodation is important to the health and wellbeing of older people. A body of emerging research demonstrates that there is a strong link between appropriate housing and health amongst those in later life.⁷¹

However, there is a shortage of suitable housing. Only 2% of current housing stock is retirement housing and only 3% of new housing is specifically designed to be ‘elderly’ or ‘sheltered’ accommodation. On average, around 5,500 retirement housing units are being delivered each year, though data suggests that in the region of 30,000 units are required.⁷²

INCREASING THE SUPPLY OF SUITABLE HOUSING

The causes of the longstanding failure to build sufficient suitable new houses to meet demand and achieve government targets are complex. The lack of available land in the right locations and planning restrictions are key barriers.

Solving these supply issues requires concerted action from multiple stakeholders in all tiers of government. However, we believe that the pensions industry can play a role in improving the supply of suitable accommodation for people of all ages through its investment choices. Pension funds could provide an important source of finance for the development of housing infrastructure in the UK.

The pensions industry already provides funding for a number of UK infrastructure projects. The Pension Infrastructure Platform (PIP), founded in 2014, was developed to facilitate long-term investment in infrastructure by pension schemes.⁷³ Its Multi-Strategy Infrastructure Fund invests in infrastructure throughout the UK – targeting housing, social infrastructure (such as hospitals, schools and flood defences), communications, utilities, renewable energy and transportation.⁷⁴ Investment in these projects has the twin benefit of improving UK infrastructure and offering sustainable returns for pension funds. Further investment in property assets could have the double benefit of improving the ability of people of all ages to access suitable housing and helping pension funds to meet their investment goals.

68 OGL, Independent review of the State Pension Age (2017)

69 Royal London, The Downsize Delusion: Why Relying Exclusively on Your Home to Fund Your Retirement May End in Tears (2016)

70 IPC, Stamp Duty and Housing for Older People (2016)

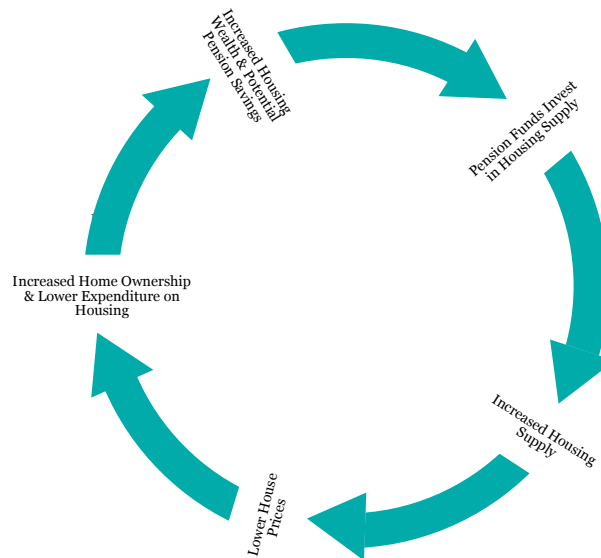
71 IPC, Stamp Duty and Housing for Older People (2016)

72 IPC, Stamp Duty and Housing for Older People (2016)

73 www.pipfunds.co.uk/about-us/

74 www.pipfunds.co.uk/multi-strategy-infrastructure-fund/

FIGURE 11:
PENSIONS, HOUSING, RETIREMENT INCOME: A VIRTUOUS CIRCLE



Individual investment managers with pension funds under management have also started to invest in housing assets in order to increase the supply of suitable housing for retirees. For example, Legal & General (L&G) has recently taken its first step into the retirement housing market by acquiring an existing operator with ambitions to build 3,000 homes for older people in the next five years. It estimates that there are 3.3 million people who would like to downsize in the UK.⁷⁵

Pension funds might also be able to improve younger savers' access to property assets. As the data presented in Chapter 2 show, the rate of ownership amongst those under the age of 45 has fallen dramatically since the early 1980s. In large part, this is the result of a chronic under-supply of housing, which has made it unaffordable for many. The inability of younger savers to get on the property ladder or to become home owners early enough to have repaid mortgage debt by the time they retire will reduce the assets that they have in later life. Pension funds could help to improve the supply of property assets by providing long-term finance for housing that could be purchased by people of all ages. These investments, and the expected returns, would however need to be consistent with the schemes' fiduciary duties.

PROPERTY – PLSA PROPOSALS SUMMARY

ISSUE	PROPOSAL
Inflexible equity release products	Providers should explore how equity release products can be made more flexible and how new features can be incorporated to support the variety of needs that retirees experience over the course of later life.
Retirement planning	Providers should reconsider how they engage with customers in order to better explain how property assets can support retirement income. This could be incorporated into a 'mid-life MOT' of retirement options.
Under-supply of appropriate housing for all age groups	Pension funds should explore opportunities to invest more of their funds in the building of new homes.

PEOPLE

PROPERTY POLICY - ASSESSMENT

Our proposals will be of most benefit to the Baby Boomers and the higher-earning Generation X groupings.

They will have benefited most from increases in house prices. As a result many will have large amounts of equity that they can borrow against. Alternatively, more opportunities to downsize to suitable accommodation in later life will release cash to help meet retirement costs.

BABY BOOMERS

GENERATION X - HE

CONSULTATION QUESTIONS

14. How can equity release products used to support retirement income be improved?
15. What is needed to help pension funds increase investment in housing?



THINK
ABOUT
TOMORROW
TODAY!

MAKING THE MOST OF HUMAN CAPITAL WORKING LONGER

SUMMARY

- FOR THOSE PEOPLE WHO HAVE NOT SAVED A SUFFICIENT AMOUNT INTO A PENSION AND DO NOT POSSESS ENOUGH PROPERTY WEALTH IN ORDER TO MAKE UP THE DIFFERENCE, WORKING INTO LATER LIFE COULD ENABLE THEM TO ACHIEVE THEIR RETIREMENT INCOME GOALS.
- HOWEVER FOR MANY PEOPLE POOR HEALTH, CARING RESPONSIBILITIES OR SKILLS SHORTFALLS ARE A BARRIER TO WORKING LONGER.
- THE PLSA BELIEVES THE PENSION INDUSTRY COULD HELP TO FACILITATE BETTER OUTCOMES IN THIS CONTEXT BY:
 - PROMOTING GREATER EMPLOYEE ENGAGEMENT WITH RETIREMENT INCOME PLANNING; IN PARTICULAR, HELPING SCHEME MEMBERS BE AWARE OF THE OPTIONS AROUND DRAWING THEIR PENSION WHILE WORKING.
 - WORKING WITH EMPLOYERS TO DEVELOP A SET OF PRINCIPLES TO HELP PEOPLE IN LATER WORKING LIFE, WHERE THEY DESIRE IT, TO STAY IN THE WORKFORCE FOR LONGER.



INTRODUCTION

WHERE PEOPLE ARE NOT ON TRACK TO ACHIEVE THEIR DESIRED STANDARD OF LIVING IN RETIREMENT THEY MAY HAVE TO WORK LONGER. EVEN FOR THOSE WITH SIGNIFICANT SAVINGS, IMPROVING LONGEVITY MAY REQUIRE THEM TO STAY IN THE WORKFORCE FOR LONGER IF THEY WANT TO MAINTAIN THEIR STANDARD OF LIVING IN RETIREMENT. WHILE SOME PEOPLE POSSESS EXTENSIVE HUMAN CAPITAL THAT COULD ENABLE THEM TO WORK FOR LONGER, OTHERS DO NOT HAVE THE SKILLS OR ARE NOT HEALTHY ENOUGH TO CONTINUE WORKING.

We would like to support as many people as wish to do so, to stay in the workforce for longer in order to ensure that they have sufficient savings to achieve their desired income level. In order to do this, the pensions industry and employers need to work together to determine how they can support continued participation in the workforce for longer. Moreover, employees need to be helped to consider their retirement income options and how they might be combined with working.

This section asks how the pensions industry can support a realistic extension of working lives.

THE INCIDENCE OF WORKING LONGER

The Pensions Commission found that people are concerned about having to work for longer, though they welcome the idea of flexible retirement. People are positive about the possibility of stepping down from full-time to part-time work and drawing on their pension to supplement their reduced income from earnings.⁷⁶ The government's Fuller Working Lives strategy states that this sort of 'phased' or 'partial' retirement could help many to make the transition to later life by avoiding "the cliff-edge between working and retirement."⁷⁷

The government has already implemented several changes in order to enable people to work for longer. Such changes include the removal of the Default Retirement Age; the extension of the right to request flexible working to all with six months' continuous service; and the introduction of private pension flexibilities, which give people past the normal pension age of their scheme the ability to combine earnings and savings easily.

These changes appear to have had a positive impact in increasing employment amongst older workers. A total of 1.1 million people over the age of 65 are currently in employment, which is double the 2001 rate.⁷⁸ Recently retired pensioners are more likely to have some income from earnings, with 20% of recently-retired single pensioners receiving income from this source.⁷⁹

THE BARRIERS TO WORKING LONGER

Evidence suggests that there are three main barriers that prevent people from working into later life. These barriers are poor health, caring responsibilities and skills shortfalls.

Health

Declining health is known to be a significant factor cited by individuals aged 50-64 for leaving the labour market early. 'Involuntary' labour market exit becomes increasingly likely as self-reported health declines. Evidence suggests that someone who considers their health to be either 'good' or 'fair' is at least three times more likely to retire involuntarily than someone with excellent self-reported health.⁸⁰

Just under half (44%) of 50-64-year-olds report having a long term health condition, LTC, with nearly one-quarter (23%) reporting two or more LTCs. Many LTCs are more common amongst individuals from lower socio-economic groups. General Household Survey data (2006), analysed by the Department of Health, shows that those from unskilled occupations (52%) suffer from LTCs more than individuals from professional occupations (33%).⁸¹

76 Pensions Commission, A New Pension Settlement for the Twenty-First Century (2005)
 77 DWP, Fuller Working Lives: A Partnership Approach (2017)
 78 DWP, Economic Labour Market Status of Individuals Aged 50 and Over Since 1984 (2016)
 79 DWP, Pensioners' Income Series 2015-2016 (2017)
 80 DWP, Fuller Working Lives: Evidence Base (2017)
 81 DWP, Fuller Working Lives: Evidence Base (2017)

Caring Responsibilities

As the UK population ages, a greater proportion of working age people will provide informal care in future to friends and relatives. Carers UK estimates that there will be a 40% increase in the number of carers needed by 2037, to a total of nine million. The likelihood of being a carer increases significantly with age.⁸² The 2011 Census found that 24% of women and 17% of men aged 50-64 provide unpaid care for a family member or friend. Currently, three in five adult carers are aged 50 years and over, with the peak age of caring between 50-54 years. This is particularly the case for women.⁸³

Skills Shortfalls

People aged 50 years and above are less likely to possess formal qualifications, which are often used as a proxy for skills, compared with younger age groups.⁸⁴ The prevalence of job-related training also declines with age. For example, 18% of 18-24-year-olds stated that they had recently taken part in a training course compared with 10% of 50-64-year-olds.

Of those that received training, older workers tend to receive fewer hours compared with younger workers.⁸⁵ Both private and public sector spending on learning declines rapidly per head of population for those aged 50 years and over. It is estimated to be £280 per head for 25-49-year-olds compared with £85 per head for 50-74-year-olds.⁸⁶

HELPING PEOPLE TO WORK FOR LONGER

Without adequate access to the labour market in later life, there is a risk that people will deplete their pension pots before they reach State Pension Age, which is likely to affect their ability to achieve their desired National Retirement Income Target level. Solving the issues that cause early labour market exit requires co-ordinated action from multiple stakeholders in all tiers of government. The government's Fuller Working Lives strategy sets out a pathway for future reform, including measures to support particular groups in need of assistance, such as carers and people with health conditions, reforms to the adult skills system and greater help for older people seeking work through JobCentre Plus.⁸⁷

Pension schemes could use technological innovations, such as the pension dashboard and online statements, to help people who need or want to go on working by promoting greater employee engagement with retirement income planning. This could involve helping scheme members to be aware of the options available to them in regard to drawing their pension while continuing to work.

In order to provide more opportunities for older workers to stay in the workforce for longer, we think the pensions industry should work with employers to develop a set of principles to help people to remain in employment. These principles could be adopted by the pensions sector and employers. They would focus on how pension providers can support flexible working (e.g. easy access to UFPLS direct from all schemes). Increasing the ability of employees to work flexibly could enable more people, particularly those with health concerns or caring responsibilities, to work for longer. It could also help more people to phase in retirement gradually.

WORKING LONGER – PLSA PROPOSALS SUMMARY

ISSUE	PROPOSAL
Retirement income planning	The pensions industry should help scheme members be aware of the options around drawing their pension while working.
Employment practices	The pensions industry should work with employers to develop a set of principles to help people in later working life, where they desire it, to stay in the workforce for longer.

82 DWP, Fuller Working Lives: Evidence Base (2017)

83 DWP, Fuller Working Lives: Evidence Base (2017)

84 DWP, Fuller Working Lives: Evidence Base (2017)

85 DWP, Fuller Working Lives: Evidence Base (2017)

86 DWP, Fuller Working Lives: Evidence Base (2017)

87 DWP, Fuller Working Lives: A Partnership Approach (2017)

PEOPLE

WORKING LONGER POLICY - ASSESSMENT

Our proposals will be of most benefit to the low-earning Baby Boomers and the Generation X groupings.

They are less likely currently to have significant pension savings and also have insufficient time to retirement for automatic enrolment savings to get them to their income target.

BABY BOOMERS

GENERATION X

CONSULTATION QUESTIONS

16. In your experience, what are the most effective ways that pension schemes or pension providers can help members understand and take advantage of the options for drawing their pension while still working?
17. What principles should underpin employers' and pension providers' approach to helping people work for longer?



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4.2 MAKING THE MOST OF SAVERS' MONEY

VALUE FOR MONEY THROUGH GOOD GOVERNANCE

SUMMARY

- SAVERS NEED TO BE SURE THAT, IN A COMPLEX PRODUCT, SOMEONE IS LOOKING AFTER THEIR INTERESTS AND ENSURING THAT EVEN IF THEY THEMSELVES DO NOTHING THEIR MONEY WILL BE WELL MANAGED AND DECISIONS MADE IN THEIR INTERESTS.
- TRUSTEES HAVE THE POWERS THEY NEED BUT PERFORMANCE IS INCONSISTENT. IGC POWERS MAY NOT BE WIDE OR DEEP ENOUGH.
- THE PLSA BELIEVES THAT THERE ARE A NUMBER OF ACTIONS THAT SHOULD BE TAKEN IN ORDER TO IMPROVE THE QUALITY OF GOVERNANCE, WHICH WOULD HAVE POSITIVE IMPLICATIONS FOR SCHEMES' VALUE FOR MONEY, INCLUDING:
 - TPR PLACING MORE EMPHASIS ON OVERSEEING THE APPOINTMENT OF EFFECTIVE TRUSTEES.
 - A REVIEW OF THE POWERS AVAILABLE TO IGCS IN ORDER TO DETERMINE IF THEY ARE ADEQUATE.
 - THE DEVELOPMENT BY THE PENSIONS SECTOR OF NEW METRICS TO HELP COMPARE SCHEMES' VALUE FOR MONEY.
 - WHERE SCHEMES DO NOT DELIVER VALUE FOR MONEY, THEY SHOULD CONSIDER WHETHER THEY CAN IMPROVE THEIR PERFORMANCE OR IF IT WOULD BE BETTER TO TRANSFER MEMBERS TO ANOTHER SCHEME AND WIND UP. THE REGULATOR SHOULD SUPPORT AND ENCOURAGE SCHEMES IN ADOPTING A RIGOROUS ASSESSMENT.

INTRODUCTION

SAVERS NEED TO BE SURE THAT SOMEONE IS LOOKING AFTER THEIR INTERESTS AND ENSURING THAT EVEN IF THEY DO NOT ACTIVELY MANAGE THEIR PENSION, THE MONEY THAT THEY HAVE ACCUMULATED WILL BE WELL MANAGED. HOWEVER, NOT ALL SCHEMES ARE DELIVERING SUFFICIENT VALUE FOR MONEY FOR SAVERS AND THIS MAY PREVENT THEM FROM ACHIEVING THEIR DESIRED LEVEL OF INCOME IN RETIREMENT.

The DWP and the FCA have recognised the significant progress that has been made by the industry in recent years. For an estimated two-thirds of savings held in workplace pensions that had been identified in 2014 as delivering poor value for money, costs and charges have been, or are on track to be, reduced to a level of 1% or less.⁸⁸ Despite the good progress that has been made, further steps remain to be taken.

We would like to see arrangements reformed so that schemes are able to deliver consistently high standards of governance in order to maximise value for money for savers. Research suggests that funds with robust governance structures outperform their peers by between 1% and 2% a year.⁸⁹ High-quality governance can, therefore, play a role in helping savers to achieve their desired standard of living in retirement. This section asks how we can ensure that pensions are well run and provide good value for money.

GOOD GOVERNANCE: INPUTS VS. OUTPUTS

Good governance of pension schemes relies on two essential elements: good inputs and good outputs. The key *inputs* that define the level of governance a scheme is able to deliver include a skilled board or committee, with a good balance of knowledge and experience, supported by a properly-resourced executive function. In contrast, key *outputs* include the processes that governance bodies implement, which determine the quality of management of the scheme and the outcomes experienced by scheme members.

The focus of occupational pension scheme regulation in the UK is characterised by a strong emphasis on outputs rather than inputs – on process, rather than people. A wide range of different regulations set out the expectations of boards and committees. Largely, these regulations dictate specific procedures that schemes must follow, rather than ensuring that appropriately qualified individuals are appointed to governance bodies.

For example, TPR maintains 22 pieces of regulatory guidance, 14 codes of practice, and 7 sets of code-related guidelines.⁹⁰ It is a confusing array of rules for scheme governance bodies to get to grips with, and can misdirect trustee energy towards compliance with procedural requirements and away from important strategic decisions that will shape the long-term success of their scheme.

Though welcome steps have been taken to simplify governance guidelines, further progress is needed. Scheme governance standards remain highly varied. Only half of schemes surveyed by TPR say all their trustees meet the standards set out in the Trustee Knowledge and Understanding (TKU) Code of Practice.⁹¹ 24% say they never disagree with external advisors and 58% say they ‘rarely’ do so, which implies a lack of capacity to challenge expensive advice.⁹² Research on the quality features of DC schemes indicates that only 22% of small DC schemes have an investment strategy that is ‘suitable to the needs of their membership’.⁹³

In order to improve pension fund governance, we would like TPR to rebalance its regulatory priorities and place a greater focus on the scrutiny of trustee board appointments and board effectiveness. In this regard, we welcome TPR’s 21st Century Trustee campaign. We believe regulators should ensure that schemes possess appropriate expertise across the relevant technical areas, as well as a diverse range of trustee perspectives, and an appropriate balance of soft skills. We would also like regulators to concentrate more on making sure these standards are met and maintained. These are, of course, the regulatory measures to be taken for Master Trusts under the Pension Schemes Act 2017.

88 FCA, Remedying Poor Value Legacy Workplace Pension Schemes: Findings from the Joint Review of Industry Progress against the Independent Project Board Recommendations (2016)

89 K. Ambachtsheer, Pension Revolution: A Solution to the Pensions Crisis (2007)

90 Details taken from TPR, Online ‘Documents Library’, as of July 2017

91 TPR, Trustee Landscape Quantitative Research: A report on the trustee landscape research, 2015 (Figure 3.8.7)

92 TPR, Trustee Landscape Quantitative Research: A report on the trustee landscape research, 2015 (Figure 3.8.7)

93 TPR, Defined Contribution (DC) Quality Features Quantitative Research A data report on the 2015 DC Quality Features research (Table 2.7.3)

TRUSTEES AND IGCs: GOVERNANCE POWERS

Trustees are well equipped with the powers that they require in order to ensure that members receive value for money from their pension investments. The variation in the quality of scheme governance under trustees is mainly related to the quality of the inputs (discussed above) to governance bodies rather than the powers that trustees have at their disposal.

IGCs, on the other hand, have highly restricted powers in relation to the schemes that they oversee. We believe that the restrictions that IGCs are subject to could limit the degree to which they are able to ensure that members receive value for money from their pension investments. The Pensions Policy Institute (PPI) has suggested a number of areas where IGCs could be given additional powers in order to safeguard members' interests.⁹⁴ These include:

1. Further oversight into value for money and appropriate benchmarking across the market place;
2. Improved understanding of the transaction costs to which members' funds are subject;
3. The ability to transfer members who are in older schemes on to more modern platforms;
4. The ability to continue pressing the provider on pricing and digital access for members; and
5. The inclusion of retirement processes and outcomes for members within the remit of IGCs.

In order to ensure that contract-based schemes are delivering value for money, the government should explore if it is possible to give IGCs additional powers that will enable them to safeguard members' interests throughout the retirement journey.

VALUE FOR MONEY: TOOLS AND TECHNIQUES

Alongside high-quality inputs and appropriate powers, pension schemes need to have access to the right tools if they are to be able to assess the degree to which they are delivering value for money to members. Transparency is a vital element in enabling governance bodies to understand how schemes are performing. Currently, the law requires trustee boards to calculate, on an annual basis, the charges and transaction costs to which members' funds are subject, and to assess the extent to which they represent good value for members.⁹⁵ The Investment Association is in the process of examining how the disclosure of transaction costs can be improved in order to improve outcomes for savers.⁹⁶

In order to be useful, performance data needs to be intelligible and comparable across the market. At present, there are no metrics that are used consistently throughout the pension market to illustrate relative performance of schemes.

As a result, a new set of metrics is required in order to measure the degree to which all schemes are providing value for money. However, these metrics should not focus on investment performance alone, because value for money is determined by a wider range of factors, such as, for example, administrative efficiency. We believe the pensions industry should develop a clear and consistent set of metrics, which cover the full range of elements that constitute value for money.

Where schemes are considered to be delivering poor value for money to members, they should consider whether they can improve their performance or if it would be better to transfer members to another scheme and wind up. The regulator should support and encourage schemes in carrying out a rigorous assessment.

94 PPI, Independent Governance Committees (IGCs) (2016)

95 TPR, Governance and Administration of Occupational Trust-Based Schemes Providing Money Purchase Benefits (2017)

96 Investment Association, Enhanced Disclosure of Charges and Transaction Costs (2017)

GOOD GOVERNANCE – PLSA PROPOSALS SUMMARY

ISSUE	
Inputs vs. outputs	TPR should rebalance its regulatory priorities and place a greater focus on the scrutiny of board appointments and board effectiveness.
IGC powers	The government should explore if it is possible to give IGCs additional powers that will enable them to safeguard members' interests throughout the retirement journey.
Metrics	<p>The pensions industry should develop a clear and consistent set of metrics, which cover the full range of elements that constitute value for money.</p> <p>Where schemes do not deliver value for money, they should consider whether they can improve their performance or if it would be better to transfer members to another scheme and wind up. The regulator should support and encourage schemes in adopting a rigorous assessment.</p>

PEOPLE

GOVERNANCE POLICY - ASSESSMENT

Our proposals will be of most benefit to the Millennial and Generation X groupings.

They have the longest time to retirement and will be saving more through automatic enrolment. This means that the higher returns from well-governed schemes which maximise value for money will accumulate for longer on larger pension savings.

MILLENNIALS

GENERATION X

CONSULTATION QUESTIONS

18. Do you agree TPR should rebalance its priorities to focus more on trustee effectiveness? How do you think that TPR can be more effective in promoting the appointment of high-quality trustees?
19. Do you believe that the powers of IGCs should be enhanced in order to deliver better outcomes for savers and, if so, how?
20. Do you agree that the pensions industry should develop metrics to measure value for money? If so, which metrics would be most useful to aid comparison of the value for money offered by pension schemes or providers?

4.3 TURNING SAVINGS INTO INCOME

RETIREMENT DECISIONS

SUMMARY

- THE PENSION FREEDOMS HAVE OPENED UP A NEW RANGE OF POSSIBILITIES TO SAVERS AT THE POINT OF RETIREMENT. ACCESSING PENSION POTS FLEXIBLY HAS BECOME THE NEW NORMAL FOR RETIREES. AS A RESULT, SAVERS WILL HAVE TO MAKE MORE DECISIONS THROUGHOUT THE COURSE OF THEIR LATER LIVES THAN WAS THE CASE PREVIOUSLY. THIS PRESENTS BOTH OPPORTUNITIES AND RISKS.
- IN ORDER TO HELP SAVERS WITH THESE DECISIONS THE PLSA BELIEVES THAT A NEW REGULATORY FRAMEWORK SHOULD BE INTRODUCED THAT COMPRISES A NEW DECUMULATION PROCESS AND NEW PRODUCT / SOLUTION PRINCIPLES.
- THE NEW DECUMULATION PROCESS WOULD WORK AS FOLLOWS:
 - SCHEMES AND PROVIDERS, WHERE POSSIBLE, SHOULD SEEK TO SUPPORT MEMBERS TO MAKE ACTIVE DECISIONS;
 - THEY SHOULD ALSO HELP SAVERS IN THEIR DECUMULATION CHOICES BY SIGN-POSTING THEM TOWARDS A SUITABLE PRODUCT / SOLUTION.
- THE PRODUCTS / SOLUTIONS ARE TO BE SELECTED BY AN INDEPENDENT BODY, A TRUSTEE OR IGC, WHICH HAS RESPONSIBILITY TO OPERATE IN THE INTERESTS OF MEMBERS; AND
- THE PRODUCT / SOLUTION MUST CONFORM TO GOVERNMENT-MANDATED PRINCIPLES WHICH WOULD ALSO PROVIDE A 'SAFE HARBOUR' FOR THE TRUSTEE OR IGCs WHICH HAS SELECTED IT.
- NEW PRODUCT / SOLUTION PRINCIPLES SHOULD BE ADOPTED TO ENSURE THAT THE DECUMULATION PATHWAY OPERATES IN THE MEMBERS' INTEREST, PROVIDES AN INCOME, AND OFFERS FLEXIBILITY FOR CAPITAL WITHDRAWALS.

INTRODUCTION

WHILE THE PENSION FREEDOMS HAVE OPENED UP NEW POSSIBILITIES, AT RETIREMENT DECISIONS HAVE BECOME MUCH MORE COMPLICATED, WITH PEOPLE EXPECTED TO MAKE DECISIONS ABOUT HOW TO SPREAD CAPITAL ACROSS DIFFERENT PRODUCT TYPES. ANNUITY PURCHASES HAVE DECLINED DRAMATICALLY SINCE APRIL 2015 AND THE USE OF DRAWDOWN PRODUCTS HAS INCREASED SUBSTANTIALLY.

In comparison to the previous regime, the pension freedoms have created a higher level of risk that savers will exhaust their funds in retirement. This is the result of a number of features of the decumulation environment. For example, drawdown products are no longer constrained by any withdrawal limits, as they were prior to April 2015. Moreover, remaining invested in later life could result in reductions in retirees' incomes if investment performance is poor.

We would like savers to benefit from a decumulation process that supports them in making good decisions throughout the course of their retirement. Retirement is often no longer the abrupt end to working life that it once was and pension savings are increasingly likely to be used in combination with income from earnings and other sources.

This section asks how we can ensure that people get good outcomes in retirement and the respective roles of posted solutions and engaged decision-makers.

UNDERSTANDING THE IMPACT OF PENSION FREEDOMS

The FCA's *Retirement Outcomes Review* considered how the retirement income market is evolving in the wake of the introduction of the new pension freedoms. It concluded that people are not making optimal decisions. Perhaps the most striking conclusion the authors arrived at is that the decision to access pension pots prior to the State Pension age has become 'the new norm'. Almost three-quarters (72%) of pots that have been partially or completely withdrawn have been accessed by members under the age of 65. Most people who have withdrawn funds have chosen to take lump sums rather than a regular income.⁹⁷

Of the pots that have been accessed, more than half (52%) of those that have been fully withdrawn were not spent; instead, they were moved into other savings or investments. The FCA found that part of the reason that savers took this decision was a lack of public trust in pensions. In moving funds out of the pension wrapper, savers may have paid too much tax, missed out on investment growth or lost out on other benefits.⁹⁸ These sub-optimal outcomes have been reinforced by the limited use of financial advice. Prior to the introduction of the pension freedoms, only 5% of drawdown products were purchased without advice; this has grown to 30% today.

Members who access their pots early without taking advice typically follow the 'path of least resistance', accepting drawdown from their current pension provider without shopping around.⁹⁹ However, drawdown is complex and savers may need additional support and protection in order to ensure that they do not make sub-optimal decisions by simply following the easiest route.

In order to make the most of the opportunities presented by the pension freedoms, savers need to have access to suitable decumulation products or solutions. However, the FCA's *Retirement Outcomes Review* found little evidence of the market coming forward with new innovations that offer the sorts of features – certainty and flexibility – that savers want from a decumulation product over the course of the retirement journey. For example, providers have yet to develop a mass market product that combines flexible access in one part of retirement with an element of guaranteed income in another.

97 FCA, *Retirement Outcomes Review: Interim Report (2017)*

98 FCA, *Retirement Outcomes Review: Interim Report (2017)*

99 FCA, *Retirement Outcomes Review: Interim Report (2017)*

Several barriers have been cited in order to explain the lack of innovation that has characterised the decumulation market to date. The reasons given to the FCA for low levels of market innovation include:

- Providers lack the incentive to innovate due to poor demand and the inertia of existing customers. This inertia is primarily the result of members struggling to understand their retirement options and the range of products on offer.¹⁰⁰
- Members find it difficult to assess their needs and, as a result, find it difficult to select the most appropriate products. This is a result of a variety of behavioural biases and low levels of financial literacy. This means that members may not identify the products that would best meet those needs.¹⁰¹
- The market is going through a period of significant policy change, which is creating uncertainty around future developments. Alongside the impact of policy changes and regulation on providers' costs, this was cited as a reason for firms' reluctance to invest in product development.¹⁰²

A NEW REGULATORY FRAMEWORK

In light of the above, it is clear that the market for decumulation products requires significant reform. We have developed a new regulatory framework that would enable trustees and IGCs to support savers in making effective decisions. We believe that a new framework should work as follows:

- Schemes and providers, where possible, should seek to support members to make active decisions;
- They should also help savers in their decumulation choices by sign-posting them towards a suitable product / solution;
- An independent body (a trustee or IGC) would select a suitable decumulation product / solution for members. The product or solution selected should be appropriate to the membership of the scheme as a whole; and
- The product / solution selected must conform to government-mandated principles, which would also provide a 'safe harbour' for trustees and IGCs who have selected the suggested pathway.

The new approach to decumulation that we are proposing rests on the design of a new process for exiting the accumulation phase and entering the decumulation pathway, as well as the formation of a series of mandatory product / solution principles.

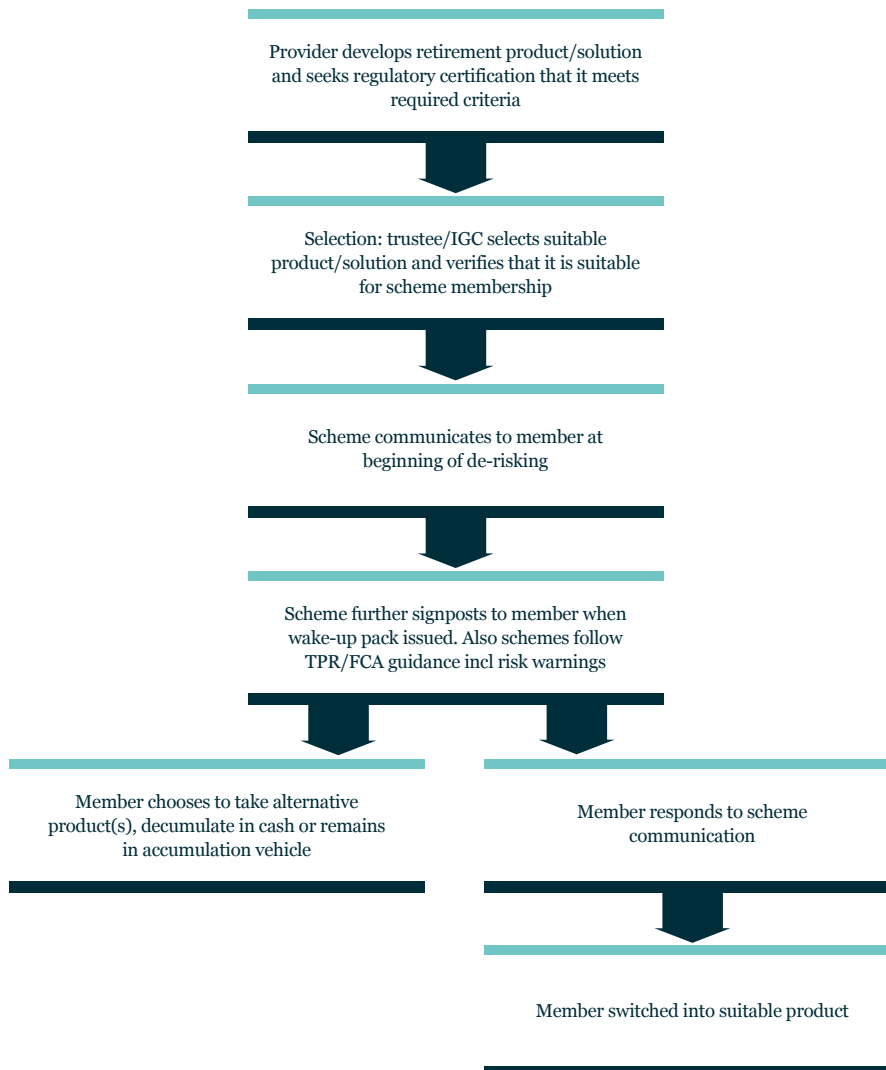
100 FCA, Retirement Outcomes Review: Interim Report (2017)

101 FCA, Retirement Outcomes Review: Interim Report (2017)

102 FCA, Retirement Outcomes Review: Interim Report (2017)

1. The Decumulation Process

The process for entering the decumulation pathway would involve a limited number of stages:



In this process, trustees/IGCs would select a decumulation product / solution appropriate to the membership of the scheme and sign-post members. The selected product / solution would need to conform to principles required by the government, which would be designed to ensure good outcomes for members and to guard against trustees/IGCs being held liable for sub-optimal outcomes.

Members would be encouraged to make an active decision. No member would be moved into the sign-posted decumulation product / solution without their explicit consent and all communications with the member would present the full range of options open to them (e.g. cash, annuity, drawdown, transfers). Information about typical scheme member decumulation choices would also be provided as standard, alongside information on where further guidance and advice can be obtained.

2. New Product / Solution Principles

The adoption of suitable product / solution principles is essential if members are to secure good outcomes. These should stipulate that the products / solutions should:

- **Operate in the members' interest:** Products / solutions should be overseen by an independent body that operates in the interests of members. That is to say that it should be a trust-based vehicle or governed by a suitably empowered IGC. This is intended to provide a default investment strategy that operates in the interest of members; set recommended minimum and maximum income levels of drawdown to protect against someone outliving their capital; protect against cognitive decline; limit the need for people to take complex unadvised decisions in later life; and comply with regulatory requirements, such as ensuring value for money.
- **Provide a sustainable income:** Products / solutions should be able to provide an income that the scheme member can use throughout later life. PLSA research demonstrates that 84% of savers want to achieve some sort of income stream in retirement from their accumulated savings.¹⁰³
- **Provide flexibility for capital withdrawals:** Savers appreciate the ability to access capital sums and prefer products / solutions that allow them to do so. As a consequence, products should offer a sufficient degree of flexibility to enable savers to vary their income and capital withdrawals.

DECUMULATION: PLSA PROPOSALS SUMMARY

ISSUE	PROPOSAL
Regulatory framework	The government and the pensions industry should adopt a new regulatory framework for decumulation. This will provide for a new joining process and new product / solution principles.
New decumulation process	The new decumulation process should work as follows: <ul style="list-style-type: none"> - Schemes and providers, where possible, should seek to support members to make active decisions; - They should also help savers in their decumulation choices by sign posting them towards a suitable product / solution; - The products / solutions are to be selected by an independent body, a trustee or IGC, which has responsibility to operate in the interests of members; and - The products / solution must conform to government-mandated principles which would also provide a 'safe harbour' for the trustee or IGCs which have selected it.
New product / solution principles	New product / solution principles should be adopted to ensure that the decumulation pathway operates in the members' interest, provides an income and offers flexibility for capital withdrawals.

PEOPLE

DECUMULATION - POLICY ASSESSMENT

Our proposals will be of most benefit to the Millennial and Generation X groupings.

They will be likely to have the larger DC pots having benefited from increased automatic enrolment-related savings for longer. This means that being helped to make better choices at retirement will make a bigger difference to the retirement income generated from their savings.

MILLENNIALS

GENERATION X

CONSULTATION QUESTIONS

21. Do you believe that the proposed decumulation process provides an effective means of guiding savers to decumulation products or solutions that are appropriate to their needs? If not, what alternative approach do you suggest?
22. Are there any legal or operational impediments to the proposed method of achieving good outcomes for savers at the point of decumulation?
23. Do you agree that the product / solution principles we propose should be mandated by government? Are there any other principles you consider to be appropriate?



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CHAPTER 5

ENGAGEMENT: BUILDING CONFIDENCE

SUMMARY

- SAVERS HAVE A LOW LEVEL OF ENGAGEMENT WITH THEIR RETIREMENT SAVINGS. POOR ENGAGEMENT IS IN PART A RESULT OF THE FACT THAT THEY FEEL DISCONNECTED FROM THEIR PENSION SAVINGS COMPARED TO OTHER FORMS OF WEALTH THEY HOLD. THIS IS EXACERBATED BY THE LOW LEVEL OF FINANCIAL UNDERSTANDING MOST PEOPLE POSSESS, WHICH HINDERS SAVERS' ABILITY TO COMPREHEND COMPLEX FINANCIAL PRODUCTS.
- THE RETIREMENT OUTCOMES REVIEW IDENTIFIED POOR ENGAGEMENT AS A SIGNIFICANT FACTOR IN REDUCING COMPETITIVE PRESSURE ON PROVIDERS, WHICH COULD RESULT IN HIGHER CHARGES, LOWER QUALITY PRODUCTS AND LESS INNOVATION IN THE MARKET.
- PEOPLE TEND TO MANAGE THEIR FINANCES THROUGH SHORTCUTS SUCH AS RULES OF THUMB, AND ARE PARTICULARLY OPEN TO BEHAVIOUR CHANGE WHEN AN INTERVENTION IS RELEVANT TO THEIR CURRENT CIRCUMSTANCES. HOWEVER, A 'GOAL-SETTING' APPROACH CAN FACILITATE ENGAGEMENT.
- THE PLSA BELIEVES ENGAGEMENT CAN BE IMPROVED:
 - THROUGH THE DEVELOPMENT OF A NEW RETIREMENT INCOME TARGET THAT IS EASY TO UNDERSTAND FOR SAVERS;
 - BY EMBRACING THE OPPORTUNITIES PRESENTED BY NEW TECHNOLOGIES THAT PROVIDE SCOPE FOR EASIER ENGAGEMENT; IN PARTICULAR THERE SHOULD BE AT LEAST ONE HIGH-PROFILE PENSIONS DASHBOARD HOSTED BY A PUBLIC BODY AND ROBO-ADVICE SHOULD BE ROLLED OUT ACROSS THE PENSIONS INDUSTRY; AND
 - BY IMPROVING SAVERS' UNDERSTANDING OF THE IMPORTANCE OF ENGAGEMENT WITH THEIR FINANCIAL FUTURE BY DELIVERING STANDARDISED MESSAGES AND RULES OF THUMB AT 'TEACHABLE' MOMENTS THROUGHOUT THEIR LIFETIME.

INTRODUCTION

SAVERS HAVE DIFFICULTY IN ENGAGING WITH THEIR RETIREMENT SAVINGS.¹⁰⁴ GOOD SAVER ENGAGEMENT IS IMPORTANT TO DELIVERING OPTIMAL RETIREMENT OUTCOMES. POOR ENGAGEMENT PREVENTS SAVERS FROM MAKING APPROPRIATE CHOICES ABOUT HOW MUCH TO SAVE AND, AS A CONSEQUENCE, MANY PEOPLE ARE UNDER-SAVING FOR THEIR RETIREMENT.

In the accumulation phase, savers need to understand how their pension contribution rate and other savings decisions could influence their retirement outcomes. In particular, it is important that they are aware that saving at a rate of 8% of band earnings is unlikely to result in them achieving an adequate income in retirement. In the decumulation phase, savers need to understand the variety of options available to them in order to ensure that they take effective decisions. This is particularly important in regard to pension savings, where the options available have changed radically since 2015, but it also has implications for the use of other assets, such as property and human capital.

We would like savers to benefit from appropriate engagement at all stages of the retirement saving process. This will not necessarily entail *more* engagement, but, rather, better engagement. The first essential component of this is the set of National Retirement Income Targets outlined in Chapter 3. In order to help savers achieve their desired standard of living in later life, new technology, like the pensions dashboard, and new techniques, such as ‘teachable moments’, could be employed in order to improve the quality of decisions taken by savers. In retirement, savers should be supported by the new decumulation framework outlined in the previous chapter, though this should not prevent them from accessing advice where possible, so that they can make informed decisions about their decumulation pathway.

In this section we consider how to discuss money with people in ways and at times which make sense to them and how to improve engagement by delivering simple and standardised messages.

A NEW ENGAGEMENT TOOL: NATIONAL RETIREMENT INCOME TARGETS

The low level of engagement people demonstrate in relation to their retirement savings is the result of a number of factors, including a poor understanding of financial products, a low degree of financial capability and a widespread feeling amongst savers that they are disconnected from their pension savings (compared to other forms of wealth they hold). In its 2013 study on DC workplace pensions, the Office of Fair Trading (OFT) found that:

Good member communications and engagement tools can help members make more informed decisions, be more engaged with their pensions and can encourage them to keep track of whether they are saving enough to reach their target income upon retirement.¹⁰⁵

As noted in Chapter 3, evidence suggests that goal clarity is an important ‘psychological mechanism’ that enables individuals to plan for the future.¹⁰⁶ A ‘goal-setting’ approach can facilitate engagement with savings activities, especially amongst those people who have poorly defined goals or have done little previous planning. This works most effectively where the suggested retirement savings goals are ‘clear and specific’.¹⁰⁷

The National Retirement Income Targets suggested in this consultation fulfil these criteria. They offer savers clarity about not only the level of income required in order to enjoy a given standard of living in retirement, but also the sorts of products and services that they will be able to access with the target income level. This provides savers with a high level of clarity about their likely outcomes in later life.

104 OFT, Defined Contribution Workplace Pension Market Study (2013)

105 OFT, Defined Contribution Workplace Pension Market Study (2013)

106 R. Stawski et al, ‘Goal Clarity and Financial Planning Activities as Determinants of Retirement Savings Contributions’, International Journal of Aging and Human Development, Vol.64, Iss.1 (2007)

107 R. Stawski et al, ‘Goal Clarity and Financial Planning Activities as Determinants of Retirement Savings Contributions’, International Journal of Aging and Human Development, Vol.64, Iss.1 (2007)

FIN-TECH: THE PENSIONS DASHBOARD

In Australia, the ASFA Retirement Standard has been widely incorporated into pension income calculators, which has improved its visibility amongst savers. Changing technology in the UK provides savers with new means by which to interact with their wealth and this offers new avenues through which the proposed National Retirement Income Targets can be embedded into the retirement savings system. The pensions dashboard is a prime example of this.

The pensions dashboard initiative, if implemented, will enable people to see all their pension savings in a single place at the click of a button. The National Retirement Income Targets could be incorporated into the pensions dashboard to enable people to see whether they are on track to achieve their desired standard of living. In order to achieve trust and high use, we believe there should be a high-profile dashboard hosted by a major public body, probably the Single Financial Guidance Body. However, this should not preclude the development of other dashboards, which could be used alongside the one hosted by the Single Financial Guidance Body. This approach will facilitate innovation and could lead to other sources of income being included within the dashboard, such as, for example, income from a lifetime mortgage or earnings.

FIN-TECH: ROBO-ADVICE

Savers need to have access to the right level of support in the decumulation phase of retirement saving, as well as in the accumulation phase. In the last section, we identified a new framework for decumulation in which engagement with savers is highly targeted and supported by an expanded role for trustees and IGCs. Prior to making a decision about their decumulation pathway, savers should be encouraged to take financial advice. Innovative technology, particularly robo-advice, can play a role in delivering advice in a cost-effective way.

The *Retirement Outcomes Review* found that the pensions industry has been slow to adopt ‘robo-advice’.¹⁰⁸ Nonetheless, it offers considerable potential for improving the saver journey; through, for example, automated alerts to keep people informed about their balances and the income they are likely to receive in retirement. In decumulation, it has the potential to make advice much more affordable, by combining web-based guidance with phone-based professional advice.¹⁰⁹

Robo-advice should be rolled out across the industry in order to improve member awareness of their options, particularly in the decumulation phase. This could be delivered through partnerships between providers. For example, The People’s Pension has teamed up with retirement specialist Liverpool Victoria (LV) to provide savers with free online guidance and low-cost advice through LV’s Retirement Wizard service.

RULES OF THUMB / TEACHABLE MOMENTS

Other techniques are effective in reinforcing positive saving behaviour. Evidence suggests that people tend to manage their finances through shortcuts, such as rules of thumb.¹¹⁰ The *Financial Advice Market Review* recognised the importance of such techniques to savers’ behaviour and a dedicated sub-group of the Financial Advice Working Group (FAWG) has developed a series of principles for nudges of this sort.¹¹¹ The pensions industry should develop a series of rules of thumb – to be communicated consistently to savers – that relate to the levels identified by the National Retirement Income Targets.

The degree to which the revised rules of thumb will help people to make adequate provision for their retirement will depend on the degree to which they are aware of them. PPI has identified a series of ‘teachable moments’, for all age groups, in which people are open to behaviour change. Teachable moments are periods in time when an intervention is relevant to people’s current circumstances, relates specifically to their goals and allows them to take simple, practical follow-up actions.¹¹²

108 FCA, Retirement Outcomes Review: Interim Report (2017)
 109 Deloitte, The Next Frontier: The Future of Automated Financial Advice in the UK (2017)
 110 PPI, Consumer Engagement: The Role of Policy Through the Life Course (2017)
 111 FCA, Financial Advice Market Review: Progress Report (2017)
 112 PPI, Consumer Engagement: The Role of Policy Through the Life Course (2017)

Teachable Moment For Adults

TRANSITIONS	POTENTIAL PRECEDENTS OF FINANCIAL SHOCKS
Making financial decisions Leaving full time education Changing/starting a job First time pension saving Moving home Getting married Buying a property Having children Divorce Onset of health problems Need to provide care Bereavement	Unemployment Divorce Onset of health problems Need to provide care Bereavement

Pension providers and employers should work together to identify the most appropriate teachable moments, where each can reinforce positive saving behaviours in order to improve the likelihood of savers achieving their desired income in later life.

A SAVER-CENTRED PENSIONS LEXICON

At whichever stage savers find themselves on the retirement savings journey, good engagement depends on good understanding. This, in turn, depends on communications built around savers' needs and capabilities. Importantly, given savers' likely acquisition of pension pots from multiple providers, we believe good understanding is likely to be dependent on savers receiving consistent communications from whoever is talking to them about their money.

Individual initiatives, such as NEST's phrasebook and the ABI's *Making Retirement Choices Clear*, have improved the language used in many parts of the industry; but savers considering their retirement options are unlikely to appreciate that they would get the same product type by buying:

- A retirement income ¹¹³
- A guaranteed income ('annuity') ^{114, 115}
- Guaranteed income for life – an annuity ¹¹⁶
- Fixed income – guaranteed for life ¹¹⁷
- An income for life ¹¹⁸
- A lifetime annuity ¹¹⁹.

While each provider has sought hard to find a term that will be understandable to their customers and members, the fact so many different terms are used is likely to impede effective engagement.

Similarly, savers receiving annual statements from multiple providers are likely to see projections calculated and presented in a wide variety of ways. Research by the Financial Reporting Council shows, for example, that annual return assumptions for funds invested in cash vary from 0.5% to 3.75% and that most providers do not explain the impact of interest rate changes on projections.

We believe the pensions industry should do more to standardise the language and layout of key customer communications and the assumptions which sit behind any projections customers receive. This is true for cross-industry initiatives such as the pensions dashboard, for provider-to-customer communications such as annual statements, and for communication from government and, in time, the new single financial guidance body.

Importantly, regulation which is related to customer communications needs to actively support and encourage effective engagement, including the adoption of new technology.

113 www.nestpensions.org.uk/schemeweb/nest/members/retirement/understanding-your-options.html
 114 www.thepeoplespension.co.uk/employees/your-retirement/all-your-choices-at-retirement/compare-retirement-options/
 115 www.pensionwise.gov.uk/en/guaranteed-income
 116 www.moneyadvice.service.gov.uk/en/retirement-income-options/retirement-options#pot-options
 117 www.standardlife.co.uk/c1/retirement.page
 118 www.aviva.co.uk/retirement/using-pension-money/
 119 www.legalandgeneral.com/retirement/retirement-options/take-income/

Engagement – PLSA Proposals Summary

ISSUE	PROPOSAL
Retirement planning	A set of National Retirement Income Targets should be developed in order to improve savers' understanding of the amount they need to save in order to achieve their desired standard of living in later life.
Fin-tech	The pensions dashboard should be adopted by the pensions sector. In order to achieve trust and high use, there should be at least one high-profile dashboard hosted by a major public body, probably the Single Financial Guidance Body. (This would not preclude the adoption of other dashboards.) The National Retirement Income Targets should be incorporated within the pensions dashboard. Robo-advice should be rolled out across the pensions industry in order to improve member awareness of their options, particularly in the decumulation phase, and ensure that they make good decisions in retirement.
Rules of thumb	The pensions industry should develop a series of rules of thumb – to be communicated consistently to savers – that relate to the levels identified by the National Retirement Income Target.
Teachable moments	Pensions providers and employers should work together to identify the most appropriate teachable moments, where each can reinforce positive saving behaviours in order to improve the likelihood of savers achieving their desired income in later life.
Consistent presentation	The pensions industry should do more to standardise the language and layout of key customer communications and the assumptions which sit behind any projections customers receive.

PEOPLE

ENGAGEMENT POLICY ASSESSMENT

Our proposals will be of most benefit to the Millennials and Generation X groupings.

They have the longest time until they retire. This gives them more time to plan, review progress and take action to achieve their retirement income targets.

MILLENNIALS

GENERATION X

CONSULTATION QUESTIONS

24. What impediments, if any, are there to the wide-scale uptake of fin-tech solutions across the pensions sector?
25. In the context of workplace pensions specifically, which heuristics and 'teachable moments' have proved most effective?
26. Do you agree that the language and layout of key customer communications and assumptions should be standardised? If so, which elements should be standardised?

CHAPTER 6

CONCLUSIONS

Recent governments have already made good progress in improving retirement outcomes. Reforms to the State Pension and the introduction of automatic enrolment will ensure that future retirees have access to a higher level of pension wealth than would otherwise have been the case. The Pension Freedoms have given savers more control over how they draw their income in retirement. However, more remains to be done if tomorrow's retirees are to make the most of today's savings opportunities.

The proposals that we have set out in this consultation encompass the retirement savings journey in its entirety. At their heart, we have proposed a set of retirement income targets to help savers, the public and policymakers better understand their retirement income needs. People know they need to save but they do not know how much to save. We believe a system of simple targets, set out in pounds and pence, will provide the support they need.

However, this consultation does not simply outline an argument for public policy reform. The proposals that we have made require the attention of both the government and the retirement savings industry. Only by working in partnership can we find sustainable solutions to these challenges.



CONSULTATION QUESTIONS

ANNEX A

SETTING THE TARGET: HOW MUCH IS ENOUGH?

1. Do you agree that retirement income targets should be developed?
 - a. If so, do you agree that there should be three levels – broadly minimum, modest and comfortable?
 - b. How should we deal with single and dual households?
 - c. How should we approach housing costs to reflect rental vs ownership?
 - d. Should the targets differ across regions, and if so how would you suggest we approach developing these?
2. Do you agree that the JRF Minimum Income Standard (MIS) is a suitable minimum retirement standard? If not, why not?
3. Do you agree that developing a basket of goods and services for each level is the best approach? If not, why not?
4. Do you have views on alternative approaches to setting the target levels?
5. Who do you think should be responsible for developing and updating the target?
6. In what ways should the retirement income targets be used to help people plan for their retirement income?

PENSIONS

7. Do you believe that the level of pension saving that we have identified (12%) is sufficient to provide people with an adequate income in retirement?
8. In the event that automatic enrolment default contributions increase from 8% to 12%, how should they be divided between the employer and employee?
9. Over what period do you believe an increase in contributions to 12% should be phased?
10. Do you believe there is a risk of over-saving for those on low incomes and, if so, what solutions might be worth considering? Should early access in the case of 'financial hardship' be one of them?
11. Can you see any impediments to our proposed approach to the inclusion of the self-employed, multiple job holders and younger workers within the automatic enrolment regime? If so, can you suggest a solution to those problems?
12. Do you believe that it is desirable to change the existing system of tax relief so that it would more effectively support the achievement of our proposals for a set of National Retirement Income Targets?
13. From a practical perspective, what would be the best way to alter the current regime so that savers are helped to achieve our proposals for a set of National Retirement Income Targets?

PROPERTY

14. How can equity release products be used to support retirement income be improved?
15. What is needed to help pension funds increase investment in housing?

WORKING LONGER

16. In your experience, what are the most effective ways that pension schemes or pension providers can help members understand and take advantage of the options for drawing their pension while still working?
17. What principles should underpin employers' and pension providers' approach to helping people work for longer?

VALUE FOR MONEY THROUGH GOOD GOVERNANCE

18. Do you agree TPR should rebalance its priorities to focus more on trustee effectiveness? How do you think that TPR can be more effective in promoting the appointment of high-quality trustees?
19. Do you believe that the powers of IGCs should be enhanced in order to deliver better outcomes for savers and, if so, how?
20. Do you agree that the pensions industry should develop metrics to measure value for money? If so, which metrics would be most useful to aid comparison of the value for money offered by pension schemes or providers?

RETIREMENT DECISIONS: MAKING THE MOST OF THE NEW FREEDOMS

21. Do you believe that the proposed decumulation process provides an effective means of guiding savers to decumulation products or solutions that are appropriate to their needs? If not, what alternative approach do you suggest?
22. Are there any legal or operational impediments to the proposed method of achieving good outcomes for savers at the point of decumulation?
23. Do you agree that the product / solution principles we propose should be mandated by government? Are there any other principles you consider to be appropriate?

ENGAGEMENT: BUILDING CONFIDENCE

24. What impediments, if any, are there to the wide-scale uptake of fin-tech solutions across the pensions sector?
25. In the context of workplace pensions specifically, which heuristics and 'teachable moments' have proved most effective?
26. Do you agree that the language and layout of key customer communications and assumptions should be standardised? If so, which elements should be standardised?

POLICY PROPOSALS ANNEX B

Setting the Target: How Much is Enough?

ISSUE	PROPOSAL
Knowing how much to save for retirement	A set of National Retirement Income Targets should be developed in order to improve savers' understanding of the amount they need to save to achieve their desired standard of living in later life. These should have three levels: 'minimum', 'modest' and 'comfortable'.

Pensions: Automatic Enrolment Contributions

ISSUE	PROPOSAL
Low pension savings rates	Increase minimum automatic enrolment contributions from 8% of AE band earnings to 12% of salary over the course of the 2020s, once the experience of raising automatic enrolment contributions from 2% to 8% is well understood.
Employer contribution	When contributions are increased from 8% to 12%, employers should continue to meet the same proportion of minimum contributions (37.5%) as under the current regime and consideration should be given to moving to a 50/50 split.
Low income groups	The risk of financial hardship for people on low incomes should be managed by considering measures to address affordability or over-saving, allowing early access on specific conditions, opt-down options or other alternatives.

Pensions: Automatic Enrolment Scope

18-21-year-olds	Younger people should be included within the scope of automatic enrolment by lowering the minimum age threshold to 18.
Multiple Job Holders	Multiple job holders with aggregate income above the earnings trigger (£10,000 pa) should be included within the scope of automatic enrolment.
Traditional Self-Employed	The traditional self-employed should be included within the scope of automatic enrolment. Contributions should be achieved via an automatic deduction from declared profits. The deduction would be paid into a pension scheme that could be selected from a carousel of options.
'Gig' Economy Workers	'Gig' economy workers should be included within the scope of automatic enrolment.

Pensions: Tax Relief

ISSUE	PROPOSAL
Government Contribution	Consider whether tax relief should be modified to help savers achieve the retirement income targets.

Property

ISSUE	PROPOSAL
Inflexible equity release products	Providers should explore how equity release products can be made more flexible and how new features can be incorporated to support the variety of needs that retirees experience over the course of later life.
Retirement Planning	Providers should reconsider how they engage with customers in order to better explain how property assets can support retirement income. This could be incorporated into a 'mid-life MOT' of retirement options.
Under-supply of appropriate housing for all age groups	Pension funds should explore opportunities to invest more of their funds in the building of new homes.

Working Longer: Making the Most of Human Capital

ISSUE	PROPOSAL
Retirement Income Planning	The pensions industry should help scheme members be aware of the options around drawing their pension while working.
Employment Practices	The pensions industry should work with employers to develop a set of principles to help people in later working life, where they desire it, to stay in the workforce for longer.

Value for Money Through Good Governance

ISSUE	PROPOSAL
Inputs vs. Outputs	TPR should rebalance its regulatory priorities and place a greater focus on the scrutiny of trustee board appointments and board effectiveness.
IGC Powers	The government should explore if it is possible to give IGCs additional powers that will enable them to safeguard members' interests throughout the retirement journey.
Metrics	<p>The pensions industry should develop a clear and consistent set of metrics, which cover the full range of elements that constitute value for money.</p> <p>Where schemes do not deliver value for money, they should consider whether they can improve their performance or if it would be better to transfer members to another scheme and wind up. The regulator should support and encourage schemes in adopting a rigorous assessment.</p>

Turning Savings into Retirement: Making the Most of New Freedoms

ISSUE	PROPOSAL
Regulatory Framework	The Government and the pensions industry should adopt a new regulatory framework for decumulation. This will provide for a new joining process and new product / solution principles.
New Joining Process	<p>The new decumulation process should work as follows:</p> <ul style="list-style-type: none"> - Help savers in their decumulation choices by sign-posting them towards a suitable product / solution; - The products / solutions are to be selected by an independent body, a trustee or IGC, which has responsibility to operate in the interests of members; and - The products / solution must conform to government-mandated principles which would also provide a 'safe harbour' for the trustee or IGCs which have selected it. <p>Schemes and providers, where possible, should also seek to support members to make active decisions.</p>
New Product / Solution Principles	New product / solution principles should be adopted to ensure that the decumulation pathway operates in the members' interest, provides an income and offers flexibility for capital withdrawals.

Engagement: Building Confidence

ISSUE	PROPOSAL
Retirement Planning	Develop a set of national retirement targets representing three different levels of living standards: minimum, modest and comfortable.
Fin-Tech	<p>The pensions dashboard should be adopted by the pensions sector. In order to achieve trust and high use, there should be at least one high-profile dashboard hosted by a major public body, probably the Single Financial Guidance Body. (This would not preclude the adoption of other dashboards.) The National Retirement Income Targets should be incorporated within the pensions dashboard.</p> <p>Robo-advice should be rolled out across the pensions industry in order to improve member awareness of their options, particularly in the decumulation phase, and ensure that they make good decisions in retirement.</p>
Rules of Thumb	The pensions industry should develop a series of rules of thumb – to be communicated consistently to savers – that relate to the levels identified by the National Retirement Income Targets.
Teachable Moments	Pension providers and employers should work together to identify the most appropriate teachable moments, where each can reinforce positive saving behaviours in order to improve the likelihood of savers achieving their desired income in later life.
Consistent Presentation	The pensions industry should do more to standardise the language and layout of key customer communications and the assumptions which sit behind any projections customer receive.

INCOME AND ASSETS - ADDITIONAL DATA ANNEX C

TABLE 1: DISTRIBUTION OF INCOME PER YEAR FROM PRIVATE PENSIONS, EARNINGS AND STATE PENSION FOR ALL PENSIONERS IN THE UK, 2013-14 (£)

INCOME TYPE	20TH PERCENTILE	40TH PERCENTILE	MEDIAN	60TH PERCENTILE	80TH PERCENTILE
PRIVATE PENSION INCOME	0	1,600	2,900	4,500	9,600
EARNINGS	0	0	0	0	1,200
STATE PENSION	3,900	5,500	5,900	6,300	7,500

TABLE 2: DISTRIBUTION OF NET PROPERTY AND NET FINANCIAL ASSETS FOR ALL PENSIONERS IN THE UK, 2012-14 (£)

ASSET TYPE	20TH PERCENTILE	40TH PERCENTILE	MEDIAN	60TH PERCENTILE	80TH PERCENTILE
NET PROPERTY	0	62,500	80,000	100,000	150,000
NET FINANCIAL	1,000	6,800	12,500	21,400	63,000

TABLE 3: DISTRIBUTION OF NET FINANCIAL WEALTH BY GENERATION (£)

GENERATION	20TH PERCENTILE	40TH PERCENTILE	MEDIAN	60TH PERCENTILE	80TH PERCENTILE
MILLENNIALS	-2,100	-50	250	700	4,800
GENERATION X	-1,100	500	1,500	4,200	21,000
BABY BOOMERS	100	3,900	9,000	15,500	51,400

TABLE 4: DISTRIBUTION OF PROPERTY WEALTH BY GENERATION (£)

GENERATION	20TH PERCENTILE	40TH PERCENTILE	MEDIAN	60TH PERCENTILE	80TH PERCENTILE
MILLENNIALS	0	0	0	0	18,500
GENERATION X	0	31,000	47,000	63,000	114,000
BABY BOOMERS	28,000	71,000	90,000	110,000	184,000

PLSA HITTING THE TARGET STEERING GROUP ANNEX D

Richard Butcher

Richard joined PTL in 2008. He became Managing Director in 2010. He has responsibility for a wide and diverse range of clients, both DB and DC. Prior to joining PTL, he ran his own small independent trustee and consultancy business.

Richard has been involved in pension scheme governance since 1985 and has worked with, or as a, pension scheme independent trustee since 1989. He is a Fellow of the Pensions Management Institute and is on the PMI Council and, in 2017, was appointed to the position of Chair of the Pensions and Lifetime Savings Association.

Christopher Brooks

Chris is Senior Policy Manager at Age UK, the national charity for older people. He leads Age UK's public policy work on private pensions, and employment and skills, which involves representing the interests of consumers and older people to government, regulators and industry. He also manages a team covering a diverse range of policy issues, including housing and transport policy. He has worked at Age UK since May 2010, and previously worked at the awarding body City & Guilds, where he managed its Parliamentary and public policy activity, and before that at Lansons, a public affairs agency specialising in financial services.

Chris Curry

Chris Curry is the Director of the Pensions Policy Institute (PPI). He originally joined the PPI as Research Director in July 2002 and was responsible for the research programme for 11 years. At the PPI, Chris has authored a number of research reports analysing pensions, pension reforms and other provision for retirement income. Chris started his career as an Economic Adviser at the Department of Social Security (now the Department for Work and Pensions), before joining the ABI as Senior Economist.

In February 2017 Chris was announced as one of the three co-chairs for the DWP AE Review Advisory Group. Chris will be leading on providing advice on the theme of Contributions. The review will look to ensure that workplace pensions continue to meet the needs of individual savers and employers, while remaining fair, affordable and sustainable for future generations.

Emma Douglas

Emma joined Legal and General Investment Management (LGIM) in January 2014 and is Head of Defined Contribution Solutions. She is responsible for LGIM's bundled and unbundled defined contribution business. Her role involves working with LGIM's defined contribution clients and delivering innovative solutions to the market.

Emma joined LGIM from Mercer where she was Head of Mercer Workplace Savings. Prior to Mercer she was Head of Defined Contribution Sales at BlackRock and Head of Defined Contribution Pensions at Threadneedle Investments. She has more than 20 years of experience in the investment management industry and has been Vice Chair of the Pensions and Lifetime Savings Master Trust Committee since its formation in 2016.

Mel Duffield

Mel is Head of Pensions Strategy and Insight at the Universities Superannuation Scheme (USS), the hybrid pension scheme for academics and related roles in the UK higher education sector. Her remit covers employer and member insight, product strategy and employer liaison, and she has been heavily involved in the design and implementation of the scheme's new DC section, USS Investment Builder.

Before joining USS, Mel was Deputy Director at the Pensions Policy Institute and, prior to that, Head of Research and Strategic Policy at the Pensions and Lifetime Savings Association. She started her career in the UK Civil Service, working as a senior economic advisor at HM Treasury, the Department for Work and Pensions and the Department for Education.

Darren Philp

Darren is Director of Policy and Market at The People's Pension and his responsibilities include policy, public affairs, press and marketing communications. Previously, he held a number of positions at the National Association of Pension Funds (NAPF) – now the Pensions and Lifetime Savings Association – including Director of Policy and Director of the Pension Quality Mark.

Darren joined the NAPF from HM Treasury, where he worked for almost 13 years in a variety of policy and economics-related roles. Darren managed the Treasury's Pensions and Pensioners team between July 2007 and October 2010.

Alan Ritchie

Alan Ritchie is Head of Employer & Trustee Proposition at Standard Life. He leads Standard Life's workplace propositions, having worked in a range of roles at Standard Life, each related to helping consumers achieve the best outcomes possible from their pensions.

Carol Young

Carol is Director of Reward, Pensions & Benefits at Royal Bank of Scotland (RBS). She leads the teams responsible for all aspects of remuneration across the bank, the flexible benefits programme for over 60,000 colleagues and DB and DC pension arrangements for over 300,000 members (circa £45bn liabilities) worldwide.

Carol is Chair of the Pensions and Lifetime Savings Association's Defined Contribution Council; she is Chair of the Confederation of British Industry's Pension Panel; and is a governor of the Pensions Policy Institute. Carol's career spans 20 years across in-house and consulting roles, and includes a decade as an investment consultant. She has served as an independent trustee on a number of boards and is a trustee of the RBS's UK DC scheme.

Disclaimer

This consultation and the recommendations made are the views of the PLSA. It was drafted with the guidance and advice of a Steering Group of PLSA members and non-PLSA specialists. Members of the Steering Group took part in a personal capacity. The recommendations made do not necessarily reflect the views of individual Steering Group members. We are very grateful for the time and effort given by each member.

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THINK
ABOUT
TOMORROW
TODAY!