

Making Pensions Popular

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Rationale for pensions



■ Social

- Support those too old to work
- Boost later life income to maintain spending
- Reward for work and contribution to economy

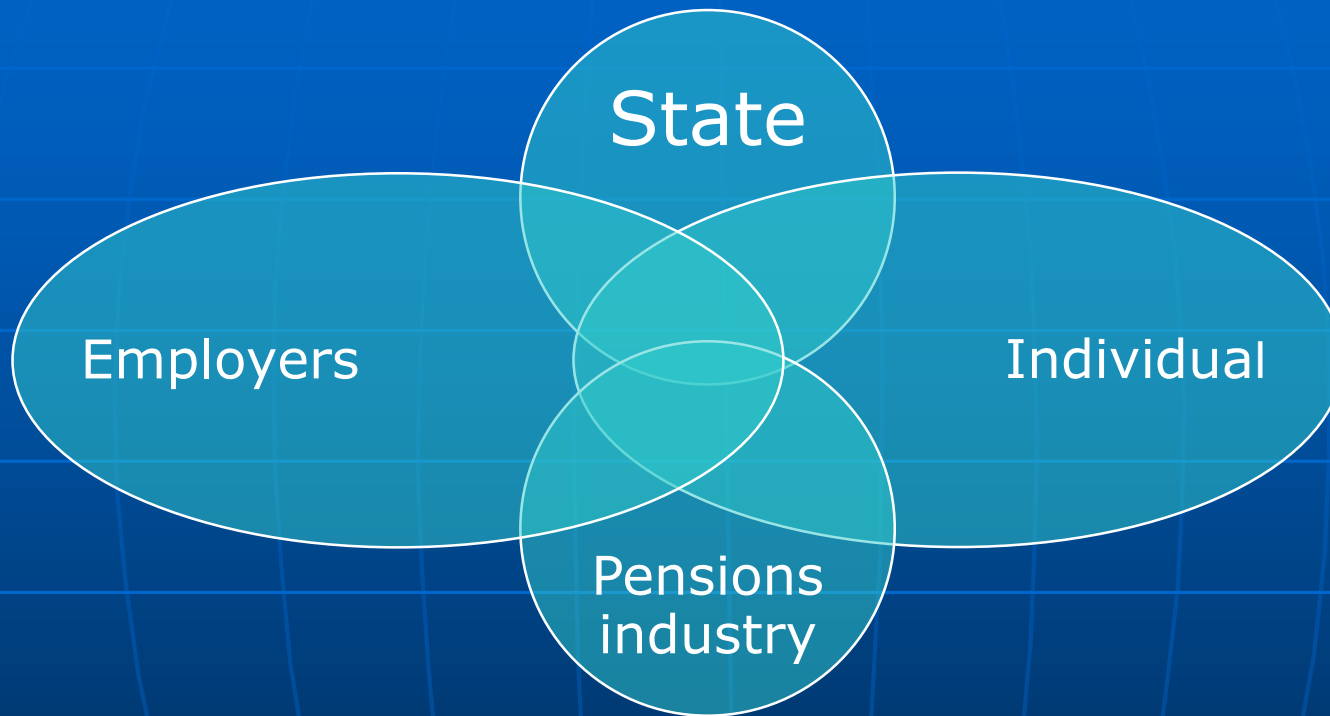
■ Economic

- Maintain spending in aging population
- Build a pool of long-term investment funds

■ Political

- Votes of 'greying population'

Pensions: Whose responsibility?



- Balance of responsibility between each group is changing

Pensions are about people

- Pensions not just about money they're about people
- End customer too often forgotten
- Who can they trust?
- Want a trusted brand to care about customers
- Good value, honesty, loyalty rewarded



What do individuals want and need?

- Help from experts who are on their side
 - Honesty, transparency, risk control
- Want to be empowered, enabled, informed
- Not one-size-fits-all: help women, young people
- A financial plan, not just products
 - Live for today, save for tomorrow



UK dealing with a pensions crisis

- Private pension coverage fell sharply
- Needed to rebuild trust
- Inadequate regulation, mis-selling
- High fees, poor performance
- Complexity and jargon, lack of transparency
- State Pension too low and complex - c.50% of pensioners on means-testing



Barriers to pension saving



General Barriers

- Psychological - apathy/inertia/confusion
- Complexity
- Lack of financial education
- Scandals and loss of trust
- No advice

Barriers for women/low paid

- Fewer years working
- Lower lifetime earnings
- Means-test savings trap
- Less financially literate
- 'Social exclusion' in advice

UK Pension Policy Revolution

- Reform of State and Private pensions since 2012
- State Pension simple flat-rate no earnings-link
- For more than minimum, need private savings
- No mass means-testing so private pension safer
- Auto-enrolment for earnings-linked pension
- Make private pensions better value



Reforms to improve private pensions

- Better regulation
- Charge caps, improved governance, transparency
- Auto-enrolment opt-out rates low – 90% stay in
- Reform pensions to give more freedom
- Behavioural nudges – locked till later life, good incentives, free money, tax 'brake', no IHT
- Free guidance service for all from age 50
- Move towards consolidation and MasterTrusts



Beware auto-enrolment dangers

- Coverage improves, but not adequacy
- Contributions too low but people think it's enough
- Levelling down
- Auto-escalation – Save More Tomorrow – can help
- Employer chooses scheme but worker pays costs
- Need to include financial education at work too



Challenges and Opportunities

- New products & services – with financial education
- Fair fees
- Opportunity to introduce customer service
- Particular help for women who lose out in pension
- **Lifetime Pension Accounts?**
 - growth phase, income phase

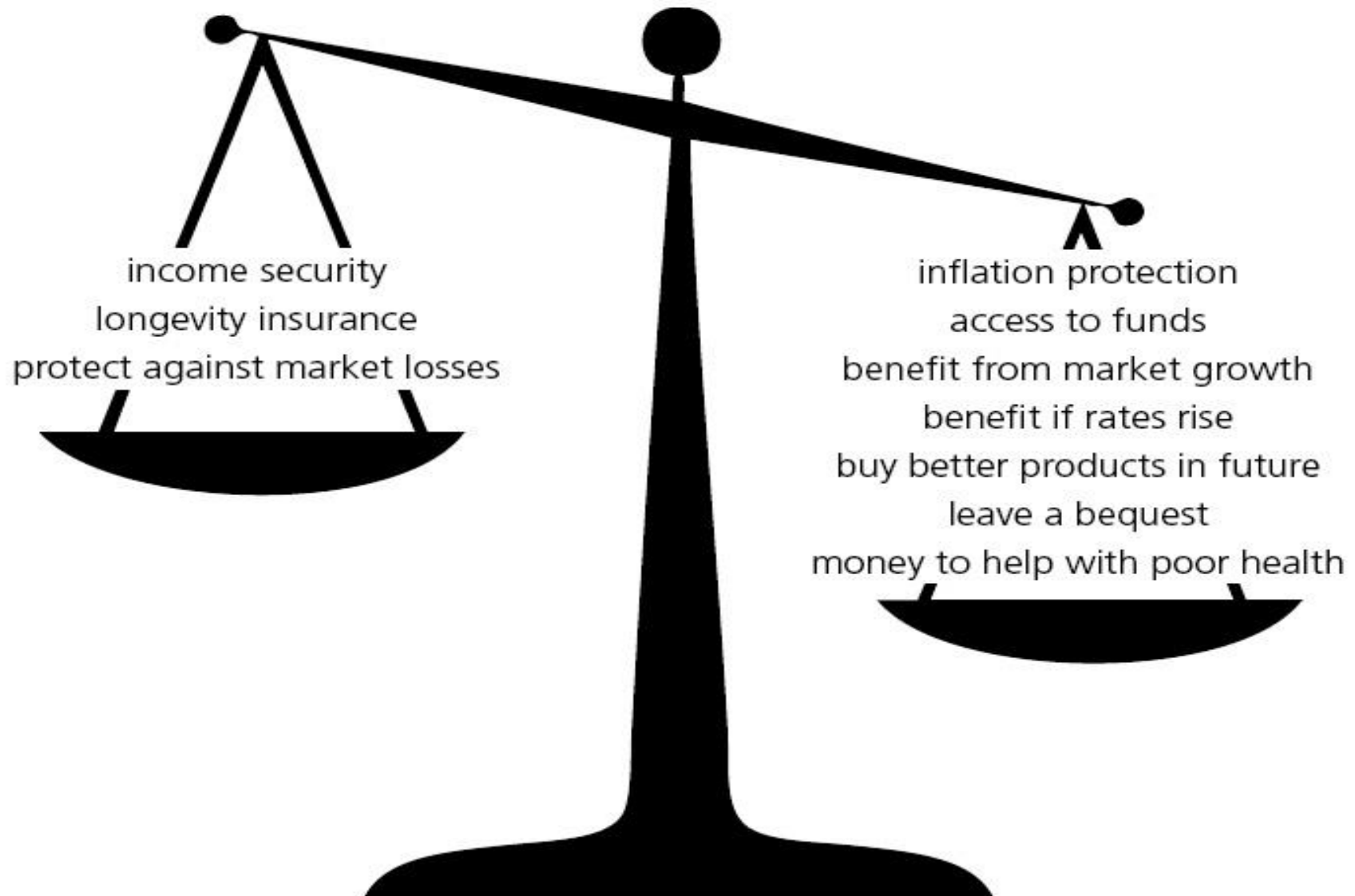


Growth phase – building a fund

- Pooling of smaller funds, economies of scale
- Pension growth roll-up funds
- Multi-asset growth funds+volatility protection?
- Risk ratings, socially responsible investments
- Pension assets could boost economy
- Infrastructure/housing diversification, better long-term returns



Taking an income – annuities or not?



Annuities?

- Annuities give secure income but low, inflexible
- Unpopular, mortality cross-subsidy
- Annuities shouldn't be bought too young
- More individualised, medical underwriting
- Non-linear income for 'U' shape retirement needs



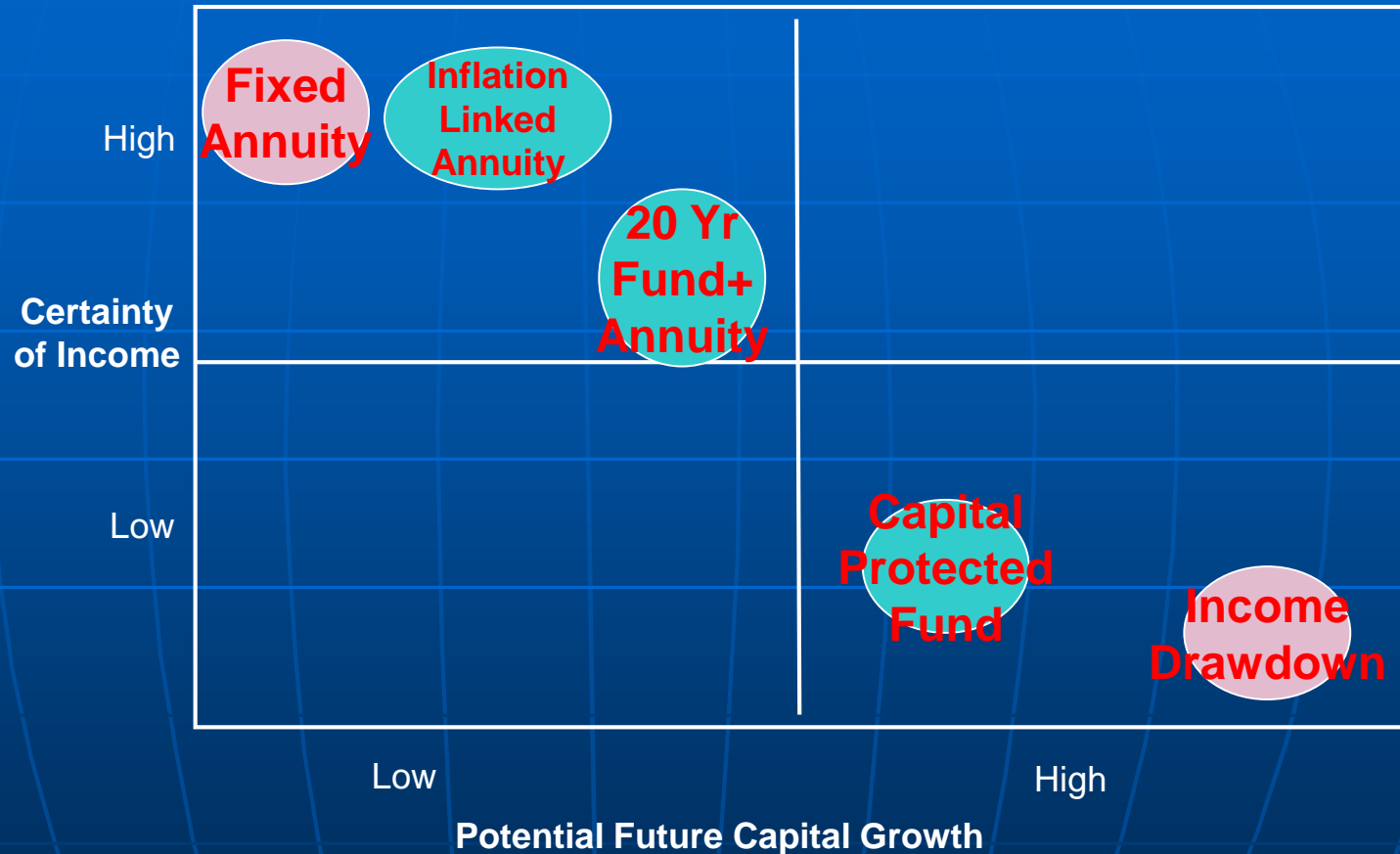
Taking income from fund

- Drawdown problem is unknown length of time
- Maybe fixed-term 20-year bond
- Plus advanced life protection
- Deferred annuity?
- Money for care
- Can cope with 'U' shaped retirement income

Annuity
Flexible
Pension
Drawdown

Income Phase – Trade-off income certainty for future growth

Keep annuity advantages but overcome disadvantages?



Education and engagement vital

- Understand benefits of pensions and investing
- Need to engage customers – positive messages
- Gamification and user-friendly Apps
- Pensions Dashboard – to see all in one place
- Socially responsible investing for millennials



Positive thinking

- Think of this as a consumer good
- Attract customers, not just about inertia
- Needs individuals to engage, be positive
- Something for now not just for later – lottery?
- Use platforms for tailored information or tools
- Test out new apps – see what works
- Clubs, Competitions, TV programmes



Lessons from UK experience

- Behavioural economics can be powerful
- Auto-enrolment a good start: customers come in
- Future is about more than products
- Also about quality of service to suit customers
- Help for women and young people
- Financial education and planning help for all ages



	Challenges	Opportunities
<u>Government</u>	Policy reform	More savings can fund growth
	Regulation/protection	Successful financial industry
<u>Individuals</u>	Save more when possible	Higher pension
	Make financial plan	Improve health and wellbeing
<u>Employers</u>	Auto-enrolment	Improve employee income
	Facilitate financial education	Improve worker wellbeing
<u>Financial Services</u>	Look after customers	Retain more customers
	Engage and enthuse	More money per customer

What's important

- Communication
- Education
- Information
- Innovation
- Gamification



The future

- Tremendous industry opportunity
- Engagement, education, technology, gamification
- Help people feel the benefits of pensions properly
- Promote pensions - engage, enthuse, enjoy
- **EXCITING OPPORTUNITIES AHEAD**



Thank you for listening...

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