

DC Pensions – Do's and Don't's

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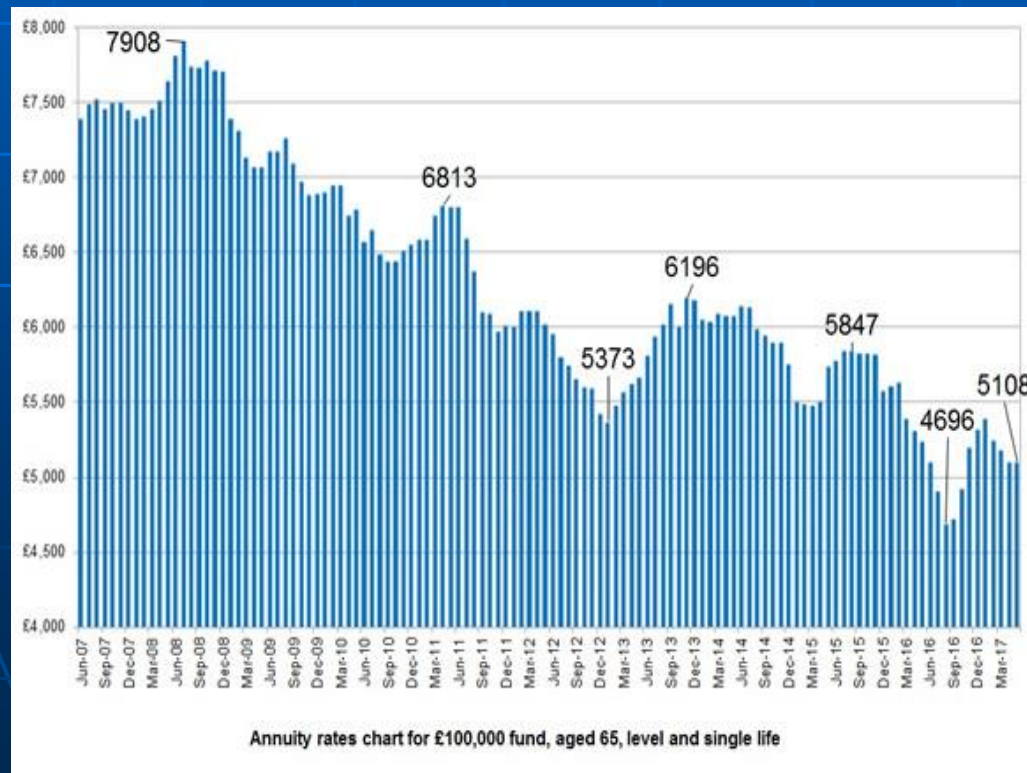
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A new world for UK pensions

- Demographics, work life and retirement changing
- Private sector DB ending
- Auto-enrolment extends DC to millions
- Freedom and Choice replaces mass market annuitisation
- Move towards consolidation and MasterTrusts
- Free national 'PensionWise' guidance for all from age 50

Low rates have inflated pension costs

- 2008: £10,000 pension cost £125,000
- 2017: £10,000 pension cost **£200,000**
- Age 65, no inflation protection!



UK pension freedoms – DC revolution

- DC more user-friendly with good behavioural benefits
- Auto-enrolment brings people in, gives them 'free money'
- Tax-free accumulation, locked in
- There to use in later life, but discourage taking too soon
- Tax changes ensure people not frightened to keep DC
- No 55% death tax, no inheritance tax – keep for care?

Are DC investment options fit for purpose?

- Lifestyle funds sell equities 10 years before pension age
- Switch to bonds to prepare for annuitisation
- 21st Century retirement less predictable, may not annuitise
- Many keep working so 'target date' may be wrong date
- Why abandon higher expected returns in your 50s
- Age 50 starts second half of adult life: 30+ years left

DC flexibility

- Develop options to fit people's lives better
- More flexible, funds invested for longer, diversified
- Inflation protection is huge challenge
- MasterTrusts to pool assets and risks
- Economies of scale
- Balanced funds, income funds, pooled funds

Integrated thinking on investment options

- DC often just uses equities and bonds
- Can DC learn from DB?
- More focus on risk management and downside protection
- But what does investment risk mean post-QE?
- Low-risk, low expected returns, high risk means what?
- Pension growth funds in diversified assets

Challenges and Opportunities

- Big challenges and opportunities for pension industry
- **Lifetime Pension Account**: growth phase, income phase
- Pension growth funds and income withdrawal funds
- Keep invested for longer
- Flexibility + downside protection + risk ratings
- Pensions to help with more retirement risks
 - Living too long, dying too soon, health, care, legacy

Innovations for growth phase

- Promote pensions: Jargon-free simple messages
- £20 available for £10
- Different types of risk premium available
 - Infrastructure, global assets, private equity, real estate
- But problem of daily pricing if hold illiquid assets
- Products that encompass education
- Fair fees, customer service, socially responsible investment

Options for income phase

- Rules for mass market drawdown, e.g. 4% a year
- Discourage early withdrawal
- Income funds with advanced life deferred annuities?
- Still a role for annuities but not all at once and older
- More individualised, medical underwriting, joint-life?
- Non-linear income for 'U' shaped retirement needs

Lessons from UK experience

- Behavioural economics can be powerful
- Auto-enrolment is a great start – customers on a plate
- Opportunity to engage people with pensions – free money
- Help with financial education, investing and life planning
- Investment options take long time to develop
- Keep pensions for later life, don't take out too soon

More to do to improve pensions

- Auto-enrolment improves coverage, but not adequacy
- Auto-escalation – put part of pay rise into pension
- Role for compulsion at minimum level – seen as a tax?
- Encourage people to keep some pension for care?
- Wake up pack only sent 6 months before pension age
- Send wake-up letters at age 50 instead

Education and advice vital for DC

- PensionWise good but low take-up
- Understand benefits of pensions and investing
- Need to engage customers – positive messages
- Gamification and user-friendly Apps
- Help with financial planning for life
- Socially responsible investing could engage millennials

Looking after pension members

- Suitable investment options for growth and income phases
- Who wants to DEFAULT?!
- Promote the benefits of pensions in jargon-free terms
- Flexibility for modern retirement
- Pensions are about people, not just about money
- Exciting opportunities for us all

Any questions?...

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