# 250 expert voices: the future of UK pensions

Pensions Intelligence research report

October 2012

Aberdeen

# Foreword

**Aberdeen Asset Management believes in long-term investing. We would like to see policymakers act now to support just such an approach in the pensions arena. We have a unique vantage point from which to look at the issues relating to the future of UK pensions, through our relationships with some of the country's foremost pension schemes, their advisors and as a provider of investment products.**

In line with our clients who are pension scheme trustees and managers, we aim to grow our clients' assets through first-hand research, original thinking and due diligence, avoiding market fads and complexity.

We have adopted a similarly robust approach to our public policy research. The Pensions Intelligence programme, put together in partnership with Edinburgh University Business School, aims to deliver a thought provoking series. Award winning, it is designed to tackle investment and industry challenges head on.

In this research study, some of the best brains have come together to share their ideas on the future of UK pensions and explore potential solutions. There is considerable consensus on the main challenges and drivers of change.

Consumers want more flexible, affordable and reliable savings options, better matched to individual needs at all stages of the retirement journey. Innovation and technology can clearly contribute to meeting these expectations.

Importantly, employers and their advisors want a sustained period of regulatory stability that allows them time to implement new initiatives such as NEST and make them work effectively.

The industry, employers, policymakers and individuals all have a role to play in building a more sustainable future for retirement provision. This requires a greater level of engagement in delivering a long-term framework for saving.

So the challenge is there for all of us.

I hope this report helps to move the debate forward as well as underline the need for the long termism in policymaking which we believe will benefit the UK and investors of today and tomorrow.

**Martin Gilbert**
Chief Executive
Aberdeen Asset Management

# Executive summary and key findings

The objective of this research programme has been to highlight the key issues and challenges concerning the future of UK pensions. Based on the expert views of more than 250 trustees, industry professionals and employers, the debate touches on the social, financial, employment and regulatory structures needed to support a retirement lifespan that could be as long as a person's working life.

## Successive governments need to think long term

The respondents in this research are clear on their need for a longer term perspective to be taken by successive governments, perhaps in the form of a cross-party agreement on pensions. Above all, they want a period of stability to allow current schemes and initiatives time to work through with no additional changes.

There is a desire to see tax incentives extended from pensions to other forms of savings. In a market of very low interest rates, trustees want governments to support DB schemes by allowing a longer term view on liability matching and facilitating access to alternative asset classes, where possible.

The general level of financial education is considered to be woefully inadequate. Respondents want to see governments take a much harder-hitting approach to raising awareness among consumers of all ages, about the importance of taking personal financial responsibility for their future. They would also like to see national campaigns, not just to encourage auto-enrolment, but more fundamentally, to encourage people to prepare adequately for their life in retirement.

## Employers need to drive employee engagement and offer more flexible benefits

There was a view that if demographics have been one of the key underlying causes of the current situation, we need to give full attention to the impact of demographics moving forward; not only pension-related issues, but also social influences, long-term health care, employment patterns and other factors influencing the health and wealth of people over the traditional mid-60s retirement age.

An evolution of employment culture is needed to accommodate people's working lives extending into their 70s; an impetus to provide more flexible financial benefits within the context of their reward systems, either directly or by feeding into employees' own wraps and increased responsibility to encourage employees to engage with, and make adequate contributions to, their pension schemes.

The research highlights the need to increase employee engagement in retirement planning through the communication, administration and asset allocation of pension schemes, specifically where employers are currently distanced from the relationship in the case of defined contribution (DC) schemes that are contract-based. Where defined benefit (DB) schemes are being managed out, employers need to bolster governance and expertise skillsets among trustees as they strive to keep beleaguered schemes afloat.

## Trustees need more support

The task of keeping DB schemes intact is a significant responsibility, as is the management of the schemes to keep them affordable as they wind down, to recover funding levels and minimise deficits/liabilities. The key issues that trustees face include: the poor performance of traditional asset allocation choices, lower than expected gilt yields and the challenge of generating higher contributions from employers to reduce deficits in a highly recessionary environment. Trustees are keen to identify alternative asset classes that will deliver growth. Very mature schemes or those seeking to wind up are typically less able to invest in growth assets than open schemes with a younger maturity profile. Those dealing with mature schemes were generally pessimistic. The view of one trustee was echoed by many in this research, 'everything is conspiring against trustees who are trying to maintain a long-term pension fund'.

## The industry needs to evolve

While employers are kept busy complying with an increasingly high level of regulatory requirements, including the new challenges brought about by auto-enrolment, the issues faced by the industry are very different.

Providers are trying to drive savings into pensions and other savings vehicles and meet a demand for more flexible plans. They are being asked to create individual objective-led financial strategies into which individual products have their short-term and long-term roles to play, among which the pension product itself may, or may not, be the central feature. This includes the creation of life-styling platforms, to provide people with holistic frameworks for saving (and spending), reviewing objectives and monitoring performance.

These are challenging times for pension providers and the investment management industry but there are opportunities ahead. Investment managers have a pivotal role to play in pension schemes' search for yield, which has intensified as interest rates have hit historic lows.

The focus on alternative asset allocations to diversify investment risk while maintaining income and return is another area where investment managers need to work closely with pension scheme managers.

## The respondents' views may be summarised as follows:

- The future of retirement planning is not necessarily a pension
- ISAs and other flexible savings options could be more suitable, particularly for the lower paid
- A growing number of employers expect to offer corporate wraps to employees within the next two years
- There is a desire for auto-enrolment to work but, because it is not compulsory, there is concern that the people who stand to benefit most will opt out
- There should be an ongoing government campaign, beyond auto-enrolment, to encourage long-term saving
- Employers and their advisors need time and a period of regulatory stability that allows them to implement auto-enrolment, to ensure that it succeeds
- Trustees approve of the principle of risk sharing but employers want more detail on how 'defined ambition' would work
- While there is no appetite among employers to shoulder more liability risk, they do believe that defined ambition could encourage incremental savings
- Default funds, in which around 80% of DC members invest, are not fit for purpose throughout the life of the investment
- Employees who have online access show a higher propensity to choose outside the default option
- More active management and focus on the decumulation phase of retirement savings is needed
- Alternative investments have a key role to play in supporting diversification and much-needed growth

There was an overwhelming commitment among respondents to 'get it right', to deliver the best possible solution to pension scheme members and a readiness to forge closer relationships in their efforts to secure a better future for UK pensions.

## The importance of technology and product innovation

Technology will play a significant part in enabling employers and individuals to monitor, manage, administer and plan. The success of auto-enrolment relies upon the effectiveness of platforms available to employers, which are required to manage the administration.

Technology will determine the extent to which corporate wraps can deliver holistic, interactive solutions and the winners will be those providers who can respond most effectively. 60% of respondents said that they would expect to be offering technology solutions to access investments within the next two years: this is a trend which is set to grow. Nonetheless, it would seem that the actual take-up of this opportunity is limited to a minority of employees. As yet, even the ability to make individual choices about fund selection (rather than opting for the default fund choice) within DC has not been embraced by the majority of employees.

There appear to be many reasons for this, among them a lack of engagement or connection with the pension itself, and a lack of confidence to make the right choices. As regards the latest portable, digital media (access via SMS and 'apps' for example), this is very much in its infancy, mainly because it is not seen to be relevant to pensions. Only three respondents in our survey offer such applications as yet. Looking ahead, if individual portfolios comprising a range of short and longer term savings vehicles becomes the norm, the instant access that this media delivers will have a far greater currency, particularly among a generation not yet committed to long-term saving.

The number of platforms in the pension arena continues to grow. Platforms need to cater for 'at retirement' and 'post retirement' needs and to offer retirement solutions, not just investment-driven services. Providers who manage to embrace technology and get it working to the benefit of pension scheme members will achieve a lead in the competitive landscape.

According to some experts in this study, the future of UK pensions 'might not even be a pension'. The respondents recognise that until there are accepted alternatives, pension providers need to assume some responsibility for helping to reverse the damage to the pensions 'brand' image, by means of generic industry messaging and more user-friendly communications.

There is no doubt that auto-enrolment will have a profound influence on IT systems and the development of new relationships with providers who can demonstrate innovative thinking, strong support systems and cost-effective, consumer-friendly product suites.

While this research brings into sharp focus the issues surrounding auto-enrolment and the current challenges, which are considered by the respondents to be substantial, it nonetheless identifies many constructive proposals on how these challenges should be tackled.

## Looking ahead

The vision for the future of private workplace pensions embraces a world in which people can access platforms to construct their own portable individual wrap of ISAs, company share schemes and pension. It supports innovation and more flexibility across the pension landscape from saving and investment products to the regulatory environment, recognising that consumers are driving change.

Our research highlights that employer relationships with their pension partners, providers and advisors will be increasingly important as they address the challenges ahead, which range from managing auto-enrolment to reviewing and redefining investment strategy.

What is clear, is that despite the difficult conditions in which many trustees, employers and pension advisors find themselves working, there was an overwhelming commitment among respondents to 'get it right', to deliver the best possible solution to pension scheme members and a readiness to forge closer relationships in their efforts to secure a better future for UK pensions.

**"If we want people to save long term, we need a long-term approach from regulators and politicians so that everyone is committed to the same timeframe, to shift the focus from process to outcome."**

**"It would help if we could devise a system or systems that focus more, as DB schemes do, on the retirement income that will emerge from the scheme"**

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Engaged Investor Trustee Awards 2009 Winner – Best Trustee Education Provider

European Pensions Awards 2010 Shortlisted

2010 Ei Trustee Awards Winner

2011 Ei Trustee Awards Winner – Engaged Investor

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