



Institute
and Faculty
of Actuaries

Current Issues in Pensions

Leeds 2016



Freedom and choice Yesterday and today

People first, pensions second.



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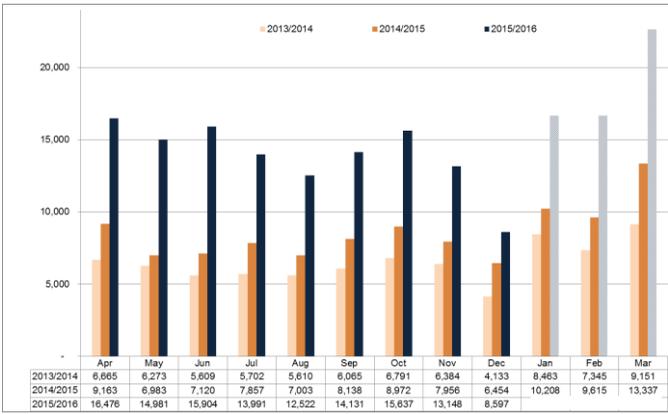
TPAS - who we are

1. Free information and guidance to the public on pension matters

2. Help by resolving disputes between the member and the pension scheme

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TPAS experience



Volumes up by 80% year on year, in 9 months
125,000 customers (103,000 in whole of 2014/15)

Need to encourage more people to take guidance

Need to improve signposting; earlier and not by provider

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There's been a lot going on in pensions

Department for Work & Pensions

Pension wise
Your money. Your choice.

automatic enrolment

Work Retirement

Your State Pension statement

Daily Mail
FREE GREAT BRITISH BAKE OFF RECIPE CARD
MILLIONS FORCED TO TAKE PENSION GAMBLE
Mary Berry: I HATE Gordon Ramsay on TV

FINAL SALARY
STANDARD
SIPPS
STAKEHOLDER
PRIVATE

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Pension Wise customer journey

Pension wise
Your money. Your choice.

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Pension wise

Customer insight: Accessing flexibilities

- **Suitable products available**
 - some need to be developed further
- **Provider or scheme restrictions**
 - accessibility issues will always exist due to historic issues
 - different words and rules applied by different providers
- **Management of customers' expectations**
- **Unclear communication of process**
- **Access to advice**
 - understanding/transparency of costs
 - matching customer to adviser

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Insight into enquiries

<u>Helpline subject</u>	
Freedom & Choice	11%
Taking Payments	8%
Retirement Planning	6%
Decision Making	6%
Taxation	5%

<u>Helpline Trigger</u>	
Freedom & Choice	19%
Taking Benefits	17%
Retirement Planning	12%
Information request	7%
Transfer	5%

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Customer insight

- **Lead driver**
 - Continue working 18%
 - Have plans for money 19%
 - Need sum of money now 16%
 - Flexibility 20%
 - Guarantee 5%
 - Combination 6%
 - Organise death benefits 16%
- **What customers may do**
 - Leave untouched 5%
 - Guaranteed income 15%
 - Taking money flexibly 36%
 - Cash in 28%
 - Combination 16%

Current indications from our main helpline; slight mismatch between the "options" and the reality for many people

Tension as providers wait for customer demand. **Customers are not used to acting as a customer in this space** and are hampered from demanding by lack of knowledge of what is possible

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Customer insight: Frequently asked questions

Process

- My provider doesn't offer the option I want. Do they have to?
- Are IFA's value for money?
- Confusing provider paperwork.

Rules

- Will claiming my pension affect my State Benefits?
- How much tax will I pay?
- What are the charges for income drawdown and how does it work?

Understanding

- What are safeguarded benefits?
- What is a guaranteed annuity rate?
- What is the difference between a DB and a DC pension?

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Considerations: Importance of data gathering

Your personal situation

- Age
- Dependants
- Health
- Life expectancy
- Lifestyle
- Income tax rate

What you have got

- DC pension pots – special features
- Other pensions
- State pension
- Other retirement savings

What you need

- Plans for retirement
- Income needed
- Debts / Mortgage
- Preferences

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People struggle with pensions!

- **...find them complex, difficult to understand, impenetrable language, confusing process, different rules, impossible to navigate.**
- People don't understand whether they have DB or DC pension - over 40% don't know what pension they are in.
- People don't check how much they have saved into their pensions.
- A lot of problems in tracing old pensions – GMP reconciliation may help/hinder this process.
- The majority find it difficult to keep track of their pension pots. In future a worker is expected to have 17 jobs (and pensions) when they retire.
- The "*Pensions Dashboard*" may help the process.

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DB to DC transfers – some observations

- Volumes have not increased significantly since April 2015.
- **People have significant problems accessing financial advice and do not see the merits of paying for it.**
- Financial advisers have issues with “insistent clients”.
- **The merits of DB to DC transfers may change over time as people have smaller DB pensions relative to DC pots.**
- People are often surprised at the transfer value of their DB benefits and how high this seems.
- **Lack of appreciation of how long their pension pot would need to last if transferred to DC.**

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Scams

If someone calls you, always call them back. Reputable companies will always take your call and are happy to phone you back. Scammers are not happy to be directly contacted or will provide you with false information.

If Government, guidance or review are mentioned by a caller be suspicious. The official guidance guarantee offered by the Government isn't set up, or even available yet!

Check the Financial Conduct Authority's register. This will tell you if the company is registered and the firms that are being investigated. It's also good to check HMRC's list, when dealing with QROPS or overseas transfers.

Find out how many companies are involved in the transaction. If things go wrong, the more companies involved means the less chance you have of finding out who the real culprit is.

Check any rate of interest to see if it's a credible amount. Offers of 8% or more guaranteed investment return, you should be wary of.

If in doubt...

... you should contact **The Pensions Advisory Service** first on:

 0300 123 1047

If you think you're already a target of a pension scam, contact **Action Fraud** on:

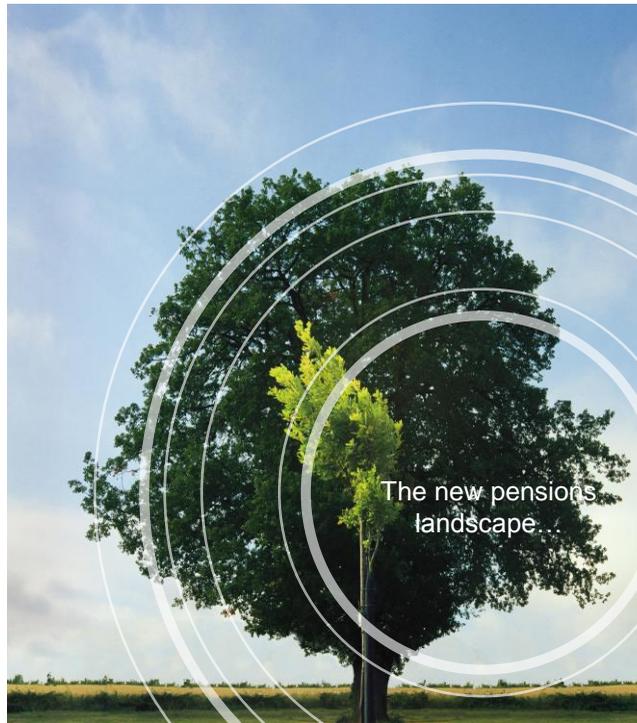
 0300 123 2040

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Deloitte.

Freedom &
Choice
Today and
tomorrow

Will Aitken
Director DTRB

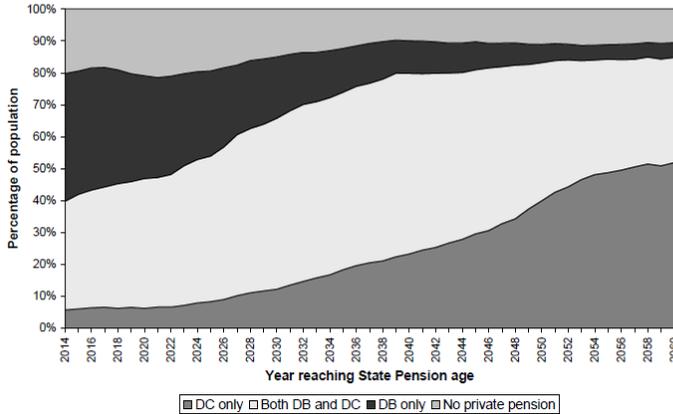


What does member activity tell us?

	Annuities bought	Annuities bought in-house	Annuities bought on open market	Drawdown sold	Full withdrawal
2013	353,000	52%	48%	c18,000	-

How important is DC at retirement, today?

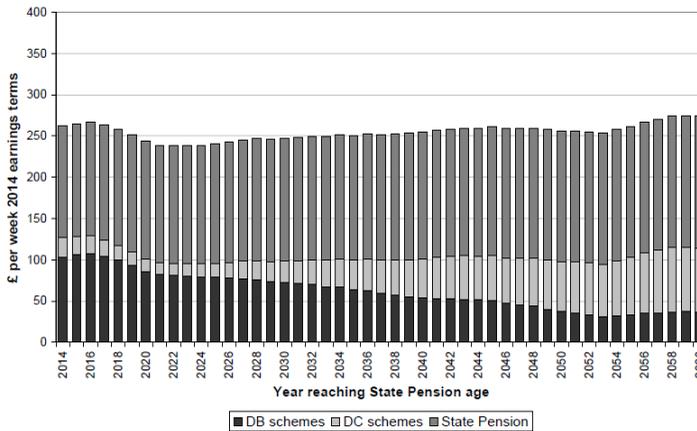
Chart 3: Private pension provision by year reaching State Pension age, as a 5 year moving average



Source: DWP Pensioner income projections March 2015

When does DC become significant?

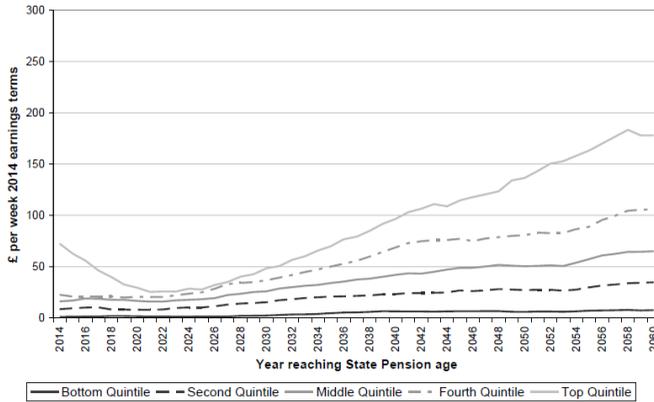
Chart 1: Weekly mean amounts of pension, by pension type and year reach State Pension age, as a 5 year moving average



Source: DWP Pensioner income projections March 2015

DC – increasing significance

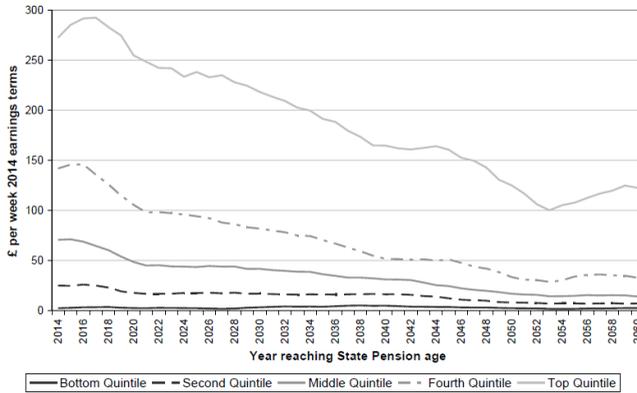
Chart 9: Weekly mean amounts of DC as a 5 year moving average, by quintile and year reach State Pension age



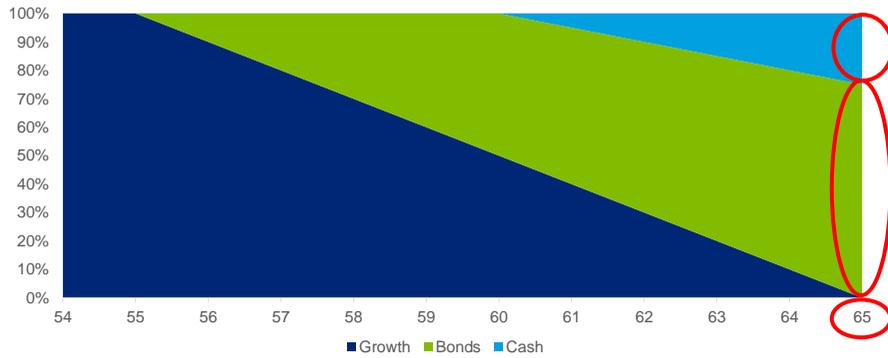
Source: DWP Pensioner income projections March 2015

DB – declining significance

Chart 10: Weekly mean amounts of DB as a 5 year moving average, by quintile and year reach State Pension age



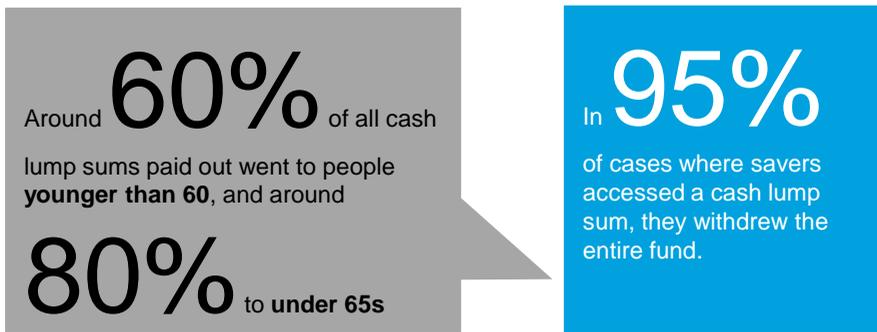
Looking back to simpler times...



‘One size fits all’ worked when we had relative certainty over **when** and **how** people would take their DC fund

Cashing out

The first three months



Future reasons to start 'retirement'

Debt

Proportion of people who believe they will be paying a mortgage in retirement:

All	40 to 50	51 to 55	56 to 60	61 to 65
20%	26%	18%	15%	16%

Source – Partnership October 2014

More reasons to start 'retirement'

Savings options

Personal Savings Allowance – from 6 April 2016

Basic rate taxpayer can receive £1,000 interest tax-free a year

c£50,000 can be held tax efficiently outside pension

Higher rate taxpayer can receive £500 interest tax-free a year

c£25,000 can be held tax efficiently outside pension

Assumes 2% interest on capital

Freedom and choice

Some predictions

The concept of 'cliff-edge' retirement doesn't apply to DC

Much 'drawdown' may be 'gap filling'

We can expect to see a lot of cashing out for some time

Understanding tax implications is going to become vital for members

Members will not accept the status quo

We have to move to a member-centric pensions industry

Opportunity

- More people talking about pensions,
- More people reviewing their previous negative perception of pensions
- More people with pensions

Opportunity is to build on this start in order that we can get more people:

- saving more for their retirement
- choosing the options that suit them and
- accessing help throughout their life not just at the end.

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