



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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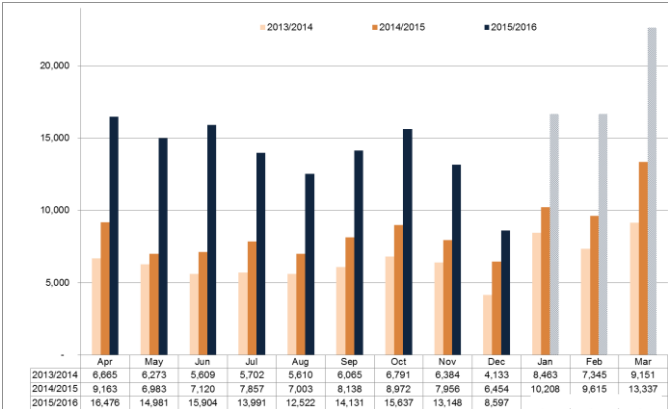
# TPAS - who we are

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  
STAKEHOLDER  
SIPPS  
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



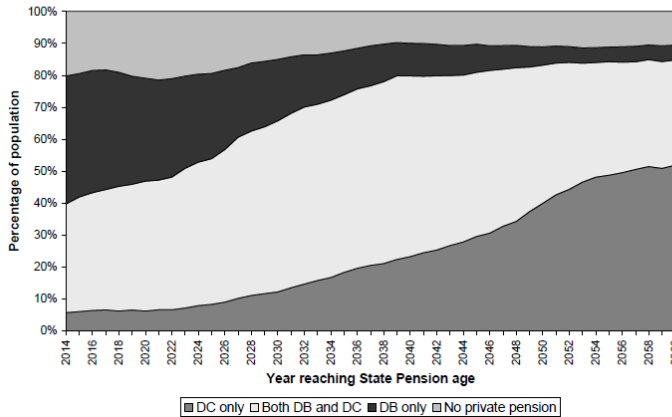
What does member activity tell us?

	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?

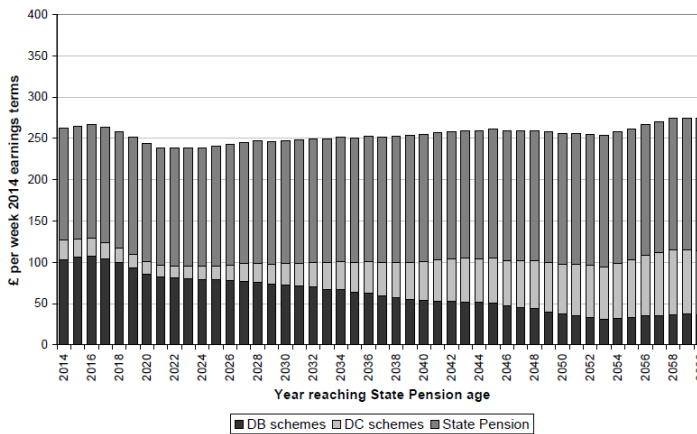
**Chart 3: Private pension provision by year reaching State Pension age, as a 5 year moving average**



Source: DWP Pensioner income projections March 2015

## When does DC become significant?

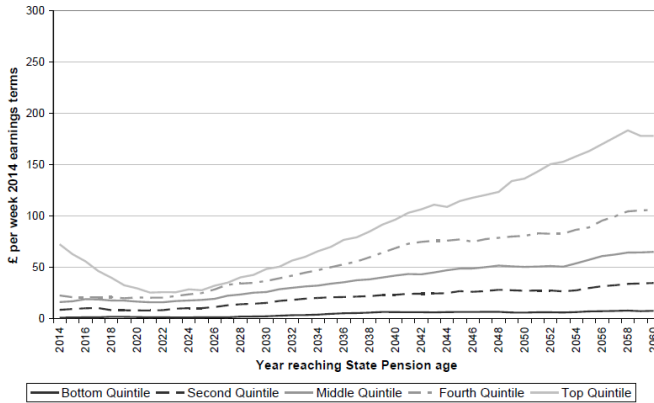
**Chart 1: Weekly mean amounts of pension, by pension type and year reach State Pension age, as a 5 year moving average**



Source: DWP Pensioner income projections March 2015

## DC – increasing significance

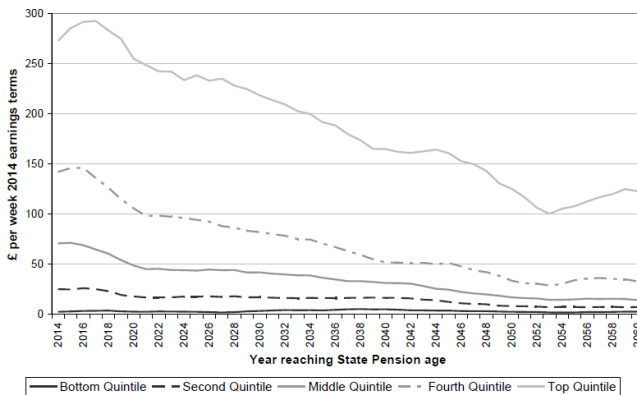
**Chart 9: Weekly mean amounts of DC as a 5 year moving average, by quintile and year reach State Pension age**



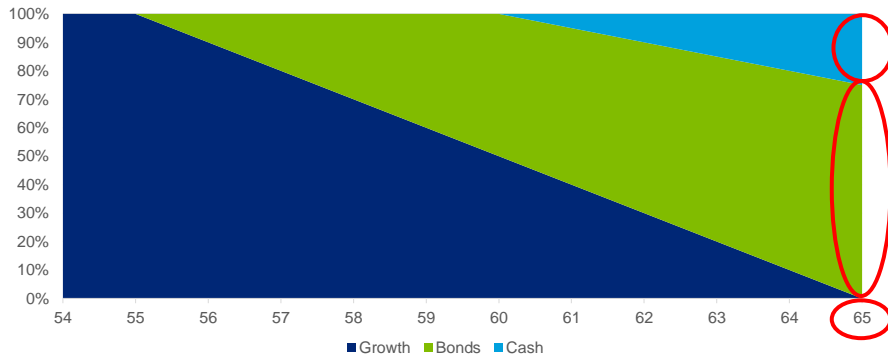
Source: DWP Pensioner income projections March 2015

## DB – declining significance

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



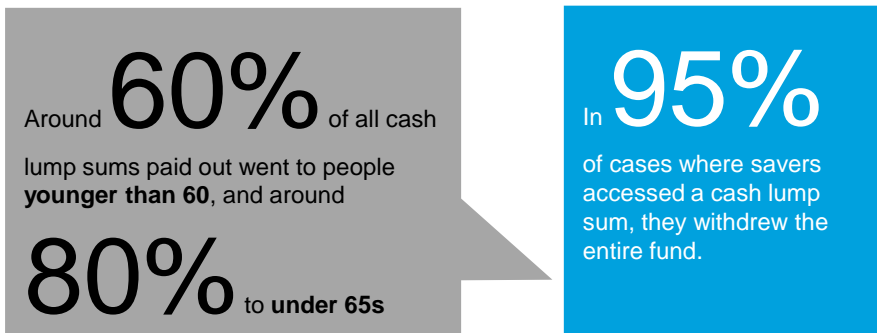
## Looking back to simpler times...



‘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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