The Great Risk Transfer: How can the Government, employers and industry help individuals to save enough for a good retirement?

Wednesday 9 June 2021

The IFoA's Great Risk Transfer (GRT) campaign has been exploring a long-standing trend in which financial risk is increasingly being transferred from institutions to individuals, many of whom are ill-equipped to manage these risks. The overall goals of the campaign are to gather evidence about the GRT trend and its impacts; to bring stakeholders together to debate that evidence and potential responses; and to work with stakeholders, including government and regulators, to drive actions that will have a positive impact in the public interest.

The GRT final report, published in April 2021, calls for urgent action – by policymakers, employers and the financial services industry – to tackle risk transfer as a systemic failure. It also recommends some practical solutions, highlighting opportunities to rebalance risk away from consumers and back to institutions, as well as ways to support individuals with managing their risks, when such rebalancing is not possible.

The following note is a summary of the first of two roundtable discussions which were organised by the IFoA, in conjunction with the think tank Demos, to help identify practical insights into the recommendations in the GRT final report, with the benefit of participants' knowledge and expertise.

In attendance

- Zoe Alexander is Director of Strategy and Corporate Affairs at NEST.
- David Blake is Professor of Pension Economics CASS Business School.
- Andrew Chamberlain is Deputy Director of Policy and External Affairs at the Association of Independent Professionals and the Self-Employed (IPSE).
- Chris Curry is Director of the Pensions Policy Institute.
- Catherine Donnelly is a qualified actuary and Associate Professor in the Department of Actuarial Mathematics and Statistics at Heriot Watt University.
- Simon Eagle is Chair of the IFoA Collective Defined Contribution (CDC) Working Party.
- Cosmo Gibson is Manager of the Pensions Accumulation Policy team at the FCA.
- Stephen Hyams is Chair of the IFoA Decumulation Pathways Working Party.
- Carolyn Jones is Head of Pensions Policy and Strategy at the Money and Pensions Service (MaPS).
- Nathan Long is Senior Pension Analyst at Hargreaves Lansdown.
- Guy Opperman is Minister for Pensions and Financial Inclusion
- Nigel Peaple is Director of Policy and Research at the Pensions and Lifetime Savings Association (PLSA).
- Terry Pullinger is Deputy General Secretary for postal workers at the Communication Workers Union (CWU).
- Charles Seaford is a Senior Fellow and leads the Power and Institutions programme at Demos.
- David Steele is Policy and Research Manager at The Money Charity.
- John Taylor is Immediate Past President of the IFoA.
- Mark Williams is Chair of the IFoA Pensions Board and Principal & London Practice Leader for Buck Consultants.

Unattributed summary of discussion

Context

- The Great Risk Transfer (GRT) is a long term trend beginning in a change in the 1980s towards a more transactional and less paternalistic relationship between the State and individuals
- Specific pensions examples include the shift from DB to DC and the Freedom and Choice policy on pensions decumulation
- The GRT recommendations include risk sharing mechanisms like CDCs, and also ways to help people manage the risk they bear, such as PensionWise and the Pensions Dashboard
- In the UK, the Government has supported initiatives like CDCs and PensionWise, the Dashboard, greater AE contributions in the long term, and continuing DB provision where possible
- The Government also supports development of a mid-life MOT

Pensions landscape

- The fundamental purpose of a pension is to provide an income for life.
- This requires mandatory minimum contributions, but current contribution levels are inadequate.
- State Pension is very low
- The low interest rate environment makes pension saving expensive.
- Growth of pensioner poverty - Even DB plans do not provide an adequate ‘wage in retirement’. Fewer pensioners own property at retirement than in the past. Freedom and choice is meaningless unless you have an adequate pension pot.
- The small minority who are members of public sector schemes own most of the pension wealth.
- The issues are too complex to be solved through consumer education alone.

CDCs

- There is a large adequacy gap, related to a still immature DC market. An advantage of CDC is that it makes people’s money work harder.
- Expanding CDCs is complex, with the need for legislation and regulation etc. Focusing on multi-employer schemes should be the priority. There has been industry resistance which is unfortunate.
- CDCs can be limited to decumulation
- The government should give clearer support for the industry to develop risk sharing/CDC product designs

Freedom and Choice

- Evidence suggests most people have taken advantage of Freedom and Choice in sensible ways
- Freedom and Choice is good for those engaged with their retirement savings, but many are not
- Retirement income choices should be guided. Freedom should not be absolute, there also need to be ‘nudges’ and appropriate products
- The drawdown process is complex to manage given the investment and longevity risks. Decumulation pathways providing default choices help to address this.
- Taking financial advice should be required before using the pension freedoms

Auto enrolment

- The PLSA’s ‘Hitting the target’ project was very successful in highlighting the need for increased saving through AE

- Both contribution levels and employee coverage can be increased without a likely increase in opt-outs.
- More employers should consider making voluntary contributions.
- Increasing member contributions depends on providing people with the right information. Doing this in better ways should be an innovation priority

Guidance and advice

- Consumers just want a sufficient income for retirement and want to know if they are likely to obtain this. Advisers and employers focus on investment risk, which is not consumers' main concern.
- Employees have very limited pensions knowledge. AE should be linked with guidance from an early stage in people's careers, and should emphasise the message to save more.
- The issue of inadequate retirement income is not caused by lack of money but by lack of risk management. Information should be simplified and made more transparent.

Other policy priorities

- Product ideas can come from the industry, for example NEST's 2015 retirement blueprint.
- The Dashboard is making progress but will be a gradual process
- Some form of insurance is necessary to fund long term care.

Policy environment

- There is a lack of vision to unite positive initiatives
- Guidance is not sufficient, only structural changes can tackle these problems.
- There is uncertainty over whether Government or the industry should be responsible for driving progress
- On past form, the UK is likely to wait for a crisis rather than addressing these issues now.
- However, we can learn from other areas (e.g. from Greta Thunberg) that an appropriate sense of urgency can be created