Slide 1 - What do members need and are they getting it?

Slide 2 - of young person dreaming

My mother had a favourite phrase when I was young. "You don't always get what you want". She could have been an early prophet for today's retirees who are ending up with pensions below what they expected, certainly below what they wanted, arguably far below what they actually need to sustain decent living standards and clearly far below what their counterparts would have achieved ten years ago.

It's always dangerous to be a sample of one, but I thought I might cite my own recent quote for my personal pension. For a fund of approx. £124,000 they are talking about an annual pension of £3950. Just as well I am not languishing under the impression I've saved enough to retire early! This same company has revealed that a £200 per month pension maturing after 20 years would have paid out £92,735 in 2008, but just £77,703 today.

Blame it on quantitative easing, on people not taking up the Open Market Option and therefore not getting the best possible deal, on the prevailing economic conditions, or on high charging cutting yields – whatever the reason, you can't get away from the fact that many people regard current returns as derisory and question why they ever bothered in the first place. Ask a number of young people where pensions appear on their list of priorities and they might not give a particularly high ranking.

Slide 3 – macro challenges

The Office for National Statistics recently revealed that the number of Britons who are members of workplace pensions schemes last year slumped to its lowest level since 1997. Only 46% of employees were members of a scheme last year, with huge differences between the State and corporates. 83% of public sector employees were members of a workplace pension scheme compared with 32% in the private sector. According to the ONS the fall is mainly due to the demise of and declining membership in DB schemes (from 46% to 28%).

But this, surely, is a dangerous and worrying place to be. A recent study by HSBC revealed that the average retiree will have spent all of their savings just seven years into their retirement, with many having used up all of their savings a third of the way through a typical nineteen-year retirement. A survey by Friends Life of over 1,600 people aged 50 and over has revealed that just 21% class planning for their retirement as a financial priority. Nearly a quarter of respondents said that making ends meet was their primary financial concern at present, a dramatic rise from the 14% recorded ten years ago. Over 40% of over 50s still have an average of £29,000 to pay on their mortgage, whilst almost a third (30%) have over £50,000 remaining on their home loans.

Isn't this scary? Half of all people who aren't retired are not contributing to a pension. The situation for women is frightening. Over a quarter of women, according to a recent Scottish Widows survey, are now not saving anything at all for retirement.

But it is surely in our interests to save – and to save enough for retirement particularly when you consider that in the UK the level of the state pension is

lower than that in all but three other developed nations (OECD). Only Mexico, Ireland and Japan have lower state pensions than the UK.

And consumers have to have their expectations managed. Many people haven't thought about what they will need to live on and even when they do think about it, their expectations of what they will get from their pension savings tend to err on the wild side. Indeed, the February 2012 Which? Quarterly Consumer Report[1] found that four in ten people think they could comfortably live on £100,000 pension pot. The report highlighted that consumer expectations could only be met by a pot of at least £255,000. Unsurprisingly, 57% of people did not know what size of pension pot they would need.

Then there is the slow ticking of that demographic timebomb. More than ten million people in the UK today can expect to live to see their 100th birthday. By 2051 a 65 year old man might expect to live to 90 and a 65 year old woman to 93. Even with changing retirement dates, that's a huge gap to fund – and fund adequately to ensure a decent lifestyle. (I deliberately won't touch - you'll be glad to know - on the difficult issue of long term care and its funding).

[1] p15 http://www.which.co.uk/documents/pdf/quarterly-consumer-report-february-2013-310616.pdf

So it's undoubtedly in everyone's interest – consumer, government, providers and advisers – to facilitate and support a healthy market with decent, trusted products that consumers want to invest in, that will deliver fair returns and which help fill that yawning retirement savings gap.

So back to the question – what do members need and are they getting it? Will the returns allow ambitions to be realised?

Slide 4 of guy on motor bike

In terms of need, I think the answers are pretty obvious. What do members need? An adequate and secure pension they can rely on. The preferred option would be a Defined Benefit scheme.

Are they getting it? No.

Over the past 10-to-15 years, most Defined Benefit Schemes in the private sector have closed. DC is filling the gap and is the preferred model for auto-enrolment, which began for the largest schemes in October 2012 and will cover the entire private sector by 2018.

Slide 5 Buying blind

So what do Consumers need from Defined Contribution Schemes? I would argue that, first and foremost, they need to be put at the centre of the conversation, not left languishing at the bottom of a supply chain – a long way behind advisers, consultants, providers - where they find it difficult to get impartial, good information – or even any information at all. A generic leaflet, frequently written in obscure language, does not meet members' needs. More helpful guidance is often minimal, not sufficiently targeted, and for too short a period. What's more, advice about DC schemes is often directed by consultants at the employer (not the end consumer) whose interests may not always be exactly aligned with that of the employee. The employer gets the advice, but the employee pays for that advice. They often end up buying blind and find themselves in the position of captive customers.

That engagement also needs to address the time when people come to annuitise so that more people shop around and end up with the most appropriate annuity. A friend of mine, about to annuitise, was so perplexed when a mountain of dull, unintelligible documents arrived through the post from her provider that she instantly gave up any desire to exercise the Open Market Option and instead took the easy option and ticked the box to stay with her provider. The cynic might say this was intended all along! But that decision, which is now irreversible could have cost my friend thousands of pounds in lost income.

With auto-enrolment the need for accessible and useful advice will be made greater by the large number of people who will be saving into pensions for the first time. We face a particular challenge in the form of the extra small pension pots that auto-enrolment is likely to create - around 4.7 million more within 30 years, according to the DWP - and which the industry is not currently set-up to accommodate. So, my shopping list of essentials for members, would certainly include access to good quality, ongoing information that truly helps them make good decisions. A recent report from Aviva estimated that no less than 37% of employees may opt out of auto enrolment. These sorts of figures make the need

for ongoing, personalised engagement critical. And it doesn't have to be rocket science. Most members would want or need to know

- What size pension do I need/want – (probably I need a pension that is worth about half of my salary in retirement).
- Am I likely to achieve this with current levels. (The answer would probably be no – so they would need to have answers along the lines of no, if you carry on paying the level of contributions you'll end up with 25% max)
- And if the answer is no, what should I do? (What are my options a) pay more in b) retire later c) be realistic in your expectations and do a combination of a) and b) plus consider if you have other potential sources of retirement income.)

Moving on, I would suggest most members would opt for simplicity in terms of process, products and outcomes. Now I recognise that investing is a complex business which cannot always be conveyed in as simple a way as many would wish, but surely the complexity around language, terms, charges, products can

be addressed to make the whole communication exercise more understandable to the average member. And decent communications is essentially to ensure more realistic expectations about the level of savings and what members will receive in terms of retirement income.

Reducing complexity in terms of the regulatory system would also be good. In just under a month we will move from a dual regulatory system – the FSA for contract-based schemes to the TPR for trust-based scheme – to a tripartite system when the FSA is split and becomes the Financial Conduct Authority and the Prudential Regulatory Authority. Apparently, the government was not keen to move to a single regulator for pensions because further upheaval would be too much of a burden, but we have to hope all these regulators will talk often and meaningfully to one another and that the required workplace DC memoranda of understanding are in place and working effectively.

Members need fair charging. Are they getting it? Some undoubtedly are and there are positive moves afoot from the ABI – for instance – on this. They recently announced that many of their members have agreed to ensure the consistent and straightforward disclosure of pension charges and costs to employees in workplace pension schemes, adding that 'it is imperative that savers have complete confidence that the industry is open and transparent with them.'

Fair charging is critical given the impact high costs have on pension pots. An interesting report, Caveat Venditor, published last year by the Pensions Institute illustrated how a member of very high-charging schemes would get half the annuity income of the member in the lowest charging scheme. Admittedly, the government and Pensions Regulator seem determined to stop older, higher charging schemes from being used for auto enrolment which has to be good news. Whether the DWP's intention to 'name and shame' and 'name and praise' approach works will be critical.

So again high on the list of members' essentials would be not just transparency of charging, but FAIR charging.

Slide 6 – value for money

And fair charging is of course linked to the whole concept of value and producing good outcomes. Currently many people are concerned that a philosophy of 'cheapest is best' is driving the DC market – an attitude that may well put constraints on the diversification of asset allocation, to the longer term detriment of member outcomes. Colleagues on the Consumer Panel with DC investment expertise tell me that the wholesale cost of good quality asset management, which is the engine of the DC default fund, is quite low, typically ranging from 10-to-25 basis points for new larger schemes. On top of this are the member administration and platform costs, plus the consultancy charge. What employers and trustees tasked with selecting a scheme need to do is to ensure quality and competitive pricing throughout the value chain, so that member pay a fair price and do not end up paying for services they don't need.

In terms of value, there is also an ongoing debate about the number of smaller, often high charging and often older schemes which exist in the market. There is a call for larger, not-for-profit scheme providers, akin to the Australian model, where economies of scale could form the basis for lower costs. Interestingly, many in the UK are also calling for a lift in the current legal restrictions on NEST, which impose a maximum annual contribution and forbids transfers in and out of the pension scheme.

I could not give a speech of this ilk without including my own personal plea for the industry to reconsider its product range, given the perceived low value in annuities. Of course, I am aware of the Pensions Ministers call for more industry innovation in the pensions arena and his interest in a Defined Ambition Option which might give the employee more certainty and once again encourage the employer to share risk. It is an interesting concept, well worth exploring. In this low interest rate environment where lots of questions remain around Long Term Guarantees, I would also like to see the industry begin to innovate in a way that would benefit consumers and encourage them to engage. While the industry may have vested interests in promoting the annuity market, -

about which consumers have little option, I admit – I do think personally that it is time to reconsider what consumers would value.

Last year I was part of CityUK's steering group looking into DC pensions. Comprising various stakeholders, we came up with some firm recommendations:

Slide 7 – better governance

- To increase contribution levels from 8% - a good starting point – to 12% using a combination of nudge or planned modest increases techniques
- Improved information disclosure, around scheme quality and charges with mandatory standards
- Establishing a DC oversight board to improve governance and help provide consumer confidence and engender trust
- Enhancing the consistency of regulation

My colleague on the Consumer Panel, Debbie Harrison, who is a Senior Visiting Fellow at the Pensions Institute at Cass Business School said that

paying higher contributions is essential, but that consumers need to be sure they are getting value for money. A cap on the total member charge is likely to be the only way to achieve this, but the government also needs to recognise the very significant impact of actively managed fund transaction costs, which can add more than 1% to the member charge. She also argues that scale is essential to low cost good quality DC in the mass market and that large-scale schemes with good investment governance should be able to deliver greater certainty in the outcome. The government could be more vocal and constructive in this area, as scale might help to achieve some of the aspects around greater member certainty that are embedded in defined ambition. It is no coincidence that after many years of full compulsion, the preferred model that has emerged in the Australian is large-scale, trust-based and not-for-profit. This adoption of this model, combined with the creation of a new direct scheme-to-employer market in the UK, which she sees as a strong emerging trend, should help to deliver real value for members irrespective of where they word and how much their employer is prepared to contribute on their behalf.

Slide 8 – the essentials

To conclude. Members undoubtedly need a more secure and decent retirement income. Some DC schemes appear to be able to provide this. Others do not. Hopefully today's conference will help inspire further thought and action around DC pensions. It is in all our interests – members, government, industry, advisers – to help secure a better retirement future and to ensure that members' expectations, if not all their dreams, can be realised.

My list of essentials in terms of what members need and are they getting it reveals some quite large gaps and serious challenges. But hopefully the gaps can, be filled and the challenges met.

Slide 9 – skydiving

And dreams can perhaps come true.

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