

Using auto-re-enrolment to future proof pensions provision

Sarah Woodfield

WHAT LESSONS HAVE WE LEARNED FROM AUTOMATIC ENROLMENT?

- ▶ Long-term commissions are a great way to make policy for complex long-term subjects
- ▶ Automatic enrolment seems to work
 - ▶ The opt out rate is much lower than that suggested by quantitative research conducted pre-October 2012
- ▶ With enough lead time, the pensions and payroll industries can deliver large, complex projects
 - ▶ Obviously we're not quite there yet but there are real grounds for optimism

HOW ARE WE DOING ON ADEQUACY?

8 per cent is not enough

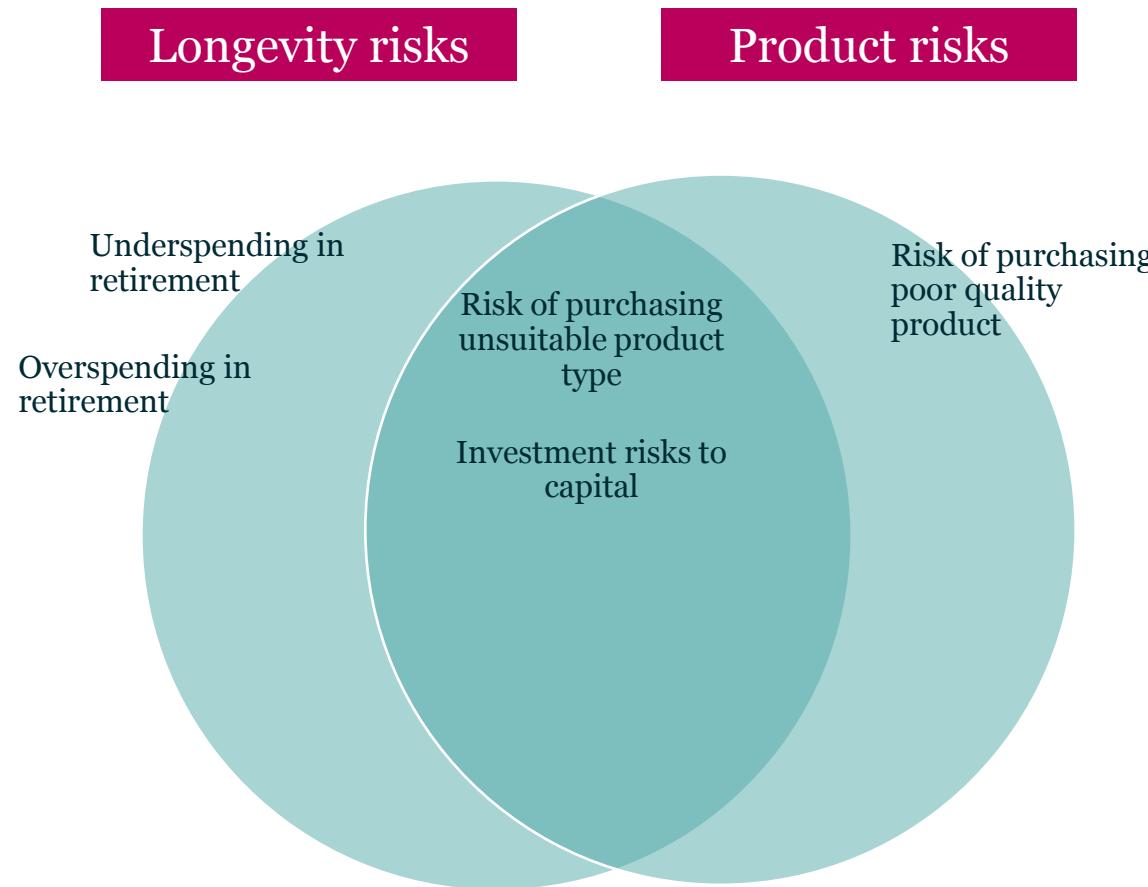
Is 8 per cent enough?

Who is 8 per cent enough for?

HOW ARE WE DOING ON ADEQUACY? SHOULD WE INCORPORATE MORE NUDGES?

- ▶ Nudges like auto-escalation seem to work. US behavioural studies are unequivocal.
 - ▶ Auto-escalation works well for those in long-term, stable employment with pay progression.
 - ▶ But is potentially challenging for employers to implement
 - ▶ It does not work for high-churn, predominantly low pay workforces
 - ▶ This sort of nudge is one answer, not the whole answer

MAKING THE PENSION FREEDOMS WORK: SHOPPING'S GETTING HARDER



FOUR UNDERLYING PROBLEMS

- ▶ Unwillingness to access advice and guidance
- ▶ Behavioural biases
- ▶ Cognitive decline
- ▶ Financial literacy

AN ACCIDENT WAITING TO HAPPEN?

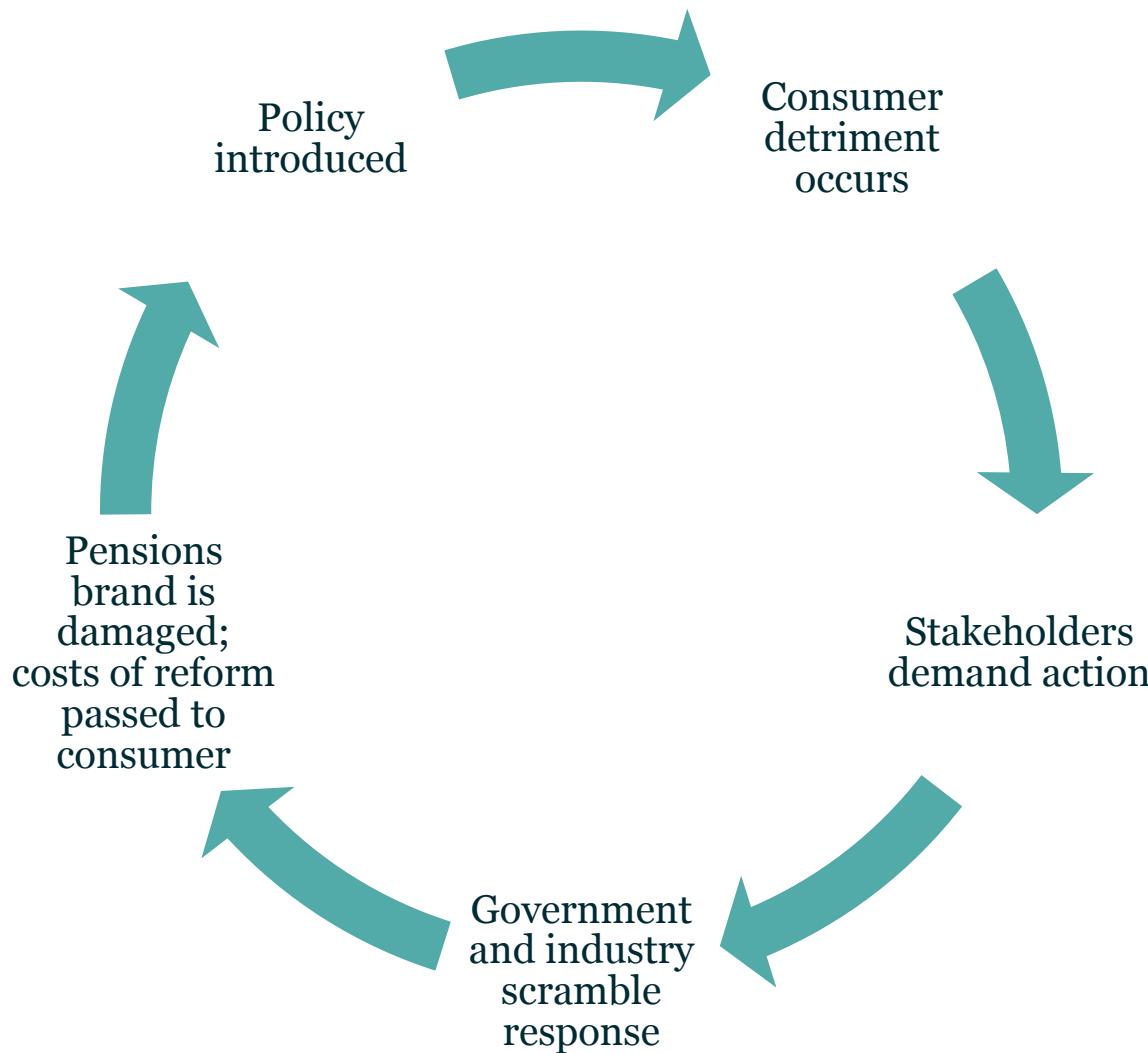
400,000 actioners

- ▶ The first six months
- ▶ Other wealth
- ▶ Already doing pensions
- ▶ Fairly confident
- ▶ Actions
 - ▶ Drawdown 27%
 - ▶ Cash only 51%

1.8 million investigators

- ▶ Waiting and watching
- ▶ DC dependent
- ▶ Lacking experience
- ▶ Lacking confidence
- ▶ Revealed preferences
 - ▶ ‘Managed’ drawdown 60%
 - ▶ Drawdown 9%
 - ▶ Annuity 30%

WE CANNOT AFFORD (ANOTHER) POLICY FAILURE

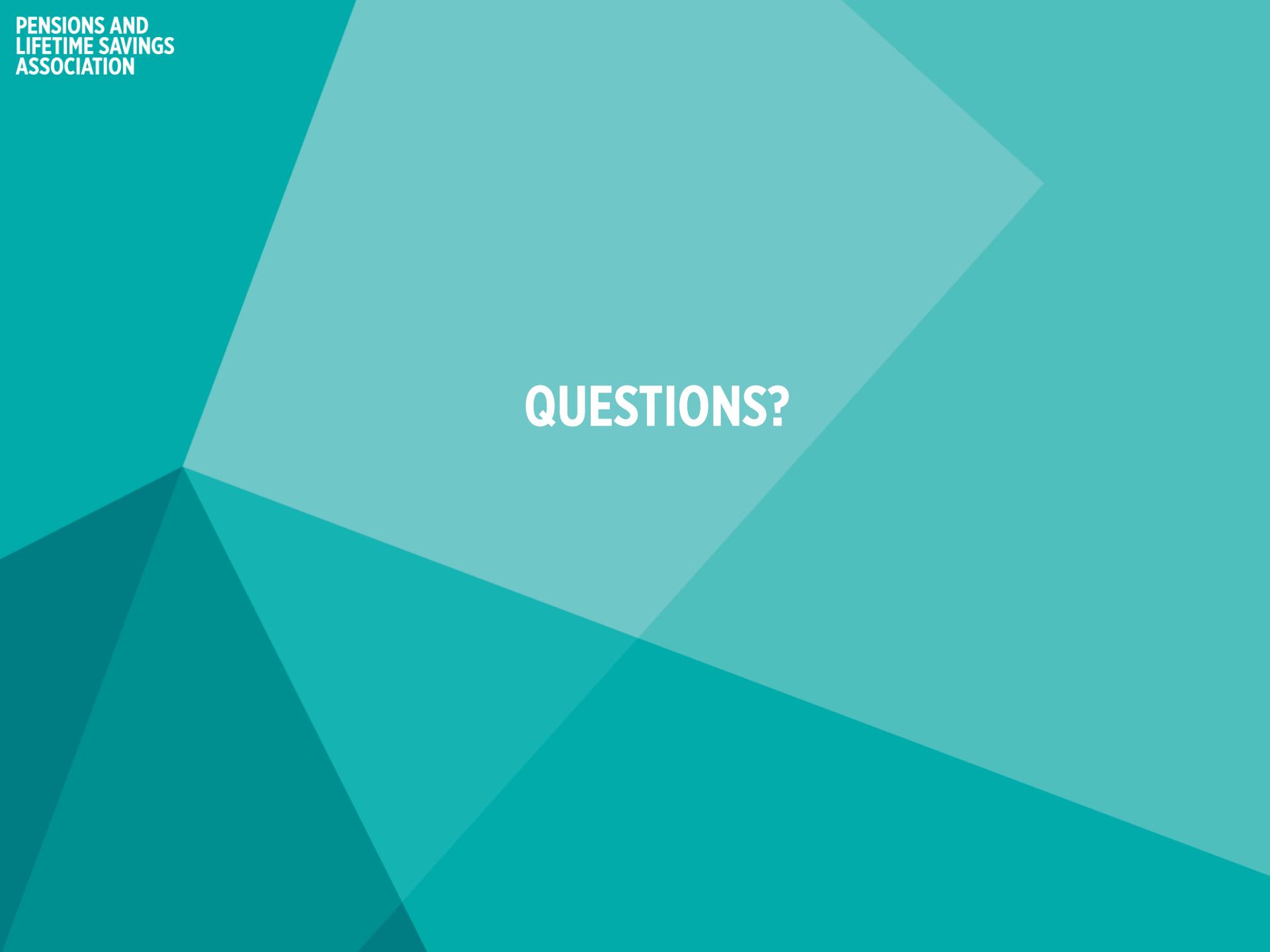


SIGNPOSTING: AN IMMEDIATE SOLUTION

- ▶ Pension schemes should be able to signpost retirement products that they think will be suitable for their membership as a whole
- ▶ Signposted products should meet certain quality standards
- ▶ Signposters should have safe harbour in order to signpost to a retirement product
- ▶ Members retain the ability to choose *exactly* what they want to do with their savings – they can ignore a signpost at will

WHAT NEEDS TO HAPPEN NEXT

- ▶ Clarification of regulatory position: what can trustees do at the moment and what can they not do?
- ▶ Government and regulatory support
 - ▶ Safe harbour for those signposting; ideally in legislation
- ▶ What's a good product?...



QUESTIONs?