BUILDING A BETTER RETIREMENT: THE STATE OF THE NATION'S FINANCIAL FUTURE

A REPORT BY RETIREMENT REVIEW

SUPPORTED BY IPIPELINE

NOVEMBER 2023

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RESEARCH GOALS

Introduction by
John Lappin, Retirement Review Report Editor

First and foremost, when we think about retirement, we should really think of decisions that are of huge significance for individuals and families with implications for their financial wellbeing for an increasingly long period of their lives.

There is a huge amount of data on the subject produced variously by the Office for National Statistics, by HMRC and thinktanks such as the Institute for Fiscal Studies to name but three. There are reams of new initiatives, policy papers, consultations and research including an ongoing look at retirement advice by the FCA.

Yet at times, some of these policy debates can come across as a little detached from the reality of pension savers' and investors' experience. Policies that promise change get caught in what seem like never-ending and almost circular consultations. The pensions dashboard is as well known for its regular delays as for any future boost to consumer understanding. The Chancellor is eyeing big changes to pensions with his Mansion House reforms with at least a dozen initiatives contained within it, but with a frame that reads as if it is more focused on getting pension monies into UK infrastructure and tech, than about the size of pension portfolios or the retiree.

Even the reforms regarding allowances – likely to be a significant change for pension planners with better off clients – is mostly driven by concerns about the NHS workforce and convincing doctors and consultants to work longer or return to work although that is a perfectly reasonable policy goal of course. With this research, report and related discussions, we want to bring the focus back to the reality of retirement for clients and customers, especially for those who have some wealth and benefit from advice while also looking at changes that may affect tomorrow's retirees.

The research was conducted by Opinium among 3000 UK adults aged between 40-66 years in June 2023.

Kevin Carr,
Retirement Review

Introduction to Retirement Review

Retirement Review, supported by fintech provider, iPipeline wanted to bring the debate and discussion back to some of the fundamentals. By conducting research with 3,000 UK adults in relevant age groups, we are able to gauge how well they are positioned to achieve their retirement goals, what those goals are, with some views about providers, advisers and indeed awareness of those allowance changes introduced in the last Budget. You'll note some 'Adviser Insight' sections throughout the report, we tested the research with expert pension advisers to gather their views on the research and broader issues in the retirement market.

With these answers, which we analyse in detail in the following report, we then seeded some conversations and discussions with the pension sector. With the saver and investor as our point of origin, we then moved on to discuss other topics such as delivering quality advice, contribution levels and whether the host of reforms will actually make a difference to retirees' bottom line. At the very least, we hope our report provokes some thought and discussion for you.

Paul Yates,
iPipeline

A word from our sponsor | iPipeline

We know that there are challenges within the pensions and wider wealth markets, challenges including a lack of public awareness and planning, constantly changing regulation and political intervention and some challenges in service delivery and with legacy technology.

This research aims to provide the foundations of understanding which helps the market move forward. Can we identify a clear picture of the gaps in public retirement understanding and planning? Can we assess the impact that government and legislative changes are having on behaviour? Can we validate the importance of advice in the retirement planning process?

Above all, can we help stimulate a debate between all market stakeholders to bring pensions planning into a new generation of success?

iPipeline is a leading financial services technology provider, perhaps best recognised for their impact and products within the Life and Pensions market. Notably, in 2023 iPipeline announced a partnership with Royal London Ireland, the first new pension market entrant in the Irish market in 30 years, to provide the technology platform behind their innovative new proposition. iPipeline also provides a free adviser quote service for annuities via its Assureweb portal, which accounts for 25% of all quotes produced in the UK. iPipeline is uniquely placed to help bring together the different interests within the retirement market to develop and grow a greater proposition for all.

SIX THEMES

These are the key takeaways of our research in six key findings.

Government changes result in immediate change to retirement plans.

Nearly a fifth (18%) are planning to work longer following lifetime allowance abolition.

64.9 is the expected retirement age.

37% believe they could retire aged 65 if they had the right retirement planning in place. But how does this contrast to a rising state retirement age – is this another example of optimism bias?

There's still a long way to go when it comes to consumer planning and understanding.

A significant minority have no clear retirement plan - 37% don't have a target pot in mind and 38% don't have an annual income target to aim for.

Modern career path is set to put further pressure on pension consolidation.

Over half of those asked had between 2-5 pension pots, with more fluid job changing expected, will the number of pots increase further and increase the calls for a swifter solution to pension consolidation?

Nearly half of those asked plan to maintain a pre-retirement lifestyle.

However, our research proves that for many this won't be possible. The overall targeted income is £25,679, which is considered 'moderate', and for many this income won't allow them to maintain their pre-retirement lifestyle.

Advice works – who would have thought?

Our research shows the value of advice when it comes to retirement - 73% are satisfied with the advice they had received from their adviser. Investors say that with the right financial planning they believe they can retire earlier.

SECTION 1
SAVER INSIGHT

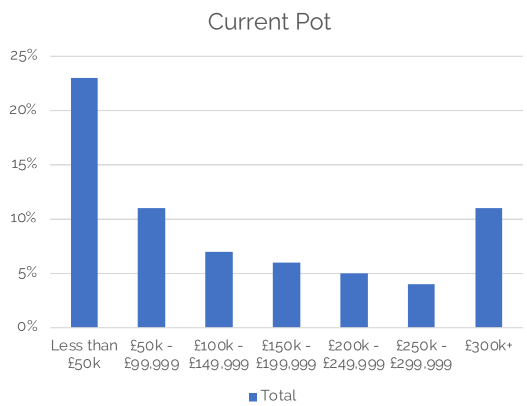
In the first part of this research, we asked and seek to answer the questions that are most important when it comes to pensions planning and consumers, what do they want to do in retirement, with how much and for how long? And crucially, how's the planning and saving going so far?

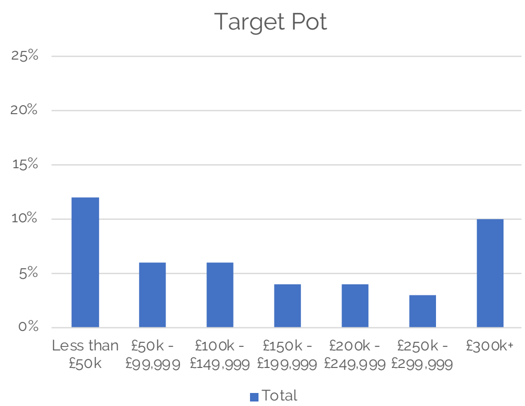
This isn't the first time and won't be the last time these questions have been asked, but as the context around retirement changes and other pressures bite, it's fascinating to analyse. There is also the question of realism: do savers have enough knowledge to know what to expect and where they are?

The £223,503 question | Do pension savers have enough?

It's tricky to know how much you'll need for retirement, but with the right tools and advice, you can make a well-informed plan. Firstly, we wanted to ascertain how much our sample had invested.

23% had less than £50,000





We found a huge spread of investment amounts though we should note, with some concern, that overall, **34% of those asked did not know how much they had invested.**

What is the target pot?

Alongside this current reality, or real time picture of pension savings, we also asked our sample for their target pension pot – the amount they would like to have in pension savings at the point they retire.

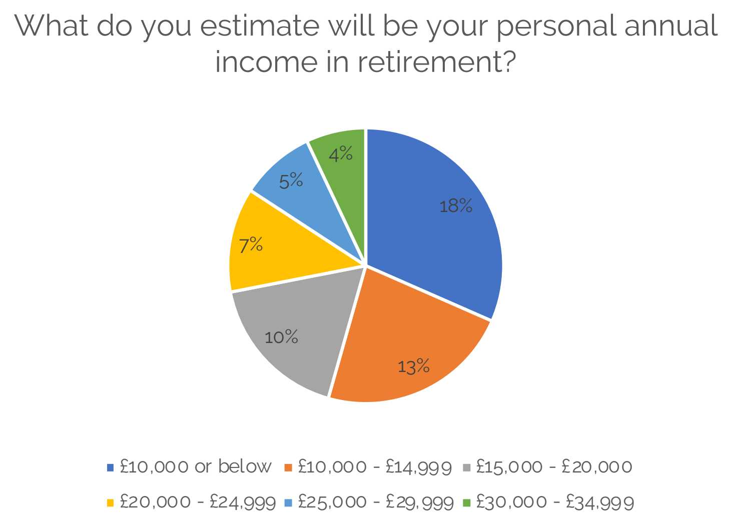
Overall, 12% were (a little unambitiously) targeting up to £50,000 and 37% did not have a target at all.

A number that seems a little more reassuring is that the average target pot is £223,503

Expected income vs comfortable income | A dose of reality?

We then asked our sample to consider what their target annual income might be in retirement. We know that is quite a big ask without a pension calculator or, even better, a proper planning discussion with a financial adviser. But the answers may tell us a lot about perceptions of how a pension pot may translate into income.

Our question asked people to include the state pension, private pensions and workplace pension provision in their thinking.



'Not sure' again makes a very large chunk of people at 37%.

Targeted income above £50,000 generally attracted as little as 1 or 2 percent even with a wider £10,000 range.

The average current total pot was just £19,665 though with some significant regional variations. To pick three, it was £26,645 in London, £20,133 in Yorkshire and Humberside and £19,298 in the East Midlands.

For London and the South-East categories, there were slightly higher percentages selecting slightly higher incomes. Of course, this isn't factoring higher costs in some cities and regions.

ADVISER INSIGHTS

Advisers were concerned that some of the numbers in the research were unrealistic but in particular how investors saw an investment pot translating into an income. One bright spot is the rise in annuity rates.

"The pot is less relevant than the income because of annuity rates. The amount you need to get the income has gone down 30/40%. It is the income that is relevant."

- David Penney, Director at Penney, Ruddy & Winter

"The majority of the target pots are really low. They should all be up at the £250.000 to £300,000 level, especially if it's just one person. The gap between that and the income that they want is huge."

- Kate Shaw, Director at Financial Life Planning

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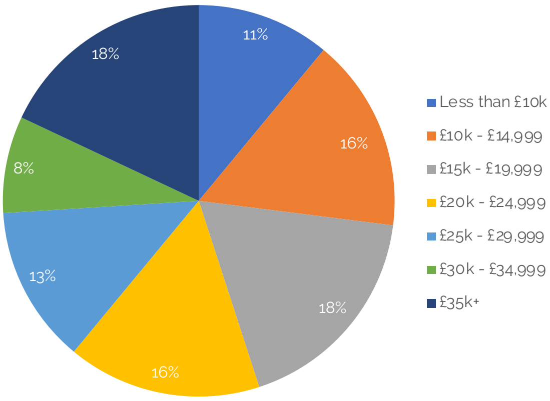
What is your 'target' pot for your personal annual income in retirement?



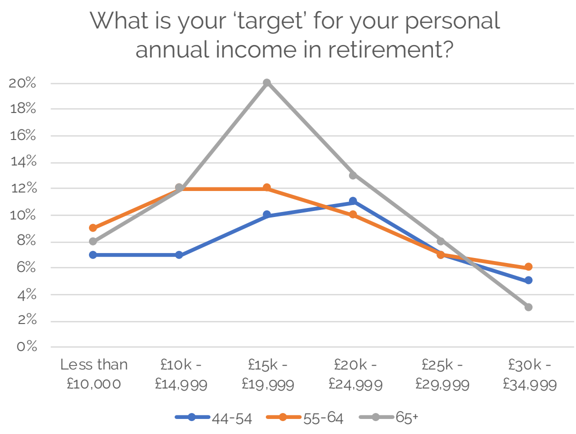
We then asked our sample what income they felt they would need for a comfortable life in retirement. Again, it follows the loosely the same pattern.

Once again, a high proportion of respondents selected 'Don't know' – at 38%.

John Lappin:

"Interestingly, reasonable percentages of respondents felt that even an annual income below £10,000, could be sufficient for comfort. 5% of those asked from London and as high as 13% of those asked from Northern Ireland indicated this level of comfort. Sadly, the reality is that a sizeable proportion of this income would be required to pay for energy bills alone (the average annual household energy bill is currently £1,834 according to British Gas).

So, is this just another example of a lack of reality or realism in planning? Is this realism that the advice sector can help bring to more people?"



The average annual income targeted is £25,679. For men that is £27,409 and reflecting the established pattern, it is lower for women on £23,857.

It may be significant that a fifth of 65 plus respondents identified £15,000 to £19,999 and they are arguably in a better position to estimate – is this a consequence of lower expectations or just a greater dose of realism?

Established comparisons for 'comfortable'

For context, the Pensions and Lifetime Savings Association suggests the following levels of income as covering needs, and then moderate and comfortable retirement in its Retirement Living Standards.

Minimum Single: £12,800, Couple: £19,900

Covers all your needs, with some left over for fun

Moderate Single: £23,300 Couple: £34,000

More financial security and flexibility

Comfortable Single: £37,300 Couple: £54,500

Setting their sights

What savers plan to spend their money on

We asked this question in two ways, first asking our sample to pick out a list of retirement priorities, but then in a second question to identify their number one priority.

53% selected maintaining a pre-retirement lifestyle

34% to travel

23% to protect inheritance for loved ones

23% to meet the potential costs of long-term care

Kevin Carr

"Some of the answers from individuals gave further insights – from the bluntest 'to be able to eat' to 'living a quiet life' and indeed 'to live as comfortable a life while keeping their MS under control'. One other, reflecting previous statistics, said they had no intention of retiring.

Another gave a nod to previous pension minister's Lamborghini comments, though switching marque to a Ferrari. It all recalls 'Maslow's hierarchy of needs' and we know that some advisers use adaptive versions of the famous pyramid in conversations with clients."

Maslow's Heirarchy of Needs

The question about the number one priority gives us another useful frame.

47% Maintain current lifestyle

18% Protect inheritance

19% To travel

11% Potential cost of long-term care

John Lappin

“In terms of the inheritance answer, perhaps this has less salience, that we might believe. We have recently seen the influential thinktank, the Institute for Fiscal Studies raise concerns that pensions are becoming something of an inheritance vehicle rather than a retirement one.

In its wake, but just after we conducted the research, we now know that the Treasury and HMRC have issued a consultation which could make inheritance from those who die at 75 less flexible and a less tax efficient, but at time of writing the debate continues.

It is certainly an area where advisers, who tend to advise those who have more money and more choice in terms of using their money for several ends, can illuminate the discussion.

But at very least a large plurality of our group will be using their invested pension to do what it was designed for. Perhaps you can make the case that long term care is an essential expenditure as well to make it a majority (though we know that more will need care than the 11% figure above).”

SECTION 2
MARKET IMPACTS

In addition to consumer attitudes to their own pension position and planning, we thought it important to understand how external factors were impacting savers' perceptions, planning and behaviour as they plan for and head into retirement.

The focus in the second section of this report deals with how changing legislation, together with access to and the experience of expert pensions advice impacts both mindsets and behaviour. Again, the results were fascinating. Here are the highlights – including a detailed analysis of current issues shaping the market.

Pensions Market Update

Government says its plans will increase pension incomes

John Lappin

"Advisers and industry figures will have noted that the Chancellor Jeremy Hunt launched his Mansion House pension reforms with a great deal of fanfare in July and a suggestion that retirees could see an income boost of £1,000 a year. Any adviser will tell you that is a reasonable amount of extra savings especially for the less well off.

It does seem that a significant proportion of that calculation concerns starting auto-enrolment at 18 and removing the lower threshold, legislation for this is currently going through Parliament as a private member's bill but crucially with government backing. Small boosts in income can however be important for those on lower incomes. Of course, none of our sample will be starting pension investing earlier. But there are also debates about raising contributions and better guided retirement decisions. Higher contributions would make a difference, but the broader economic environment may not be conducive. The Association of British Insurers would like to see a rise to 12% auto-enrolment contributions in the longer term."

The Taxman Giveth

Nearly a fifth to work longer following lifetime allowance abolition

Kevin Carr

"The abolition of the lifetime allowance in this March's Budget took the pension sector and many pension advisers by surprise. The lifetime allowance has been subject to a huge amount of change since the days of pension simplification in 2006 when the concept was first introduced.

But we wanted to understand how the reduction of the LTA to zero this tax year with full abolition to follow next year could impact the behaviour of those approaching retirement. It also came alongside other allowances becoming more generous, which we look at later in this section."

ADVISER INSIGHTS

Advisers were split on LTA reform. Some thought the details and even the analysis of the problem was wrong. Doctors being able to retire early, suggested very generous pensions. However, another adviser felt that it had shifted perceptions including among close relatives who were young consultants. Interestingly the advisers felt that AA reforms were arguably going to be more important and finally the MPAA much less so.

"I don't think it has simplified anything. You have a legacy issue and I can't see it will bring doctors back, though they have managed to cap tax free cash. The annual allowance has changed things with the £60,000 and the £200,000 threshold."

- David Penney, Director at Penney, Ruddy & Winter

Ambitious for the reforms

The justification for the reforms was to encourage people to work longer and potentially return to the workforce especially in the NHS so we thought we would quote what the Chancellor said in his March Budget.

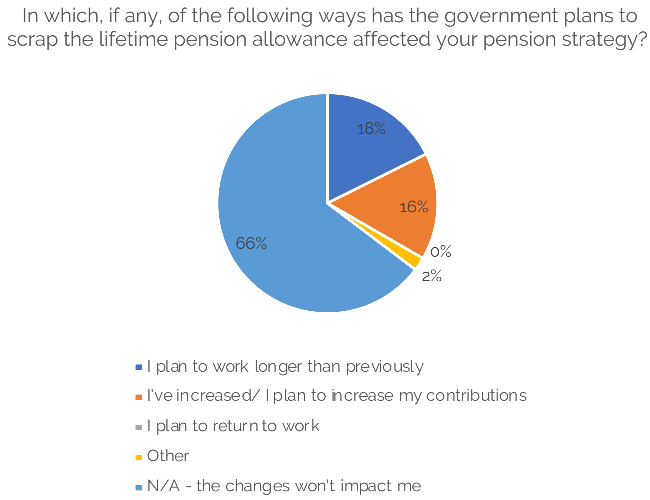
"I have realised the issue goes wider than doctors. No one should be pushed out of the workforce for tax reasons. So I will increase the pensions annual tax free allowance by 50% from £40,000 to £60,000. Some have also asked me to increase the LTA from its one-million-pound limit, but I've decided not to do that, I will go one step further and I will abolish the LTA."

"It is a pension tax reform that will stop over 80% of NHS doctors from receiving a tax charge, incentivise our most experienced and productive workers to stay in work for longer, and simplify our tax system, taking thousands of people out of the complexity."

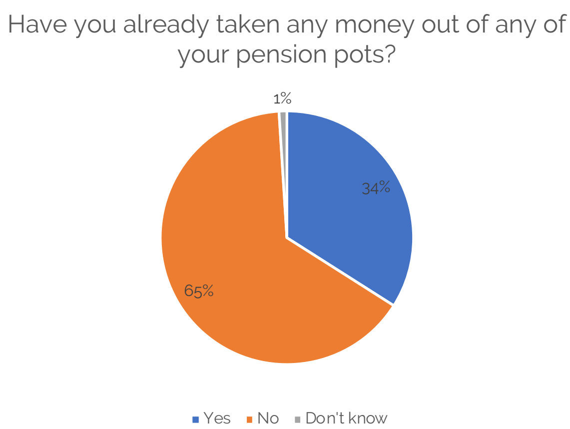
So, big government ambitions from the chancellor in delivering these changes. Changes that clearly target the NHS, so aim to bring wider benefits to healthcare in addition to improving the retirement position of many. But how did they resonate and score with our respondents?

It is good news for the Chancellor – **18% of those answering this question plan to work longer as a result of LTA abolition.**

In addition, overall **16% are now considering increasing their contributions.**



We also tested the new £60,000 annual allowance in terms of the likelihood that our sample of investors would pay more than this limit in any tax year and found figures of 7% for likely and 8% for somewhat likely adding up to 15%. It is likely that for the vast majority, especially during a cost of living crisis, the chances of saving greater than £60,000 per year are simply out of reach.



Our research showed that changes to pension legislation made by a previous Chancellor George Osborne, which came into force in 2015 had been taken advantage of by over a third of retirees.

34% of respondents stated that they have released money from their pension pots.

Altogether Now

Lack of consumer interest in consolidating pension pots

Paul Yates

"We have seen a lot of high-profile campaigns from new and existing pension companies urging savers to consolidate their pensions. The issue of multiple pots and certainly multiple small pots is also receiving attention from policymakers.

We wanted to gauge the significance and salience of the issue for pension investors and savers. Out of our 3,000 sample, 1092 said they believed they had multiple pots."

We asked how many of this group expected to consolidate their pots in the next three years.

- **Around 23% suggested they were very likely (7%) or likely (17%) to consolidate.**
- **Those who did not anticipate consolidating came to 47%.**

We believe this is represents a significant proportion.

Of those with multiple pensions, **54% have between two and five** with a small number possessing more than five, although that is only 3%..

> **ADVISER INSIGHTS**
>
> Advisers believe that provider service leaves a great deal to be desired but EB consultant-owned master trusts received the majority of the flak.
>
> *"Your biggest challenge at the moment is provider service. Back office stuff. For some drip feeding is a manual exercise. One system, I know, can only cope with one lifetime allowance. If a provider said to me - what can I do to differentiate ourselves, it would be first class service?"*
>
> *- Robert Reid, Principal at CanScot Solutions*

John Lappin

"It's likely this number will increase as a result of younger generations switching employers more regularly as part of the modern career path.

The headline result does suggest there is a substantial market for consolidation. This comes in the context of high-profile television marketing campaigns from the likes of Pension Bee, a recently established player, and increasingly from established pension providers such as Standard Life.

Of course, consolidation, especially near retirement, isn't particularly new. Advisers have always brought together different pots to create more coherent portfolios, or where pensions do not consolidate easily – to be looked through, reviewed and managed as part of an overall retirement strategy.

However, more automated processes, for what you might call loosely the mid-market have attracted some criticism."

‘Small pots’

Regulation in the policy pipeline

John Lappin

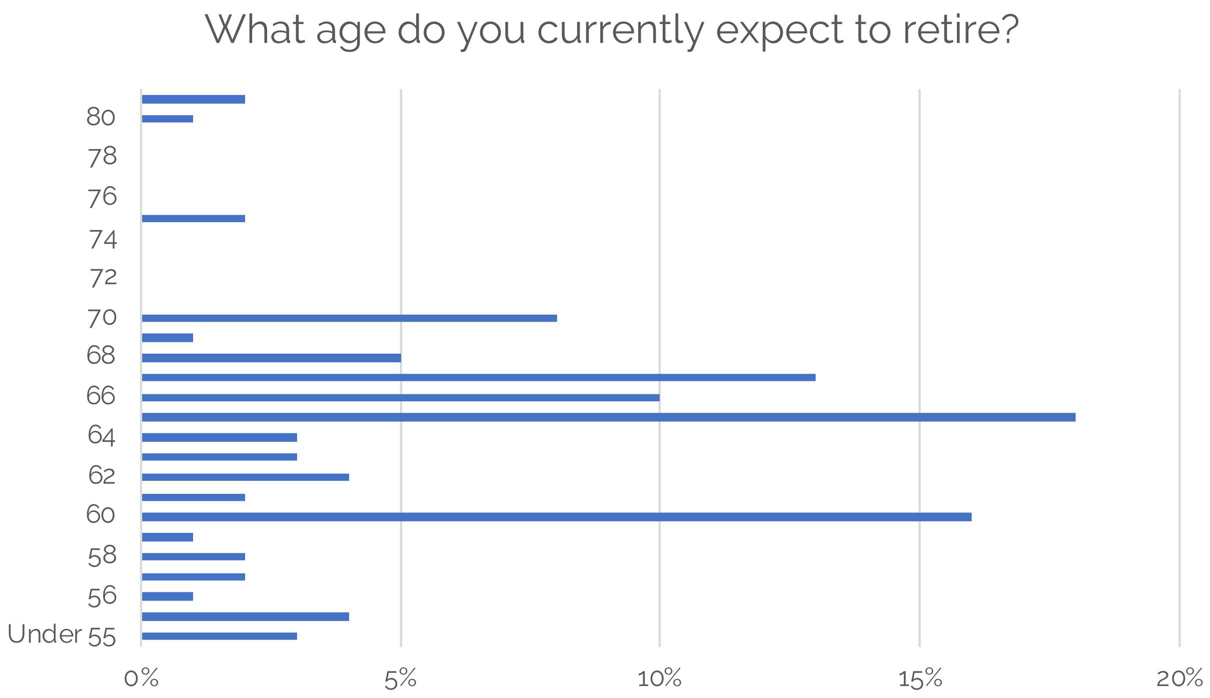
“Chancellor Jeremy Hunt launched the ‘Mansion House’ pension reforms in July. The headlines were dominated by his wish for more pension investment into infrastructure and innovation. Yet another significant thrust of the reforms is consolidation at the level of pension schemes and at the level of scheme membership.

The Government has published a response to a previous call for evidence regarding small pots with a consultation on a proposed automated consolidation solution. This proposes that small pots which meet certain eligibility criteria for automatic consolidation will transfer automatically to one of a number of consolidators, although scheme members can opt-out as well as choose their consolidator. A new authorisation regime will be created for schemes to act as a default consolidator.

This is, for now, at the smaller end of the market with deferred pots of £1,000 expected to be ‘swept up’. However, ministers are also discussing a pot for life system where members would retain membership of one scheme.

The consultation has now closed and we need to see if all these proposals survive that process. But change is obviously on the way. Our headline statistic suggests that a significant segment of investors will seek to consolidate in any case.”

SECTION 3
THE POWER OF ADVICE



When I'm 64.9

The age our groups expect to retire

Our research produced a rather remarkable spread of targeted retirement dates though mid-decade and round number ages feature more strongly.

1.

9% believe they could retire at 66, the current state pension age.

2.

A significant **19% suggested they may never retire**, though whether that reflects pessimism about money, optimism about health or both remains an open question.

3.

Overall, we can see those wishing to retire before 65 represent 21% with 58% targeting 65 and above. **The net target retirement age is 64.9**.

4.

The **average target age for retirement for men is 65 and for women 64.2**. The closeness of the two sexes could well reflect recent state pension age equalisation.

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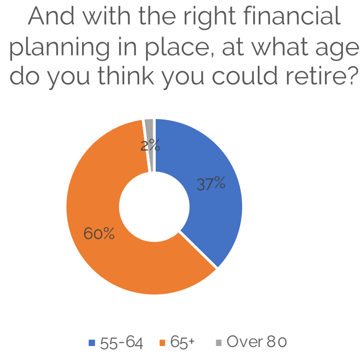
With the right planning...

Do savers think they could retire earlier?

Given the importance of advisers to retirement planning in the UK, we asked our groups what age they were expecting to retire and what age if they obtained the right financial planning.

Although relatively small differences, **the average age with planning fell by six months**, though for people aged 45 to 55 it was close to a year difference and more than a year for those living in Wales. We strongly suspect the financial planners we have spoken to will believe they can make a greater difference.



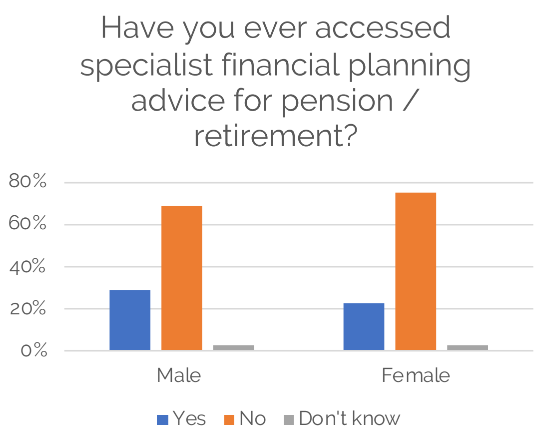
The number for those expecting to retire under the age of 65 with the right planning, were a striking 37% as opposed to 21% above. Again, does this continue a theme of optimism bias which runs through savers?

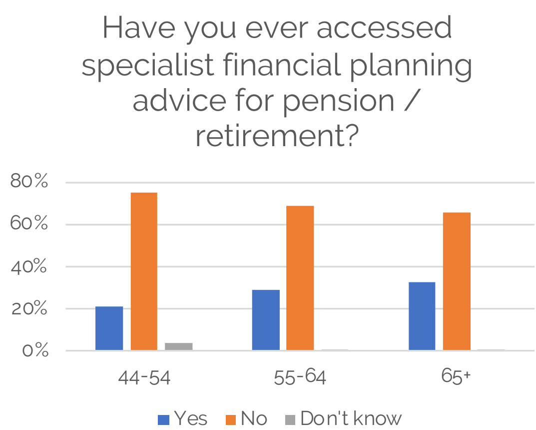
> **ADVISER INSIGHTS**
>
> Among the advisers, some had experience of working on digital advice projects and what you loosely might call guidance services. Advisers did not see these services necessarily in competition because they were not serving the middle market. Interestingly, advisers felt ongoing advice had been, to a degree, neglected, because of the challenges of reaching the customers in the first place.
>
> *"Having worked with retirement options tech, I do believe it's possible. I do believe it's a solvable problem. I don't think you can do it, necessarily without advice. But I think the advice is possible. Investment solutions are possible. I think the advice gap is real.*
>
> *"Mid-market is £30,000 or £50,000 up to £200,000. IFAs are not serving the mid-market. They serve £200,000 plus. And if you have £5,000 in a pension, no-one is talking to you."*
>
> *- Greg Neall, Wake Up Your Wealth Partner*

I can't get no?

Client satisfaction with advice

73% are satisfied. We asked our sample how many had ever accessed financial advice including advice provided through work. **We found that 26% had accessed advice.**





Keep in touch | Frequency of interactions

We then followed up this question to ask how often people interacted with their pensions pot provider.

12% Twice a year

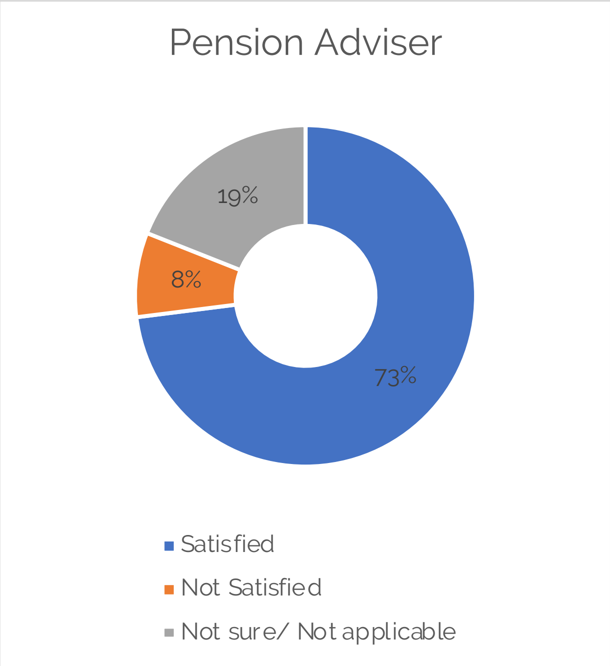
31% Once a year

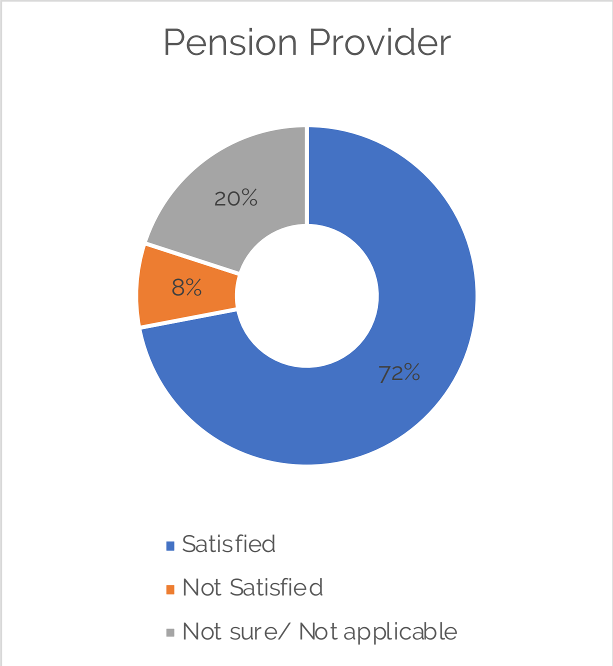
8% Every 2-3 years

49% Less than once ever 2-3 years

We then tested satisfaction with their financial advice and for comparison their pension provider. In the era of Consumer Duty, it is reasonably good news.

We found a **net satisfaction level with their pension adviser of 73% and a net satisfaction level with their pension provider of 72%** encompassing fairly, very and completely satisfied options.





Will the consumer duty change advice standards?

Consumer Duty has increased the pressure on advisers and providers to deliver the best possible service to consumers. However, in theory it will increase consumer satisfaction and with the right processes in place, build a positive future for the financial services industry.

ADVISER INSIGHTS

"One of the things I would like to see come out of the Consumer Duty is that drawdown reviews should include an annuity quote. Now we are starting to get an annuity market back."

- Greg Neall, Wake Up Your Wealth Partner

"An annuity quote still should be considered as a matter of course, whether it's regulation or not."

- Kate Shaw, Director at Financial Life Planning

"In the initial advice there may be a quote, but as we're doing annual reviews, I don't know that many advisors are checking quotes then."

- Greg Neall, Wake Up Your Wealth Partner

We can also dip into the individual comments supplied about advisers and providers - and they are again mostly good news.

Here are three positive reviews which most advisers would be pleased to receive.

'Always good advice and returns on investment."

"Expertly guided in a range of investments, with differing risks. Had very good returns, even allowing for market dips. Everything is explained clearly and had excellent advice regarding the watershed in terms of paying too much tax and when to claim tax back."

"Friendly and efficient. He does what I ask and seeks any updates from me. He is good at chasing me down to complete things."

Of course, you can't please everyone.

"Advice is very standard. Nothing that couldn't be easily found online."

Taking a brief look at the individual comments about providers, we can see an unsurprising focus on returns.

"£ increasing not decreasing!"

"As satisfied as possible in this crazy world."

"Because the projected forecast when I'm at retirement age will pay me thousands of pounds more when I'm not working (i.e. retired) than when I'm actually working 5 days a week full time, which seems crazy to me. Crazy but welcome."

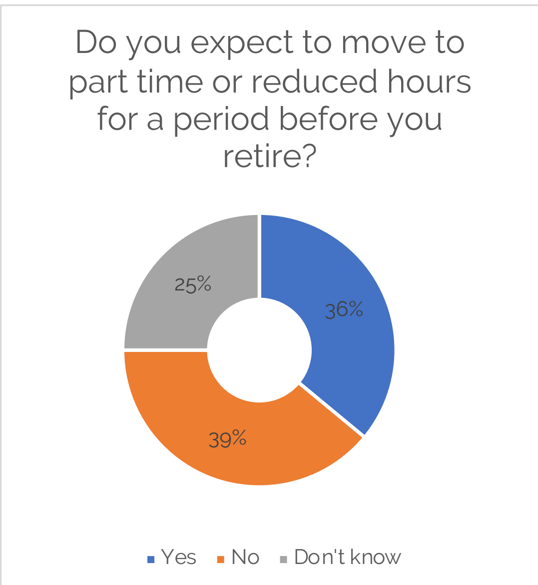
And for balance one of the less than satisfied -

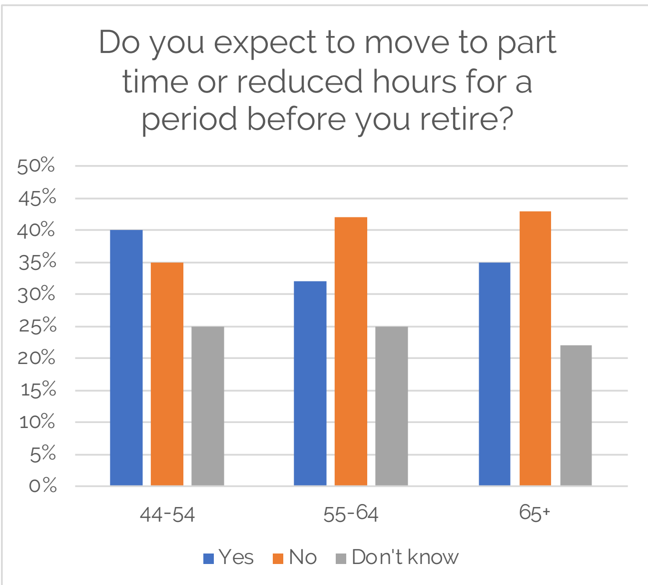
"At first it was performing exceptionally well but this is no longer the case and nothing seems to be getting done about it."

Say goodbye to the carriage clock: **Many expect to work part-time for longer**

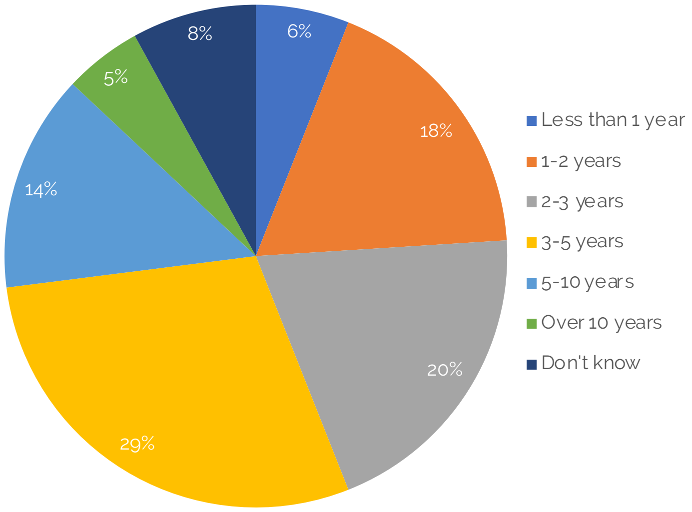
28% plan to work for three to five years part time.

Much has been made pre-pandemic about older generations working longer, and post pandemic of falls in those numbers. But we wanted to ask about our sample's intentions for working reduced hours in the run up to retirement.





How long do you expect to work at reduced hours before fully retiring?



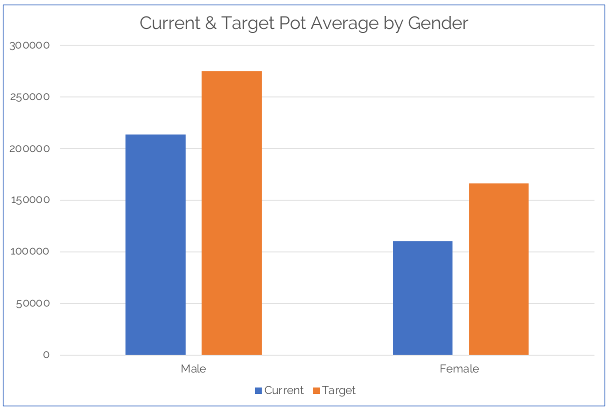
We then asked this group, which constituted 449 out of our 3000, how long they might seek to work for, which also gave a very interesting spread.

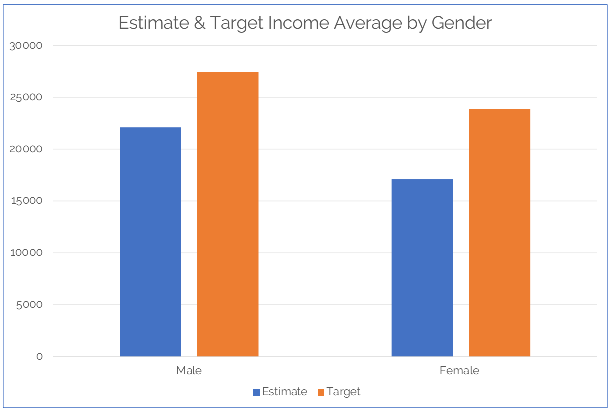
The Gender Gap

It comes as no surprise that there's some disparity between sexes when it comes to retirement planning. With the modern world shaking up the traditional stereotypes, this is bound to change but can the financial services industry do more to accelerate it?

Here's some key takeaways from our research:

- 23% had less than £50,000 to invest though broken down by sex – men made up 17% of this lowest category and women 31%.
- The average target pot is £223,502. If we break this down by sex, it's quite an eye-opener with women's average target at £166,291 and men on £274,813.
- When we asked our sample to consider what their target income might be in retirement 'not sure' made a very large chunk of people at 37% though 30% for men and yet again a concerning 43% for women.
- The average income targeted is £25,679. For men that is £27,409 and reflecting the established pattern, it is lower for women on £23,857.
- The average target age for retirement for men is 65 and for women 64.2. The closeness of the two sexes could well reflect recent state pension age equalisation.
- Only 23% of women had accessed advice compared to 29% of men.





ADVISER INSIGHTS

In terms of the gender gap, which was very stark from the research, most advisers felt that the bulk of the solution lay with societal reforms around childcare for instance, and equal pay rather than pensions, with the situation reflecting historical imbalances. There were things women could do and advisers could help with in terms of engagement and indeed getting married to secure assets around inheritance.

"I think it's helpful to project it forward, because things have changed, and you're seeing more women starting businesses, you'll see more women breaking through the glass ceiling. Female clients who are more independent and they've got more in their pension pot. Still in a lot of households, it's the man that takes care of the finances. So, the independent women are still very much in the minority."

- Billy Burrows, Financial Adviser at Eadon & Co and Founder of the Annuity Project at www.williamburrows.com

NEXT STEPS

Our main focus as the name implies will be retirement. As such, developments such as the FCA researching retirement advice and potential reforms to the advice and guidance boundary are of great interest.

We have begun to ask if advisers whether they are seeing big changes in client behaviour due to the reforms to allowances, and garnered their views about whether we may see a return to work or at least people working longer as you can see from the following section.

It does seem that after this largesse the government may tighten the rules around inheritance though how solid those plans are seems to depend on who in the government is briefing who.

As you can see from the following two sections, we have begun discussions with advisers and with providers and platforms to ascertain the matters of greatest importance to them.

To a degree, this includes the Mansion House reforms which have several important impacts for pensions – small pots being one, new consolidators being another, and of course, the push to get Defined Contribution schemes to invest in earlier stage, riskier investments and infrastructure being the headline view.

But from our discussions, we would also suggest that there is an interesting discussion to be had about what should be on the agenda for the industry and perhaps even to ask why it is not on the agenda of the policymakers.

Advisers want improvements in service, a long-standing concern. The group of advisers we spoke to were also worried about some aspects of income drawdown advice though they felt that the regulator might be about to scrutinise this area of the market is more detail.

In terms of broader policies that don't seem to be front of mind for ministers, there remains the vexed issue of what to do about the mass market of self-employed. There is a discussion to be had about optimising the public's decisions about retirement – addressing the advice gap was seen as a priority by both advisers and providers and platforms we talked to.

There is also the matter of whether contribution levels need to rise further so that savers, investors and scheme members have more wealth in the first place with one provider suggesting that the next big debate should be about adequacy, now that auto-enrolment has delivered reasonable coverage across the population.

There is a great deal to talk about but we hope this report is a significant and confident first step as we set out to debate and discuss retirement matters in more detail.

MARKET ANALYSIS

Retirement Review brought five advisers and six providers together to discuss the research.

What may be most striking for market participants is that many of the concerns voiced around the time of the launch of pension freedoms in 2015 continue to be identified as problems.

Advisers continue to worry about the levels of withdrawals, the lack of security of income for those with small and mid-sized pots, public engagement with their pensions and retirement planning and, across the population, insufficient contribution levels. This should be a worry for the pension industry and certainly for policy makers.

It is also notable that there remains considerable cynicism about what the Mansion House reforms will achieve, in particular, the push for more investment in private equity and other illiquid investments.

From the research, advisers and providers also worry about the gap in expectations in terms of the size of pots garnered so far, how that translates into an income and what it means for a comfortable retirement or not.

This research was discussed with:

Advisers

Billy Burrows, Financial Adviser at Eadon & Co and Founder of the Annuity Project
David Penney, Director at Penney, Ruddy & Winter
Greg Neall, Wake Up Your Wealth Partner
Kate Shaw, Director at Financial Life Planning
Robert Reid, Principal at CanScot Solutions

Providers

Alastair Black, Head of Savings Policy at Abrdn
Alastair McQueen, Head of Savings and Retirement at Aviva
Andrew Tully, Nucleus Technical Services Director
Jamie Jenkins, Director of Policy & Communications for Royal London
John Graves, Head of Product Technical & Oversight at Legal & General Retail Retirement
Tom Selby, Head of Retirement Policy at AJ Bell

ADVISER VIEWS

KEY TAKEAWAYS

Advisers are concerned the public are not saving enough but are uncertain how this can be addressed given cost pressures.

They worry that expectations for retirement, amounts saved and pots required are seriously out of kilter.

They worry about a lack of annuitization among those with smaller pots both advised and non-advised.

They ask whether the FCA might be best requiring annuity options and perhaps quotes to be presented more frequently even at annual reviews.

They worry about a possible income drawdown timebomb.

At a time of higher annuity rates, they feel many clients' objections to securing income can be addressed.

They feel a new accumulate, go into drawdown, then secure more income pattern for retirement may be the way ahead.

Advisers are split on the impact of the LTA reform in addressing workforce issues.

They are cynical about the Mansion House reforms but in particular the government push towards illiquid assets.

The advice gap is a huge challenge, but it remains very thorny to resolve.

Engagement and awareness still too low

Advisers considered engagement both in terms of encouraging contributions but also with regards to retirement planning.

At least a year's salary worth of pot was seen as the minimum amount before investors took notice, but clients in their 40s might need reassured when they had only reached two/three times salary by then.

Looking at the retirement end of things, Robert Reid, Principal at CanScot Solutions, suggested that wake up packs were coming too late. As ever, the contrast with full advice was clear. Goals and client understanding were established right at the start of the process.

Reid also discussed the Lee Isenberg question posed in his book 'The Number: What Do You Need for the Rest of Your Life and What Will it Cost?', regarding what number do you need to retire and how advice and guidance can see people reappraise that number – often doubling it after being properly informed.

There was some debate regarding small amounts of contributions gathered and whether they should be allowed to cash them in or whether that pushed savers' starting points further forward.

Consolidation and consolidators may not be a game-changer

There was cynicism from advisers regarding consolidation despite the research showing public willingness and even intention to merge pots. This was mostly concerning the size of pots, both in terms of the business models of consolidators and indeed the intentions of planned regulation.

Advisers felt that a lot of accounts held with consolidators could be empty or have tiny amounts of money in them, so a lot of time and effort was being spent on bringing very small pots together using up all the money in them.

There was a secondary theme. First it was suggested that policymakers were putting master trusts or new consolidators at the heart of the reform but second that the segment of the pension world that is regulated primarily by the Pensions Regulator is falling down badly on administration.

Provider service issues dog advisers

Advisers believe that provider service leaves a great deal to be desired, but EB consultant-owned master trusts received the majority of the flak with Kate Shaw, Director at Financial Life Planning, particularly critical.

For the advisers this occurred primarily when trying to put their retirement advice into practice with extraordinary delays of a year or more, highlighted by David Penney, Director at Penney, Ruddy & Winter.

He also felt that while LifeCos would – eventually sort out problems admittedly sometimes under threat of complaints to the Ombudsman – it had little or no impact on some of the EB consultancy run trusts.

There was some cynicism about some named and established provider brands too, in terms of drip-feeding, managing allowances etc. with concerns that some admin tasks were still being done by hand.

Closing the advice gap is hard to do

Among the advisers, Greg Neall, Wake Up Your Wealth Partner, and Robert Reid had experience of working on digital advice projects and what you loosely might call guidance services. Advisers did not see these services necessarily in competition with them because they were not serving the middle market. Interestingly, Neall felt ongoing automated advice had been, to a degree, neglected, because the focus of tech was on initial advice.

Advisers felt that the challenge was huge in terms of automation but that regulation, for example, around tax free cash across different schemes did not help.

Neall remarked that around 80 per cent of mid-market cases could be helped by digital advice relatively easily but the other 20 per cent that needed more help due to complexity of their own circumstances.

There was no strong view on guidance except that some restrictions were very unhelpful, but also that it would always return to a matter of redress and compensation for things going wrong. All advisers saw the gap as a huge challenge.

Annuities in the sun

Annuities and annuitizing were a recurring them in terms of the practice of delivering retirement advice, regulatory initiatives – including requirements for post-DB transfer solutions and concerns about the non-advised.

One adviser raised the issue of cost-effectiveness of reviews, advice minima and indeed older clients running down pots but with fund-based charging.

In summary – advisers believe the case to annuitize is much stronger than previously, but that it was always strong.

They suggest that many smaller mid-market and non-advised pots should be annuitizing. They feel that coming regulatory initiatives including the new examination of suitability and perhaps even the Consumer Duty will place more emphasis on certainty of income.

Billy Burrows, Financial Adviser at Eadon & Co and Founder of the Annuity Project, said that in the current environment, annuities offer good value becasue rates are high with the increase in bind yields. At these rate, the income from annuities is much higher than what can be sensibily taken from pension drawdown. An adviser had to make sure they understood the changes.

Advisers are worried that since pension freedoms, assumptions including about compliance functions regarding the amount suitable for drawdown has fallen dramatically. Taken alongside reasonably high withdrawal rates this leaves some plans and solutions looking heroic in terms of hoped for returns. The advisers felt that the benefits of flexibility could be overstated and actually be too much of a focus among near and post retirees.

It may be driven by the wish to pass on wealth.

Advisers felt that a combination of higher rates, inflation-linking, payments on death and long-understood concepts such as mortality drag worked in favour of annuities.

The advisers were of the view that hybrid products, despite much fanfare had generally not provided a third way solution.

In terms of regulation and advice practice, advisers felt there should be more checking of annuity quotes through the life of a drawdown plan, amid concern that market figures for quotes suggested this wasn't happening, something voiced strongly by Neall.

There was also a strong view that annuitizing did not suit the asset gathering and asset retention models of many adviser businesses.

We would note that the advisers did see something of a regulatory timebomb regarding certainty of income especially for older clients.

There was one final big practical concern. Administration around some enhanced annuities was simply proving to be too long a process with Kate Shaw citing one quote arriving months after a retirement plan had been implemented.

Towards three steps in retirement

Advisers advocated a new framing with three steps for retirement perhaps extending to the mid-market.

These were accumulate, drawdown and then annuitize (Neall) or phrased slightly differently, accumulation, initial drawdown and certainty (Reid).

In effect, early retirement would see more people invested, but with all manner of consideration regarding surety and certainty of income then coming into play.

There were concerns regulators were not necessarily onside for this, partly because they didn't agree with this assumed shape of retirement spending patterns and some regulatory concerns about it being too much of a justification for level annuities.

Advisers were not certain what form regulation might take – though they felt a big reversal of the freedoms or new age 75 rule was not on the cards.

No enthusiasm for 5% in private equity

Advisers were less than enthusiastic about many of the provisions in the Mansion House reforms. But the major concern was the promotion of investment in private equity when it was felt this may not be suitable at all for broader A/E scheme memberships with Shaw outspoken about political interference in pensions, more generally.

Gender Gap

In terms of the gender gap, which was very stark from the research, most advisers felt that the bulk of the solution lay with societal reforms around child-care and equal pay rather than pensions, with the situation reflecting historical imbalances. There were more women high-flyers, execs and entrepreneurs and indeed wealthy inheritors. Billy Burrows said that many advisers do their best to help and encourage women to know about the key issues to help them become more confident about discussing financial matters so they can play a more active role in the advice process.

Lifetime allowance abolition splits opinion

Advisers were split on the significance of the LTA reform. Some thought the details and even the analysis of the problem was wrong. Doctors being able to retire early, suggested very generous pensions said Penney. However, Burrows felt that it had shifted perceptions including among his own close relatives who were young consultants. Interestingly the advisers felt that AA reforms were arguably going to be more important in terms of allowance itself and the £200,000 now attached to the tapered allowance. Reid did fear a headache around tax free cash next year. Finally, the MPAA was seen as much less of an issue.

Benefits of Advice

Advisers did consider the benefits of advice, given the research finding that people would have more confidence with the right financial planning. Advisers were a little concerned that comments were mostly about investment. They thought that getting clients to identify what they now knew, which they didn't before they consulted an adviser, would be a better way of promoting advice.

PROVIDER VIEWS

Wide coverage. Adequacy in pensions next?

The provider/platform session opened with a discussion of members' ambitions, the relative success of auto-enrolment and how to begin the debate about increasing contributions.

There was some debate about whether most people had a 'figure' for retirement, something discussed by advisers in their session. Nucleus Technical Services Director Andew Tully suggested that even the most engaged among younger people might set out to save what they can, but those without advisers were unlikely to have a target.

Alastair Black, Head of Savings Policy at Abrdn said: "People need to save a big enough pot to be able to retire and people need to use that pot in the most effective way. But people don't want to engage, they are engaged with what's in front of them say buying a house. That is why AE was introduced. When people are close to retirement, then it is in front of them. And we need to consider how to support them then."

Aviva's Head of Savings and Retirement Alistair McQueen added: "AE has transformed this market. More people are saving more money in pensions than ever before, but it is half time in the game. We have won the participation battle. We now have to win the adequacy battle."

Is a rise in contributions on the agenda?

The adviser group had suggested that contributions needed to rise but that current cost of living pressures meant it wouldn't happen soon. Providers wanted to see a plan.

Tully said: "Any time when you talk about people saving more money, it is always not the right time. But we need to come up with a plan to encourage more people to save more."

AJ Bell's Head of Retirement Policy, Tom Selby said: "I think the DWP recognises that more needs to be done and contributions need to scale up. It is clearly a challenge in terms of how to do that and the timing of doing that. And I can totally understand from a politician's point of view, that now probably doesn't feel like a particularly good time to be doing something which people will see as taking money out of their pockets, even though it's just deferring consumption into a tax incentivized structure. But the key is that somebody needs to set out what's going to happen, how it's going to happen, and when it's going to happen."

McQueen added: "As an industry, we are brilliant at shouting about everything that could go wrong when anybody comes up with any new answers. When auto-enrolment was created at first, the great thing that could go wrong was that one third people would opt out. And that was the working narrative. But in reality, it's one in 10."

Black said: "We did a bit of qualitative research, in terms of going out to speaking to young people, and the feedback we got was we know we should be doing this. That's where the behavioural finance comes in using that apathy, there's an underlying thing they know they should be saving. And they're happy to be told what to do."

The panel agreed with the age change to 18 for auto-enrolment and removal of the lower earnings limit, while remarking that we did not have an implementation date.

“Some of it does mean a very substantial increase in the amount being saved,” said Tully.

John Graves, Head of Product Technical & Oversight at Legal & General Retail Retirement said: “One of the first things that’s mentioned is that people are less inclined to save because they’ve got the cost of living crisis to consider. They’ve got other things that they’re prioritising. But if you don’t know what you need to achieve with a pension, how can you prioritise? That’s a problem. Do I shop at Lidl instead of Waitrose this week, so I can throw an extra £20 in my pension? The public can make those decisions if they have an idea of what they’re going for. There is always chat about average pot size, but rarely a conversation about target pot size.”

Reform for self-employed still in the too difficult pile

The issue of the self-employed was discussed but it was felt that the matter would be left to soft nudges if addressed at all.

Selby said: “Everyone knows there’s a problem but how do you recreate AE for the self-employed, if you haven’t got the employer? You are either adding NI costs to the self-employed or spending a lot of money subsidising through the state. Otherwise, it is nudges or nurdles, but not the hard A/E nudge. We need to decide whether the state having a role is on the table.”

McQueen added: “Contributions, self-employed, advice gap boundary. We are not going to move all of them, and we need to think which is the priority.”

The state pension debate asks the wrong questions when they are asked at all

The panel discussed how the state pension debate revolved around the triple lock and not in terms of what was an appropriate level of state support.

Tully said: “The state pension debate asks the wrong questions when they are asked at all. I think we need to ask what level of state benefits we want to provide as a country. Maybe a bigger state pension solves the self-employed issue to a degree. But constant deliberation on the triple lock in isolation is not helpful.”

“Did any leaders at the party conference mention pensions? Politicians are not looking at us as a priority issue,” added McQueen.

McQueen added: “There is still a massive trust problem. Some of the problems like Maxwell feel almost ancient history. Yet I am not sure the power brokers trust us, because they worry that we will take advantage. We have to prove our innocence.”

“It is all very well knowing you should do something but having the confidence to know what to do is different. At the end of the day, there is no right answer. It depends on circumstances, and planning is crucial to help people build confidence in their retirement strategy” added Tully.

Advice gap/advice and guidance boundary

The panel discussed the advice gap (which had worried the adviser panel, whether and how it could be narrowed with focused or some other form of advice, and who needed to step up to deliver guidance.

Black said that bigger advice firms would be interested in extending their footprint.

"We have a wish from big national advice firms to extend their footprint. Typically, what happens is when dealing with a high net worth individual often they say: "I need you to give my family that advice." But full advice, is just not cost effective. So actually, from a kind of family wealth planning perspective, advisers would want to be able to offer something to lower end customers. They would love to extend their offer and feel a moral duty to fill the advice gap. But at the same time, you get advisers saying the regs aren't really clear and the PI insurers also don't think the regs are clear."

It was felt that even if advisers did extend their footprint, that resolving many of these issues would require providers and regulators to devise a guidance solution for the majority of the market.

McQueen added: "There is the advice community, provider community and the regulatory community. The advice community is serving its market very well. We have 7 million customers. It is up to the providers and the regulators. But I fear any change could be a slow burn."

Selby said: "The regulator and Treasury have accepted there is a problem. There is a genuine attempt to solve it. It feels like a stand-off, but it's not going nowhere. I sense regulators want to try and come up with something that works."

Tully suggested getting to a good outcome rather than focussing solely on the perfect outcome would place scheme members in a much better place than they are now.

Black also suggested that more guidance would also drive advice demand.

Could Consumer Duty change things on the service front?

"If it's treated as a tick box, the chances of it being transformational are a lot lower," said Tully

"I think there are early indicators that the FCA will go in hard. By placing responsibilities on providers, it means we, as providers, are trying to work out what good looks like. The FCA are almost getting us to self-regulate, which is clever. I think we'll see changes," said Black.

Drawdown standards and high withdrawals

The panel did see a big challenge in terms of determining what were too high withdrawal limits.

Selby said: "On the point of how much people are taking through drawdown, it is so difficult to know what are good or bad decisions. Someone taking 10% from the pot, but with a big DB income coming in, may be fine. Or they may be well on the way to rack and ruin. When you talk about the non-advised, I can't see a way any provider could have a clear view on that." Tully added: "We can't necessarily tell. You want people to make an informed decision, but they may be making an informed decision and spending all the money as they have other income and assets to see them through retirement.." On the regulatory front, he added: "We know the FCA is asking advice firms what proportion of annuities have you sold? So, advisers should want to integrate a consideration of annuities and guaranteed income solutions into their proposition, he added.

McQueen added: "I don't think anyone is talking about reversing pension freedoms. I am sure there is some poor practice with advisers, but my priority is the non-advised effectively flying solo."

The gender disparity

In terms of the gender disparity, the panel, agreeing with advisers felt it was more a challenge for society. "The gender gap is a labour market issue more than a pension issue. If you had equal maternity and paternity rights, you should see the gaps in wages drop off and the gaps in people's retirement savings should follow. There is a danger if it is just thought of as a pensions issue that we'll come up with the wrong answers," said Selby.

"We are addressing symptoms," added McQueen.

Focusing on the right things

The panel remained worried about policy drift and the Mansion House reforms, while being good in parts, also being a distraction.

McQueen said: "Are we at risk of a lost decade? I don't see either political party keen to make bold, brave decisions in the 2020s. I sense the regulators are giving us warm words, but are still risk averse. On the commercial side, the question is usually what does the next quarter deliver? We'll ask the government and regulators to fix the bigger things another day. But we might be saying the same things in 10 years' time."

On the Mansion House reforms, Jamie Jenkins Director of Policy & Communications for Royal London was concerned that it could involve significant changes, but that missed the major challenge.

"On the investment aspects of Mansion House, there is a drive to get more money from default funds into productive finance of one sort or another, but it shouldn't be the first priority. The first priority is member outcomes in retirement. We have to anchor change in that, otherwise we'll get lost in the politics of it.

“To me, the way to approach it is to ask ho w we make these types of investments attractive and suitable and malleable enough to be in default funds for DC. Go at it from that point of view.

“The idea of getting everybody to sign a short form to commit to an arbitrary 5%, by 2030. That was like a unusual way to approach it. The problem they're seeking to solve here is the economic problem, not the member outcome problem. And I think there's a danger that we start in the wrong place.”
Jenkins is also sceptical about other Mansion House measures.

“The Mansion House reforms in the wider sense, not just the investment piece, bring two seismic shifts. One is to collective DC. The other is to the individualisation of pensions, where employees rather than the employer choose where their money goes. This is essentiually a system where people choose their own investment provider, and the employer has a collection of individuals with different providers. While both of these ideas are worth exploring, and may improve retirement outcomes for members, the one change we know will definitely make a difference is to increase contributions to a more adequate savings level. I'd be concerned if we spent a decade working on other things and neglected to focus on this.”