Better Pensions

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Overview

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About Which?

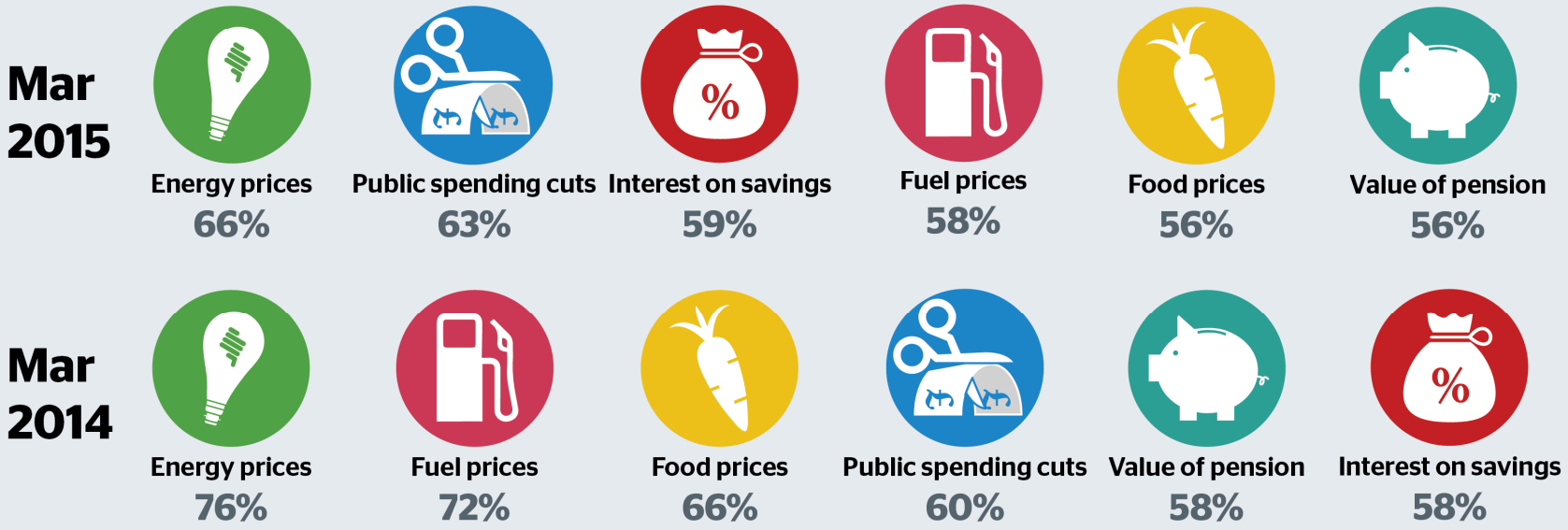
- **Founded:** 57 years ago as an independent social enterprise
- **Mission:** Which? exists to make individuals as powerful as the organisations they have to deal with in their daily lives
- **Purpose:**
  - Providing information and advice to help make everyday choices easier
  - Campaigning for positive change in private and public markets
  - Intervening in markets with our own products and services
- **Funding:** Consumers' Association registered charity, solely funded by the commercial arm, Which Ltd and subsidiaries. No advertising.

Context

Consumers are worried about pensions

Which?

Top consumer concerns: Proportion of people who are worried about...



Source: Which? Consumer Insight Tracker, March 2015

And changes were needed

In 2014, the Financial Conduct Authority (FCA) concluded that:

> *'…competition in the retirement income market is not working well for consumers'.*

And:

> *'Consumers' tendency to buy from their existing pension provider weakens competitive discipline. Not only do incumbent providers feel less pressure to offer competitive vesting rates, but challengers find it difficult to attract a critical mass of consumers. As a result there has been limited new entry into the decumulation market in recent years'.*

FCA, Retirement income market study: Interim Report, December 2014, p.6

Which? had consistently highlighted:

- Significant consumer detriment from inappropriate purchases e.g. of standard single life annuities for people who want to provide income for their spouse;
- High levels of consumer inertia / very low levels of shopping around; and
- Even when the right choices made, a market that did not necessarily meet the needs of all consumers.

Reforms have qualified support from Which?

- Clear that this was not a market that worked for all consumers
- People who save into a pension during their working life deserve to get the most from their pension savings in retirement: it is right that consumers have the freedom to decide how and when they access their money
- By allowing savers to exercise choice, the pension reforms coming into effect in April 2015 have the potential to improve outcomes for many retirees.
- But a survey of the market and consumer experience in Q1 2015 revealed some serious challenges to success.

Challenges for “freedom and choice”

A complex choice

There are many things consumers need to take account of:

- Other sources of income
- Tax implications
- Longevity risk
- Investment returns
- Inflation risk
- Changing personal circumstances (care needs/ ill health/ divorce)

That consumers have (and do) struggle with

Which?

- Half (51%) of consumers say they don't know how much they will need as a weekly income to live comfortably in retirement.

Many people may be unready for , data from the Wealth and Assets Survey suggests:

- A third of retirees (35%) 'do not follow the financial markets' at all (WAS, 2010-2)
- Just one in ten (11.1%) 'keep an eye on' the value of the financial products they hold.

…and can be extremely expensive

As the market continues to change, many providers are making amendments:

Drawdown:

- Widely varying charges (e.g. we found 0.44-2.76% on popular funds on basic platforms)
- Varying investment approaches (some popular options as high as 80% equities)
- Many products yet to emerge – value uncertain

Hybrid products:

- New products still in development- comparability a potential concern

Overall:

- Just 1% difference in charges could mean £5,000 less from an average £36,000 DC pot.

…and open to scams

- A third of over 55s have been contacted about their pension by companies that could be frauds.
- Yet many aren't sure they can spot a genuine investment and four in ten think they could fall victim to a scam.
- The most common sales pitches were:
  - offers of investment opportunities (21%);
  - a free pension review (16%); and
  - offers to unlock your pension (13%) or access your pension pot early (13%).

…and market not making it easier

Insight from our Money Helpline:

- Many people simply want access to their savings and cannot because scheme rules don't allow this. They are being told by providers that they have to move to an alternative product, which is only sold on an advised basis. This effectively forces the consumer to pay for advice they don't want or need (e.g. on a small pot of £10k).

- Non-advised sales are still a problem. Commission payments can be significant (several percent) but this is not always made clear to the consumer pre-purchase, even though FCA standards mean it should be.

Comparing products

- Consumers need better information to help them make complex choices. For example, when a provider shows an illustration of what drawdown vs annuity could offer, the growth projection for drawdown makes it look more attractive than it is likely to be in reality. Firms are also still allowed to quote their own annuity rates, which may be very poor and skew comparisons.

Success and progress towards it

So what does success look like?

Results matter and so does *how* choices are made…A market that works for consumers needs:

- Products that meet consumers' needs
- Consumers with the right information and tools
- Protection when things go wrong

How close are we?

Probably too early to say - but some early indications:

1. Do people have the information they need before guidance?

2. Are people able to access good quality guidance via Pension Wise?

3. Are active choices taking place, or are consumers being passively defaulted?

4. Are drawdown and new products accessible to the mass market?

5. Do drawdown and new products offer good, low cost options?

So what needs to happen?

Recommendations

Products that meet consumers' needs:

- A cap on default drawdown products
- A backstop provider
- Considering defaults for disengaged consumers

Consumers with the right information:

- Making guidance work – considering the journey & evaluation.
- Pensions passport & dashboard

Protection when things go wrong:

- Cooling off period
- Coverage of FSCS

And longer term…

Freedom and choice is no good if you haven't got anything to use freedom and choice with:

Savings for retirement

Proportion of people saving for retirement

44%
Are saving

50%
Are not saving

Proportion of consumers confident they will have enough to live comfortably in retirement

35%
18-29

23%
30-49

28%
50-64

• Figures relate to working age population only

Source: The Which? Consumer Insight Tracker, September 2014