

# Using auto-re-enrolment to future proof pensions provision

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# 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?

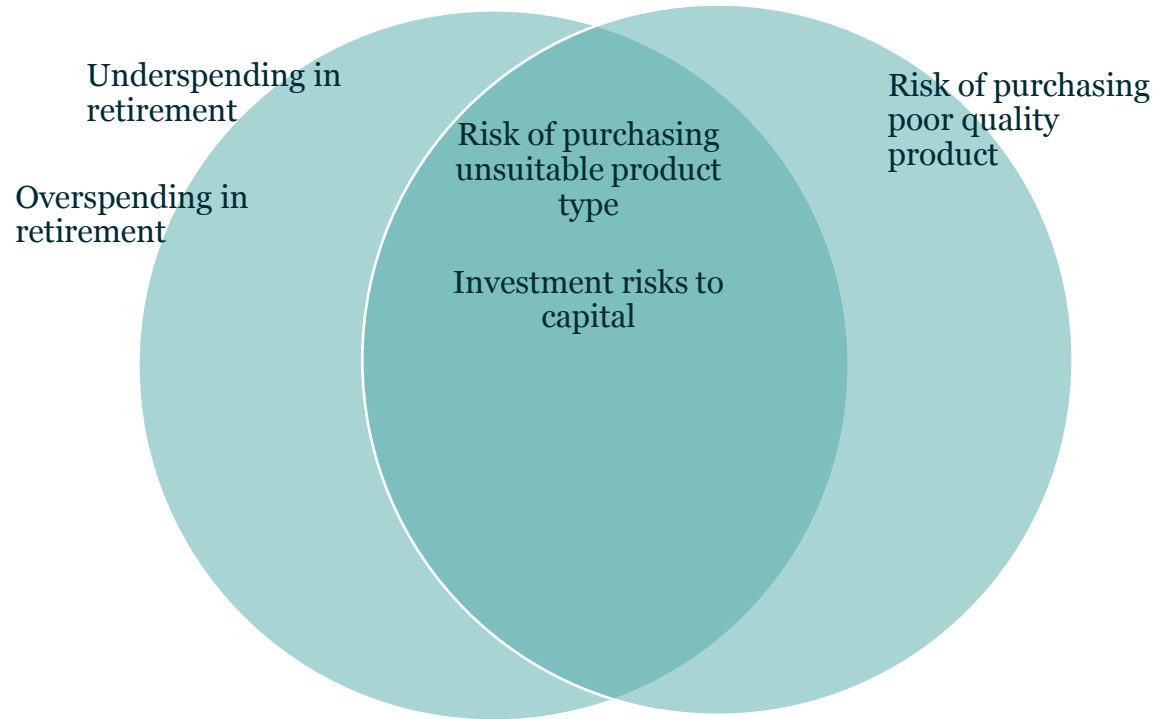
# HOW ARE WE DOING ON ADEQUACY? SHOULD WE INCORPORATE MORE NUDGES?

- ▶ 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

Longevity risks

Product risks



# FOUR UNDERLYING PROBLEMS

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

# AN ACCIDENT WAITING TO HAPPEN?

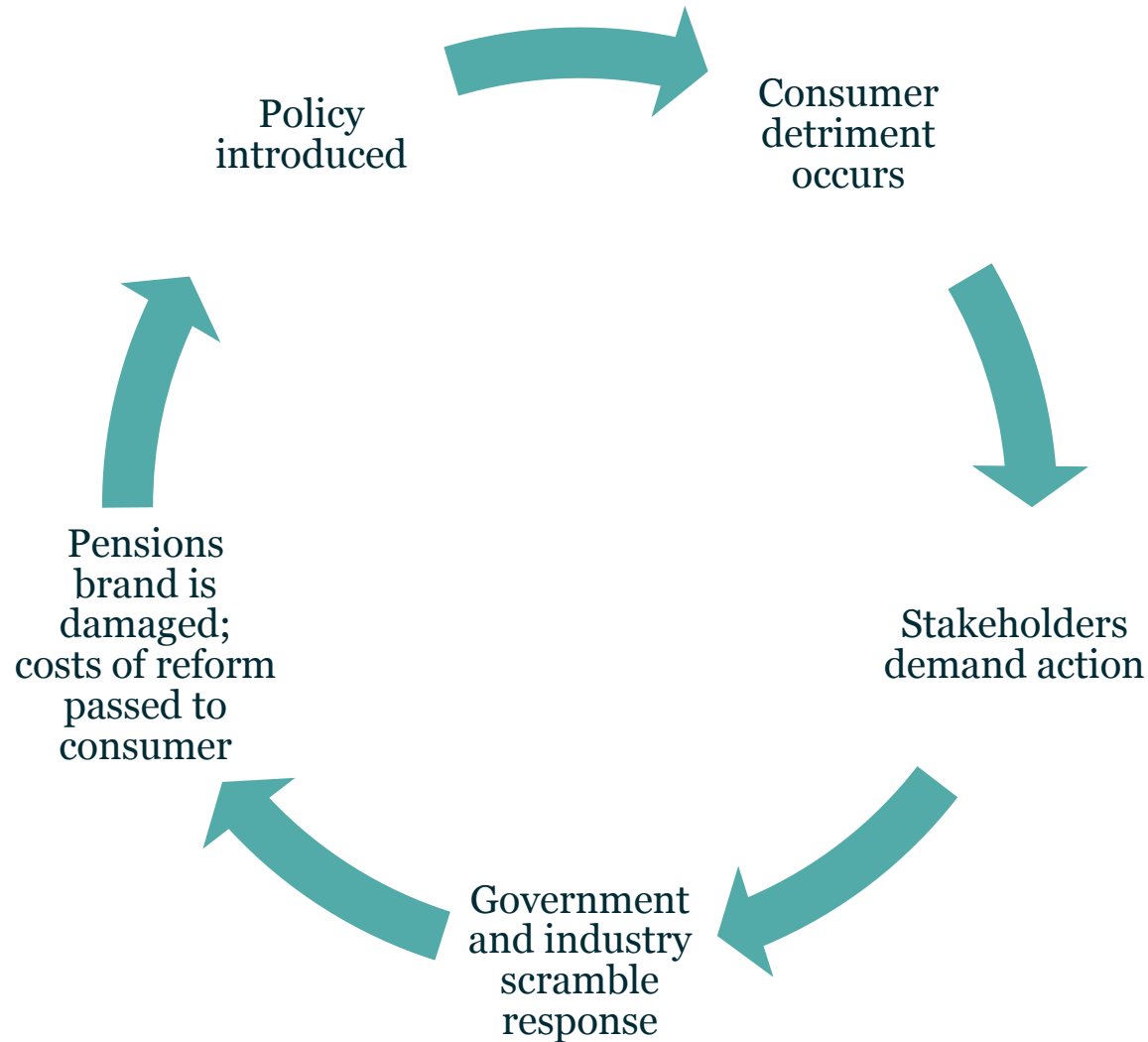
## **400,000 actioners**

- ▶ 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?**