AFTER THE REVOLUTION
MEMBERS, SPONSORS, ADVISORS

PLENARY SESSION, ASSOCIATION OF CONSULTING ACTUARIES CONFERENCE 2015

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Professional not for profit organisation for those practising pension law throughout the UK

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Securing the future of pensions

Outline

- Where will we be in April ?
- How will it play out in the longer term?
- What can we all do to make it work?

Where are we now?

- Insert link to film

Where will we be in April?

EIOPA
EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

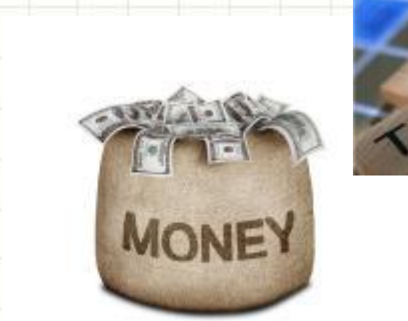
IGCs / Professional trustees?

Pot follows member?

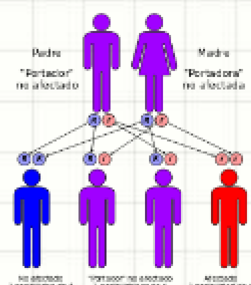
Value statements

Pension passport

Pension wise
Your money. Your choice.



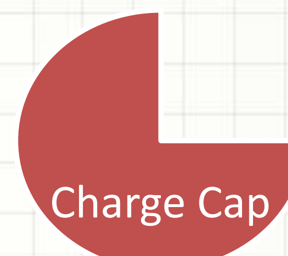
CETV / PIEs / Incentive exercises



Inheritance rules

Can I have my money back?

FCA
FINANCIAL CONDUCT AUTHORITY



Freedom & Choice : The essential tensions

I want freedom & choice but I want my scheme to provide an income for me

I want to be able to retire early but I want to be able to work as long as I want / can

I want a secure income throughout retirement but not an annuity (or DB)

I want help in finding the best outcome but I don’t want to pay for advice

I want my employer or pension provider to help me but I want it to be my decision

Member

Sponsor

Risk management

Freedom & Choice : The essential tensions

I want to manage my workforce but I don't have any control

I want them to retire on a secure income but they can now blow it all before they retire

I don't want to change my DC scheme to provide income – too expensive / too few retirees

I don't know whether I can default members into another scheme

I want to protect against scams but I want members to make their own decisions

Sponsor

Risk management

Member

Freedom & Choice : The essential tensions

Paternalism and choice are both risky

Freedom to make mistakes

Behavioural economics and past experience show how well people make complex financial decisions

Are future generations going to bail out “mis-sellees”?

What is the future role of the state in a world of freedom & choice

Risk management

Member

Sponsor

After the revolution : the member experience

10 years of social experiment

Increase in incomes of over 55s in short term (and increased tax take)

Longer term increase in pensioner poverty

Lucky ones bought an annuity or transferred to managed drawdown

Who can I blame?

What’s the state going to do for me?

Member

Sponsor

Risk management

After the revolution : the sponsor experience

I have too many older workers who can’t retire because they have spent their pensions already

I tried to offer help and support but I couldn’t stop them making mistakes

Members are coming back to blame us

I have closed my DC scheme and transferred all of my members to a mastertrust

My DB scheme has shrunk even more and I need to wind it up

Sponsor

Risk management

Member

After the revolution : risk management

Discretionary transfers for DB schemes are risky

Liability management and default investment strategies bring legal risk

Members who find they made a mistake will look for someone to compensate them

Courts and Ombudsman take a strict line

Winding up DB schemes is not risk free

Risk management

Member

Sponsor

Where does that leave us?

What can we do?: member behaviour

Don't make hasty decisions about retirement or taking pension

Take guidance and any other help (including workplace scheme or employer)

Consult family and consider their needs

Think about how long retirement can be and how much income needed

Understand risks associated with alternative investments / uses of pension

Make plans for later life when cognitive abilities may decline

Member

Sponsor

Risk management

What can we do?: sponsor / scheme behaviour

Scheme consolidation for greater cost efficiency: DB and DC

Shift to mastertrusts for accumulation and decumulation

Move towards professional trustees/IGCs for accumulation and decumulation

Encourage/provide access to financial advice

Establish member support regime throughout membership period

Provide “core” pension that can’t be drawn down

Sponsor

Risk management

Member

What can we do?: risk management

Safest to do the minimum

Rely on statutory rights

Take time implementing change

Process will be important

Avoid giving advice but do help members

Good communications and informed consent

Get your house in order

Risk management

Member

Sponsor

What would we like to see?

All

An independent pension commission?

A safe harbour process for transfers / default pathway to retirement income

No arbitrary, costly or damaging changes to tax relief!

No further changes to legislation or regulation that add substantial costs to running a scheme

A ‘third way’ for securing retirement income that mitigates risk by sharing it?