Retirement Matters

Wednesday 25 September 2024 – Royal College of Physicians, 11 St Andrews Pl, London NW1 4LE

Schedule of the Day			
Platt Room	0845-0930	**Breakfast**	**Informal networking** - Over breakfast and coffee
Seligman Theatre	0930-0940	**Keynote**	**Welcome, Setting the Scene.** With **James Goad,** Managing Director, Owen James
Seligman Theatre	0940-1010	**Keynote**	**An overview of current Pension Policy**. With **Paul Johnson**, Director of the Institute of Fiscal Studies, will set the scene for Retirement Matters by sharing some of the preliminary findings of their substantial Pension Review* - its goal to comprehensively assess the consequences of current pension policy. By September he may well also be able to shed some light on the new Government's thinking in this area
Breakout Rooms	1015-1115	**Roundtable Session**	*Please refer to the draft agenda below to get a feel for the topics that will be tabled for discussion within the roundtables*
Platt Room	1115-1135	**Coffee**	Grab a refreshment and catch up with your peers
Platt Room	1135-1210	**Networking**	**Structured networking** - An opportunity to meet some new faces
Breakout Rooms	1215-1315	**Roundtable Session**	*Please refer to the draft agenda below to get a feel for the topics that will be tabled for discussion within the roundtables*
Platt Room	1315-1400	**Lunch**	**Buffet lunch with networking**
Seligman Theatre	1405-1435	**Keynote**	**What does a reasonable standard of living in retirement look like, and what societal issues must we address to ensure the majority achieve this?** With **Steve Webb**, Partner at LCP and former Pensions Minister during the Coalition, will highlight some of the potential solutions and pitfalls
Breakout Rooms	1440-1540	**Roundtable Session**	*Please refer to the draft agenda below to get a feel for the topics that will be tabled for discussion within the roundtables*
Seligman Theatre	1545-1615	**Keynote**	**Society spends a lot helping people to live for longer, slightly less on helping them to afford it. By 2050, one in six people worldwide will be over 65. Are we prepared?**
Platt Room	1615-1700	**Farewell and Fizz**	We thank you for joining us over a glass of bubbly

** The IFS are carrying out this review in collaboration with Abrdn Financial Fairness Trust. It will be finalised in the summer of 2025.*

THE DRAFT ROUNDTABLE AGENDA – WEDNESDAY 25 September 2024,

The Royal College of Physicians, 11 St Andrews Place, London NW1 4LE

- More people are realising that the problem facing younger generations – stagnant wages, the death of home ownership, extortionate child care costs - are not just the moans and groans of entitled snowflakes who don't know they are born.
- As we approach the end of the first quarter of the 21st century, we have seen 9/11, the Iraq war, the Great Financial Crash, Brexit, the Covid Pandemic topped off with conflicts in Ukraine and the Middle East. OK maybe not quite as horrible as World War but not exactly the Swinging Sixties or Live Aid either. Who can be surprised that they are depressed, we are all depressed and they haven't even got any happy memories to draw on. So, the least we can do is ensure they have as much hope and help as we can offer them.
- So where to start?
- Around a fifth of working-age private-sector employees — approximately 3.5 million people — do not pay anything into their pension. And, according to the Institute for Fiscal Studies (IFS), 61% of people who are making contributions are saving less than 8% of their earnings. The received wisdom is that this figure should be closer to 12%.
- When I started to put together this draft conference programme for the second iteration of our conference: Retirement Matters, I was encouraged to read Larry Fink's letter which has attracted a lot of attention. As I am sure you will know, he is the Chair and CEO of BlackRock.
- He captures the current zeitgeist both in the US and also here in the UK. Rather emotively, he asks: "How do we get our hope back? Whether we are trying to solve retirement or any other problem, that is the first question we have to ask." He then goes on: "Young people have lost trust in older generations. The burden is on us to get it back. And maybe investing for their long-term goals, including retirement, isn't such a bad place to begin.
- Perhaps the best way to start building hope is by telling young people, 'You may not feel very hopeful about your future. But we do. And we're going to help you invest in it.'"
- In a nutshell, he is emphasising the importance of capital markets: "People are living longer lives. They'll need more money. The capital markets can provide it — so long as governments and companies help people invest."
- So, no pressure then!

So, for the keynotes:

An overview of current pension policy

- **Paul Johnson, Director of the Institute of Fiscal Studies,** will set the scene for Retirement Matters by sharing some of the preliminary findings of their substantial Pension Review. Its goal is to comprehensively assess the consequences of current pension policy.
- By September, he may well be able to shed some light on the new Government's thinking in this area.

What does a reasonable standard of living look like and what societal issues must we address to ensure the majority achieve this?

- The general consensus is that Auto Enrolment is a good thing. Participation among eligible employees is 86%. There are calls for contributions to increase from the current 8% to 12% to ensure a sustainable retirement savings system. As this works through, it means that the current younger generations should be ok… it is the Millennials who may find themselves short.
- Housing is a big issue. Home ownership rates have decreased considerably over the last few years and those who are buying houses are doing so later and taking on longer mortgages. This means that more people will be entering retirement with a mortgage, and a considerable number will be renting. Neither of which are positives for retirees.
- There has been a lot of talk around the big intergenerational wealth transfer and indeed there will be those who benefit. However, it is not clear cut. There are potential issues around the longevity and health of the wealth owner and indeed the possibility for changes in taxation.

Steve Webb, Partner at LCP and former Pensions Minister during the Coalition, will highlight some of the potential solutions and pitfalls.

How do we afford longer lives?

- By 2050, one-in-six people globally will be over the age of 65, up from one-in-11 in 2019.
- Obesity can take more than 10 years off someone's life expectancy, which is why new drugs like Ozempic and Wegovy should be viewed as life-extending drugs, not just weight-loss drugs.
- Again, I have to give credit to Mr Fink for pointing out that, as a society, we focus a lot of energy on helping people live longer and slightly less on helping them to afford to do so.
- So, for the closing keynote, we will provide an overview on longevity trends both at home and abroad, and how this is going to place monumental pressure on society.

The following should be viewed as a starting point for the roundtable discussions. Over the next couple of months, this will be fine tuned as we ask more and more of you for your input to ensure that the final agenda on the day will be addressing the subjects you consider to be most relevant.

On the day, you will be able to participate in three of these sessions.

1. WHAT CHANGES TO THE TREATMENT OF PENSION TAXATION AND ALLOWANCES SHOULD WE ANTICIPATE FROM THE LABOUR GOVERNMENT?

- Two of your key roles as a retirement wealth manager are those of tax adviser and estate planner, and understanding all the different nuances of a sophisticated tax regime are key.
- We will invite an accountant specialising in the retirement world to lead a roundtable discussion on how the new Government might change allowances and taxation.
- What can you do to prepare?

2. WE NEED TO TALK ABOUT THE STATE PENSION. REMOVING THE TRIPLE LOCK WILL BE CONTENTIOUS SO HOW DO YOU ENSURE THAT FORMULA IS REPLACED WITH SOMETHING JUST AND DURABLE?

- Now here is a really interesting stat: if one wanted to buy an index-linked annuity to provide a pension that was equal to the current value of the new state pension (and then price indexed) from the age of 66, that would require an outlay of over £200,000.
- The state pension is an important source of income. For example, among households with someone aged 66–70 where no one is in paid work, the state pension makes up 71% of income for the poorest fifth and 23% for the richest fifth.
- OK – so most of your clients will be closer to the 23% than the 71% but that is not to be ignored. It is likely that the triple lock will have to go at some stage so what might replace it?
- The Institute of Fiscal Studies has done a big piece of research on the subject and propose the following solution:
    - There will be a government target level for the new state pension, expressed as a share of median full-time earnings. Increases in the state pension will in the long run keep pace with growth in average earnings, which ensures that pensioners benefit when living standards rise.
    - Both before and after the target level is reached, the state pension will continue to increase at least in line with inflation every year.
    - The state pension will not be means-tested.

- The state pension age will only rise as longevity at older ages increases, and never by the full amount of that longevity increase. To increase confidence and understanding, the government will write to people around their 50th birthday stating what their state pension age is expected to be. Their state pension age would then be fully guaranteed 10 years before they reach.

- What do you think? How do you think it might be received?

3. AUTO ENROLMENT - A SUCCESS STORY AND A NEW BUSINESS OPPORTUNITY FOR YOU? AN OPPORTUNITY FOR THE INDUSTRY TO GIVE HOPE TO THE YOUNG; REASSURANCE TO THE MILLENNIALS; AND REFINE THE KNOWLEDGE THOSE APPROACHING RETIREMENT NEED.

- Here's a reason to pat ourselves on the back: auto-enrolment has increased the number of individuals accumulating DC pension savings. In April 2021, an estimated 22.6m employees were in a workplace pension scheme, with an overall participation rate of 79%. By 2050, over 25% of the UK population is expected to be over 65, while the figure for those over 85 is set to double to 5% (Source: Office for National Statistics population data). No shortage of statistics in the world of retirement.
- So as part of the big push to give hope to our young, this has to be a good opportunity to grow their knowledge of the capital markets and encourage them to learn how their savings towards a pension can be worked hard.
- This will feed through as they settle and have children and buy a property… and then ensure they are super well-prepared for the sunlit uplands of their later life. What an idyll!
- New business development has never been a big issue for advisers/wealth managers as so much of their business is derived from referrals. But maybe it is time to think more long term?
- This session will examine the business opportunity for advisers to enter the workplace (or even the classroom) – either physically or digitally - and offer tailored services to potential future clients?

4. ANNUITIES: ARE THEY A BINARY CHOICE? SHOULDN'T THEY BE PART OF THE RETIREMENT MIX?

- 2023 was a milestone year for annuity sales which totalled £5.2 billion, ABI data shows, a 46% increase on 2022. This is the highest annual value since 2014 when pension freedoms were announced.
- This record year included a bumper fourth quarter which saw £1.5 billion in sales, off the back of a strong third quarter when sales totalled £1.4 billion.
- The number of annuity contracts sold also increased in 2023, to 72,200 (+34% on 2022). This is the largest number recorded since 75,000 were sold in 2016, reflecting strong consumer desire to lock in a guaranteed income for their later years. (See what I mean about the stats.)
- Strong sales reflect rising interest rates as more people looked to secure a reliable retirement income for life. However, interest rates are about to start falling and only 29% of customers who bought an annuity did so with the help of professional advice.
- Given rates are now attractive, annuities should likely take more prominence in retirement planning. However, there is reluctance among advisory firms, as annuitisation removes assets and ongoing revenue streams. Clients are also biased against annuities due to loss aversion and wanting to leave an inheritance.
- However, the counter balance is their endless exposure to market volatility.

- Might it be worth annuitising necessary income and keeping the rest in drawdown for flexibility and inflation protection? Your thoughts please.

5. OH, AND BY THE WAY, YOU CAN ACTUALLY SPEND YOUR HARD-EARNED PENSION. LOOK YOUR CASHFLOW MODEL SAYS YOU CAN!

- In 2018, BlackRock commissioned a study of 1,150 American retirees. The survey showed that after nearly two decades of retirement, the average person still had 80% of their pre-retirement money saved. We're talking about people who were probably between the ages of 75 and 95. Only 32% reported feeling comfortable about spending what they saved.
- So, Mr Cashflow Modeller, can you help us provide the confidence our clients need to have their well-earned blast?

6. HOW CAN WE ENSURE THAT PEOPLE UNDERSTAND HOW MUCH THEY NEED TO ACHIEVE A REASONABLE STANDARD OF LIVING AT RETIREMENT? AND HOW DO WE ENSURE THEY KEEP AN EYE ON THEIR DIFFERENT PENSION POTS? HOW ABOUT A PENSION POT FOR LIFE?

- Every year, the Pensions and Lifetime Savings Association (PLSA) publishes a report called 'Retirement Living Standards' (RLS). The report looks at three retirement lifestyles — minimum, moderate and comfortable — and estimates how much money people will need per year to achieve each level. The results are in:

	Minimum	**Moderate**	**Comfortable**
Single	£14,400	£31,300	£43,100
Couple	£22,400	£43,100	£59,000

- The latest figures from the Office for National Statistics show that the average pension pot for someone aged 65 and over is £81,100.
- The industry is trying to deliver the consolidation of small pots, including the possibility of a lifetime provider, or a pension 'pot for life'. The Pensions Dashboard will be a massive help here?
- Advocates argue that allowing employees to choose their own auto-enrolment scheme would help solve the £27bn 'lost pension pots' problem.
- However, questions remain over the cost of implementing the proposals, which could require businesses of all sizes to link up with dozens of providers.
- PLSA director of policy and advocacy Nigel Peaple believes that a gradual increase in minimum auto-enrolment contributions, from 8% to 12% over a decade, is the answer.
- He says this will ensure "a sustainable retirement savings system through most of the rise falling on employers, so both employers and employees would pay 6% each".
- Research by People's Pension shows there could be an appetite for this, with 54% of people saying they would be likely to contribute more if their employer matched their contributions. Yet another burden for hard pressed employers… but hey!
- Could introducing financial education into primary schools, and teaching children at an early age about the benefits of saving money — as is currently being considered by the cross-party education committee — be another way of engaging people when younger? Doh! Well, yes!

7. HOW DO WE COMPARE WITH OTHER COUNTRIES IN TERMS OF HOW WE LOOK AFTER OUR OLDER PEOPLE?

- Each year, the Mercer CFA Institute publishes its Global Pension Index, which compares 47 retirement income systems, covering a wide range of policies and practices. The UK actually comes in at number 10. Phew! A reason to back ourselves!!!
- It is an interesting exercise though – to see how we compare on different metrics.
- This roundtable will take a deeper look into the comparisons. Are there any lessons we can learn?

8. END OF LIFE CARE: HOW WILL IT BE FUNDED? NOW THAT THE NEW GOVERNMENT IS IN PLACE, MAYBE THE PROVERBIAL FOOTBALL WILL NO LONGER SPEND ITS TIME BEING KICKED AROUND.

- This is when the stats get even gloomier. You have made it into retirement; your financial adviser has done a great job and you have had some fun, travelled, played with the grandchildren, been able to help your children through a few blips … and suddenly the wheels come off and you have a "fall" or something sinister rears its ugly head. How on earth do you make provision for the difficult end game?
- Funding currently comes from a combination of sources, including personal savings, pensions, and investments, as well as contributions from local authorities and the NHS. Individuals may also be eligible for financial support towards the cost of their care through means-tested benefits, such as Attendance Allowance and Personal Independence Payment (PIP), or through NHS Continuing Healthcare funding for individuals with complex medical needs.
- How do you think it should be funded? Indeed, do you talk to your clients about their future care preferences? Not an easy conversation.
- As 80% of us are likely to need some sort of care, let's get it sorted sooner rather than later.

9. THE FCA'S THEMATIC REVIEW OF RETIREMENT INCOME ADVICE. JUST CHECKING YOU ARE UP TO SPEED? THE FCA LIST OF WHERE THEY SEE THE POTENTIAL FOR IMPROVEMENT IS QUITE LONG!

- The FCA's recent thematic review states that unsuitable retirement income advice has the potential to result in significant harm.
- It can result in consumers suffering a reduction in their level of income and/or their funds running out too soon, potentially paying higher charges than necessary, investing in complex solutions that they do not understand or which are not aligned with their risk profile.
- The FCA suggests that all firms that provide retirement income advice should consider and use their (the FCA's) anonymised examples of good and poor practices to review and update how they work: to consider whether they have appropriate MI and update their data collation processes and records accordingly. This will help firms to ensure effective governance of their business and improve oversight of customer outcomes in line with the requirements of Consumer Duty.
- It will also help firms better respond to regulatory requests for information.
- The FCA has also published the Retirement Income Advice Assessment Tool (RIAAT), developed for the purpose of the review to assess the suitability of advice files.
- This is supported by an article on cashflow modelling which sets out points for firms to consider when preparing and using a cashflow model. It has also issued a Dear CEO letter urging senior managers to pay attention as there will be follow up supervisory activity.
- This roundtable will examine the areas in which the FCA sees the potential for improvement. The list is quite long!!

10. ACCORDING TO THE EQUITY RELEASE COUNCIL, ONE IN FIVE DO NOT EXPECT TO RETIRE MORTGAGE-FREE. THERE HAS ALSO BEEN A 30% HIKE IN THE NUMBER OF PEOPLE TAKING OUT EQUITY RELEASE. ARE WE PAYING SUFFICIENT ATTENTION TO THE OPPORTUNITIES AND THE PITFALLS?

Lots of disturbing stats here and the list is edited:

- One in five (20%) do not expect to retire mortgage-free, while 19% more are unsure
- Almost one in four (22%) UK homeowners with a mortgage – equivalent to 2.8 million people – say repayments are stopping them from saving more for retirement, according to new findings from the Equity Release Council and Canada Life.
- The findings come from the Council's Home Advantage study of 5,000 UK adults' financial attitudes and experiences. The data shows how the strain of managing their mortgages – which often involve larger sums and longer terms than previous generations – is having a major impact on people's wellbeing and financial plans, exacerbated by higher interest rates.
- Almost one in three (31%) UK consumers believe accessing property wealth in later life can improve their finances and boost their retirement income: a significant rise from 25% in 2021.
- There has been a 30% rise in the take up of equity release plans.
- This is a big market and a growing market. Should we be worried or should we just ensure we are 100% up to speed with the best way to incorporate this asset into the big financial plan?

11. LET'S FACE IT: WITH SO MUCH GEOPOLITICAL UNCERTAINTY, LIVING OFF INVESTED SAVINGS IN RETIREMENT IS RISKY. ONE MIGHT ARGUE THAT FILLING OUT A RISK PROFILING FORM IS MERE WINDOW DRESSING. DISCUSS.

- There is an increased regulatory focus on how firms demonstrate risk as part of suitability, especially for retirement advice.
- However, translating conceptual descriptions of risk into tangible outputs that clients can understand is tricky.
- It is likely that your client has a fairly shrewd idea of the risks they are taking but how do you assess this?
- So, the question is – how do you both satisfy the regulator as well as ensure that your client grasps the financial impact of volatile stock markets on their hard-earned savings?
- Fill out a form?

12. WELL, HERE IS SOMETHING A BIT LEFT FIELD: WHAT ROLE DO YOUR CLIENTS' DIGITAL ASSETS PLAY WITHIN THEIR ESTATE?

- Apparently, digital assets refer to any form of digital content or property that holds economic value. These assets exist solely in digital form and are stored and accessed electronically. The list of digital assets is quite extensive so, by way of a few examples:
    - Cryptocurrencies
    - Non-fungible tokens (NFTs) e.g. unique digital items or assets, such as digital artwork, collectibles, virtual property, or in-game items, stored on blockchain platforms like Ethereum
    - Digital assets related to intellectual property rights, such as copyrights, patents, trademarks, and digital content like ebooks, music, videos, or software programs.

- Social media accounts, email accounts, domain names, and digital profiles on various online platforms can also be considered digital assets, particularly if they hold significant value or generate income.

- As the digital economy continues to evolve, the concept of digital assets is expanding. Wait for the moment when an "influencer" walks in and asks for your advice … you so need to be prepared. Intrigued?

Thank you for reading to the end. If you would like to propose other topics for discussion, or indeed edits for what has been proposed so far, we would love to hear from you. Please email evieowen@owenjamesgroup.com. Thank you.