



JUST.

**Retirement
LEADERS**
ANNUAL SUMMIT

6 February 2020

Retirement 2.0

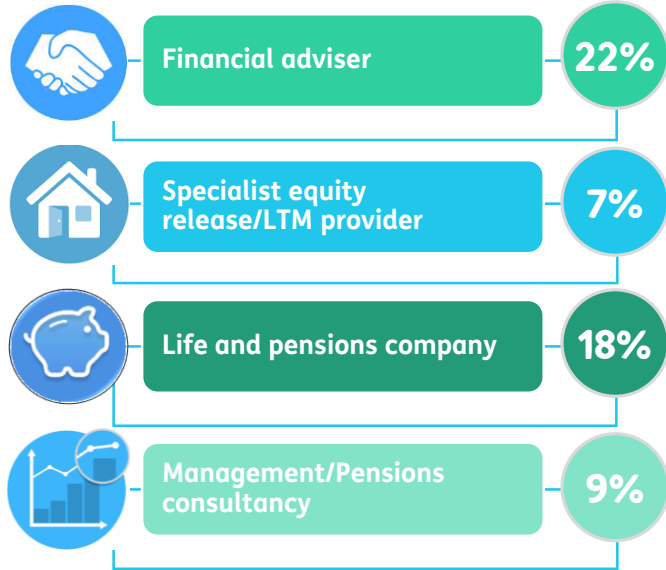
Survey results - What impact have
pension freedoms had?

Key Findings

- 1) The benefits felt by pension freedoms are not universal – financial advisers and High Net Worth customers are felt to have benefitted significantly more than – say – Middle Britain or the FCA
 - 2) What kind of impact have pension freedoms had on UK consumers – a force for good or not? Most think it's still too early to say and it's unlikely that we'll know for certain for at least another 5-10 years
 - 3) Most agree that the Government and Regulators are not collecting the right kind of information to properly assess the risks to consumers and this is primarily due to the failure/difficulty in collecting holistic, household-level finances
 - 4) When asked to describe pension freedoms, industry leaders made slightly more negative imagery associations than positive ones
 - 5) They've given High Net Worth consumers far more certainty about what to do with their pension savings, but the pensions freedoms haven't been nearly as helpful for Middle Britain
 - 6) Industry leaders felt that the FCA has concerns about emerging consumer outcomes, but that the appropriate measures to mitigate those concerns are not yet in place
 - 7) Better FCA intervention is important to optimise customer outcomes, but more important is improving access to regulated advice, raising consumer understanding and the use of Fin-Tech
 - 8) How will history judge pension freedoms? At present, the jury is still out...
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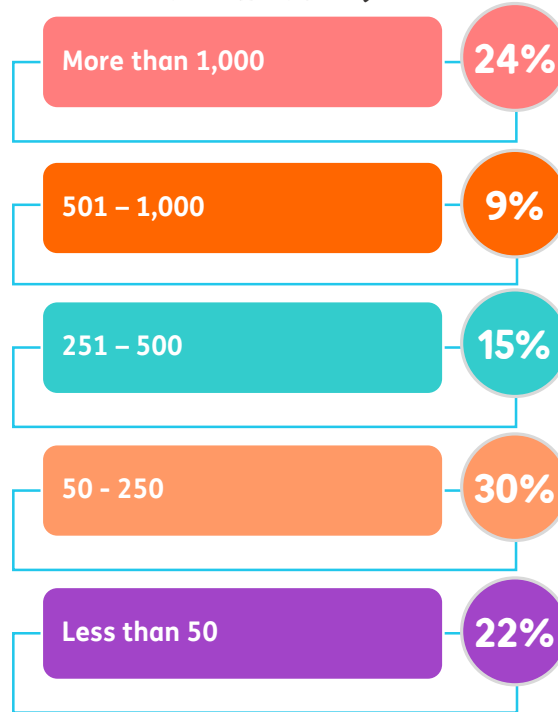
From an online survey invite sent out to 251 industry leaders, 76 participated in the survey (30%)

TYPE OF BUSINESS

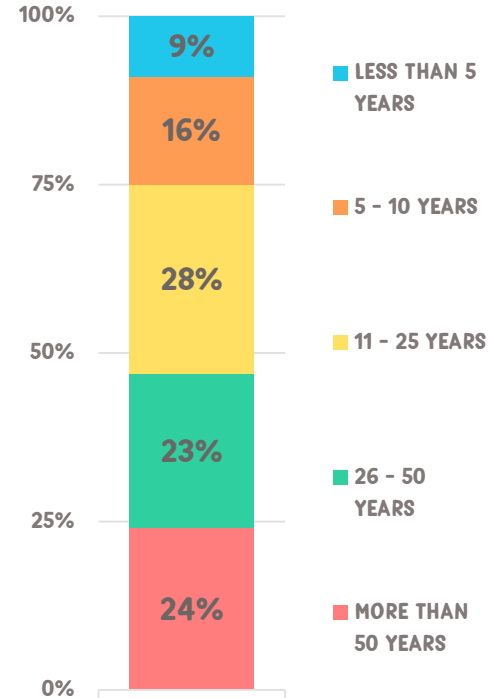


MULTIPLE 'OTHER' TYPES OF ORGANISATIONS MENTIONED INCLUDING FINTECH/SOFTWARE SUPPLIER, TRADE BODY, NETWORK/SERVICE COMPANY, PLATFORM & PENSIONS PROVIDERS, MASTERTRUST, REINSURER ETC.

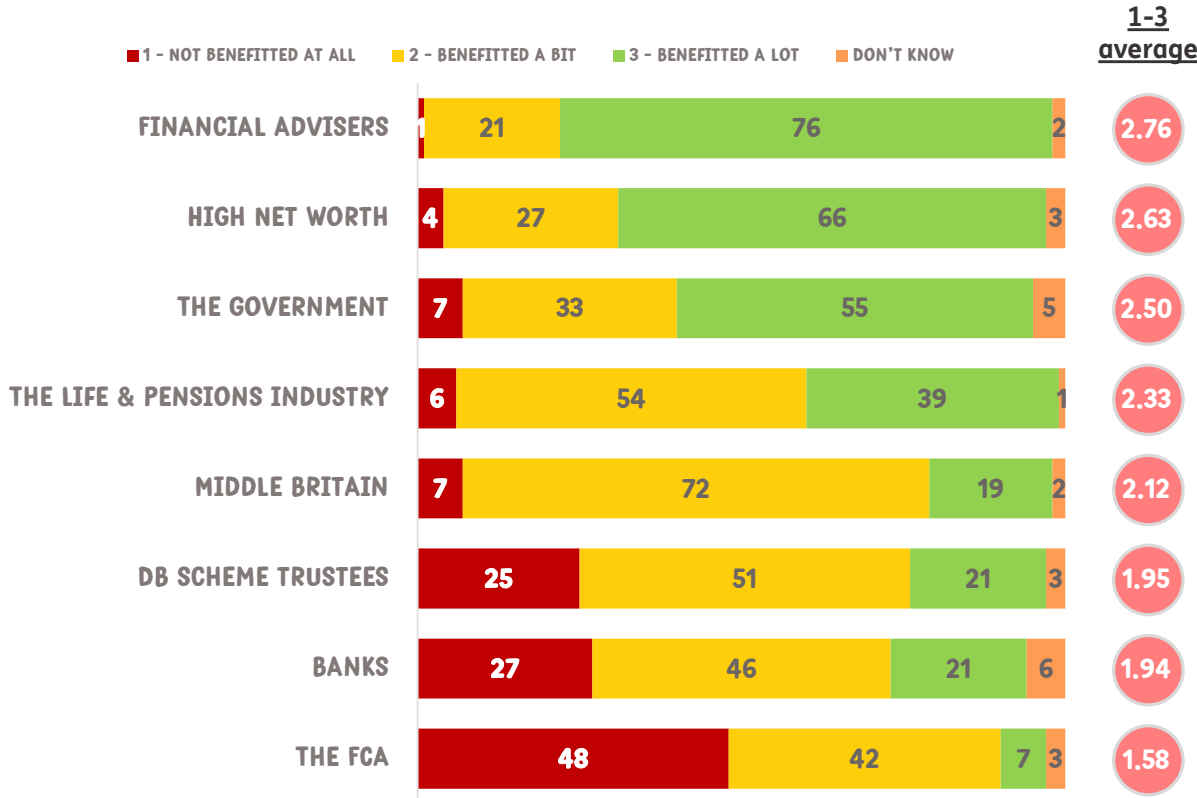
SIZE OF BUSINESS (BY NUMBER OF EMPLOYEES)



HOW LONG OPERATING IN UK



The benefits felt by pension freedoms are not universal



Financial advisers and the customers they typically service (HNW), are perceived to benefit a lot

As it was originally a political decision, it's hardly surprising that it's been felt to have had a 'positive wash-over' for the Government

The Life & Pensions industry as a corollary, is also perceived to have benefitted.



Middle Britain – who pension freedoms were trumpeted as helping – aren't perceived to have benefitted as much, and neither have the Banks or DB scheme trustees



The FCA is felt to have benefitted least of all

What kind of impact have pension freedoms had on UK consumers – a force for good or not? Who knows...

“THEY’VE HAD A POSITIVE IMPACT”

21%

“THEY’VE HAD A MINIMAL IMPACT”

8%

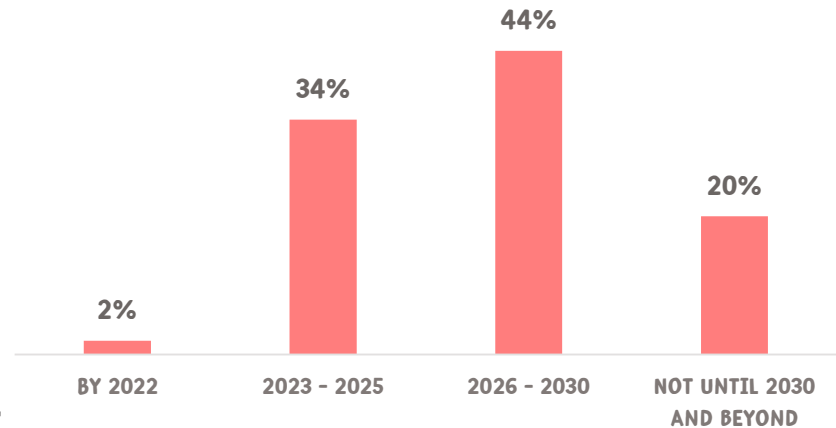
“THEY’VE HAD A NEGATIVE IMPACT”

9%

“STILL TOO EARLY TO SAY”

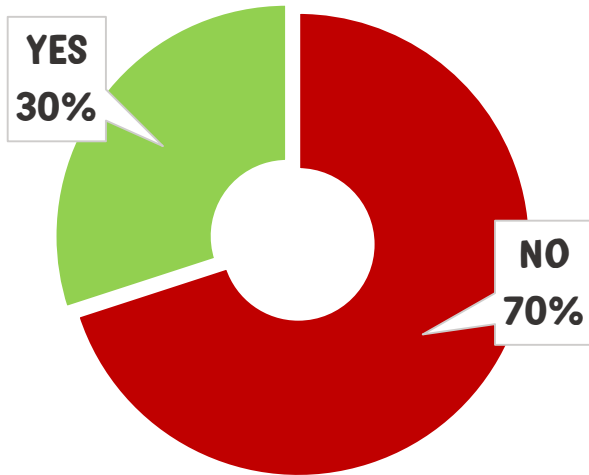
62%

SO WHEN DO WE THINK WE’LL KNOW THEN?



How prepared are government & regulators to assess consumer risk? The lack of holistic, household-level finances means not very...

ARE THE GOVERNMENT AND REGULATORS COLLECTING THE RIGHT TYPE OF DATA TO ASSESS THE RISKS TO CONSUMERS?



WHY ISN'T THE RIGHT TYPE OF DATA BEING COLLECTED?

"GOVERNMENT AND REGULATORS ARE USING HIGH LEVEL METRICS TO DRIVE POLICY WHEN PENSION FREEDOMS HAS MEANT THAT DECISIONS INCREASINGLY NEED TO REFLECT INDIVIDUAL CIRCUMSTANCES E.G. CRYSTALLISING A PENSION POT TO LIMIT FUTURE LIFETIME ALLOWANCE EXPOSURE, WHILST LEAVING THE RESIDUAL RETIREMENT POT INVESTED IS DRIVEN BY DIFFERENT NEEDS TO CRYSTALLISING TO GENERATE AN INCOME"

"MOST USEFUL INFORMATION WILL BE NOT ABOUT THE FREEDOMS ALREADY ACCESSED BUT ABOUT WHAT CONSUMERS HAVE SPENT THOSE FREEDOMS ON (AND HOW QUICKLY). THAT WILL TAKE TIME AND IS DIFFICULT TO ASSESS AS IT IS BESPOKE TO INDIVIDUAL CIRCUMSTANCES"

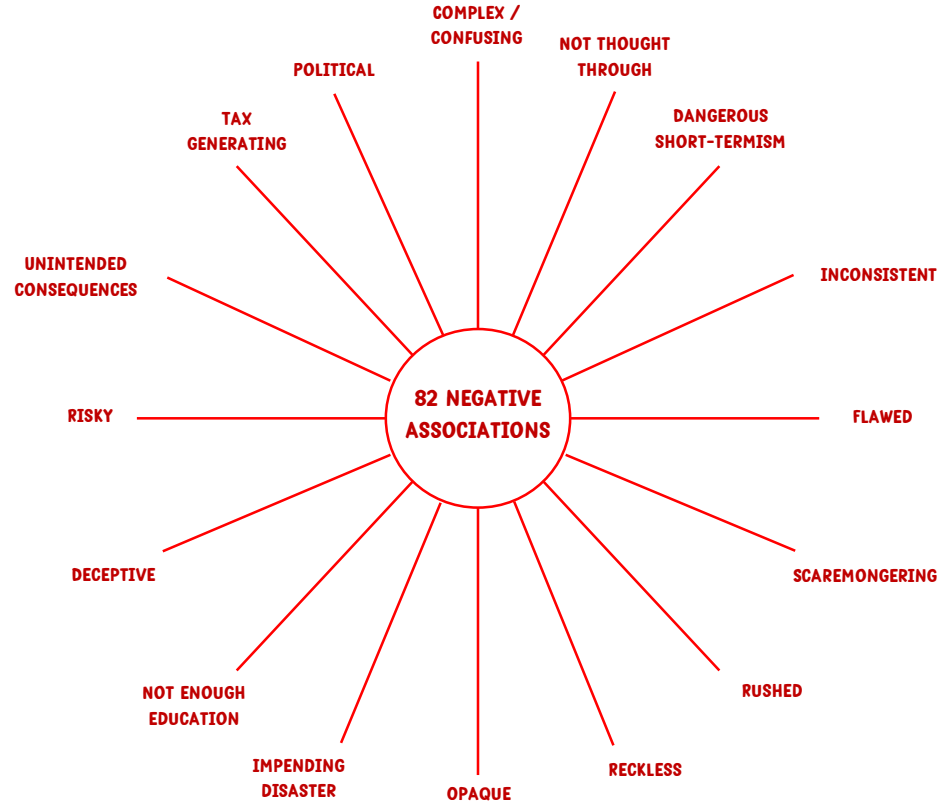
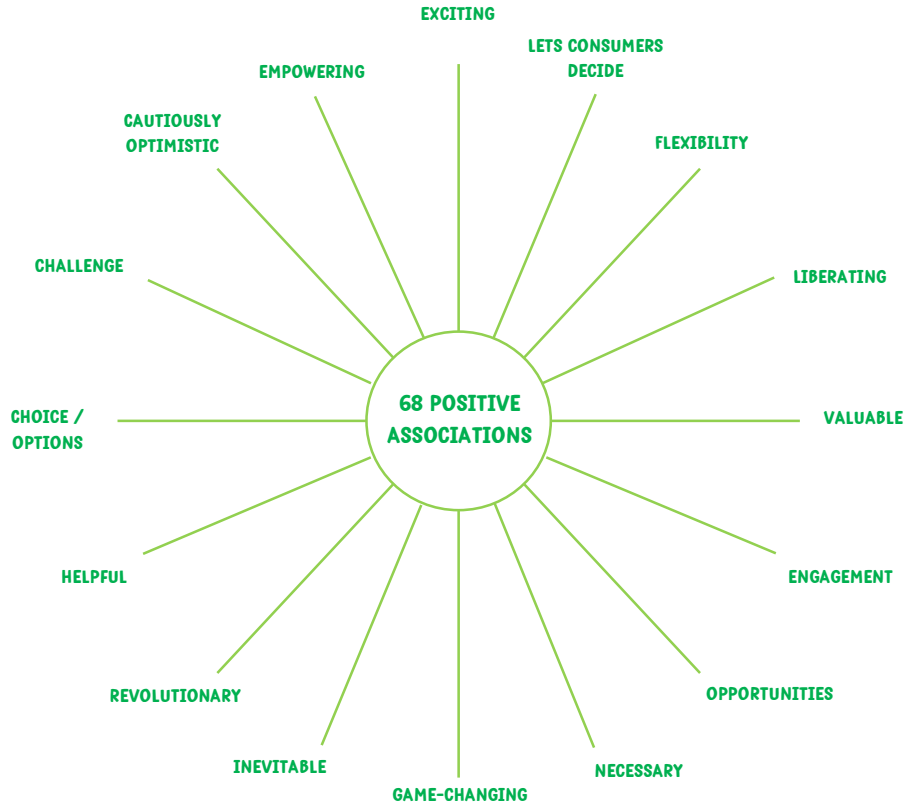
"NEED TO UNDERSTAND THE HOUSEHOLD POSITION TO PUT INTO CONTEXT THE DECISIONS BEING TAKEN BY AN INDIVIDUAL. HOLISTIC UNDERSTANDING OF TOTAL PENSION ASSETS, NOT JUST THE DECISIONS TAKEN FOR AN INDIVIDUAL POLICY. LONGITUDINAL STUDY TO FOLLOW PEOPLE AND SEE HOW THEIR DECISIONS CONTINUE TO BE TAKEN"

"DATA IS PRIMARILY ON WHAT PEOPLE ARE DOING WITH INDIVIDUAL PRODUCTS - HOW MUCH THEY ARE INVESTING, HOW MUCH THEY ARE DRAWING OUT, HOW MUCH TAX THEY ARE PAYING. THEY ARE NOT COLLECTING DATA THAT IS AGGREGATED ACROSS AN INDIVIDUAL'S WEALTH - ALL THEIR PENSIONS, SAVINGS, SOURCES OF INCOME. IT MAY BE FINE FOR SOMEONE TO TAKE A PENSION AND SPEND IT ALL IF IT IS A SMALL PART OF THEIR OVERALL WEALTH, BUT A DISASTER IF IT THAT PENSION IS ALL THEIR WEALTH"

"BECAUSE ASSESSING EMERGING RISKS REQUIRE AN UNDERSTANDING OF CONTEXT. FOR EXAMPLE, THE CASHING IN OF PENSION POTS NEEDS TO BE ASSESSED IN THE CONTEXT OF SOMEONE'S OVERALL FINANCIAL ASSETS, THEIR HEALTH, THEIR MARITAL STATUS ETC - WITHOUT CONTEXT IT IS VERY EASY TO COME TO THE WRONG CONCLUSIONS"

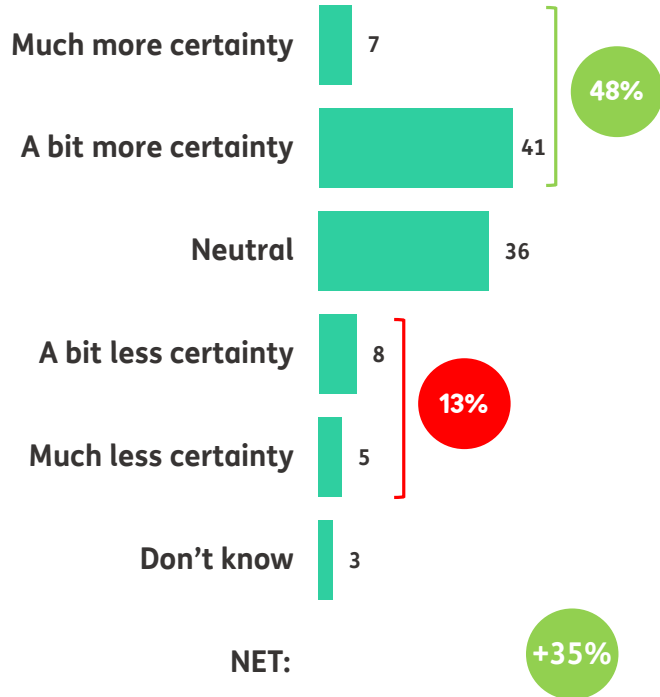
"THE RISKS WILL EMERGE IN THE YEARS IF NOT DECADES AHEAD. CUSTOMERS WILL MISPRICE THEIR LONGEVITY AND LIVE OUT THE LAST YEARS OF THEIR LIVES WITH LITTLE OR NO FINANCIAL RESOURCES. THIS WILL LEAVE A HEAVY BURDEN ON THE STATE AND CAUSE FINANCIAL MISERY FOR GENERATIONS OF WIVES AND HUSBANDS THAT LIVE ON PAST THEIR SPOUSES"

How would the industry describe pension freedoms? With slightly more negative associations than positive ones

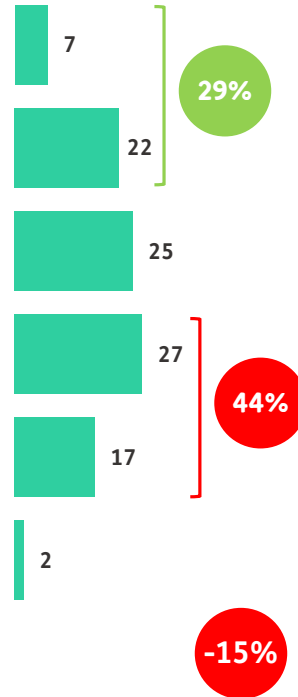


Have pension freedoms created more or less certainty for consumers? Depends which consumers...

'HIGH NET WORTH' CONSUMERS



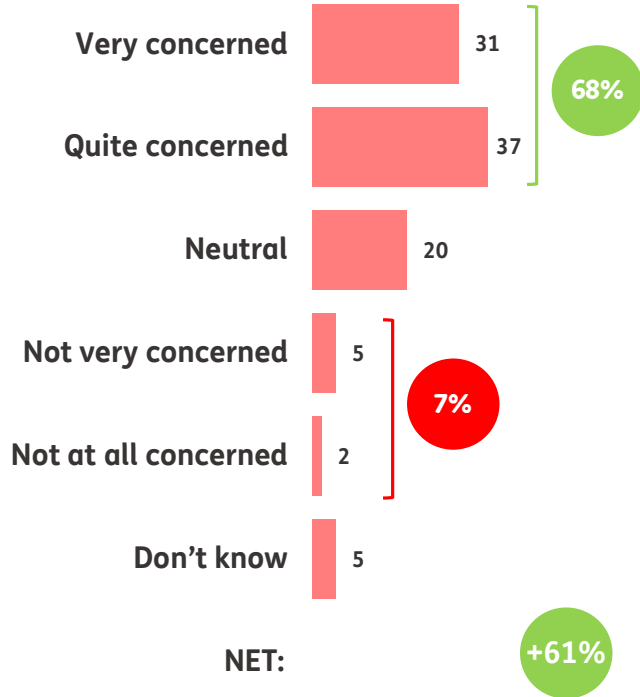
'MIDDLE BRITAIN' CONSUMERS



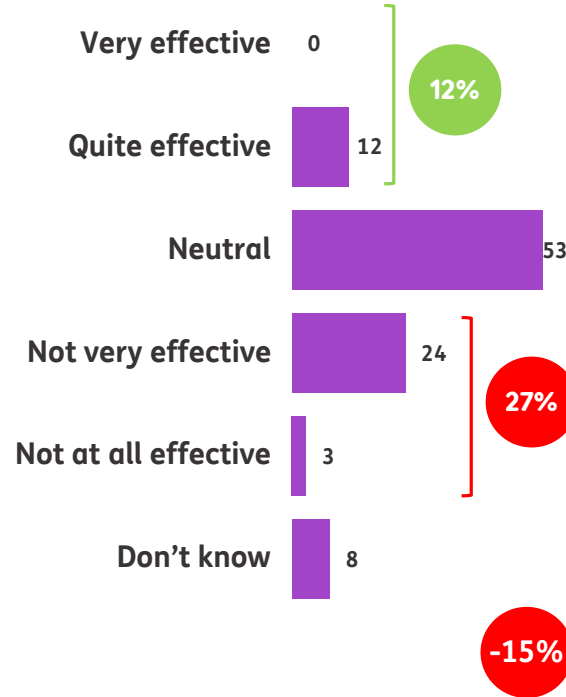
THEY'VE GIVEN HIGH NET WORTH CONSUMERS FAR MORE CERTAINTY ABOUT WHAT TO DO WITH THEIR PENSION SAVINGS, BUT PENSION FREEDOMS HAVEN'T BEEN NEARLY AS HELPFUL FOR MIDDLE BRITAIN

It's felt that the FCA is concerned with emerging outcomes, but that the appropriate protective measures are not yet in place

HOW CONCERNED IS THE FCA WITH THE EMERGING OUTCOMES?

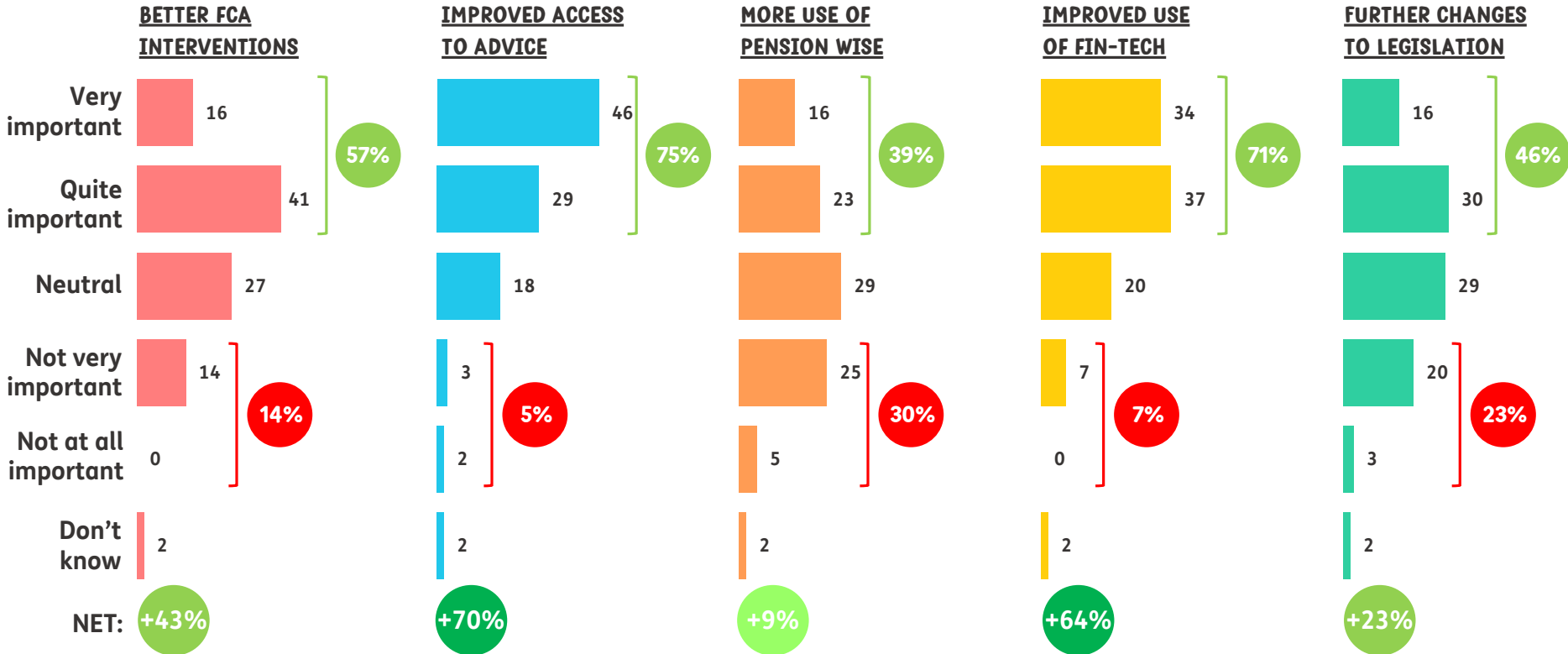


BUT HOW EFFECTIVE WILL THE PROTECTIVE MEASURES THE FCA ARE INTRODUCING BE?

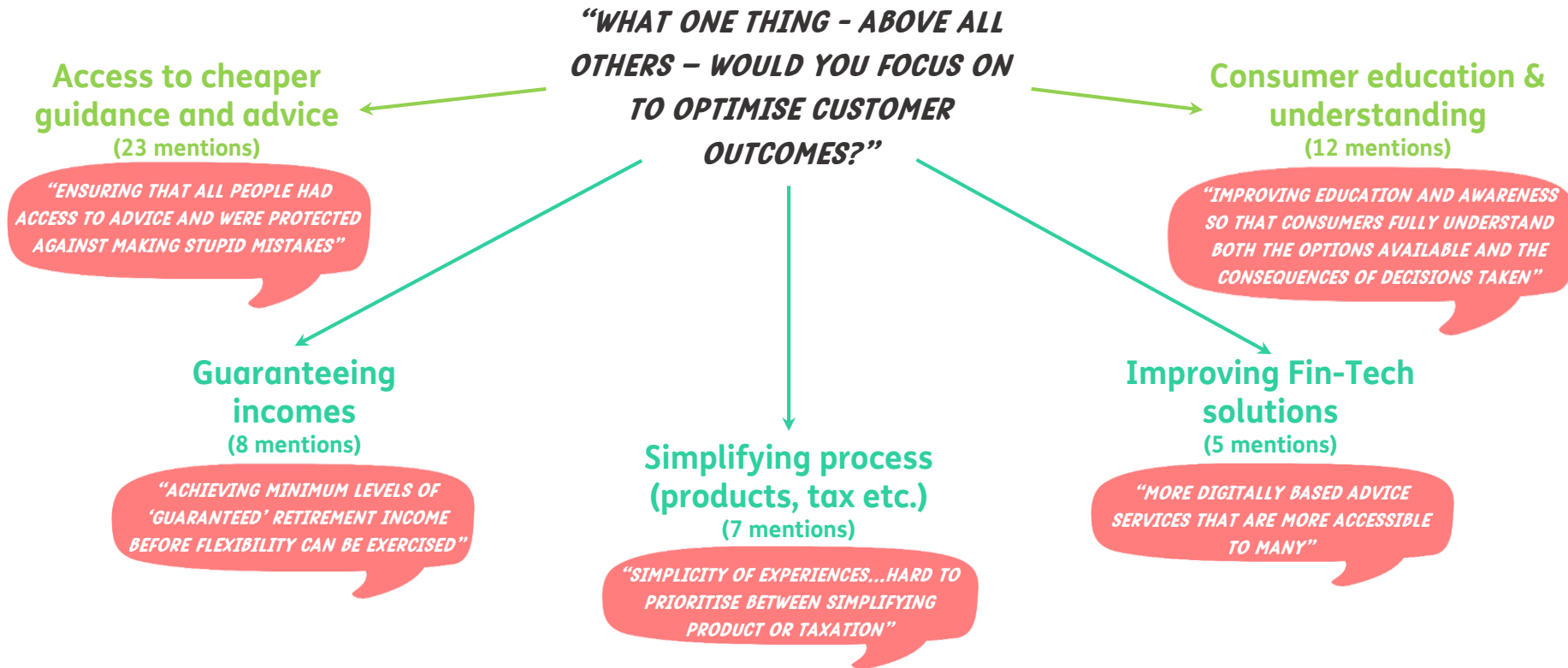


PERCEPTION IS THAT THE FCA IS PRETTY CONCERNED WITH REGARDS TO EMERGING CONSUMER OUTCOMES FOLLOWING PENSION FREEDOMS, BUT THAT THE PROTECTIONS THEY'RE PUTTING IN PLACE AREN'T CURRENTLY EXPECTED TO BE THAT EFFECTIVE

Better FCA intervention important to optimise customer outcomes, but improved access to regulated advice & the use of Fin-Tech is key

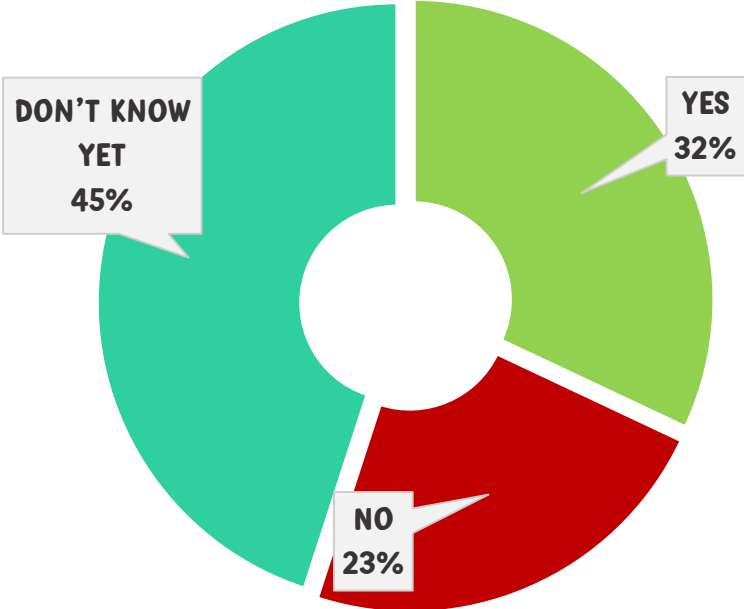


What should the focus be on to ensure customer outcomes are optimised? **Two main themes** emerge with **three secondary themes**



How kindly will history judge pension freedoms? The jury is still out...

WILL HISTORY JUDGE PENSION FREEDOMS TO HAVE HAD A NET POSITIVE IMPACT?



Some parting observations from our industry respondents...

“Financial capability is very low and most people either don't understand the decisions they need to make, and/or aren't very interested, and/or fear making bad choices... so often don't make any. They really don't want to know where the money comes from so long as it arrives, and would be traumatised if another financial crash reduced the value of their income/funds.

Pension 'freedom' existed before 2015 for wealthy people who had a lot of flexibility [in how] to use their pension money and usually [had] access to professional advice to help them make investments and avoid tax. The reforms in 2015 just extended existing flexibility to an ill-prepared audience who didn't really have the same wealth to take a lot of risks or to employ expensive advisers to tell them how to do it – [let alone] any particular interest in investment.

The 'best' parts of pension freedoms - allowing pension funds to be passed through generations are only relevant to wealthy people as vehicles to help with inheritance rather than retirement income, and will probably be the first of the reforms to be reversed. The market is skewed because the incentives are wrong too - it's really hard to see that an adviser or drawdown provider who can earn recurring income of say 1% every year for the foreseeable future will recommend to a customer they instead take an annuity paying a one-off commission.

In the one part of the pensions world where knowledgeable people take sustainable income seriously - the defined benefits sector - schemes are queuing up to buy annuities to reduce their risks.”

Some parting observations from our industry respondents...

“Consumers need access to education and advice in order to have a strategy which meets their needs. For this to be possible, advice firms need to embrace technology to enable them to deliver a pathway to better education and advice.

Workplace-based advice can also be facilitated as part of a financial well being programme.

Taxation of withdrawals is little understood by the public. This leads to value destruction of pension savings as larger tax bills are incurred than would [otherwise] be necessary. The Money Purchase Annual Allowance is a particularly unfair restriction which damages individual's future planning prospects without sufficient warning.

A cooling-off period for the non advised accessing more than PCLS in which tax-take is front and centre, would save some consumers from this. Based on recent HMRC data, the level of tax rebates paid by HMRC in relation to taxable income withdrawn is low, suggesting that many may be owed tax which they may never reclaim. Greater public awareness of the taxation of larger one-off withdrawals may help consumers to avoid value destruction and to claim back what they are owed.”



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