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GLOBAL RESEARCH PROTECTING BRANDS AND REPUTATION

Retirement outcomes from DC pensions

A Partnership insight report

September 2011



Introduction

We are pleased to present this research into the issues of Defined Contribution (DC) pension schemes, conducted for Partnership by Echo Research Limited.

As the growth in DC provision continues, individuals increasingly need to understand a host of issues:

- Investment choices
- Appropriate contribution levels
- Effect of inflation
- Additional benefit requirements
- Longevity
- Choices at retirement

The survey reveals the lack of awareness of these aspects of pensions:

- Pension professionals and employers highlight the lack of understanding of DC pension provision.
- Awareness of choices and process at retirement is particularly low with very few professionals believing members understand where to go for guidance.
- Members are unaware of the nature of their pension, what they can receive at retirement and how to get the best income possible.
- Members often don't understand annuities and are unaware of the availability of enhanced annuities.
- Many professionals accept that the decumulation phase receives less focus than other areas of pension schemes.
- Information on options is received too late before retirement leaving insufficient time to improve understanding.
- Advice is difficult as members perceive it will be expensive but the vast majority of professionals and employers believe it is the way to achieve the best outcomes in retirement.
- This highlights a need for swift, comprehensive information in easily digestible formats, with access to guidance at the appropriate stage of the retirement process and the ability to compare and contrast annuity options before deciding.

We believe many of these issues can be addressed to help provide significantly better outcomes in retirement for scheme members. The solutions available can minimise the cost to schemes and employers while providing measurable improvements in members' incomes - for the whole of their retirement.

Andrew Megson
Managing Director, Retirement
Partnership

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Background

Partnership commissioned an independent research agency, Echo Research, to investigate DC members' understanding of their DC scheme and the retirement process in general. Specifically, the research sought to uncover whether the average DC member is aware of the level of income that they might need in retirement, whether DC members are receiving a good outcome at retirement, and whether DC members understand the role of the open market option and enhanced annuities for income uplift. The research also looked at the roles that regulation and technology should play in pension provision, and what the current and future issues are for DC members and DC pension schemes.

The research was conducted in two strands: the first part consisted of seven qualitative interviews with leading pension trustees, employee benefit and pension consultancies, and pension scheme providers; and the second part of the research took the form of structured interviews with 40 pension professionals - four independent trustees, five consultancies and 31 corporate companies. Those to whom we spoke ranged from client directors, through pension directors and company secretaries, to accounts managers.

The qualitative research was conducted during June 2011, and the quantitative research during 27th July to 12th August 2011. Echo Research adheres to the MRS Code of Conduct and respects interviewee confidentiality.

Please note that charts may not add up to 100% due to rounding from decimal places.



Summary

- **The average DC member does not understand the retirement and pension process, or their DC scheme.**
The degree of incomprehension affecting DC members seems to induce inactivity over deciding how much to invest and how much time to devote to the whole retirement issue. Some people have a fair grasp of the generalities, but not of the minutiae.
- The challenge to help achieve **good DC scheme outcomes is for professionals to dispense good advice and guidance**, and to enable and encourage the acquisition of knowledge and education in the broadest senses.
- Due to inertia and a lack of knowledge, DC members on average receive sub-optimal outcomes at retirement.
- Conditions for a high-quality DC outcome include:
 - access to good quality advice and guidance,
 - buying annuities smartly and being confident enough to shop around.
 - DC pension providers facilitating earlier 'wake-up calls' as people's retirement approaches, giving members earlier and clearer information.
- There are many explicit pointers to where help would be most useful for DC members, who are at a loss when it comes to knowing where to go for advice and guidance, not least on enhanced annuities. Useful steps for professionals to take could include:
 - Improving their own communications through clarity, lack of jargon, colour, appeal and use of everyday parallels and metaphors.
 - Empowering their teams with high quality technology (while not forgetting the all-important personal and human touch) to:
 - deliver the best, clearest and most entertaining learning packages available,
 - enable speedier turnaround of quotes,
 - help consumers with decision-tree-based selection.
 - Even better, really 'cool' technology could make self-education and choice actually motivating for DC members.
 - Directing communications beyond DC members themselves, to the influence network around them that includes employers, friends, family, peers and colleagues. This could include pension education, and perhaps more broadly financial education, from a young age.

- Lobbying for regulators and government to heighten the chances of good outcomes by defining frameworks of best practice and keeping processes uncomplicated for employers.
 - Encouraging regulators to shine a brighter light onto good-quality, cost-effective advice.
 - Address some of the deeper-running concerns about the post-RDR environment when income streams may come under threat.
 - Address hesitancy in the uptake of enhanced annuities caused by a lack of knowledge and impatience with the medical assurance process.
- Many of the future trends envisioned suggest a rich range of opportunities and challenges, among them:
 - the move to later retirement and the need for greater flexibility and sophistication in retirement provision,
 - the impact of auto-enrolment on prolific DC pension provision,
 - the opportunity to get into pole position on the starting grid as DC comprehensively takes over from DB and as pension generalists start trying to outrun DC and enhanced annuity professionals.



1 Consideration given to the retirement process

Most people interviewed, in both the quantitative part of the research and the in-depth conversations, believe that the average DC member devotes very little time to thinking about the retirement and pension process in general.

A majority of interviewees (70%) believe that the average DC member does not think about when they will retire 'at all' or 'very much', nor do they think about what income they will want or need (80%). 88% do not believe the average member thinks about how much they should be contributing to achieve the right level of retirement income, nor where to invest their retirement funds (85%).

Most interviewees (78%) also think that the average DC member does not think about the options available to them at retirement, nor do they think about the shape of the pension that they will end up with at retirement (83%).

The same opinions presented themselves in the qualitative phase: not enough thought and planning is given by members to the strategy they need to pursue at retirement. **Many interviewees stated that DC members are too concerned about accumulation, and not preoccupied enough with decumulation.** This is thought to occur because of fixation on the DB model.

"People assume that DC is like DB and that there will be a simple, single formula which will determine what you get out at the end of the day... But in the DC world people will have to flex their employment patterns with their savings patterns so that in later life you mix and match pay and pension, work and retirement. Retirement in the DC world will not be an event; it will be more of a process."

When will they retire	3%	28%	70%	
What income they will want or need for retirement	20%	65%	15%	
How much should they be contributing to achieve the level of retirement income	13%	50%	38%	
How and where to invest retirement funds	15%	60%	25%	
The options available to them at retirement	3%	18%	48%	30%
The shape of the pension they will end up buying	3%	15%	43%	40%

■ Think about it a great deal
 ■ A fair amount
 ■ Do not think about it very much
 ■ Do not think about it at all

Base: All respondents (N=40)

2 Understanding of pensions

Generally, the pension professionals to whom we spoke believe that members of defined benefit (DB) schemes tend to understand their scheme to a greater extent than do members of DC schemes. The reasons for this tends to be related to a lack of information and guidance, along with apathy and a lack of activity among scheme members.

2.1 - Understanding of DB vs. DC schemes

Four in five (80%) of respondents feel that the average defined contribution (DC) member either does not understand their DC scheme very well or does not understand it at all, against just one in five (20%) who feel they understand it 'fairly well'. None feels that DC members understand their scheme 'very well'.

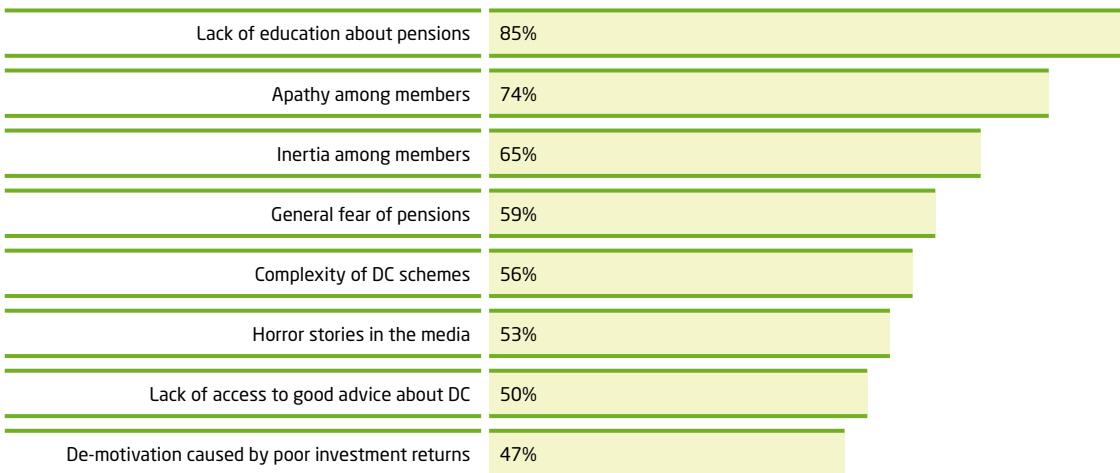
By comparison, the understanding of DB schemes is thought to be far greater. Fewer than half (43%) of respondents believe that the average DB member does not understand their DB scheme either very well or at all, against just over half (53%) who believe they understand their DB scheme 'fairly well'. Again, very few (3%) believe members understand their DB scheme 'very well'.

2.2 - Reasons for not understanding DC schemes

In both the quantitative and qualitative interviews, the reasons given by interviewees for members not understanding their scheme were very similar.

A lack of education and feelings of apathy are believed to contribute primarily to members' lack of understanding.

In the quantitative interviews, when interviewees were prompted on why members do not understand their DC scheme, a large majority (85%) cite a 'lack of education about pensions in general', three-quarters (74%) point to 'apathy among members', and two-thirds (66%) said 'inertia among members'. Just fewer than three in five (59%) believe that drivers of incomprehension include a 'general fear of pensions', just over half (56%) feel that there is 'complexity of DC schemes' and 'horror stories in the media' (53%).



Base: All respondents (N=40), Multicoded



When interviewees were asked for other reasons why people do not understand their DC scheme, more than half of the interviewees (59%) said they thought it was down to 'regulation'; just under a quarter (24%) said 'economic climate'; and a minority (6%) stated that it is because of a 'lack of understanding'. A further 6% said that it is because of 'mistrust'.

In the qualitative interviews, sentiment was similar. The level of understanding of DC schemes is weak, and this sometimes results in a lack of activity around pension provision. Generally members do not understand how much they need to invest, and, consequently, what their 'pot' of money might equate to in later life.

"When we talk to clients at a corporate level and even an individual level, there is a startling lack of understanding as to what their pension scheme is and what it's about."

"I think buying an annuity or securing your income stream is the single biggest purchase of your life. It's the fact it's not reversible which makes it such an important purchase."

"People don't realise how much you have to pay upfront to get a realistic benefit out at the end of the day, the impact of different investment choices, the impact of different charging structures and the challenge of converting a pot into an income stream in later life."

In some instances, apathy is at such a level that DC members seem only to think about their pension provision in the very final stages, or sometimes not at all.

"People arrive on the cusp of retirement and it's a case of 'what will be, will be', and they haven't really considered how much they're going to need in retirement and they haven't considered how much they've got..."

Some interviewees believe that apathy and a sense of resignation, among DC members, are strongest when equities are doing badly, causing those in DC pension schemes to become disheartened.

"Sending out statements to individuals whereby the value has dropped from one year to the next is hugely de-motivating for them."

There are suggestions that a lack of senior people in company DC schemes may account for low standards.

"A lot of the people looking after these schemes aren't actually in it...once you see more of management and directors of the companies in DC schemes; suddenly they're going to be much better run."

Regulation	59%
Economic climate	24%
Lack of understanding	6%
Mistrust	6%

Base: Those who don't understand DC scheme (N=34), Multicoded

A few interviewees mention practices that are not entirely in the spirit of the law.

“Some schemes are legally in breach of the requirement that you tell people at retirement that they can take the open market option and shop around. Some schemes comply with the letter of the law in terms of what is disclosed – but not necessarily the spirit.”

Nonetheless, interest in DC schemes in general seems to be increasing, and, given the decline of DB schemes, is a trend set to grow still faster. This may well lead to an improved focus on outcomes at retirement.

“As DC money purchase schemes mature and you get more retirees, so there will be far more focus from trustees, individual members and the media on retirement arrangements, looking at annuity provision or income drawdown.”

3 Quality of DC pension scheme outcomes

More than two-thirds of quantitative interviewees (70%) do not think that DC members achieve good outcomes at retirement. By comparison, only four corporate, non-pensions companies (10% of all interviewees) think that DC members **do** get good outcomes at retirement from their DC pension.

The pension professionals believe that DC members do not receive good outcomes from their DC pension, regardless of whether or not they know where to go for advice. In addition, they think that the quality of outcomes at retirement for DC schemes varies too much.

Regardless of whether or not DC members know where to go for advice on DC pensions, the likelihood of their making good choices remains low. Around three in four (73%) quantitative interviewees who think that DC members do not know where to go for advice also think that members do not get good outcomes. What’s more, even when interviewees think that DC members do know where to go for advice, a large majority (84%) still believes that they do not get good outcomes.

65% agree that the quality of outcomes at retirement for members of DC schemes in the UK varies too much. Only a minority (10%) disagree.



4 Factors affecting the quality of DC pension schemes

The pension professionals to whom we spoke attributed the low quality of DC scheme outcomes to several factors. The level and quality of advice, guidance, knowledge and education are believed to be the primary factors in influencing the quality of DC scheme outcomes.

When interviewees were prompted on factors most affecting the quality of a DC outcome, the top success factor is 'access to good quality advice and guidance' (cited by 83%). 73% say outcomes are most determined by 'buying annuities smartly' while a comparable proportion cites 'shopping around' (70%). In a different vein, the 'impact of inflation' (73%); and 'getting the right additional benefits' (68%) rate highly.

Interviewees were also asked what other factors affect DC pension outcomes. The major issue here was the stock market with more than half (55%) believing this is a contributing factor. Only a minority chose paying 'early contribution[s]' (15%); 'education' (13%), 'advice/ understanding' (8%), the 'size of pot/ shape of pot' (8%), and the 'range of products' (3%).

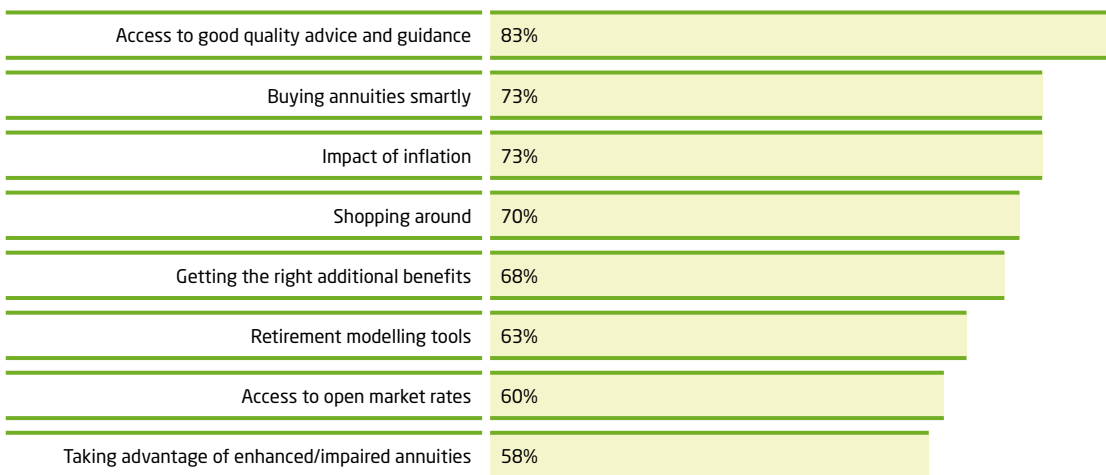
The in-depth interviews largely endorse the notion that 'knowledge is power', and that many members of DC schemes woefully lack the power that such knowledge gives.

For many interviewees, members' ignorance hampers good decisions.

"There's a massive piece of education needed on all of this, really".

Several feel the clarity of communications is key to the process.

"Your communications must be written in plain English and be informative, so that the members are able to make really informed decisions about how they take their retirement income, whether the annuity route, or by income drawdown."



Base: All respondents (N=40), Multicoded

Many feel that DC members stampeded into decisions at the last moment without understanding the implications, and without dovetailing their DC choices with their own individual circumstances and lifestyle factors.

"People tend to accept almost the first option which is offered to them. They accept the option which has the largest number of pound signs in the first year without taking into account such things as inflation or their health."

"You need to look at things like ill-health benefits and enhanced benefits."

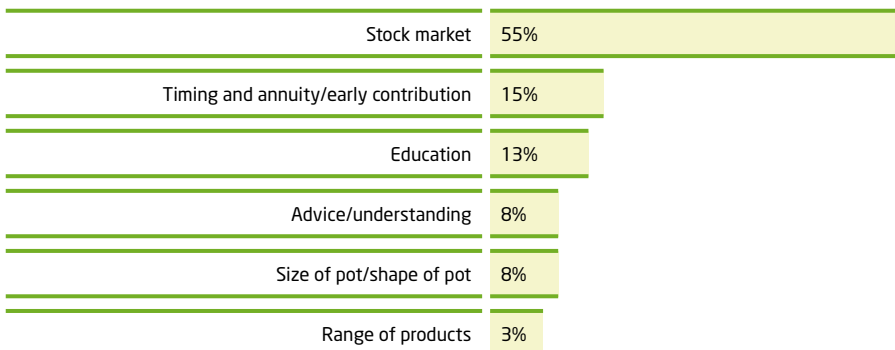
"People need to understand things like longevity, and the impact of inflation."

"[We have to] consider what sources of income people have in retirement, how secure are those income sources, are they protected against inflation. Only then can you produce a pension decumulation strategy that will be consumer-focused rather than imposed from on high."

"I'd say the key thing is the level of risk they can tolerate. If people have got very little other income, then they're going to be relying on this annuity. If the annuity is just part of a much wider substantial asset base, then they can take a lot more risk than if it's their only source of income... Do they need to take it now? Are they better deferring it because they've got other income streams?"

Some sounded a warning note that building bespoke solutions for less well-off DC members could pose some economic challenges for providers.

"How can we deliver all of that either in an advised or non-advised way economically... It's fine to look after the people that have got half a million quid at the point of retirement, but there's going to be a mass market of people with 50-100 thousand pounds over the next 10 years."



Base: All respondents (N=40), Multicoded



5 How a 'good' DC pension scheme outcome might look

In the quantitative research, respondents were asked to describe what a 'good' DC outcome would look like for an average DC member, as opposed to a 'poor' one. Opinions and responses are varied and relate to either a certain financial outcome, a level of comfort in retirement, or a certain expectation-level. Qualitative responses point towards pension outcomes that are not solely focussed on the DC pension scheme provision, and take into account other savings and investments, and tailored advice for the individual.

- 28% thought a good outcome would be 'meeting expectations of pension incomes',
- 20% thought that it would look like '50-70% of one's salary',
- 18% believe that it would be a 'sufficient pension income to maintain lifestyle',
- 15% thought it was an outcome that would mean a person has 'saved or planned for having a pension',
- 10% thought it would mean the individual has a better than average income.

Taking 'what you're given' when you have a poor understanding of the options can be risky too.

"We've still got nearly 50% of annuities being bought without an open market option being considered."

"People have misplaced trust and they don't really understand DC so they just tend to go 'oh I'll just take this' on the basis that it will be fine, whereas they are probably 10-15% below where they could be."

"We've got 90% of people investing their contributions in a default fund; most of those don't know how the money is being invested."

The best choices are driven; many feel, by advice that is holistic, personalised and professional.

"The one thing that good outcomes are always associated with is access to good advice at both the accumulation and the decumulation phase."

"A good outcome is probably going to be for somebody who is using an annuity broking service."

Having a DC pension as your only refuge in retirement could be problematic.

"We're already beginning to see people who are retiring with only a DC pension and for them their pension income is hugely below what they anticipated."

Again, differentiated provision is the preferred route in our respondents' minds.

"For some individuals a flat, winner-takes-all, non-increasing pension will make sense, whereas for other people an increasing and/or pension with a survivors benefit will be more appropriate."

"Most people who retire with a DC pension will have another pension as well, so in a way DC at the moment is not a hugely significant part of their income stream. But that is changing ... A good outcome would be for people to receive an income so they can maintain their standard of living at a level similar to pre-retirement and for most people that probably means a pension in the order of 55-75% of their final income."

6 Advice and guidance

On the whole, the pension professionals to whom we spoke do not think that DC pension scheme members know who can advise them. They also believe that members do not get sufficient advice from pension regulators, **however the quality of advice is deemed 'good' from annuity brokers.** In light of this, pension professionals believe that DC members predominantly go to employers and financial advisors for guidance, and, secondarily, to friends and family.

However, some of the interviewees believe that DC members are reluctant to go to advisors or IFAs, either because their pension accumulation is so large they believe that they may be financially taken advantage of, or because their 'pot' is so small that advisors will not be interested in helping them.

But with the introduction of the RDR, interviewees do believe that the quality of advice will improve for DC members with small pension savings.

6.1 - Provision of information and support

Views on information and support were more finely balanced although, generally, interviewees did not think that the average DC member knows where to go for advice and, furthermore, that they do not get enough information from regulators.

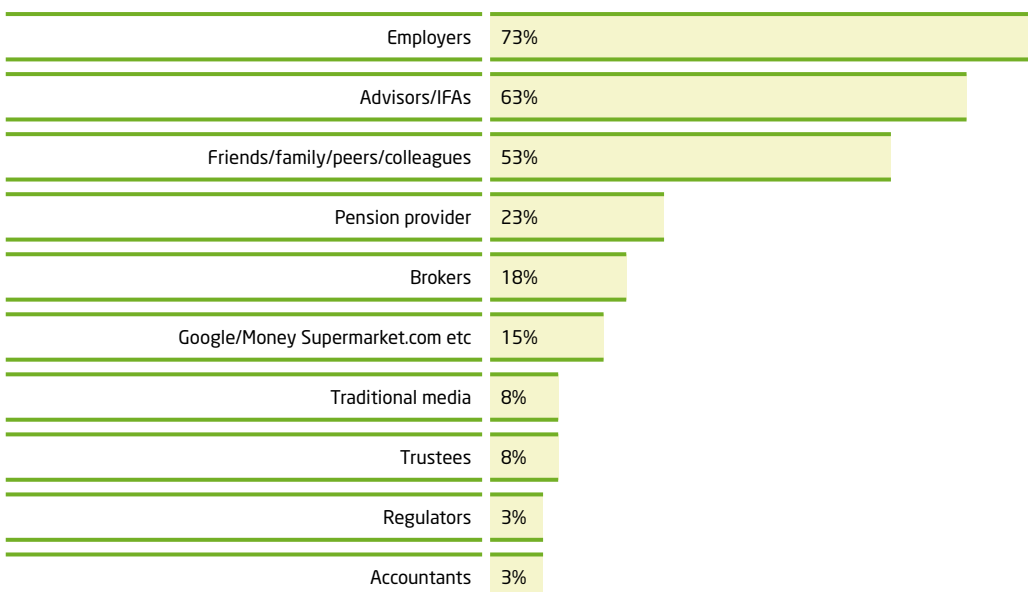
In the quantitative research, just over half (55%) of interviewees disagree that DC members know where to go for advice and guidance but a third (30%) believe they do.

58% of interviewees disagree that DC members get enough information and support from pensions regulators, against a third (30%) who believe that they do.

35% agree that annuity brokers provide a good service to members while only a small minority (13%) 'somewhat disagree.'

6.2 - Where DC members go for advice and guidance

In the quantitative research, when those surveyed were asked where they believe DC members go to for advice, a variety of answers was given, and often more than one place or person was mentioned. Around three in four (73%) say that the average DC member goes to their employer; around two in three (63%) say they go to an advisor or IFA, and just over half (53%) say they go to their friends, family, peers, or colleagues.



Base: All respondents (N=40), Multicoded



The qualitative interviews provided similar results, but with a focus on who DC members may deem to be pension professionals, rather than going to friends and family.

Some go to their usual financial advisers.

"[They may go] to a financial advisor who has sold them their house insurance or their car insurance and assume that they are similarly equipped to deal with pension issues...[when in fact they aren't]."

Some simply don't seek advice because they don't trust IFAs as a 'breed'.

"There is a distrust of financial advisors in that people have heard of pensions mis-selling, endowment mis-selling."

People's lack of trust stems in part from there being no national brand or brands for them to turn to in this area.

"People in a room might say 'Name one or more companies you would go to for advice at retirement', and no common name would come."

6.3 - Cost as a disincentive for seeking out professional advice

The qualitative interviews identified that some DC members do not want to pursue professional guidance due to the cost-factor involved, but similarly professionals may not want to advise members with a small pot as the financial return is too low.

Some are neglected because their resources are so limited.

"If they've got a smallish pot, nobody's going to want to advise them."

There is the opportunity to introduce innovative solutions to these cost challenges. Some respondents made suggestions.

"Should we not have a thing whereby the government ensures at certain key stages you get some advice...?"

"Or maybe it's just the government does some sort of thing whereby, sometime between 60 and 70 you get 3 hours with a financial advisor that might cost you £500."

A particular reason for employers not to take advice is that they are alarmed by the thought of its 'variability'.

"Some employers won't go near advice with a bargepole... [they] won't make advice variable at all, they are very frightened of doing so for the fear of retribution."

6.4 - The role of RDR

When interviewees were asked what they think the impact of the Retail Distribution Review (RDR) would be on the calibre of advice to DC members with small 'pots',

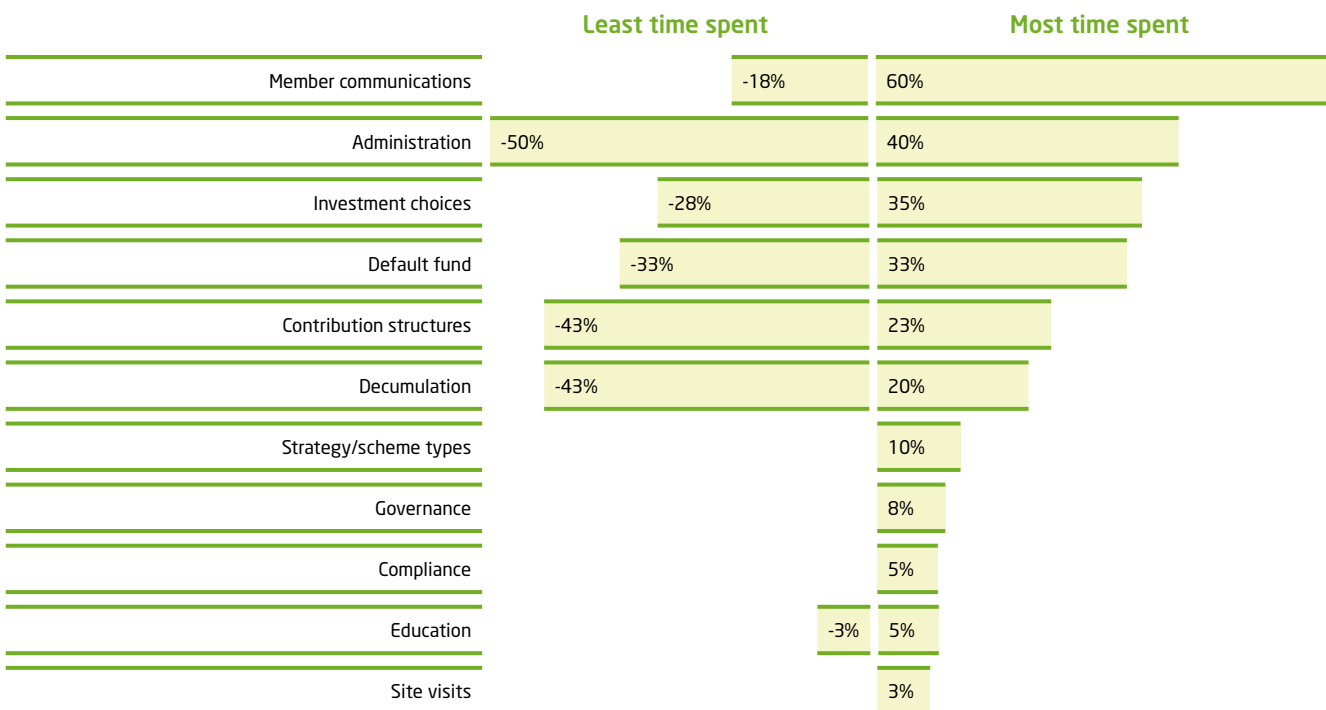
- 38% think that the quality of advice would improve,
- 33% thought it would neither 'improve nor worsen',
- only 8% thought that it would worsen.
- one in five were not sure.

7 Areas of work most and least time spent on by pension professionals

Interviewees were asked what they spend the most and least time on in relation to their role. Roles varied, but at-retirement strategy for their members was not a task with large amounts of time spent on it. In actual fact, just under half claim to spend the least time on advising members at the point of retirement, or decumulation phase.

Many of the quantitative interviewees (60%) state that they spend the most time on 'member communications'; followed by two in five (40%) on 'administration'. Just over a third (35%) spend most time on 'investment choices', and one in five (20%) on 'decumulation', while a minority (10%) state 'strategy/ scheme types'.

In comparison, the areas to which interviewees devote the least time to include 'administration' by one in two (50%), 'contribution structures' and 'decumulation' by just under a half (43%).



Base: All respondents (N=40), Multicoded



8 The role of regulation

Opinion was varied over whether regulation should play a greater or lesser role, or whether it does the right amount. Generally most interviewees believe that regulation does the right amount, or does too little, but they caveated this with the point that regulation should not do too much, as is believed to be the case with DB.

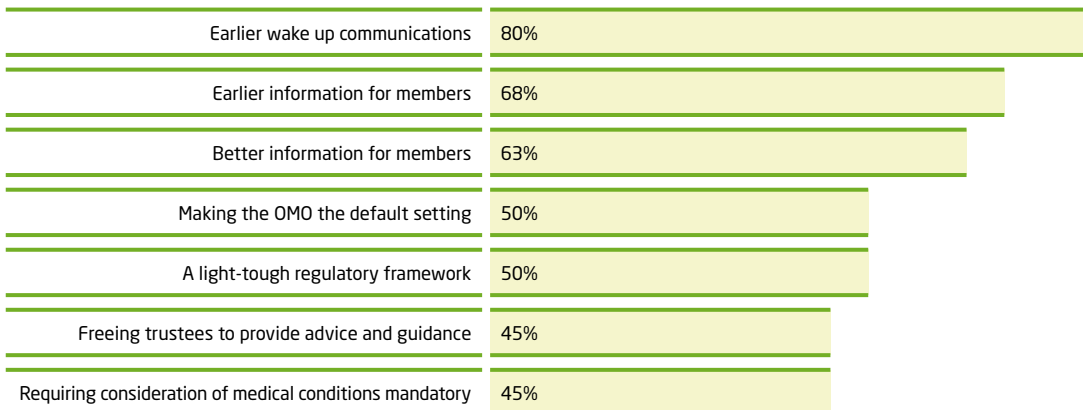
Various strengths and weaknesses of regulation are identified by interviewees, but weaknesses seem to slightly outweigh the strengths.

8.1 - Opinion on the role that regulation should play

In the quantitative research, opinion mainly pointed towards regulation doing the right amount, or too little. Just under half of those interviewed (45%) believe that the current system of DC scheme regulation in the UK does 'the right amount' to shape outcomes and just over a third 'too little' (38%). In comparison, only around one in five (18%) believe that regulation does too much.

When interviewees were specifically asked whether certain changes could lead to a better retirement outcome for DC members, the following proportions said 'yes':

Four fifths (80%) mention an 'earlier wake-up call', two thirds 68% 'earlier information for members', and just over three in five (63%) 'better information for members'. Half (50%) advocated making the OMO (Open Market Option) the default setting.



Base: All respondents (N=40), Multicoded

However, some of the qualitative respondents are critical of over-regulation, as seen in other areas of pension provision, which in their opinion was not a success.

"I'm not a big fan of regulation which tries to prescribe outcomes. We've killed defined benefits schemes by being regulatorily prescriptive. I would not wish to kill off DC by being similarly prescriptive."

"You worry that you're already hearing things about almost making GPPs akin to being trustee-based and having works councils."

"If the regulator got too tough and too hard and made it overly complex, employers would end up paying so much more in administration and consultancy costs that they would mitigate that by reducing their employer contribution to the bare minimum. Therefore regulation could have the absolute reverse affect of what it's trying to achieve."

Instead of being overly prescriptive, regulators should set intelligent frameworks.

"The regulators [should] continue to define a framework of best practice for schemes, advisors and providers, so that members get access to good information, advice and products."

8.2 - The strengths and weaknesses of the present regulatory framework for DC retirement provision

In the qualitative interviews, people identified some of the strengths of current regulation, but more weaknesses were identified in comparison.

Main STRENGTHS:

"It is risk-based and proportionate."

"It places the onus on pension product sellers to demonstrate that they have behaved with probity."

Main WEAKNESSES:

"Because it is risk-based and proportionate, it is always dealing with rogues retrospectively rather than weeding them out in advance."

"There is too much 'financial services stuff'. It does the wrong thing. It just means you have to have a huge file to prove the screamingly obvious."

"The regulatory light doesn't go deep enough into the corners."

Strengths in brief

Onus of probity on sellers

Risk-based

Proportionate

Weaknesses in brief

Advice can be perfunctory

Insufficiently investigative

Too bureaucratic

Catches rogues too late



9 Enhanced annuities

The overall awareness of enhanced annuities and the potential for income uplift is low. Factors influencing this tend to relate to late introduction of the topic, and a lack of education around enhanced annuities. The qualitative phase identified several more barriers to enhanced annuities, such as members' impatience to get an annuity, poor quality and distribution of information (not in laymen's terms, and difficult to access), ignorance of their existence, unspecialised advisors and criteria being too intrusive around an applicant's health.

9.1 - Awareness of enhanced annuities

Those we interviewed do not believe that DC members are knowledgeable enough about enhanced annuities. This is mainly due to two factors: there should be more advice and information provided about enhanced annuities from pension professionals, and the topic should be introduced earlier to DC members.

In the quantitative research, nearly all interviewees (95%) think that DC members do not understand the income uplift available at retirement for certain health conditions. Only 5% believe they do.

Reasons why DC members do not understand income uplift focus on a lack of guidance. Four in five (81%) of interviewees do not think DC members are given enough information and guidance around enhanced annuities, against only a minority (10%) who believe they are.

To remedy this, around four in five (81%) interviewees believe that enhanced annuities should be introduced to DC members well in advance of retirement.

A number of respondents feel that information on enhanced annuities is hard to come by.

"If someone is a heavy smoker or overweight or if they had a kidney transplant or whatever the condition is, they should know for planning purposes whether they are going to get an enhanced annuity, 20%, 30%, 50%. That information is almost impossible to get hold of at the moment."

Some, again, believe the very phrase 'enhanced annuities' may be inadequate.

"We should be talking about 'tailor-made annuities:'"

"Not only 'enhanced' but 'impaired' annuity quotes are important, whereby people that suffer with bad health or smoking are considered."

The need for individualised rather than blanket or one-size-fits-all pricing of enhanced annuities was mentioned repeatedly.

"The next stage will be individual pricing based on all the factors of employment ... lifestyle, smoker, where they live, medical conditions."

"There are increasing degrees of impairedness and therefore enhancements such that we're not that far away from almost individual underwriting..."

9.2 - Main barriers to the take-up of enhanced annuities

The reasons for barriers to enhanced annuities vary between interviewees.

"Difficulty of access."

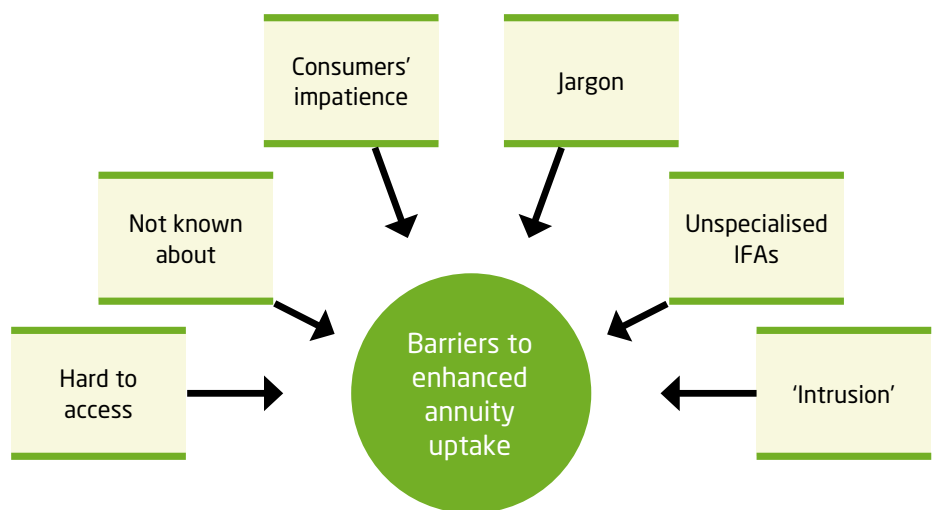
"Ignorance by the consumer that they exist."

"Impatience - when people come to retirement they want their pension arranged quickly and when they are told they've got to see a doctor, need a medical report and it could be delayed for a couple of months - they say they can't be bothered."

"The jargon of the phrase itself."

"Non-specialist IFAs who ask the health question as a bit of a throwaway."

"Failure to get the balance right between how much underwriting information an annuity writer needs versus potentially becoming too intrusive and putting people off."





10 Role of technology

On the whole, the pension professionals to whom we spoke believe that technology can improve the quality of advice. Other benefits can **be derived, such as financial savings, building better relationships, help with education and with decision-making at retirement, and reduced apathy through better interaction with members.**

Greater use of technology was deemed by most (70%) to have potential to enhance access to quality, cost-effective advice. In comparison, only a minority (8%) disagreed that that this could be achieved via technology.

The views expressed in discussions tend to underpin these positive views towards technology. DC providers could derive real benefits from technology which would then benefit clients.

"In the past, when you went for an open market annuity quote it used to take weeks, and as soon as you've got 3 or 4 in, the first one was outdated. Now you can go on to the annuity agents and annuity engines with the new technology and you've got half a dozen quotes all within a matter of hours."

Technology also makes economic sense.

"I think technology with support has to be the way to deal with the delivery of advice on an economic basis."

However, for client relations, technology is just one of the tools to build effective relationships with.

"We need a number of different communication tools, some will be face-to-face, some paper-based, some telephone-based and some pure technology."

Technology can assist in, but not be a substitute for, education.

"You could provide technology in a whole host of different ways but until people understand what an annuity is designed for, the fact it's an income for life, the fact that a pension is not a tax break to build up wealth to pass to your children, it's to secure your income during your retirement years..."

Technical solutions can facilitate DC members' decisions, especially at the decumulation stage.

"At the decumulation stage the whole thing could be massively streamlined in terms of identifying product types, by having tools online, decision trees that people can work through..."

Indeed, 'cool' technology can potentially motivate members.

"We often use the analogy of Amazon. If Amazon were running pension schemes, pension schemes would feel very different. Maybe people would feel a bit more excited about being in a pension scheme in terms of the information they get, how it's presented to them."

Despite technology, 'human' support should still be available, respondents feel.

"Throughout the process you need to give people the option, 'If you want some more information, ring this number; if you want some advice, ring this number'."

"There needs to be some facility for them to speak to somebody they trust."

11 Causes for concern

The pension professionals to whom we spoke named various issues that keep them awake at night. Many mentioned the issue of what a pension outcome will be like for a member, given the amount of money they have invested. A lack of understanding about DC schemes, and fund value issues are also touched upon. The post-RDR environment is mentioned in addition as a source of worry, as well as moral issues and over-regulation.

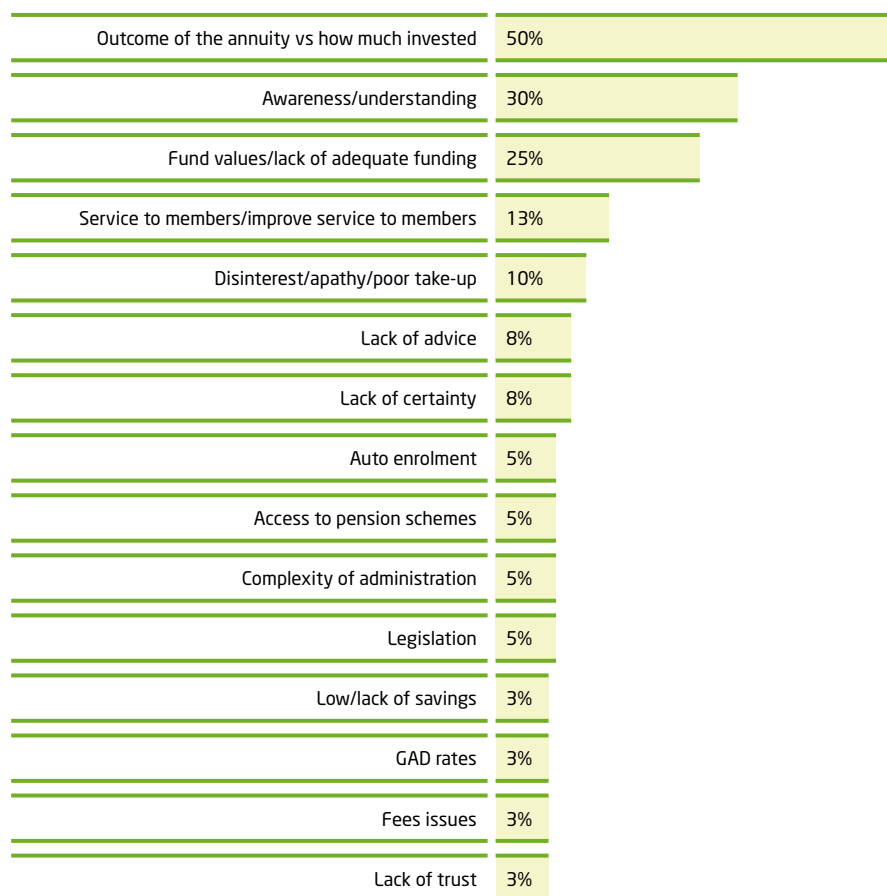
The top issue keeping interviewees awake, mentioned by half (50%), is 'the outcome of the annuity versus how much is invested'. Following that, just under a third (30%) mention issues around 'awareness or understanding of DC schemes', and around a quarter (25%) mention 'fund values or the lack of adequate funding'.

When the interviewees from the qualitative phase of the research were asked what keeps them awake at night, they mention anxieties about the post-RDR environment.

"I can see an advice gap emerging as customers suddenly wake up to the fact that they've got to pay for advice. So I think the industry is going to be in for a difficult time in 2013-2014."

Some worry about the basic moral issues.

"They want to do the best for their members and they are deeply concerned that an awful lot of their members are sleepwalking to an impoverished retirement."



Base: All respondents (N=40), Spontaneous mentions, Multicoded

Others worry about, again, excessively detailed regulation.

"The whole regulatory thing is a millstone around the neck of people actually getting the right advice. Make it easier. Rather than lots and lots of forms and trying to protect against charlatans, I would have a simple 'If you don't do a good job for your client and you try and rip them off, we'll lock you up for a long time'."

That would be my Financial Services Act. I would actually have practitioners monitoring the people who give the advice."



12 Changes to the present system to drive better outcomes

The interviewees from the quantitative phase were asked what suggestions they had that could lead to better outcomes for DC members. All of the suggestions relate to factors brought to the fore in earlier discussions, associated with information, guidance and regulation.

When interviewees were asked during the quantitative phase for spontaneous suggestions for changes that would deliver better retirement outcomes for DC members in the UK, almost three in five interviewees (58%) mentioned 'better or earlier access to information or education'. One in five (20%) said 'clarity of information', and a few (15%) said 'higher or increased contributions with salary increases'.

In the qualitative interviews, various ideas were aired about the best way of giving members what they need, but many of them focussed on advice and guidance through education, whether it is positive or negative.

There is a view that incentivising employers to be active can help to deliver the best 'education'.

"It's got to be a combination of government and employer. The government could provide a framework and a tax incentive could tell employers to offer to fund this advice. There needs to be a stick and a carrot really."

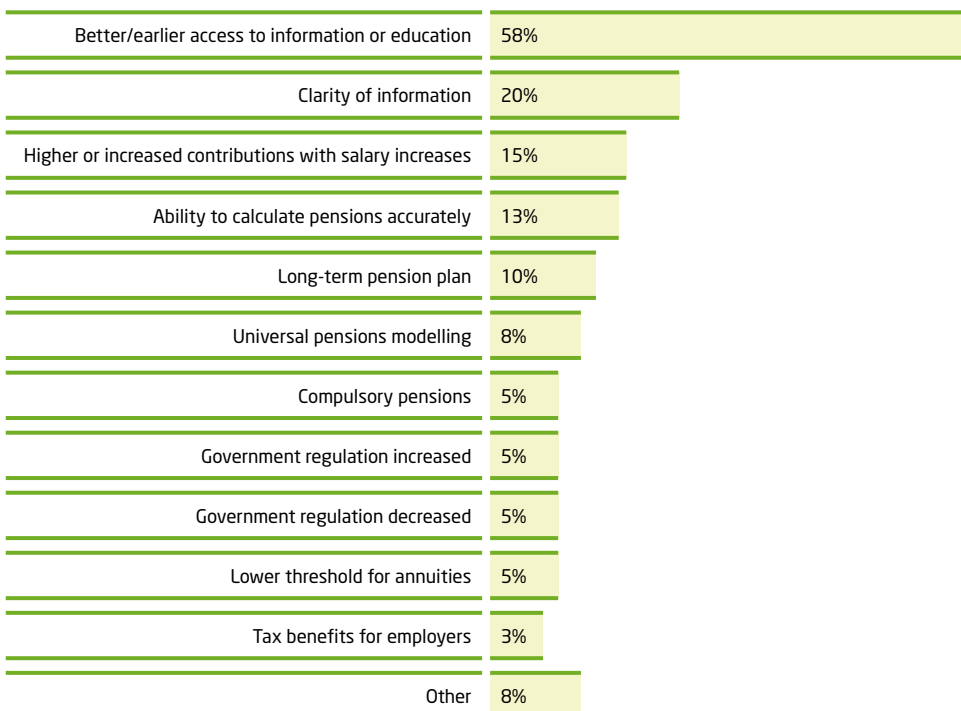
Others stressed that the best 'education' required would be early, deep and changing with time.

"What you need to know when you're 30, 40, 50 and 60 are all completely different topics."

"...I think financial advice needs to be taught from primary schools upwards."

However, some respondents challenged the term 'education' to highlight an important point about timing.

"Education is not the solution; it is timely guidance from someone professionally qualified at enrolment and at retirement and between those points."



Base: All respondents (N=40), Spontaneous mentions, Multicoded

13 The future

Potential trends identified by pension professionals varied greatly. The most mentions were associated with a trend to later retirement, better awareness of pension and savings issues. Flexible products and lifestyle are also mentioned as a potential future trend.

Many feel that DC pension provision will become more prolific, and in turn competition among professionals will rise, and they will need to increase their knowledge to cover a wide range of benefits. Opinions over whether OMO take-up will increase after NEST vary, but issues surrounding NEST will start to present themselves.

Interviewees also believe that innovative ideas will be seen that will shape retirement and pension outcomes. In addition, a number of challenges over the next 5 years were identified.

13.1 - Expected trends over the next 5 years

When interviewees were prompted on which trends and innovations they expect to see over the next five years, very large majorities foresaw trends towards 'later retirement' (98%), and 'greater public awareness of pensions and savings issues' (93%). Other prominent predictions include 'more flexible annuities' (83%), 'flexible draw-down products' (80%), 'more sophisticated retirement platforms' (80%) and 'a trend to flexible retirement' (78%).

Furthermore, in relation to the advent of NEST, half (50%) think that it will result in an increase in OMO take-up for all DC members; however, a comparable proportion (43%), do not believe that it will. A small minority (8%) don't know.

In-depth interviewees also hypothesised over possible trends for the next five years.

Many feel it likely that DC will rapidly replace DB.

"DC is going to be the main source of retirement income for most people."

A number believe more of their time will be spent on money purchase contribution pensions.

"That's purely because of auto enrolment coming in 2012 and 2013 and the impact that's going to have on our scheme, the membership and our employee base."


Pensions advisers will need to extend their expertise to be knowledgeable across a broader range of benefits.

"A pension scheme is just a benefit within that employer's organisation, so it's one of a suite of benefits that may be provided. More and more pension advisers will have to broaden out that particular knowledge."

In the minds of some, impending risks around NEST will come to the fore.

"I think that's the next big scandal waiting to happen: the mis-selling of NEST."





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