Media Coverage of the Independent Review of Retirement Income's report entitled *We Need a National Narrative: Building a Consensus around Retirement Income*

Pensions study gives 'work till you drop' warning, Josephine Cumbo, Pensions Correspondent, Financial Times, March 2, 2016

A new generation faces "working until they drop" unless sweeping changes are made to the UK's pensions system, according to an independent review.

The scathing assessment follows the government reforms that gave savers freedom to spend their pensions pots as they wished.

The two-year study, commissioned by the Labour party, found that since "pension freedoms" were introduced, savers were exposed to risks they did not understand and should not be expected to manage themselves.

"Until recently, the only purpose of a pension scheme was to provide lifetime income security," said Professor David Blake, chair of the Independent Review of Retirement Income and director of the Pensions Institute at Cass Business School.

"Nobody knows what a good outcome looks like since the pension freedoms. The danger now is we will have a generation who really can't afford to retire."

The report said there were "serious question marks" over the effectiveness and cost of the alternatives offered by the investment management industry, since the requirement to buy an annuity was scrapped in 2015.

"The insurance industry is relying on customer inertia rather than good valued decumulation [converting pensions into income] products to capture market share," said the report.

Nobody knows what a good outcome looks like since the pension freedoms. The danger now is we will have a generation who really can't afford to retire.

- Professor David Blake

"This is not good news for consumers. Both annuities and drawdown products are necessary to provide a good outcome for pensioners under 'freedom and choice'."

A key recommendation in the 595-page report, which will be used as a blueprint for Labour's election policy, was the creation of "safe harbour" retirement products that met minimum standards and that savers could be nudged into.

"Providers and advisers could not subsequently be sued for offering or recommending a safe harbour product, having first determined its suitability for a client as part of a safe harbour retirement income solution," the report said.

The report also recommended that the National Employment Savings Trust — the state-backed workplace pension provider — be allowed to compete against insurers and asset managers for retirement income business from 2018. It also suggested that charge caps be imposed on products that savers enter by default.

The analysis also found the insurance industry and the investment management industry were at "loggerheads with each other" and this was hampering efforts to build a consensus on good retirement outcomes.

Angela Rayner, shadow pensions minister, said the report was published as the UK faced the challenges of an ageing population and low savings levels.

"Fundamental challenges for our society, both demographic and economic, are being ignored by the government concerned with short-term political advantage," said Ms Rayner.

"We need more honesty from the government about the challenges for pensions."

Workers need to put 15% of income into pension, report says, The Guardian, by Rupert Jones, Wednesday 2 March 2016

Saving more than three times the present average is necessary to have enough cash in retirement, review for Labour party finds

The report warned of a possible return to working until you drop. Currently, the typical contribution to a pension is 4.7%.

Workers need to put 15% of their earnings into a pension pot, according to a review for the Labour party, which has warned about a return to working until you drop.

The report, following a two-year study, said a national retirement savings target of 15% of lifetime earnings, more than three times the current typical amount, should be adopted "to avoid future pensioner poverty".

The warning came hours after the government launched an official review of the state pension age, which led some experts to predict that those joining the workforce today are likely to have to wait until they are about 75 to get a payout from the state system.

The 595-page report from the Independent Review of Retirement Income (IRRI), set up by Labour in 2014, said it was not many generations ago that "one worked until one dropped".

There was “some evidence that this is returning to the UK: there are some people who simply cannot afford to retire”, the report said. The IRRI quoted official 2015 statistics showing that about 12% of the UK population over the statutory retirement age were still working.

The 15% figure said to be necessary to achieve an adequate retirement income is well above what many employees put into their pensions.

Last autumn, the Office for National Statistics revealed that the average amount being paid into private-sector defined contribution, also known as money purchase, workplace pension schemes plummeted to 4.7% of a worker’s salary in 2014, from 9.1% a year earlier.

The figure of 4.7% is made up of a typical employee contribution of 1.8% of pay, plus a further 2.9% paid in by their employer.

However, a reduction in the average contribution rate had been viewed by many as an inevitable side-effect of the government’s “automatic enrolment” programme, which is currently being introduced and requires all employers to put eligible workers into a pension scheme. In order to ease workers into the new system, the total minimum contribution into their workplace pension has started at 2% of earnings, before rising to 5% in 2018 and 8% in 2019.

New rules on cashing in retirement savings took effect last April, abolishing the requirement to convert a pension pot into an annuity – a product that provides an income for life – and leaving people free to do whatever they like with their retirement funds, subject to tax. It means that anyone aged 55 or above can now cash in their defined contribution pension and spend it on a sports car, invest in a buy-to-let property or put the sum in a bank.

The report warned that people could struggle to make their money last and said their cash could also become a honey pot for fraudsters. “For anyone who understands the risks involved in retirement income provision, it is clear that many of these people will find themselves in the same kind of control as a yachtsman in the middle of the Atlantic in a force nine gale,” the report said.

It could be that a future Labour government might rein in the current freedoms and increase the minimum age at which people can cash in their pension. The IRRI report recommended the setting up of a permanent, independent pensions, care and savings commission, whose remit would include reviewing the minimum age.

This will rise to 57 in 2028 when the state pension age increases to 67 – but the authors said that allowing people to access their money 10 years earlier than the state pension age “could create unrealistic expectations about the age at which they can afford to stop working”. The commission would consider whether this should be reduced to five years – a minimum age of 62 from 2028 – except for those in poor health.

In the House of Commons, Iain Duncan Smith refused to say whether there would be an upper limit on the state pension age in heated exchanges over the government’s review.

The work and pensions secretary said the government had launched the review to ensure pensions remained affordable for future generations, but he failed to answer the shadow work and pensions secretary, Owen Smith, when pushed over concerns that workers would have to wait until they were 80 to retire.

A separate report from Royal London found that people in some parts of the UK might need to work into their 80s if they wanted to achieve the same standard of living enjoyed by their parents. Someone on the national average wage who starts saving for a pension at 22 and pays in only the statutory minimum amount would need to work to 77 to get the sort of "gold standard" pension enjoyed by many of their parents' generation, a figure that rises to 81 in parts of London such as Westminster.

Gold standard is defined as a total – including state pension – of two-thirds of pre-retirement income, with protection against inflation and something for a surviving spouse.

Give advisers immunity on safe harbour retirement products, report urges, by Carmen Reichman, Professional Adviser, 02 March 2016

Regulator should pre-approve products

The Financial Conduct Authority (FCA) should grant advisers immunity from regulatory backlash when recommending retirement products which fulfill certain criteria, a retirement report commissioned by the Labour Party has said.

The long-awaited *Independent Review of Retirement Income* report (IRRI) called for certain products to be pre-approved by the regulator, allowing advisers to recommend them without the possibility of being sued for bad advice.

It said the success of government pension reforms will depend on informed decision making by consumers.

However, it found many consumers do not understand risk in retirement products and should not be expected to manage it themselves.

Safe harbour products will need to feature a combination of accessibility (the flexibility to withdraw funds when needed); inflation protection, either directly or via investment performance; and longevity insurance.

Currently, no single product meets these criteria, the report's author, Cass Business School Pensions Institute director David Blake said, but a combination such as a drawdown and deferred (inflation-linked) annuity would.

He said: "A well-designed retirement income programme will have to involve a combination of products.

"If any product satisfies these conditions as part of a hybrid solution, it might be considered a safe harbour product. Any adviser recommending such a product, having assessed its suitability for the customer, could not subsequently be sued for poor advice."

So far the regulator has refused to grant safe harbour status to any UK investments, although it did say it would develop a regulatory sandbox for firms to be able to innovate without fear of regulatory consequences.

The report's recommendation of a 'safe harbour retirement income plan' would involve guiding people through a "simple decision tree with a limited set of pathways" based on people's assets, liabilities, health status, family circumstances, tax position, and risk appetite and capacity.

It would be self-started following a guidance or advice 'surgery', and the plan member would be given the right to opt out until the point at which the longevity insurance kicks in.

The surgery would need to be aligned with the guidance guarantee process in a way that it is not classified as regulated advice or a personal recommendation, the report said.

"This is because a decision tree is advisory - not advice - and so would be granted safe harbour status."

Simple definitions

The report asked the FCA to simplify its definitions of regulated financial advice.

It proposed to limit recognised terms to ‘personal recommendation' and ‘financial help', with financial help being anything outside regulated advice.

Referring to previous FCA research, the authors said consumers were put off seeking advice because they didn't trust advice and couldn't judge its quality.

They called for a common narrative on how advisers charged for their service and for what type clients taking advice is the most suitable option.

The report said: "There needs to be much greater justification of ad valorem fees where the fee is unrelated to the amount of work done.

"It is not acceptable in this day and age that a potential client needs to have a long face-to-face meeting with an adviser before they are told what the charge will be, and then feel under some moral pressure to accept this charge."

The report said the professional training of advisers should be improved, with a much greater emphasis on understanding the risks involved in delivering retirement income solutions and how those risks can be measured, monitored and managed.

The report also asked for the creation of a Pensions, Care and Savings Commission which would report to parliament to ensure that there is cross-party consensus for all future pension reforms.

It further called for a doubling of the amount people are currently being asked to save for their pensions to current pension savings to 15% of lifetime earnings, achieved through auto-escalation, "to avoid future pensioner poverty".

Mixed views

The report attracted mixed responses from retirement providers. Partnership corporate affairs director Jim Boyd said: "Helping people to make smart choices around retirement should be a priority and the use of a simple decision tree with a limited set of pathways would support those who struggled to make a choice from the myriad of other options.

"Approved by the regulator a set of ‘safe harbour' products would - we believe - see more people achieving desirable outcomes."

But Hargreaves Lansdown head of retirement policy Tom McPhail said: "A safe harbour product of the kind described in this report may not be any more achievable than a perpetual motion machine.

"The products available today are largely fit for purpose already; the challenge is rather to make sure that investors are helped to engage at a level which works for them and to make good decisions, even if that is simply to buy an annuity."

Labour shadow work and pensions secretary Owen Smith said: "Professor Blake's review highlights major challenges that need to be addressed by the government if we are to ensure people can retire with sufficient funds to live with dignity in later life.

"The Chancellor should address these risks in his forthcoming Budget and resist any temptation to stealthily raid long term pension provisions to offset any short-term political problems caused by his mismanagement of the deficit."

Workers should double their pension savings, says Labour's review, By Brian Milligan Personal Finance reporter, BBC News, 2 March 2016

Workers should double the amount they are saving into their occupational pension schemes, a two-year review for the Labour Party has concluded.

The *Independent Review of Retirement Income* (IRRI) suggests the target for savings should be 15% of salary.

That is a considerably higher level than has been suggested previously.

At the moment the average worker puts just 4.7% of pay into a pension - with most employers making a further contribution of less than 4%.

"To get a decent-sized pension pot for retirement, it is necessary to make adequate pension contributions - something of the order of 15% of pensionable salary," wrote Professor David Blake, director of the Pensions Institute at Cass Business School, in the 588 page report.

The review was set up by the Labour Party, following the government's announcement of planned pension freedoms in the 2014 budget.

On Tuesday the government confirmed that there will be a review of the state pension age. It will report in May 2017, and will be headed by John Cridland, the former director general of the CBI.

The review could mean people joining the workforce today will have to wait until their mid-70s before they retire, experts have warned.

Those under the age of about 55 will be affected by the shake-up, which will consider what the state retirement age should be from April 2028.

Gold standard

Employees taking part in the government's auto enrolment programme will eventually see 8% of their salaries going in to a pension.

Employers will be obliged to make a 5% minimum contribution, and workers a 3% contribution.

The average UK pension pot on retirement is worth around £28,000, according to the Tax Incentivised Savings Association (Tisa).

However, Tisa has suggested that households should aim to have savings of £230,000 for workers to retire on two-thirds of their previous income.

Two-thirds income is known as the "gold standard" of pensions. Half income is said to be the "silver standard."

While welcoming most of Professor Blake's conclusions, some industry experts said savings levels needed to be tailored to individual circumstances.

Conventional wisdom suggests lower-paid workers need to save a higher proportion of their wages than better-paid workers.

'Force nine gale'

Professor David Blake said too many people did not understand the risks associated with making pension income last.

"It is clear that many of these people will find themselves in the same kind of control as a yachtsman in the middle of the Atlantic in a force nine gale," he said.

As a result he said that pension savers needed more help.

Elsewhere in the report he recommends:

- A "safe harbour" endorsement for pensions, under which the regulator would specify which schemes are dependable
- A single pension regulator, transferring responsibility for bigger schemes from the Financial Conduct Authority to The Pensions Regulator

- New classification system for advice, to make help and guidance clearer
- A pensions dashboard, enabling workers to keep track of all their pensions throughout their lifetimes
- Financial advisers to have more formalised training standards

Pensions risk 'unravelling' due to freedom reforms, by Michelle McGagh, CityWire, Mar 02, 2016

Without compulsion to buy an annuity the pension system is in danger of falling into a black hole, according to a report for Labour.

Last year's pension freedom reforms risk ‘unravelling’ the pension system as retirees are no longer forced to secure a retirement income, a review for the Labour party has warned.

The *Independent Review of Retirement Income*, commissioned by Labour two years ago, argues that scrapping the requirement to buy an annuity with a pension pension pot at retirement has removed the reason for saving into a pension in the first place.

Pensions are precious

David Blake, chairman of the review and director at the Pensions Institute at Cass Business School, said a ‘national narrative’ around what a good retirement looks like needed to be established.

‘Without this, people’s aversion to annuitisation combined with their willingness to pay highly for flexibility and guarantees could leave them worse off than if they purchased an annuity to begin with,’ he said.

‘This is a significant challenge. But it is one that is well worth the effort because, as the pensions minister Ros Altmann says: "pensions are precious".’

The report, states the primary purpose of a pension scheme ‘is to provide an income in retirement for however long the scheme member lives – that is, it will not run out of money before the member dies’.

To that end the ‘unifying thread’ that used to run through pensions was ‘the requirement to annuitise enough pension wealth, at the appropriate age, to provide an adequate lifelong income in retirement when combined with the state pension – which is the rationale for establishing a private-sector pension scheme in the first place’.

Honey pot for thieves

However, the report goes on to say that when annuities become optional ‘That unifying thread is no longer present and there is a real danger that the pension system begins to unravel’.

‘At best, it becomes a tax-favoured agreement for operating a multi-purpose spending pot – once the money has been spent for one purpose, it cannot be spent on another,’ said Blake in the report.

He added that at worst it becomes a ‘honey pot for thieves and other opportunists’.

Adding to the problems pensions face is the lack of understanding around how to generate a retirement income.

The report noted that private sector employees are being auto-enrolled into pension schemes and that the success of the scheme is based on ‘member inertia’ – in other words it relies on people being too lazy to opt out. However, when they reach retirement they are then presented with a plethora of retirement income choices which they are then expected to navigate on their own – and the success of which is ‘predicated on the ability of members to make informed decisions’.

‘If a large group of people cannot understand the risks they face, they should not be expected to manage these themselves,’ said Blake in the report.

‘Instead, if there are well designed and regulated schemes which use retirement income products that manage these risks in the most efficient and cost-effective way, it might be possible to nudge or default savers towards one of these schemes.’

'Safe harbour' needed

The report recommended the development of ‘safe harbour products’ that would provide access to pension funds, inflation protection ‘either directly or through investment performance’, and ‘longevity insurance’ to ensure the money lasts.

It said that currently no product is offering this mix for retirees and that individual products may not be the answer but instead a ‘large-scale decumulation scheme’ may be the answer - an idea which has been floated by the National Employment Savings Trust.

‘[Large-scale decumulaion schemes] have the potential to be much cheaper and deliver more consistent results than conventional individual drawdown and annuity products, due to: economies of scale, trustee oversight, the use of a well-designed institutionally-managed fund, and the potential for the bulk purchase of members’ annuities,’ said the report.

In particular ‘middle Britain’ with pension pots of between £30,000 and £100,000 should be encouraged to ‘use a retirement income plan that involves a simple decision tree with a limited set of pathways’, including annuities, drawdown and longevity insurance.

These pathways would point the member towards the best products for their needs, with the aim being a ‘simple solution’ that is ‘good enough’ for those who do not want the responsibility of making financial decisions themselves.

Jim Boyd of insurer Partnership said leaving retirees to fend for themselves in retirement ‘may place an unreasonable burden’ on them as ‘one wrong choice can have severe consequences – and mean that an individual may run out of money before they die – or unnecessarily live in poverty’.

‘A set of safe harbour products would see more people achieving desirable outcomes,’ he said.

IRRI report: Savers do not understand retirement risks, by Helen Morrissey, Professional Pensions, 02 Mar 2016

Pension savers need much more support if the freedom and choice reforms are to be a success says a major report.

The Independent Review of Retirement Income (IRRI) was commissioned in 2014 by then shadow work and pensions secretary Rachel Reeves to look at how DC savers' retirement income could be boosted following the introduction of the reforms.

The research found many savers do not understand key risks such as investment risk, inflation risk and longevity risk. It also noted that some risks have to be experienced before they can be genuinely understood, by which point it may be too late to reverse the damage.

If these risks cannot be understood then people cannot be expected to manage them themselves. Instead there should be quality regulated schemes made available to manage these risks in a cost effective way.

The research indicates the industry can learn the lessons of auto-enrolment by having a well designed default decumulation process available at retirement. It notes there are currently too many poorly designed and expensive products available in this area.

The report continues saying that a safe harbour status could be accorded to such quality default products. This means that any adviser recommending such a product after having assessed its suitability for a client could not then be sued for poor advice.

However, the Financial Conduct Authority has so far refused to grant safe harbour status to any UK investments.

Chair of the IRRI Professor David Blake said: "A great deal of effort will now have to go into re-establishing what a good pension scheme is. This will need a commonly agreed national narrative. Without this, people's aversion to annuitisation combined with their willingness to pay highly for both flexibility and guarantees could leave them worse off than if they purchased an annuity to begin with. This is a significant challenge. But it is one that is well worth the effort because, as the pensions minister Ros Altmann says: ‘pensions are precious.'"

Partnership corporate affairs director Jim Boyd welcomed the report's findings; "Few can object to the tenet underpinning pension freedoms which gives responsibility to individuals to manage their retirement savings, however the report raises some important points that we need to acknowledge and act on.

"The principle of compulsion through automatically enrolling people into a pension is supported by all parties as being in consumers' best interest! However, we then expect individuals to manage the bewildering array of choices facing them at retirement which requires consumers to have the combined skills of an asset manager, actuary and financial expert to get a good outcome.

"This may place an unreasonable burden onto the shoulders of the average person at retirement - as one wrong choice can have severe consequences - and mean that an individual may run out of money before they die - or unnecessarily live in poverty."

However, Hargreaves Lansdown head of retirement policy Tom McPhail said we shouldn't assume the current system does not work: "Based on Hargreaves Lansdown's analysis of 27,000 self-managing drawdown investors, we are confident that the vast majority are making good investment and income withdrawal decisions. This doesn't mean there aren't risks ahead, but it does mean we shouldn't rush to assume the present system isn't working."

He continued: "A safe harbour product of the kind described in this report may not be any more achievable than a perpetual motion machine. The products available today are largely fit for purpose already; the challenge is rather to make sure that investors are helped to engage at a level which works for them and to make good decisions, even if that is simply to buy an annuity."

Retirees need more help with pension freedoms, says review, by Rachel Lacey, MoneyWise, 2 Mar 2016

Retirees will need more support with their financial planning if the pension freedoms are to be successful, according to a new report from the Independent Review of Retirement Income.

The review says retirees will need help making sure their pots last for life and to allow them to enjoy the benefits and opportunities created by last April’s reforms.

It adds that currently, retirees are subject to risks that they may not understand and cannot be expected to manage themselves.

The most significant challenge the report seeks to tackle is how to get pension savers engaged with financial planning at retirement, when initiatives such as auto-enrolment are predicated on inertia from employees who may not get actively involved in deciding how their money is invested, or invest more than the minimum contribution levels.

‘Default process needed when people retire’

One possible solution according to report, is the development of a ‘default decumulation process’, which would ensure savers who do not want to, or cannot make informed decisions when they finish work, can drift into a suitable retirement income product.

The review says: “One of our key recommendations is that a ‘safe harbour retirement income plan’ is introduced. This would involve a simple decision tree with a limited set of pathways. This would allow people to get the best combination of retirement income products for them, given their assets, liabilities, health status, family circumstances, tax position and risk appetite.”

The plan would also feature longevity insurance, to prevent retirees running out of money before they die and could be set up by an individual following ‘a guidance or advice surgery’.

In addition to a default strategy at retirement, the review also proposes the creation of an independent Pensions, Care and Savings Commission to ensure cross-party consensus on the future of UK pension policy.

“Making decisions about retirement income are the hardest decisions people ever have to make, because the risks of pensions are so poorly understood. Getting it right requires a national narrative about what pensions are for. Everyone in parliament – whatever their political affiliation- and industry has to sign up to this narrative – just as they did with auto-enrolment.”

‘Pensions are precious’

Professor David Blake, chair of the IRRI and director of the Pensions Institute at Cass Business School says: “A great deal of effort will now have to into re-establishing what a good pension scheme is. This will need a commonly agreed national narrative.

“Without this, people’s aversion to annuitisation combined with their willingness to pay highly for both flexibility and guarantees could leave them worse off than if they purchased an annuity to begin with.”

This is a significant challenge. But it is one that is well worth the effort, because as the pensions minister, Ros Altmann says: “pensions are precious”.

A 'default option' should exist for pension decumulation, by Marina Gerner, Money Observer. March 2, 2016

A new report on retirement income argues that in order to have an adequate pension, the British workforce 'needs to understand that - together with the employer - it has to save 15 per cent of its lifetime earnings in a pension scheme'.

The Independent Review of Retirement Income, launched by the Labour Party in 2014, suggests that a 'default' option similar to auto enrolment is needed when it comes to pension decumulation.

The report recommends that a good pension scheme needs to offer accessibility, inflation protection (either directly or via investment performance) and 'longevity insurance' to protect people against the risk of running out of money at the end of their life. It needs to provide value for money, with the benefits clearly and transparently exceeding the costs.

Crucially, people should not be expected to manage the risks involved in generating retirement income from pension savings themselves.

Decision tree

Those with pension assets between £30,000 and £100,000 should be provided with a retirement income plan that involves a simple decision tree with a limited set of pathways.

This plan would be self-started, following an advice meeting. The person using the plan would choose from a set of 'safe harbour' products that have been approved by the regulator.

The purpose of the decision tree would be to identify the products most suitable to meet the needs of those who do not wish to make financial decisions in relation to their retirement planning themselves.

The safe harbour products would include annuities, drawdown products and longevity insurance that meet minimum standards in terms of efficacy and deliver value for money. The plan member would have flexible access to the pension pot until the point that longevity insurance kicks in.

The review was led by Professor David Blake, director of the Pensions Institute at Cass Business School. He argued that year's pension changes were introduced 'overnight', without wider consultation.

Now, he warned, pension provision is no longer an institutional but an individual responsibility, but most people do not understand the associated risks such as inflation risk and longevity risk.

The current UK pension system has an underlying paradox, said Blake.

The success of auto-enrolment as a means of building a pension pot has been down to people's inertia; on the other end of the pension timeline, however, the success of pension freedoms is predicated by how well-informed, active and rational individuals are.

The decision tree and 'default' decumulation would address this issue.

Labour sets out plans to toughen up pension freedoms, By Mark Sands, Money Marketing, 2nd March 2016

A long-awaited Labour report into pension freedoms has proposed a raft of new measures to protect consumers, including new "safe harbour" decumulation products.

The report, commissioned by the shadow work and pensions secretary Rachel Reeves in 2014, will form the basis of Labour's pension policy.

Written by Cass Business School's Professor David Blake, it targets savers' need to receive lifelong income from their pension pots.

Blake calls for the development of a range of new safe harbour products, which advisers will be able to recommend without liability.

The products would be accredited by the FCA for accessibility, inflation protection and longevity insurance, and will have to meet common standards on transparency and value for money.

Blake says these products will be designed as "quasi-defaults" for savers who do not wish, or are unable to, make a decision on their retirement income, and could be provided either by private firms, or by an organisation like Nest.

The report also calls for all products which do not include longevity insurance to be classified as “high-risk” by the FCA.

It wants a new charge cap to include advice and platform charges, while all categories of advice and guidance should be rebranded as either “personal recommendations” or “financial support” to help with customer understanding.

The report also reiterates call for a permanent commission to report to Parliament, with a remit to look at pensions, savings and long-term care.

Shadow work and pensions secretary Owen Smith says: “This expert review asks serious questions about the sustainability of our current pensions system, and the increased risks being borne by individuals after recent Government reforms.

“The relative popularity of the pension freedoms reforms should not obscure those questions and Professor Blake is right to challenge Government and employers to play their part in mitigating the danger that pensioners who have saved all their lives might still have insufficient funds to last them through retirement.”

Smith adds: “We will use the strong foundations laid down to build a Labour pensions policy that will prepare Britain for the long term and protect the interests of workers, pensioners and wider society.”

Rewriting the freedoms: Labour eyes regulation to strangle Osborne’s pension reforms, By Mark Sands, Money Marketing, 2nd March 2016

Jeremy Corbyn’s Labour party looks set to roll back key facets of the pension freedoms if it wins power in the 2020 general election.

This week saw the long-awaited arrival of the *Independent Review of Retirement Income* from Cass Business School’s Professor David Blake, commissioned by former Labour shadow work and pensions secretary Rachel Reeves almost two years ago.

The report sees Blake set out the need for a “national narrative” on pensions, and raises fears that a disconnect between the inertia of auto-enrolment and the involvement required by freedom and choice is leaving savers exposed.

However, experts say the report’s key recommendations – including a decumulation charge cap, reclassifying drawdown as “risky” and nudging savers towards “safe harbour” products with guarantees – amount to a reversal of Chancellor George Osborne’s radical reform agenda.

Retrograde step?

The report’s main suggestions include the creation of regulator-approved safe harbour products which offer advisers protection against future liability, while also meeting agreed standards.

These standards would include references to accessibility, inflation protection and longevity protection.

Safe harbour products would also have to meet agreed levels of transparency, while also being able to demonstrate value for money.

Blake's proposals also include a new "high risk" categorisation for pension products that do not include elements of longevity insurance.

Although high-risk products can be sold on a non-advised basis, firms doing so need to be able to prove they are suitable for clients.

And in extreme cases, such as contingent convertible securities, the FCA has acted to restrict the sale of high-risk products to certain classes of investors.

While safe harbour products would need to be chosen by savers, Blake refers to them as "quasi- default" options which can be offered after a decision tree process.

Tisa policy strategy director Adrian Boulding says the approach is indicative of a fundamentally different political philosophy within the Labour party.

He says: "The Conservatives say it is people's money so they can do what they want, but Labour is arguing this money is a one-off that employees and employers have built up so it needs to be spent carefully, and people need help spending it.

"Obviously, with many kinds of drawdown plan you can run out of money, but what Professor Blake hasn't addressed is whether that is necessarily a good thing or a bad thing. If you have a modest pension pot, then the question is do you want to stretch that pot out across 20-35 years of your remaining life, or do you want to consolidate that spend in the early years of your retirement when you are physically and mentally more active?

"Freedom and choice allows people to make those decisions and ask whether they want to maybe live on the state pension. It's not much, but it might make sense if you only have modest savings.

"Blake is trying to move the pendulum too far back. He's saying 'let's stop people from doing silly things', but ordinary people might make good decisions if they're allowed to do it."

LV= head of policy Philip Brown adds: "Safe harbours risk being seen as a way for firms to deliver poor outcomes for consumers without offering protection. This is likely to further damage trust in this market and put people off taking advice at the time they need it most."

Aegon head of pensions Kate Smith argues any move towards default options will undermine efforts to get savers to engage with their pensions.

She says: "This just seems to be giving up on engagement.

"Any pensions agenda has to be about engagement and getting people to think about what they want to achieve, but it should be totally up to you to decide how and what you want to do."

Blake also recommends the introduction of a decumulation charge cap, which would include any fees paid for platforms or advice.

But Smith warns such a move risks stifling innovation. She adds: "The drawdown market is incredibly diverse so it's very difficult to just put a charge cap on that and expect all those things can still be offered and individuals can still be helped."

Blake's backers

At the same time, Blake's co-author Debbie Harrison has been keen to avoid accusations of a new paternalism from Labour and the report.

Harrison says the report sought to bring together the conflicting principles of auto-enrolment and pension freedoms.

She says: "A strong nudge isn't telling people what to do, it's saying 'this is what we think might work for you if you don't want to make a decision yourself'.

"Provided people have an opt-out, then to be defaulted or nudged into some sort of collective large scale, well-governed, low-cost default choice that meets our criteria doesn't conflict with freedom and choice."

Blake adds: "It's not paternalistic. For people who don't want to make an active decision, they will end up with a decent product that's well designed, in the same way that the auto-enrolment sector works with Nest and Now: Pensions."

Perhaps unsurprisingly, annuity providers are among the firms most supportive of Blake's findings.

Just Retirement group communications director Stephen Lowe hails Blake's identification of risks faced by savers entering drawdown without advice.

He says: "Blake rightly reminds us the primary purpose of a pension scheme is to provide an income in retirement for however long the scheme member lives – something too many people have forgotten in the hyperbole of pension freedoms."

Partnership director of corporate affairs Jim Boyd says Blake "is talking a huge amount of common sense".

He says: "Not having some form of longevity insurance means unless you are incredibly well advised you are requiring individuals to be able to do a number of things, including assessing risks that even hugely qualified people find very hard to look at.

"We shouldn't be asking about paternalism, we should be asking about prudence and stopping people from making bad decisions."

Expert view

Alongside the decline of employer-backed defined benefit schemes, the introduction of pension freedoms represents a massive shift in risk from shared liability between the individual and the employer and the state to a far greater emphasis on the individual, with a less generous state as a distant backstop.

While pension freedom and self-reliance are desirable virtues, so too is the collective support and mutual insurance that come through secure work, decent wages and pensions that allow us to pool risk and share rewards.

That is the debate Labour needs to lead for the country. And the Government has to step beyond its soundbites, treat savers with more respect and be honest about the real challenges they and their pensions will face in the future.

We will begin that debate in earnest with Professor David Blake's report.

We will set out our principles that we believe need to underpin pensions policy, and we will start from an assumption that it is never enough to ask the individual to fend for themselves.

The Tories may believe you are on your own, but Labour does truly believe in the strength in unity and security in society.

That does not mean reversing the reforms made by the Government. Savers and the industry have told me they need stability right now.

But it may mean revisiting the need for collective saving schemes such as Nest, and perhaps the invention of successor vehicles.

And it must mean a new honesty about the scale of the challenges we face, a new honesty about the contract between citizen and state, and between the present and future, that our pensions represent.

Angela Raynor is Labour shadow pensions minister

Adviser views

Nick Bamford, executive director, Informed Choice

For advisers, the cost of delivering the service is more of an inhibitor in reaching that market than the liability protection of a safe harbour. But by the time this comes to fruition, things like robo-advice will be more developed and there might be more cost-effective mechanisms to bring advice to market. A combination of safe harbour products delivered using online technology? There is a business model there that could work.

Pete Matthew, managing director, Jacksons Wealth Management

Safe harbour products might sound like a good idea, but there is quite a lot of nuance there. For an adviser, the temptation would be that they can recommend something with impunity.

But unless they are going to make more money out of it why would they talk to a consumer about anything else? Also, in a lot of cases people might actually be better off taking a bit more risk and getting more income rather than leaving it after they die. So safe is not always safe, and you could actually jeopardise the financial health of the client.

The Key Recommendations

- New quasi-default "safe harbour" decumulation products that combine accessibility, inflation protection and longevity insurance
- A charge cap on drawdown products, including advice and platform fees
- Allow Nest to compete in the decumulation market to set a benchmark for other providers
- Immediate annuities to be sold via auction, with the Government further encouraging the development of a deferred annuity market
- All categories of advice and guidance to be rebranded as either "personal recommendations" or "financial support" so customers have a better understanding of the market
- A new target of 15 per cent of lifetime earnings for retirement savings
- The establishment of a permanent Pensions, Savings and Long-Term Care Commission
- Create a single pensions regulator

Tory pension reforms leave savers at risk and needing 'much more help', report warns, by Dan Bloom, Daily Mirror, 2 March 2016

The Independent Review of Retirement Income said 'freedom and choice' has shifted the risk onto pension-holders themselves

A report today warns workers need "much more help" to ensure they are not left high and dry when they reach retirement.

The Independent Review of Retirement Income said 'freedom and choice' unveiled by the Tories in 2014 has shifted the risk from pension firms onto pension-holders themselves.

The Labour-commissioned study by David Blake, pensions professor at City University London, added: "Unfortunately, many people do not understand these risks, even with improved financial education."

The report made dozens of recommendations, including giving popular plans 'safe harbour' status by limiting investors to an easy-to-understand set of choices.

It said the government should adopt a national target for workers to put 15 per cent of their lifetime earnings into retirement.

There should also be a single pensions regulator and the government should monitor the success of its 'freedom and choice' regime, the review said.

Shadow Work and Pensions Secretary Owen Smith said: "This expert review asks serious questions about the sustainability of our current pensions system.

“Under George Osborne it has been ever more difficult for people to save, with British workers seeing the slowest growth in pay for a century and falling rates of home ownership.

“The Chancellor should address these risks in his forthcoming Budget and resist any temptation to stealthily raid long term pension provisions to offset any short term political problems caused by his mismanagement of the deficit.”

People living in some parts of Britain take eight years longer than those in other areas to earn the same quality of retirement as their parents, another report warns.

New research reveals an average worker who starts saving at 22 faces working until 77 to secure a ‘gold standard’ pension, giving them two-thirds of the income they had before retirement.

But there was wide variation across Britain on how long it takes to reach the figure, which includes state and private pensions.

Those in Westminster, central London, face working to age 81, the report said - compared to 73 for those in Boston, Lincolnshire.

Regionally Londoners are the worst off, having to work to 79, while people in the Midlands, North East, North West, Yorkshire, South West and Wales would all have to work to 76.

The postcode lottery was exposed in a study by retirement advice firm Royal London, whose policy director is former Lib Dem pensions minister Steve Webb.

He warned today’s employees could have to “work until they drop” if they do not increase payments into pension schemes now.

He added: “The amounts going in are simply not enough to give people the kind of retirement they would want for themselves, and certainly not the sort of pensions that many of those retiring now are enjoying.

“Even in lower wage areas people face working into their early seventies to get a comfortable retirement.

“In higher wage areas, the state pension makes a much smaller contribution so workers in those areas face working well into their seventies.”

How much do you REALLY need to save a month for the retirement you want?, By Lana Clements, Daily Express, Mar 2, 2016

Any 40-year-old who hasn’t already made provision needs to stick £4 IN EVERY £10 they earn into a pension.

Even those in their early twenties should be saving 15 per cent of their income to avoid spending their elderly years in poverty, according to a report by the Labour-backed Independent Review of Retirement Income (IRRI).

This equals a huge £322 a month for someone earning a typical wage of £25,792 a year, according to the most recent earnings figures from the Office for National Statistics.

However, putting away 15 per cent a month is typically only enough for someone who has started saving 40 years before retirement, shows exclusive analysis for Express.co.uk by pension provider Aegon.

This jumps to a whopping 40 per cent of your salary if you were to start saving in your forties - for a worker on the average wage this equals a massive £859 a month.

It means that workers who didn't start saving in their twenties but hope to retire in their sixties, need to pay far more into pension pots.

Of course, the amount you need to save depends on a number of other factors including, how much income you want to receive in retirement and when you hope to finish work.

But, for example, if you start saving in your thirties and want to finish work before you're 70, on half the amount you earn before finishing work, you need to be saving 25 per cent of your salary, according to Aegon.

Taking into account the state pension, someone who finished work earning £27,000 could then expect an annual income of around £21,500 if they stuck to these savings guidelines.

The calculations assume investment returns of around two per cent above your salary inflation, and that it would cost £20 to buy £1 of income at retirement.

The average retirement pension pot at retirement is just £28,000 - even though at least £230,000 is need for the typical home to retire on two-thirds of pre-retirement income, found the IRRI study.

At the same time, fewer than half of people of working age are saving for retirement.

The IRRI predicts the lack of adequate income means that there will be a ‘crisis point’ and "it will happen much sooner than people possibly imagine".

Steven Cameron, regulatory strategy director at Aegon UK, said: “With so many other financial pressures, saving adequately for a comfortable retirement can be daunting.

"Even if you start saving 40 years before you plan to retire, funding for half of your final earnings may require a contribution of around 15 per cent of your salary.

"But if you leave it till later, the contributions required are even higher meaning it’s really important to start saving as early as possible.

“Thankfully, many employees benefit from a contribution from their employer which can be hugely beneficial.

"If your employer is prepared to pay say nine per cent of your salary, the balance needed from you as an employee falls to six per cent."

Labour report calls on advisers to 'become profession', by Ruth Gillbe, FTAdviser, 2 march 2016

A Labour funded report published today (2 March) has called on the advice industry to turn itself into a recognised profession.

The Independent Review of Retirement Income recommended that financial advisers undertake a review of their industry to address a number of issues.

Firstly, the report wants improvement and a formalising of the professional standards of advisers, including training.

Secondly, introducing a fiduciary standard for financial advisers who provide full regulated advice.

Thirdly, appropriate charging models for the service offered, fixed fee or percentage of assets, with a clear demonstration that the charges deliver value for money to the customer and with full transparency over charges.

The report stated: "Financial advisers are not a recognised profession, yet they wish to provide advice on billions of pounds of UK retirement savings. Further, research by the FCA shows that customers are put off seeking financial advice because they are unable to trust the advice they receive or judge its quality."

It added that the "obvious solution" is to transform themselves into a recognised profession.

The report also called on the Financial Conduct Authority to review its multiple definitions on guidance and advice with a view to creating an hybrid for of advice.

It stated that the FCA should replace all other categories with just two: personal recommendation and a category which sits in the middle of this and execution only: financial help.

Financial help, in this context, would replace everything that is not full regulated fee-based advice where the adviser takes responsibility for the personal recommendation.

It added that the simplest solution involves only three routes:

- execution-only – the customer makes all the decisions ('I want to do it myself')
- 'financial help' – the customer is helped or steered towards tailored options using a decision tree; but this is currently classified as advice ('help me do it')
- personal recommendation or full regulated advice ('do it for me')

The report's summary stated: "There has to be a middle way between guidance and regulated advice. Many people's pots are just not big enough and their financial circumstances are just not complicated enough to warrant full regulated advice."

It added that without a simple route for the middle market to use with confidence there are two dangers.

The first being that many people will not take advice at all, and the second being that many of the 350,000-400,000 people who retire each year will be persuaded by advisers and providers that they need a personally designed bespoke retirement income solution that has been exclusively prepared for them.

Elsewhere in the report, the issue of safe harbour was addressed again.

Although these products are available in the US and Australia, the FCA has refused to grant safe harbour to any UK investments.

The report recommended that regulators agree a set of criteria for granting safe harbour status to key retirement income products.

"Providers and advisers could not subsequently be sued for offering or recommending a safe harbour product, having first determined its suitability for a client as part of a safe harbour retirement income solution," the report's summary stated.

It recommended that a number of criteria are used to do this: design and construction; investment strategy; projected real returns; acessibility; longevity protection and value for money.

Tom McPhail, head of retirement policy, Hargreaves Lansdown: "The review calls for a combination of measures to help retiring investors, including guided decision pathways, safe harbour products and a national narrative on retirement planning led by an independent pension commission.

"A safe harbour product of the kind described in this report may not be any more achievable than a perpetual motion machine. The products available today are largely fit for purpose already; the challenge is rather to make sure that investors are helped to engage at a level which works for them and to make good decisions, even if that is simply to buy an annuity."

UK should consider shift to collective individual DC funds – report, by Jonathan Williams, IPE, 2 March 2016

The UK should consider the launch of collective pension provision based around the more individualised approach being debated in the Netherlands, a wide-ranging report on the future shape of the pensions industry has urged.

The 600-page report, written by David Blake of the Pensions Institute at the behest of the opposition Labour party, also suggested the National Employment Savings Trust (NEST) be allowed to provide income-drawdown products to all savers in an effort to lower costs.

The suggestion was made after recent changes allowed savers to access pension pots from 55, and ended a previous requirement to annuitise.

Blake's report, likely commissioned in 2014 to function as a policy blueprint had the Labour party won the 2015 election, also proposes an overhaul of the UK's regulatory architecture, merging the Financial Conduct Authority with the Pensions Regulator, while introducing 'safe haven' pension providers that could be recommended without risk of later lawsuits over mis-selling.

The academic said the Review of Retirement Income (IRRI) report was necessitated by the shift in retirement provision caused by the liberalisation of pension savings, labelled pensions freedoms.

The shift away from annuities to pay out income in old age marked a “monumental change” for a market that was previously home to around half of the world’s annuities, Blake said.

The report set out to examine how the risks associated with drawing down retirement income – rather than having a guaranteed income stream for life – should be explained to savers.

Revisiting defined ambition

Blake touched on the role of collective defined contribution funds – part of the defined ambition agenda introduced by previous pensions minister Steve Webb – and argued that the idea of risk-sharing was still feasible in a world where members had access to savings from age 55, as long as the scheme allowed for individual accrual.

The report examined a number of risk-sharing approaches employed across the world, including the use of deferred annuities by Denmark’s ATP, and recommended the introduction of collective individual defined contribution (CIDC).

CIDC funds, the report said, would exploit economies of scale and allow risks to be pooled.

When asked, Blake said the approach could be modelled on discussions occurring in the Netherlands, where policymakers have sought to avoid a shift towards individual DC funds as used in the UK.

Benchmarking decumulation strategies

The report further recommended that a vehicle akin to the National Employment Savings Trust (NEST) be launched to act as a benchmark for decumulation strategies, able to set standards and cost levels other providers would need to match to remain competitive.

The focus on NEST was also in line with Blake’s proposal to see retirement income offered by institutional investors, rather than savers previously auto-enrolled into institutional providers being asked to access the retail market on retirement.

“In many respects,” the report said, “scheme drawdown is a natural extension of the default fund used by modern multi-trust, multi-employer schemes for the auto-enrolment accumulation stage.

“It is also a natural extension of the trustees’ governance role and fiduciary duties, which, prior to [the introduction of pension freedoms], ended very abruptly when members were steered towards the purchase of [lifetime annuities] at the point of retirement,” it said.

One of the report’s key proposals also built on previous work by the Turner Commission, which recommended the introduction of auto-enrolment in 2005.

The launch of a Pensions, Care and Savings Commission would provide independent scrutiny of the pensions freedoms, Blake suggested, and help establish what he saw as the absence of a national narrative around retirement savings.

The idea was previously proposed by the National Association of Pension Funds, the Association of British Insurers and the Trades Union Congress.

IRRI calls for permanent independent commission and 15% AE savings target, by Natalie Tuck, PensionsAge, 2/3/16

The Independent Review of Retirement Income has called for the permanent creation of an independent pensions, care and savings commission and an auto-enrolment national target savings rate of 15 per cent.

The Independent Review of Retirement Income (IRRI) was set up in May 2014 by the MP Rachel Reeves, who was shadow work and pensions secretary at the time.

It followed the announcement of the freedom and choice pension reforms and aimed to look at how to boost defined contribution savers' retirement income.

The review was led by the Pensions Institute's director David Blake and research included a consultation paper containing 76 questions and a number of meetings with representative of consumer groups, trade unions, scheme sponsors, providers, consultants, and fund managers.

Findings from the review show that pension savers need significantly more help, in order to make sure the pension freedom reforms are a real success. This is because of investment risk, inflation risk and longevity risk, which are borne directly by DC members.

The report found many people do not understand these risks, even with improved financial education, and may not realise they have made poor decisions before it is too late.

Therefore, the report said a 'national narrative' is required to make sure people know what pensions are for; it added that everyone in parliament would need to sign up to this narrative, just as they did with auto-enrolment.

"This is why we also recommend that the government establishes a permanent independent pensions, care and savings commission, which reports to parliament to ensure that there is cross-party consensus for all future pension reforms," the report explained.

Furthermore, as it clear that people are not saving enough for retirement, the review recommends the government adopts a national retirement savings target of 15 per cent of lifetime earnings, achieved through auto-escalation, to avoid future pensioner poverty.

In addition, the review has also suggested the introduction of a 'safe harbour retirement income plan,' which would involve a simple decision tree with a limited set of pathways.

This would allow people to get the best combination of retirement income products for them, given their assets, liabilities, health status, family circumstances, tax position, and risk appetite and capacity.

"The plan would be self-started following a guidance or advice surgery, and the plan member has the right to opt out until the point at which the longevity insurance kicks in. The plan would also deal with one of the important lessons from behavioural economics which is that too much choice is a bad thing. There are now far too many poorly designed and expensive choices of product available at retirement," the report stated.

Commenting on his research Blake said a great deal of effort will now have to go into re-establishing what a good pension scheme is.

"This will need commonly agreed national narrative. Without this, people's aversion to annuitisation combined with their willingness to pay highly for both flexibility and guarantees could leave them worse off than if they purchased an annuity to begin with. This is a significant challenge," he stated.

Commenting on the findings, Partnership corporate affairs director Jim Boyd said helping people to make smart choices around retirement should be a "priority" and the use of a simple decision tree with a limited set of pathways would support those who struggled to make a choice from the myriad of other options.

He also agrees with the need to introduce an independent pensions, care and savings commission: "Consumers must be protected from short term political tinkering and tax grabs at the expense of future generations. We need to rebuild trust in the pensions system if it is to deliver a stable pensions and care system going forward."

Labour: Osborne is making it increasingly difficult for people to save, Lauren Weymouth, PensionsAge, 2/3/16

Chancellor George Osborne has made it increasingly difficult for people to save, Labour Shadow Work and Pensions Secretary Owen Smith has claimed.

Commenting today on Professor Blake's Independent Review of Retirement Income, which calls for the permanent creation of an independent pensions, care and savings commission and an auto-enrolment national target savings rate of 15 per cent, Smith said there are some "major challenges" that need addressing by the government.

“This expert review asks serious questions about the sustainability of our current pensions system, and the increased risks being borne by individuals after recent government reforms,” Smith said.

“The relative popularity of the pensions freedoms reforms should not obscure those questions and Professor Blake is right to challenge government and employers to play their part in mitigating the danger that pensioners who have saved all their lives might still have insufficient funds to last them through retirement,” he added.

Findings from the review show that pension savers need significantly more help, in order to make sure the pension freedom reforms are a real success. This is due to investment risk, inflation risk and longevity risk, which are borne directly by DC members.

The report also found many people do not understand these risks, even with improved financial education, and may not realise they have made poor decisions before it is too late.

“These problems are only growing for younger generations who are finding it increasingly difficult to put aside the 15 per cent of lifetime earnings that Blake reminds us is needed for an adequate pension.

“Under George Osborne it has been ever more difficult for people to save, with British workers seeing the slowest growth in pay for a century and falling rates of home ownership," Smith continued.

“The Chancellor should address these risks in his forthcoming Budget and resist any temptation to stealthily raid long term pension provisions to offset any short term political problems caused by his mismanagement of the deficit. The Chancellor should be incentivising increased saving, not reducing people’s capacity to put aside funds for retirement.”

Pension review calls for "safe harbour" decumulation products, By Rozi Jones, Financial Reporter, 2 Mar 2016

A two-year Labour study into the pension freedoms has found that pensioners need "much more help" to make sure the Government's pension reforms are a success.

The report says there are significant risks involved in the generation of retirement income from pension savings, such as investment risk, inflation risk and longevity risk, and that following the freedoms these risks are borne directly by DC scheme members.

The Independent Review of Retirement Income report said:

"When annuitisation becomes optional, that unifying thread is no longer present and there is a real danger that the pension system begins to unravel. At best, it just becomes a tax-favoured arrangement for operating a multi-purpose spending pot – once the money has been spent for one purpose, it cannot be spent on another. At worst, it becomes a honey pot for thieves and other opportunists."

In response, the report has considered whether the industry could "build on the lessons of auto-enrolment by having a well-designed default decumulation process at retirement".

To do this, it says that appropriate products need to be developed offering: accessibility (the flexibility to withdraw funds when needed); inflation protection either directly or via investment performance, with minimal involvement by individuals who do not want to manage investment risk; and longevity insurance.

It argues that currently, no single product meets all these requirements. However a hybrid product, combining drawdown and a deferred (inflation-linked) annuity does, "so a well-designed retirement income programme will have to involve a combination of products".

However it adds that the FCA has refused to grant 'safe harbour status' to any UK investments.

One of its key recommendations is that a 'safe harbour retirement income plan' is introduced to allow people to get the best combination of retirement income products for them, given their assets, liabilities, health status, family circumstances, tax position, and risk appetite and capacity.

The plan would be self-started following a guidance or advice surgery, and the plan member has the right to opt out until the point at which the longevity insurance kicks in.

The report has also asked the Government to establish a permanent independent Pensions, Care and Savings Commission which reports to Parliament to ensure that there is cross-party consensus for all future pension reforms.

The report concluded that it is "clear that we are not saving enough for our retirement, so another recommendation is that the Government adopts a national retirement savings target of 15% of lifetime earnings, achieved through auto-escalation, to avoid future pensioner poverty".

Professor David Blake, Chair of the report, commented:

"A great deal of effort will now have to go into re-establishing what a good pension scheme is. This will need a commonly agreed national narrative. Without this, people's aversion to annuitisation combined with their willingness to pay highly for both flexibility and guarantees could leave them worse off than if they purchased an annuity to begin with. This is a significant challenge. But it is one that is well worth the effort because, as the Pensions Minister, Ros Altmann, says: "pensions are precious"."

Jim Boyd, Corporate Affairs Director of Partnership, added:

“Few people in the UK Pensions sector command the respect, expertise and authority of Professor David Blake. Accordingly the IRRI study which offers valuable insight during one of the most tumultuous times for UK pensions deserves to be taken seriously.

“The principle of compulsion through automatically enrolling people into a pension is supported by all parties as being in consumers’ best interest!

"However, we then expect individuals to manage the bewildering array of choices facing them at retirement which requires consumers to have the combined skills of an asset manager, actuary and financial expert to get a good outcome.

“Fundamentally, pensions are intended to provide an income throughout retirement and ideally should be accessible, inflation-linked and provide some longevity insurance.

“Helping people to make smart choices around retirement should be a priority and the use of a simple decision tree with a limited set of pathways would support those who struggled to make a choice from the myriad of other options. Approved by the regulator a set of ‘safe harbour’ products would – we believe – see more people achieving desirable outcomes."

Call for workers to increase pension pot contributions, by AOL Money UK, Mar 2, 2016

People need to be putting 15% of their lifetime earnings into their pension pot, a review for the Labour Party has recommended.

The report, which follows a two-year study, said a national savings target of 15% of lifetime earnings should be adopted "to avoid future pensioner poverty".

The findings were published by the *Independent Review of Retirement Income* (IRRI), which was set up in 2014 by Labour to review the pensions market. It is chaired by Professor David Blake, director of the Pensions Institute at Cass Business School.

Under automatic enrolment into workplace pension schemes, the minimum contribution as a percentage of earnings is currently set at 2%, including contributions from workers, employers and tax relief. The minimum contributions level will increase to 8% in the coming years.

Minimum contributions are being escalated over time, to help people get into the habit of paying into a pension initially. So far, around nine in 10 people are staying in the workplace pension they have been placed into under auto enrolment, which started in 2012.

The report also recommended the Government should set up an independent pensions, care and savings commission, reporting to Parliament, to ensure there is cross-party consensus for future pension reforms.

In another key recommendation, the report said a "safe harbour retirement income plan" should be introduced, to help people take out the most dependable retirement income products for their personal needs.

"Middle Britain" - those with pension assets between £30,000 and £100,000 - should be recommended to use a retirement income plan that involves a simple and limited set of pathways, the report said.

It continued: "There are now far too many poorly designed and expensive choices of product available at retirement."

New retirement freedoms were introduced in 2015, which mean that people aged 55 and over no longer have to buy an income called an annuity when they retire. Instead, they can use the money how they wish, subject to tax.

But the report warned that people could struggle to make their money last - and their cash could also become a "honey pot" for fraudsters.

It said: "For anyone who understands the risks involved in retirement income provision, it is clear that many of these people will find themselves in the same kind of control as a yachtsman in the middle of the Atlantic in a force nine gale."

The findings come after the announcement by the Government of a review into the state pension age sparked warnings among pension experts that the younger generation joining the workforce now could be aged in their mid-70s before they start to draw any retirement income from the state.

And a report from Royal London found that workers in some parts of the UK may need to work into their 80s in order to achieve the lifestyle they are used to in retirement - underlining the prospect of some people having to "work until they drop".

Former pensions minister Steve Webb, who is now director of policy at Royal London, said: "It is great news that millions more workers are being enrolled into workplace pensions, but the amounts going in are simply not enough to give people the kind of retirement they would want for themselves, and certainly not the sort of pensions that many of those retiring now are enjoying."

Owen Smith, shadow work and pensions secretary, said: "Professor Blake is right to challenge Government and employers to play their part in mitigating the danger that pensioners who have saved all their lives might still have insufficient funds to last them through retirement.

"These problems are only growing for younger generations who are finding it increasingly difficult to put aside the 15% of lifetime earnings that Blake reminds us is needed for an adequate pension."

Workers need to up contributions to avoid pension poverty, by *Julia Irvine,* economia.icaew.com, 02 March 2016

Future pensioners risk a poverty-stricken old age unless they put 15% of lifetime earnings away for their retirement, a major review of pensions has concluded

And they need encouragement to do so, particularly in the light of the government's recent pensions reform and the collapse in pension contribution rates experienced in 2014.

The review, which was carried out over a two-year period by Professor David Blake, director of the Pensions Institute at Cass Business School, on behalf of the Labour Party, says that pension reform has thrown the future of pensions provision and tax incentives for saving fundamentally into question. Auto-enrolment hasn't helped.

Office of National Statistics figures, published last September, showed that the average contribution per employee had fallen from 9.1% in 2013 to just 4.7% of salary and that, while employees were paying in on average 1.8% of salary, employers had cut back their contribution to 2.9%.

Under auto-enrolment, the level of contributions has been staggered to help make the requirement less painful for both employees and businesses. It is currently 2% and will rise to 5% in October next year and 8% in 2018.

But Blake says that to achieve "a decent-sized pension pot for retirement, it is necessary to make adequate pension contributions – something in the order of 15% of salary".

Even if people do save an adequate amount, the recent freedoms introduced by the recent pension reform leaves them vulnerable to fraud and investment scammers, and open to exploitation by being sold "inappropriate, over-engineered high-cost products" or overpaying for advice.

"Many consumers through ignorance, overconfidence, arrogance or reduced mental capacity, do not recognise their own vulnerability."

Blake believes that doing away with the requirement to annuitise pension assets means that pension schemes no longer need to fulfil their primary role of providing a life-long retirement income. "A pension scheme is now no more than a wealth accumulation scheme," he says.

Nevertheless, "There is no doubt that the new pension freedoms are very popular with pension savers. Indeed, free market supporters describe them as 'inspired'. It is clear the changes cannot be reimbursed."

Instead, he suggests, what is needed is a national narrative that builds a consensus around retirement income. In order to achieve this, it needs contributions from not just government and the pensions industry but the national media, regulators and politicians – "all the king's horses, all the king's men – and all the king's women", as he puts it.

The pensions industry needs to change tack and work together to offer the best designed and valued products and services and show clearly how these fit into the retirement journey of their clients.

They should focus on defined contribution customers with pension assets of between £30,000 and £100,000 because this group is most at risk (those with assets below £30,000 will be cared for by the state pension and welfare benefits, while those above £100,000 will see the advantage of seeking professional financial advice).

The simplest solution, Blake says, is a safe harbour retirement income plan which encompasses: a simple decision tree and a limited set of default pathways; products that deliver income flexibility and inflation and longevity protection; and financial help.

The national media has an important role in getting the right message across. At the moment, there is a divide between the “This is your money and you are entitled to do with it whatever you want, when you want” message promoted by the mainstream media and the more considered, longer term approach generally adopted by the financial services press.

Other recommendations include transferring the power of the Financial Conduct Authority to regulate contract-based schemes to the Pensions Regulator which already regulates trust-based schemes, to create a single pensions regulator. This would help to provide better consistency of treatment between to the two types of schemes.

Blake wants to see a pension tax and tax relief framework established that reflects how normal people behave and encourages the optimal level of pension savings, a new permanent independent Pensions, Care and Savings Commission that reports to parliament, and a national retirement savings target of 15% of lifetime earnings achieved through auto-escalation.

Without a commonly agreed national narrative though, he warns, “We could end up in the position where people’s aversion to annuitisation combined with their willingness to pay highly for both flexibility and guarantees in drawdown products leaves many of them not much better off and possibly worse off than if they purchased an annuity to begin with.

“In other words, the behavioural bias against annuities could be used by the pensions industry to extract as much if not more from a customer than a ‘terrible poor value’ annuity.”

One area that Blake does not consider is the vexed question of the state pension age. That particular task has fallen to John Cridland, former director general of the CBI, who yesterday was appointed the first independent reviewer of state pension age by the government.

He will gather evidence on the state pension age and will consider whether the current system of a universal state pension age rising in line with life expectancy is optimal in the long run. He will not comment on the existing state pension age timetable.

At the moment, the state pension age will equalise at 65 by 2018 and go up to 66 by 2020. But some commentators are predicting that young people coming into the workplace for the first time now will not receive their state pension until they reach their mid seventies.

Cridland will come back with recommendations in time for the government to work out what it wants to do, if anything, by May 2017.

Pensioners 'exposed to risks they do not understand', report finds, By Cintia Cheong, The Actuary, 2 March 2016

People need much more help to make sure they receive a lifelong income from their pensions, according to a report.

Savers are exposed to a number of risks such as investment, inflation and longevity risks.

Published by the Independent Review of Retirement Income (IRRI) and commissioned by the Labour party, the document said millions of people were exposed to risks that they do not understand and should not be expected to manage themselves.

It said pension reforms, which were introduced in April 2015, had been widely welcomed. However, under the new freedoms, there are "significant risks" in defined contribution (DC) schemes to do with investment, inflation and longevity.

The review called for a combination of measures to help individuals, including "safe-harbour" products.

The IRRI explained the safe-harbour plans would involve a decision tree with a limited set of pathways, allowing people to get the best combination of retirement products given their assets, liabilities, health status, family circumstances, tax position, and risk appetite and capacity.

The review also argued that people were not saving enough for retirement, and recommended a savings target of 15% of lifetime earnings, achieved through auto-escalation, to avoid future pensioner poverty.

David Blake, chair of the IRRI and director of the Pensions Institute at Cass Business School, said: "A great deal of effort will now have to go into re-establishing what a good pension scheme is. This will need a commonly agreed national narrative.

"Without this, people's aversion to annuitisation combined with their willingness to pay highly for both flexibility and guarantees could leave them worse off than if they purchased an annuity to begin with. This is a significant challenge."

Meanwhile, John Cridland has been appointed as independent reviewer of state pension age.

According to the Department for Work and Pensions, the 2014 Pensions Act requires the age to be reviewed during each parliament. The review is to consider changes in life expectancy, wider changes in society and to help ensure that the state pension remains sustainable for generations to come.

Tom McPhail, head of retirement policy at Hargreaves Lansdown, said: "We fully expect state pension ages to go up faster than currently planned, and those joining the workforce today are likely to find themselves waiting until their mid-70s to get a payout from the state system.

"This is simply a function of the big jumps we continue to see in life expectancy, which the state pension can't hope to support without costs spiralling out of control."

IFA Magazine, 2/3/16

(ShareCast News) – A two-year review for the Labour Party has concluded that workers saving for their retirement should double the amount they are putting away in their occupational pensions schemes.

The Independent Review of Retirement Income recommended workers put 15% of their lifetime earnings into their pension pot, but the average worker currently contributes just under 5% of their pay.

“To get a decent-sized pension pot for retirement, it is necessary to make adequate pension contributions – something of the order of 15% of pensionable salary,” said Professor David Blake, director of the Pensions Institute at Cass Business School, in the report.

The report also cautioned that pensioners withdrawing lump sums from pension pots under retirement freedoms introduced last year could become a “honey pot” for fraudsters.

The findings came as the government kicked off a review of the state pension age, which could mean those joining the workforce today will have to wait until their 70s before they can retire.

Currently, the state pension age is set to be 67 for men and women by 2028.

Pensions provider Royal London published research on Wednesday suggesting today’s workers may need to wait until as late as 81 to retire if they want to maintain their living standards.

Royal London said an average earner who starts saving for a pension aged 22 and makes the minimum statutory contributions would need to work until the age of 77 to get the ‘gold standard’ pensions enjoyed by many of their parents’ generation.

This is defined as a total pension – including state pension – of two thirds of pre-retirement income, with protection against inflation and something for a surviving spouse.

To get a ‘silver standard’ pension of around half of pre-retirement income, the same worker would need to work until the age of 71, Royal London said.

Steve Webb, director of policy at Royal London, said: “It is great news that millions more workers are being into workplace pensions, but the amounts going in are simply not enough to give people the kind of retirement they would want for themselves, and certainly not the sort of pensions that many of those retiring now are enjoying.

“The best antidote to having to work well beyond normal retirement ages is to start saving early and to increase pension saving. A good tip is to review your pension saving when you get a pay rise as you are less likely to miss money you have never had. Increasing your contributions when your pay goes up is the best way to avoid having to work until you drop.”

Partnership comments on Independent Review of Retirement Income, Actuarial Post, 02-03-2016

Jim Boyd, Corporate Affairs Director of Partnership, commented on the findings of the Independent Review of Retirement Income’s (IRRI) two year study:

“Few people in the UK Pensions sector command the respect, expertise and authority of Professor David Blake. Accordingly the IRRI study which offers valuable insight during one of the most tumultuous times for UK pensions deserves to be taken seriously.

“Very few can object to the tenet underpinning pension freedoms which gives responsibility to individuals to manage their retirement savings, however the report raises some important points that we need to acknowledge and act on.

“The principle of compulsion through automatically enrolling people into a pension is supported by all parties as being in consumers’ best interest! However, we then expect individuals to manage the bewildering array of choices facing them at retirement which requires consumers to have the combined skills of an asset manager, actuary and financial expert to get a good outcome.

“This may place an unreasonable burden onto the shoulders of the average person at retirement - as one wrong choice can have severe consequences – and mean that an individual may run out of money before they die – or unnecessarily live in poverty. Fundamentally, pensions are intended to provide an income throughout retirement and ideally should be accessible, inflation-linked and provide some longevity insurance.

“Helping people to make smart choices around retirement should be a priority and the use of a simple decision tree with a limited set of pathways would support those who struggled to make a choice from the myriad of other options. Approved by the regulator a set of ‘safe harbour’ products would – we believe – see more people achieving desirable outcomes.

“Potentially harder to swallow but no less relevant is the fact that ‘an adequate pension needs adequate contributions’ and to reach this, people (together with their employer) should consider saving 15% of their lifetime earning into a pension scheme. While £55,000 may seem a great deal of money, it is not much if you think that it needs to last potentially over thirty years so people need to be encouraged to save.”

“The report correctly identifies a real need for an Independent Pensions, Care and Savings Commission. Consumers must be protected from short term political tinkering and tax grabs at the expense of future generations. We need to rebuild trust in the Pensions system if it is to deliver a stable Pensions and Care system going forward.”

“In October 2015, Partnership was the first provider to launch a hybrid retirement product – the Enhanced Retirement Account (ERA). This product combined the security of an annuity with the flexibility of drawdown and growth potential of carefully selected investments. We believe that ERA – and other hybrids - has the potential to help many people secure their retirement finances.

People 'face working into their 80s before they can afford to retire', ITV News, 2 March 2016

People in parts of the UK may have to work into their 80s to maintain their current living standards in retirement, according to a new report.

An average earner who starts saving for a pension at the age of 22 and makes the minimum statutory contributions would need to work until the age of 77 to get a "gold standard" pension, research from Royal London found.

A "gold standard" pension is defined as a total pension - including state pension - equating to two-thirds of that person's final income before they retired, and it would include protection against inflation as well as provision for a surviving spouse.

Even to get a "silver standard" pension - around half of last pre-retirement income, with inflation protection and provision for a spouse - the same worker would need to work until the age of 71, the report found.

But with wages varying across the country, those in high-income areas need to build up much more private pension to maintain their current living standards than people in lower wage areas.

In several areas of London people may need to work until their 80th birthday to achieve their current living standards in retirement, the report found.

In Westminster, someone may need to work until the age of 81 to reach the gold standard - while in Boston, Lincolnshire, they would need to work until the age of around 73 - a gap of eight years.

In Scotland, a worker would be aged 77 by the time they achieved their retirement gold standard, while in Wales and Northern Ireland they would be 76.

The average ages at which people can expect to achieve their gold standard pension age, followed by their silver standard age, by region.

- North East - 76, 70
- North West - 76, 71
- Yorkshire and the Humber - 76, 70
- East Midlands - 76, 70
- West Midlands - 76, 70
- East of England - 76, 70
- London - 79, 73
- South East - 78, 72
- South West - 76, 71
- Wales - 76, 70
- Scotland - 77, 71
- Northern Ireland - 76, 71

Meanwhile an independent review for the Labour Party concluded people should double the amount they are saving into their occupational pension schemes.

The *Independent Review of Retirement Income* suggests the target for savings should be 15% of salary.

It comes after Rebecca Taylor, director at the Chartered Institute for Securities and Investment, told the Financial Times last month that 25-year-olds would need to save £800 a month on average for 40 years to secure a £30,000 per year income in retirement.

At the moment the average worker puts just 4.7% of pay into a pension - with most employers making a further contribution of less than 4%.

The government has confirmed that there will be a review of the state pension age.

It will consider what the state retirement age should be from April 2028, with the results set to be published next May.

Currently the state pension age is set to be 67 for both men and women by 2028.

Work Until Mid-70s Warning Amid Pensions Review, Sky News, 02 March 2016

Some workers in London could have to carry on until 81 to get a "gold-plated" pension, experts say.

Workers starting out today have been warned they may have to wait until their mid-70s before they can start drawing their state pension.

The state pension age has been undergoing changes since 2010 so that its long-standing level of 60 for women will equalise with men at 65. From 2018 it will rise for both and reach 67 by 2028 under Government plans.

But there are warnings this could further rise as a consequence of a Government review, which will consider changes in life expectancy and wider changes in society and aim to ensure that the state pension "remains sustainable for generations to come".

Former CBI director general John Cridland will lead the review.

It comes as a number of expert reports separately raise the prospect of people having to "work until they drop" because they are not putting enough money aside for themselves.

Pensions minister Baroness Altmann said: "As our society changes, it is only right that we continue to review state pension ages and take into account the relevant factors to make sure that the state pension is sustainable and affordable for future generations."

Financial services firm Hargreaves Lansdown said further changes were likely to mean it goes up faster than currently planned.

Tom McPhail, head of retirement policy at the firm, said: "Those joining the workforce today are likely to find themselves waiting until their mid-70s to get a payout from the state system."

The 2014 Pensions Act requires the state pension age to be reviewed during each Parliament. This will be the first such review to take place.

It will not cover the existing timetable for changes up to April 2028. Mr Cridland will report in time to allow the Government to consider the recommendations by May 2017.

Meanwhile, research from Royal London found that people making minimum workplace pension contributions from the age of 22 would need to work until 77 to be able to enjoy the sort of "gold standard" pensions enjoyed by many of their parents' generation.

This varies across the country due to different wage levels so that it would be as high as 81 in Westminster.

Former pensions minister Steve Webb, director of policy at Royal London, said: "It is great news that millions more workers are now being enrolled into workplace pensions, but the amounts going in are simply not enough to give people the kind of retirement they would want for themselves."

Another report, the Labour-commissioned *Independent Review of Retirement Income*, warns that people need to be saving 15% of their salary now to build up a reasonable pension pot - compared to 8% in the past.

IRRI: Nest 'should be allowed' to enter decumulation market, Tom Dines, Pensions Expert, March 2, 2016

Government-backed mastertrust provider Nest should be allowed to compete in the decumulation market from 2018 to help savers who do not understand the risks, the long-awaited Independent Review of Retirement Income has said.

Call for a new breed of simple pension investments for income in retirement, as freedoms pile risks onto savers, By Tanya Jefferies, This is Money, Daily Mail, 3 March 2016

- Reforms are exposing savers to risks they don't understand, argues report
- People could feel like 'a yachtsman in the middle of the Atlantic in a force nine gale', it says
- New simple and low-cost retirement income plans are needed, say experts

Millions of savers are stumped by pension freedoms and need to be shepherded towards new simple and low-cost retirement income plans, according to a new report.

Nothing available right now is up to scratch, so 'hybrid' products should be designed that combine income drawdown, an annuity to cover people's needs in later life, and inflation protection, it argues.

People would use a simple decision tree, leading to a limited set of options and a 'quasi-default' retirement income plan, although they would have the right to opt out until the point where the annuity kicked in, says the report from the Pensions Institute at Cass Business School.

Pension freedom gave over-55s full access to their entire retirement savings last April - but this is exposing them to risks they don't understand and should not be expected to manage themselves, according to the Independent Review of Retirement Income.

Many people 'could well find themselves in the same kind of control as a yachtsman in the middle of the Atlantic in a force nine gale', says the report.

Savers need much more help in the form of a retirement income plan which would offer them the best combined product depending on their financial and family circumstances, health, tax position, and appetite and capacity to take risks, it explains.

Such a plan could then be given 'safe harbour' status by regulators, which means that any provider or financial adviser who pushed it would be given protection against future mis-selling claims.

What is the 'Independent Review of Retirement Income'?

The *Independent Review of Retirement Income*, led by Professor David Blake of Cass Business School, was commissioned by Labour's former Shadow Work and Pensions Secretary Rachel Reeves in 2014.

It was asked to consider how to support a pensions market that works for all, retaining flexibility and choice, while ensuring all savers are able to secure a decent and reliable retirement income.

The IRRI team said its model was the Pension Commission led by Adair Turner (now Lord Turner) and its two reports of 2004 and 2005, and that they believed the Government should have commissioned this kind of report before announcing the pension freedom reforms in the 2014 Budget.

They added: 'The report is independent and not party political. We would have undertaken the same task had we been invited to do so by any other organisation. The Labour Party has not sought to influence the report in any way.'

The IRRI report says that following the pension freedom reforms, savers in 'defined contribution' schemes' - where they and employers contribute towards a pot of money for retirement - now have to bear investment risk, inflation risk and longevity risk by themselves. The latter means people have to work out when they are likely to die and plan accordingly.

'Unfortunately, many people do not understand these risks. Even with improved financial education, it is unlikely that many people will fully understand a number of these risks,' says the report.

'This is because some risks have to be experienced before they can be genuinely understood, and often it is too late by that stage to do anything about them.

'In addition, many people will have problems understanding the full range of product choices that are now available. All this makes it difficult for many people to be in a position to make "informed" choices. The Government is offering 45 minutes of guidance under the "guidance guarantee". Time will tell whether this is adequate.'

The IRRI report follows others suggesting that many people are approaching retirement with anxiety and are at risk of making poor decisions under new pension freedom reforms.

Some 4.8million people aged 50-70 were fairly comfortably off during their working years but unused to budgeting, and they could not predict precisely how much they will have to live on in future, according to the Understanding Retirement study from the Pensions and Lifetime Savings Association.

It is now working on a new 'quality mark' initiative to help savers find a decent invest-and-drawdown scheme to pay them an income in retirement.

Separate research revealed a shocking lack of understanding of common pension terms like 'annuity' and how the tax system works which, it is feared, could result in some people squandering their wealth.

Meanwhile, state-funded pension provider NEST has floated the idea of a low-cost retirement income product that combines cash, investments, and an annuity that starts paying out if you live beyond age 85.

What should retirement income products cost?

The IRRI report recommends a standardised method for measuring the charges of all retirement income products, and also that a cap is imposed on the charges of any default scheme.

It says: 'Even for a simple fund structure from a low-cost provider, the annual charge might be 1 per cent plus an administration fee of £250 per annum, which would cover the cost of income payments and income amount reviews, for example.

'A more common total cost is about 2 per cent per annum. which is similar to that for an investment-backed annuity. Guaranteed drawdown products could cost up to 2.5 per cent per annum. (or even more), although for large funds, the charge drops to around 1.55 per cent per annum.

'We came across cases where the charges for a SIPP package and advice were 4-4.5 per cent per annum. Platform costs can be between 0.25-0.50 per cent per annum and advice can be between 0.50-0.75 per cent per annum.'

'There are also hidden costs, including bid-offer spreads, the cost of sub-funds within the main fund, etc. Where an actively managed fund is selected, there is a risk that high turnover (churning) would add significantly to the total cost due to the transaction costs involved.'

What is Pension Freedom?

Pension freedom reforms have given over-55s greater power over how they spend, save or invest their retirement pots.

Key changes from April 6 included removing the need to buy an annuity to provide income until you die, giving access to invest-and-drawdown schemes previously restricted to wealthier savers, and the axing of a 55 per cent 'death tax' on pension pots left invested.

Also, savers aren't limited to one chance to take a single tax-free lump sum worth 25 per cent of their pension pots, with the rest taxed as income afterwards.

Instead, people can dip in and make as many withdrawals as they want, each time getting 25 per cent tax-free and the rest taxed like income, provided their scheme allows this.

The changes apply to people with 'defined contribution' or 'money purchase' pension schemes, which take contributions from both employer and employee and invest them to provide a pot of money at retirement.

They don't apply to those with more generous gold-plated 'final salary' pensions which provide a guaranteed income after retirement.

Ban cold callers to combat pension fraud and investment scams

Cold-calling should be made illegal, says the IRRI report.

'Penalties for pension fraud and investment scams should be greatly increased.There can be no hiding place for pension fraudsters and investment scammers.'

It adds: 'All financial product sales (covering both regulated and unregulated products) should be brought under a common regulatory umbrella.'

The IRRI report recommends that Government creates a single pensions regulator, with the powers of the Financial Conduct Authority transferred to The Pensions Regulator. At present the FCA looks after work schemes contracted out to insurers and other providers, and The Pensions Regulator is responsible for schemes run by trustees.

It also want the Government to establish a permanent independent Pensions, Care and Savings Commission which reports to Parliament.

Get rid of confusing 'advice' and 'guidance' labels

The Financial Conduct Authority should simplify the definitions of information, guidance and advice, says the IRRI report.

These should be replaced with just two categories, personal recommendation and financial help, with the latter 'replacing everything that is not full regulated fee-based advice where the adviser takes responsibility for the personal recommendation'.

What does the finance industry say?

'The review calls for a combination of measures to help retiring investors, including guided decision pathways, safe-harbour products and a national narrative on retirement planning led by an independent pension commission,' said Tom McPhail, head of retirement policy at Hargreaves Lansdown.

'Based on Hargreaves Lansdown's analysis of 27,000 self-managing drawdown investors, we are confident that the vast majority are making good investment and income withdrawal decisions. This doesn't mean there aren't risks ahead, but it does mean we shouldn’t rush to assume the present system isn't working.

'A safe harbour product of the kind described in this report may not be any more achievable than a perpetual motion machine. The products available today are largely fit for purpose already; the challenge is rather to make sure that investors are helped to engage at a level which works for them and to make good decisions, even if that is simply to buy an annuity.’

Gregg McClymont, who was Shadow Pensions Minister in 2014, and is now head of retirement savings at Aberdeen Asset Management, said: 'I remember the genesis of

Professor Blake's report well – a feeling that policymakers, in the wake of Government's revolutionary pensions freedoms, must take stock and examine the big picture.

'You can't fault the scale of his ambition. Professor Blake wants to pretty much completely change the way in which policymakers, the public and the media discuss pensions. But you have to wonder whether it all comes a bit too late.

'The report's aim is to defend the traditional understanding of a pension: a pot of money which is used to provide an income in retirement which lasts as long as you do. But pensions freedom and choice reforms takes the UK system a long way down a different road and the forthcoming Budget is unlikely to halt that momentum.

'Although the report seeks to reconcile "inertia" in accumulation with active decision-making in decumulation, in fact Professor Blake is adamant that the pensions freedoms cannot possibly work if defined as empowering individuals to make their own choices at retirement, free from Government interference. The report puts it this way, "some risks have to be experienced before they are genuinely understood".'

He adds: 'The inspiration for the report is clearly the Pensions Commission work of 2003-2005. But the context was very different. The latter was set up by Government, had its full support, and worked very hard behind the scenes with Government help to build a policy consensus across employers, trade unions and the state, a consensus which was then unveiled publicly in the Commission reports.'

Pensions reforms a 'honey pot for thieves': Warning middle class savers could lose thousands because of 'toxic combination' of too much choice and too little guidance, by Rosie Taylor, Daily Mail, 3/3/16

- *Report found pensions shake-up has created a 'honey pot for thieves'*
- *Middle-class workers and pensioners could lose thousands from savings*
- *Have 'potentially toxic combination' of too much choice and little guidance*
- *Same earners likely to be hit hardest by expected changes in this month's Budget, which could see Osborne slash tax relief paid on pensions*

The pensions shake-up has created a 'honey pot for thieves' and risks becoming a disaster unless there are urgent changes, a report says.

Middle-class workers and pensioners could lose thousands from their savings because of a 'potentially toxic combination' of too much choice and too little guidance, the two-year study found.

Employees in Middle Britain were also failing to save enough, meaning without immediate increases retirement would become 'a lucky gift' granted to just a few generations, it concluded.

The same middle class earners are likely to be hit hardest by expected changes in this month's Budget, which could see George Osborne slash the amount of tax relief paid on their pensions.

The pension freedoms, introduced in April last year, allow savers aged 55 and over direct access to their pension pots to use as they wish, instead of being forced to buy an annuity which pays an annual income.

But report author Professor David Blake, of the Cass Business School in London, warned that savers could lose thousands because they did not understand how to make the best choices and were ending up with poor-value

He said workers in Middle Britain ‘face the biggest challenges’ from pension freedoms because those on lower incomes would be supported by the State in retirement, while rich retirees would pay for good financial advice.

For most people ‘too much choice was a bad thing’ and was leading to retirees making unsafe investments or falling for scams, he said.

He added: ‘There are millions of people who are now in control of their pension fund and who will be trying to do the best for themselves and their families.

‘But many of these people could well find themselves in the same kind of control as a yachtsman in the middle of the Atlantic in a force nine gale.’

Savers are losing thousands of pounds by being scammed by ‘pushy’ conmen or being tricked into investing in schemes that were too good to be true.

He recommended people should be automatically transferred into ‘safe’, Government-approved schemes on retirement which provided flexibility as well as a guaranteed income for life, with an option to opt out for those who want to manage their investments themselves.

He also called on the Government to introduce a savings target of 15 per cent of a worker’s lifetime earnings.

Contributions for workers automatically enrolled into workplace pensions are currently just 2 per cent, and are set to rise to 8 per cent from 2019.

Prof Blake said workers needed to realise pension saving was like planning for a holiday, adding: ‘The more effort put in, the better the holiday’.

He went on: ‘There seems to be a whole range of people who have not saved enough for their retirement, but still expect that their pension pot can be used to pay off pre-retirement debts, dip into whenever they like, deliver a life-long income, and also make bequests to their descendants. It just doesn’t add up, as many will find out in due course.’

In his report, which was commissioned by Labour in the wake of Chancellor George Osborne announcing the freedoms in 2014, Prof Blake suggested that 55 was too young to access funds meant to last until death.

It also called for regular individual financial health checks for individuals, a ban on cold-calling and clearer information on fees and charges, as well as an independent Pensions, Care and Savings Commission to oversee pensions policy.

A Government spokesman said the reforms had given people ‘real freedom and choice’ and it was working with the industry and regulators to protect savers.

The spokesman added: ‘People who have worked hard and saved hard all their lives should have the freedom to decide how to use their savings in retirement.

‘This is part of the Government’s commitment to provide economic security for working people at every stage of their lives.’

Labour-inspired report backs AE pension target of 15% of earnings, PensionsWorld, 3 March 2016

A major new report *We Need a National Narrative: Building a Consensus around Retirement* argues that pensioners need more help to make sure the government’s pension reforms are a success. It suggests a partial reversal of the Freedom and Choice reforms and auto-enrolment target pension savings of 15% of earnings.

The report says millions of pensioners are exposed to risks that they do not understand and should not be expected to manage themselves. They need help to ensure that they receive a lifelong income from their pension pot, as well as enjoy the benefits of Freedom and Choice. This requires a national consensus around retirement income. This are the findings of the Independent Review of Retirement Income (IRRI) the body set up in 2014 by the Labour party to review the pensions market in the UK.

There are significant risks involved in the generation of retirement income from pension savings, such as investment risk, inflation risk and longevity risk. Following Freedom and Choice, these risks are borne directly by DC scheme member. Unfortunately, many people do not understand these risks, even with improved financial education.

The overarching question that the report seeks to address is this: What is the best way for the private sector DC pension system to reconcile the fundamental principle of auto-enrolment during accumulation, the success of which is predicated on member inertia with Freedom and Choice during decumulation, the success of which is predicated on the ability of members to make informed decisions?

Safe harbour

If a large group of people cannot understand the risks they face, says the report, they should not be expected to manage these themselves. Instead, if there are well designed and regulated schemes which use retirement income products that manage these risks in the most efficient and cost effective way, it might be possible to nudge or default savers towards one of these schemes. A good product for delivering retirement income needs to offer a combination of features, including: accessibility (the flexibility to withdraw funds when needed); inflation protection either directly or via investment performance, with minimal involvement by individuals who do not want to manage investment risk; and longevity insurance.

No single product meets all these requirements, but a combination of drawdown and a deferred (inflation linked) annuity does, for example. If any product satisfies these conditions as part of a hybrid solution, it might be considered a safe harbour product. Any adviser recommending such a product, having assessed its suitability for the customer, could not subsequently be sued for poor advice.

Unfortunately, the Financial Conduct Authority has refused to grant safe harbour status to any UK investments.

One of the report's key recommendations is that a 'safe harbour retirement income plan' is introduced. This would involve a simple decision tree with a limited set of pathways.

This would allow people to get the best combination of retirement income products for them, given their assets, liabilities, health status, family circumstances, tax position, and risk appetite and capacity. The plan would be self-started following a guidance or advice surgery, and the plan member has the right to opt out until the point at which the longevity insurance kicks in.

The plan would also deal with one of the important lessons from behavioural economics which is that too much choice is a bad thing.

There are now far too many poorly designed and expensive choices of product available at retirement.

The report recommends that the government establishes a permanent independent Pensions, Care and Savings Commission which reports to Parliament to ensure that there is cross-party consensus for all future pension reforms.

It also recommends the government adopts a national retirement savings target of 15% of lifetime earnings achieved through auto-escalation, to avoid future pensioner poverty.

The unifying thread that runs through a funded pension scheme is the requirement to annuitise enough pension wealth, at the appropriate age, to provide an adequate lifelong income in retirement when combined with the state pension – which is the rationale for establishing a private sector pension scheme in the first place. It is this requirement which makes a funded pension scheme different from any other type of savings scheme.

When annuitisation becomes optional, that unifying thread is no longer present and there is a real danger that the pension system begins to unravel. At best, it just becomes a tax -favoured arrangement for operating a multi-purpose spending pot – once the money has been spent for one purpose, it cannot be spent on another. At worst, it becomes a honey pot for thieves and other opportunists.

Lying between these extremes are millions of people now in control of their pension pot and who will be trying to do the best for themselves and their families.

But for anyone who understands the risks involved in retirement income provision, it is clear that many of these people will find themselves in the same kind of control as a yachtsman in the middle of the Atlantic in a force nine gale.

Professor David Blake, chair of the IRRI and director of the Pensions Institute at Cass Business School, said: "A great deal of effort will now have to go into re-establishing what a good pension scheme is. This will need a commonly agreed national narrative. Without this, people's aversion to annuitisation combined with their willingness to pay highly for both flexibility and guarantees could leave them worse off than if they purchased an annuity to begin with.

This is a significant challenge. But it is one that is well worth the effort because, as the pensions minister, Ros Altmann, says: "pensions are precious".

Welcome addition

Bob Scott, senior partner at LCP comments: "Professor Blake's report is a welcome addition to the debate on the Pandora's box opened by the pension decumulation freedoms.

"It rightly points out the imbalanced approach to the provision of retirement income in the UK. Pensions accumulation involves well designed and highly regulated schemes, supported by auto-enrolment and default mechanisms to encourage people to make at least reasonable choices about how they save. On the other hand, the repost suggests that many people could now face a daunting choice with little understanding of – or help in understanding – the significant risks involved to those savings.

"However, of greater importance in the long term is the need to increase the level of savings significantly above current auto-enrolment levels. The report recommends a target of 15% of earnings: this is in line with the Association of Consulting Actuaries' recent call for a gradual move in combined minimum contributions to 14-16% of earnings. Without such increases, auto-enrolment will be judged a failure.

"With George Osborne poised to announce a fundamental change to pensions taxation when he delivers his budget on 16 March, the need for pensions policy to be taken out of the party political arena has never been clearer. Therefore, I support the recommendation in the report that the Government establishes an independent Commission to ensure that there is cross-party consensus for all future pension reforms. The idea is not new – the Association of Consulting Actuaries and other trade bodies have raised it on numerous occasions – perhaps the planning blight that could follow the budget announcements will be the catalyst for establishing such a commission at last."

How long can babyboomers expect a 'free lunch'?, by Michelle McGagh, Citywire, Mar 03, 2016

The pension demands of older generations are hitting the retirement prospects for young people, says a report for Labour.

Younger people may never be able to retire if the baby boomer generation ‘keeps asking for a free lunch’ when it comes to pensions, according to an independent review.

The Independent Review of Retirement Income, commissioned two years ago by the Labour party and chaired by David Blake of the Pensions Institute at Cass Business School, has warned a generation faces working until they drop as the state pension age pushes up and their personal pension saving fails to fund a decent retirement income.

In the wide ranging review, which follows the government’s decision to relax access to pensions through new freedoms, Blake set a bleak scene for future retirees.

The scene is being set by politicians eager to win votes who reluctant to ‘adopt sensible long-term solutions to the problems of pensions…especially it this involves sacrifices today’ that could alienate voters.

Blake said this had a ‘fundamental consequence for intergenerational equity’ as ‘every generation passes the consequences of its own failures down to the next generation’.

True to form, the babyboomers are now handing down the cost of failing to increase the state pension age sooner, meaning younger people are faced with covering the state pensions of a large generation of people who are living longer than ever before.

There is a fear that the costs will be exacerbated by last year's pension freedom reforms as babyboomers who are given access to their savings, will spend it and then fall back on the state.

‘While this can be a small problem when a population is growing, it becomes very severe when a population is rapidly ageing,’ said Blake in the report.

He said the cost of funding retirement ‘will be even more expensive for the next generation to provide if significant numbers of babyboomers run out of money and demand that the next generation provides them with an income for life to keep them out of "poverty"’.

‘For how much longer can the baby boom generation keep asking for a free lunch from the next?’

The report said there is a demographic risk that ‘younger cohorts refuse or are unable to honour the implicit intergenerational contract that underlies many pension schemes’ because there are too few people in work to cover the costs of retirees.

Steve Lowe of insurer Just Retirement said if retirees mis-used the pension freedoms to blow their savings it would have consequences not only for them but other generations.

‘Those at risk of poor [retirement] outcomes are mass market defined contribution customers with pension assets of between £30,000 and £100,000 who don’t feel they can afford advice but won’t receive additional state help,’ he said.

‘Poor decisions by this kind of pension saver will have massive implications later on, not just on their own living standards but on the finances of the whole country and subsequent generations who may be forced to bail them out.’

It is not just a rising pension bill for older generations that younger people face, the report suggested that they will also have to accept that the government will have to ‘increase the state pension age even more rapidly than is currently planned’.

The upshot is that employees will have to remain in work for far longer or they will have to save far more into their pensions if they have any chance of retiring at a date of their choosing, or at all.

Blake noted ‘the risk that employees can no longer afford to retire’ given the level of contribution needed ‘to deliver an adequate pension’.

The report recommends that worker should save 15% of their salary in order to fund a decent retirement and the government should adopt a ‘national retirement savings target’ of 15% of lifetime earnings. It would be achieved through ‘auto-escalation’ – the practice of automatically increasing workplace pension contributions – and would aim to ‘avoid future pensioner poverty.

Richard Parkin, pension expert at Fidelity International, said a sudden jump to 15% contributions would be advisable considering auto-enrolment is in its infancy, with contributions set to reach 8% in 2017 (made up of 4% employee contribution, 3% employer contribution and 1% tax relief).

‘By setting themselves the goal of putting 1% of any pay rise into their pension each year, they can quickly find that, with the help of their employer’s contributions and tax relief, they are getting close to the 15% target that should ensure a comfortable retirement,’ he said.

UK Workers Urged to Double Their Pension Savings, Modest Money, 3 March 2016

A two-year review by the UK Labour party has concluded that workers should double the amount they save into their occupational pensions schemes.

The Independent Review of Retirement Income (IRRI) suggests that people should be aiming to put away 15% of their lifetime earnings, which is quite a bit higher than previously suggested; the rise represents an increase of nearly three times the present average.

The report followed a two-year study and was used by the political party as a warning to highlight the level of saving required in order to avoid ‘future pension poverty’. A hefty 595-page tome, the report written by the IRRI states that it wasn’t so many generations ago that “one worked until one dropped”. The report landed just hours after the UK government launched an official review of the state pension age.

Experts now believe that people joining the workforce today will have to wait until they are around 75 to get a state pension payout.

"To get a decent-sized pension pot for retirement, it is necessary to make adequate pension contributions – something of the order of 15% of pensionable salary," wrote Professor David Blake, director of the Pensions Institute at Cass Business School, in the IRRI report.

It is telling that industry experts have agreed with Blake's recommendation and the contents of the report will also be a stark reminder for those trying to achieve the perfect work-life balance that having to work harder for longer than we may prefer is likely to be a reality.

Richard Parkin, head of retirement at Fidelity International told the BBC he had to agree with the IRRI's findings. "I think 15% is spot-on, unfortunately," he said in a recent interview. "It's a rule of thumb we would recognise, although it represents a challenge for those on low earnings."

Experts believe that many UK workers will have to work into their 80s in order to maintain their current living standards. For example, if an average earner starts saving for a pension at the age of 22 by making the minimum statutory contributions, he or she would have to continue working until the age of 77 to get a 'gold standard' pension.

A 'gold standard' pension is otherwise known as a total pension; it includes the state pension and equates to around two-thirds of a worker's final income before they retire. The next step down is a 'silver standard' pension, which equates to just half of pre-retirement income, but in our example above, the worker would still have to work until the age of 71 to achieve that.

The UK government has confirmed there will be a review of the state pension age which will determine what the state retirement age should be from April 2028 onwards. The results are expected to be published in May 2017.

One thing is clear – workers in the UK will have to work longer and harder if they are to achieve the same living standards they enjoy now. With voters having to wait until 2020 to elect the next Prime Minister, the next few years may see the state pension as a key battleground for the two key political parties, particularly on a subject as emotive as this one.

Research Indicates 15% of Savers' Current Earnings Needed to Guarantee Smooth Retirement, Pension Review Service, March 3, 2016

Depositing a regular 15pc of savers' income is essential to guarantee a proper pension fund for retirement. The new report from the *Independent Review of Retirement Income (IRRI)*, working under the Labour Party, indicated figures that workers needed to "work until they drop."

The report came hours after the government began its own official review of the state pension age.

The lengthy 595-page report said that Britons might find it quite expensive to retire. IRRI's collated statistics indicate that only about 12pc of the UK's working middle-class need to save about 15 per cent of their income monthly to achieve a sufficient retirement income.

The Office for National Statistics revealed that 15pc might not be enough. Workplace Pension Scheme contributions fell to 4.7pc in 2014. The numbers became more positive in 2015 with a figure of 9.1 per cent.

Secretary For Work And Pension Iain Duncan Smith did not indicate whether an upper limit on the state pension age exists. He said the government's state pension age review is to guarantee to everyone that pensions continued to be affordable for future generations.

According to a report from Royal London, some individuals working in different parts of Britain might need to work until they are 80 years old to achieve the standard of retirement living enjoyed by Baby Boomers.

UK pensions: Auto-enrolment gives savers a false sense of security, and mismatch between pension freedoms age and state pension age causes further confusion, by Hayley Kirton, City A.M., 4 March 2016

Those who think that paying the minimum into their pension pot under auto-enrolment is going to fund them a comfortable retirement are in for a nasty shock, as pension experts warn the savings contribution system is lulling people into a false sense of security.

Portal Financial also today warned that some people could be confused by the difference between state pension age and the age they could access their pension under pension freedoms, wrongly believing they were not entitled to retire or touch their retirement savings until they had reached state pension age.

"Apathy, misunderstanding, confusion and misperception are a toxic mix that could lead to retirement poverty for many of today's workers," warned Jamie Smith-Thompson, managing director of Portal Financial. "A person who has been retired for many years may have received a much more generous annuity rate than can be achieved today, while there is a good chance many parents of today's 20-somethings have final salary pensions.

"Young workers need to understand how the situation they face is different now."

Last month, a study published by Royal London discovered that people on average earnings who contributed just the minimum amount under auto-enrolment would need to stick at their day job until they were at least 77 if they want to retire on two-thirds of their pre-retirement income – and that's assuming they started contributing at 22.

Those who did not start paying into their pension until they were 45 could find themselves needing to work until their 80s to fund their desired lifestyle.

Earlier this week, a study published by the *Independent Review of Retirement Income* found that workers needed to be setting aside roughly £1 in every £6 received – or 15 per cent of their salary – to be financially comfy in their golden years.

Auto-enrolment has been gradually phased in since 2012, with the date businesses need to sign staff up to a scheme depending on how many employees they have.

'Pensions are precious', which is why they should be removed from politics, By Jenna Gadhavi, Pensions Insight, 7 March 2016

Retirees need help to negotiate the potential minefield of choice, according to influential sector research

The next generation will be "working until they drop" unless drastic changes are made to the UK pension system, according to an exhaustive report commissioned by the Labour Party

The *Independent Review of Retirement Income* (IRRI), led by Professor David Blake, was launched following the 'freedom and choice' reforms announcement in the 2014 Budget. It found millions of pension savers were now exposed to risks that they simply did not understand, and should not be expected to manage themselves.

The report called for a new "narrative" on pensions to be developed with cross-party support, and for an independent pensions commission to be established. It also said the FCA should be tasked with designating good quality retirement income programmes as 'safe harbour products'.

Professor Blake, director of the Pensions Institute at Cass Business School**,** said: "A great deal of effort will now have to go into re-establishing what a good pension scheme is. This will need a commonly agreed national narrative."

Consumers need the combined skills of an asset manager, actuary and financial expert to get a good outcome"

Jim Boyd, corporate affairs director at Partnership agreed that savers did not yet have the skills they required. "We expect individuals to manage the bewildering array of choices facing them at retirement, which requires consumers to have the combined skills of an asset manager, actuary and financial expert to get a good outcome," he said.

Boyd believes this is a huge burden on the average person at retirement, where one wrong choice could have serious consequences. It could lead to an individual running out of money before they die, or leave them living in avoidable poverty in the later years of retirement.

Gregg McClymont, head of retirement savings at Aberdeen Asset Management, and former shadow pensions minister, believes attempts to help retirees with their decision making have been inadequate up to now. "The elephant in the room is the fact that the government is already struggling to get people to take advice or guidance. You only need to look as far as the low take up figures for Pensions Wise to see that."

A safe harbour

The safe harbour designation advocated by the report's authors would recognise products that were well designed and governed, transparently priced, required minimal consumer engagement and offered good value.

The report calls for providers and advisers to be able to use a simple decision tree to guide retirees to these kite-marked products. But argues that providers using these tree must be protected from being sued.

Tom McPhail, head of retirement policy at Hargreaves Lansdown doesn't think that safe harbour products are needed, however. "The products available today are largely fit for purpose already," he said. "The challenge is rather to make sure that investors are helped to engage at a level which works for them and to make good decisions, even if that is simply to buy an annuity."

The products available today areho largely fit for purpose already"

The review also addresses contribution levels, and suggests that people, together with their employer, should be saving 15% of lifetime earnings towards pension. Bob Scott, senior partner at LCP agrees: "This is in line with the Association of Consulting Actuaries' recent call for a gradual move in combined minimum contributions to 14-16% of earnings. Without such increases, auto-enrolment will be judged a failure."

There was also call for pensions policy to be taken out of the party political arena, by creating an independent Pensions, Care and Savings Commission. Partnership's Boyd said: "Consumers must be protected from short-term political tinkering and tax grabs at the expense of future generations. We need to rebuild trust in the pensions system if it is to deliver a stable pensions and care system going forward."

The report concludes that this will not be an easy job. "This is a significant challenge," said Professor Blake. "But it is one that is well worth the effort because, as the pensions minster Ros Altmann says, "pensions are precious'."

George Osborne abandons reforms to pension tax relief, by Marina Gerner, Money Observer, March 7, 2016

On Friday evening (4 March) the Treasury announced that there will be no immediate change to pension tax relief in the forthcoming Budget on 16 March.

Tom McPhail, head of retirement policy at Hargreaves Lansdown, comments: 'There were two front-runners for fundamental reform: a Pension Isa or a flat rate scheme.

'The chancellor is believed to favour the Pension Isa but the idea met with widespread resistance from employers, investors and the pensions industry. By contrast, the flat rate scheme would be more workable but perhaps wouldn't have met the chancellor's ambition for truly radical reform.'

The chancellor has decided to put his plans on hold in the context of uncertainties over auto-enrolment and the EU referendum. 'Investors should look on this as no more than a stay of execution though,' says McPhail.

TAKE ADVANTAGE WHILE YOU CAN

'With the amount of money involved, it would be optimistic to expect that the chancellor will just leave pension tax relief untouched for the rest of this parliament. Anyone looking for certainty should take advantage of the current tax relief regime while it still exists.'

Commenting on the announcement, Steve Webb, former pension minister and director of policy at Royal London, says: 'It is good news that plans to turn the pension system upside down have been dropped. Making major reforms simply to fill a short-term hole in the chancellor's budget would have been totally unacceptable.'

After nearly a year of uncertainty savers need a period of stability more than anything. Webb argues that Osborne should rule out any changes in tax relief at least for the rest of this parliament.

Joanne Segars, chief executive at Pensions and Lifetime Savings, comments: 'If the chancellor has indeed decided not to meddle with tax relief on pensions he is to be applauded.'

She adds that tax relief plays an essential part in encouraging people to save for their retirement, which is why any change to the pension tax system would disadvantage savers of all income levels. No change to pension tax relief on Budget day will be the right decision, says Segars.

HEAVY COST TO THE TREASURY

The consultation into pensions tax relief has cost the Treasury £1.5 billion in the form of additional pension tax relief, according to Sipp provider AJ Bell. Pension savers have poured billions of pounds into pensions in fear of pension tax relief being curtailed or abolished in the forthcoming Budget.

Andy Bell, chief executive of AJ Bell, comments: 'The government's plan to reduce the cost of pension tax relief could have backfired spectacularly.

'Far from saving money, the uncertainty created by the consultation and scare stories from former ministers has led to a surge in pension contributions and there will be a heavy cost to this for the Treasury.

'This re-affirms my long-held view that trusting politicians to make significant policy decisions on pensions tax relief is like trusting a troop of foxes to babysit a brood of chickens.'

He adds that the public would be better served by an independent Pension Commission with a mandate to manage UK pension policy and provide certainty and confidence to savers, which echoes recommendations from the recent Independent Review of Retirement Income from the Pensions Institute at Cass Business School.

BUDGET CHANGES THAT COULD STILL BE MADE

'We should use this time to have a fuller and less hurried debate of how best to support long-term pension saving,' says Richard Parkin, head of pensions at Fidelity International.

'We already have changes coming into effect for higher earners in April that are causing significant disruption and we urge the chancellor not to fiddle with the system further.'

We will have to wait for the Budget on 16 March to get the full details but there are still changes to the pension system that could be made.

'The Treasury would now find it very difficult to make any significant changes to pension taxation without suffering a significant dent to its credibility,' says McPhail, 'but there is still plenty of wriggle room for changes in the Budget. Given that the need to raise money hasn't gone away, pensions must still represent a tempting target.'

The chancellor could reduce the annual allowance, which currently stands at £40,000, having been cut from £50,000.

He could reduce the lifetime allowance, which has progressively been slashed, down from £1.8 million in 2011, to £1 million from 6 April 2016 onwards. The annual allowance taper could be brought down as well and salary sacrifice could be restricted.

Here's Why You Might Need To Double Your Pension Savings, By Alan Oscroft , The Motley Fool , 7 March, 2016

For those of us investing in our pension pots, at least one fear has disappeared after chancellor George Osborne revealed on Friday that he's dropped plans to end or alter tax relief on pension contributions. The possible details were uncertain, but one thing is sure, he wouldn't have been doing it for *our* benefit.

But don't let that lull you into a false sense of security, and don't just assume that any occupational pension scheme you have will necessarily be adequate for your retirement needs, because a new review conducted for the Labour Party has concluded that most workers are only stashing away around half the amount they'll need to see them comfortable in their old age.

We need to save more

The Independent Review of Retirement Income (IRRI) has determined that workers should be aiming to put away around 15% of their salaries for their retirement, and a number of investment professionals agree that the figure is about right. And at the moment, typical contributions to workplace pensions amount to a mere 4.7%.

The government's automatic enrolment scheme (which obliges all employers to provide pension schemes for eligible workers) is partly to blame. How so? In order to soften the impact, the early contribution requirements were deliberately set low. Minimum total contributions started out at 2% of earnings, though that should rise to 5% by 2018 and 8% a year later.

But even then, that would still leave members of such plans with contributions amounting to only a little over half the IRRI recommended rate — most of us, it seems, just aren't saving enough. The big question is, what's the best vehicle to use for those extra retirement savings?

Contributing more to your company pension scheme might be beneficial, but I think it depends on how much your employer is going to contribute too — so that needs to be decided on an individual basis. Other than that, there are two attractive options — a Self Invested Personal Pension (SIPP) or an Individual Savings Account (ISA), which have different tax advantages.

Which is better?

If you go for a SIPP, your contributions will be taken from your income before tax, but when you retire and draw down your pension, the money will then be taxed. No overall benefit then, you might think — but no. Firstly, in retirement you'll still have an annual tax-free allowance. And secondly, if you're a higher rate taxpayer when you're paying-in, you'll get better tax relief and you'll benefit from your basic rate allowance in retirement.

With an ISA you can invest up to £15,240 in the current tax year — and the tax difference is that you don't get any tax relief on contributions, but your gains within the ISA attract no capital gains tax and no higher-rate income tax on dividends.

Whichever way you go (and the best option might be a combination of SIPP and ISA depending on your circumstances), by far the best investment you can make is to put the money in shares. Investment charges are low these days, and the stock market has far outperformed cash savings for a century and more — and when you're investing for a lifetime, short-term ups and downs get ironed out.

If you're managing your own retirement pot, either through a SIPP or an ISA (or both), which shares should you be investing in? The Motley Fool's top analysts have been scratching their heads over that very question, and they have come up with their **5 Shares To Retire On** report.

The selected few range across a number of key FTSE sectors to give you safety through diversity, and take in companies with healthy and progressive dividend policies, because *income is what you need in retirement*.

How much does this must-have report cost? Not a penny! So *click here now to get your completely free copy*.

Can young people really afford to save 15% of their wages?, by Michelle McGagh, Citywire, Mar 08, 2016

We've calculated just how much the average worker would have left in their pocket if they saved the recommended 15% of their salary into a pension.

Workers have been told they should be putting 15% of their salary into a pension but if you're earning an average wage of £26,000, is there enough to save?

A Labour party-commissioned report, the Independent Review of Retirement Income, has told workers they need to save 15% of their salary if they stand a chance of retiring with a decent pension.

The author of the report, Pension Institute director David Blake, has even called for a 15% 'national savings target' to be set by the government to encourage people to make adequate preparation for their retirement.

While it's fine to talk about a 15% target in principle, the reality of implementation may be far more difficult. The fact is, with rising rents and house prices, as well as utility bills that creep skywards, many people cannot afford to save this much.

While keeping in mind that averages aren't a perfect science, we've examined just how much the average worker would have left in their pocket if they saved 15% of their £26,000 into a pension. Spoiler: it isn't a lot.

Starting point: £26,000 a year, or £2,166.67 per month before tax.

Let's assume our worker has a big chunk of student debt hanging over them and of course, there's the 15% contribution into the workplace pension.

Blake doesn't envisage the worker paying in the whole 15% - equal to £325 a month. At the moment, auto-enrolment contributions are set to rise to 8% in 2017, made up of 4% employer contribution, 3% employee contribution and 1% tax relief from the government.

Blake said 'there could be employer resistance to doubling their [contribution] rate' and that the 15% would be made up of 8% employee contribution, 5% employer contribution and 2% tax relief.

An 8% employee contribution would be equal to £173.33.

And for a person earning £26,000, student loan payments would be **£68.**

After paying tax, student loan and pension contributions our worker would be left with **£1,523.77 a month to live on** (thanks to Listen to Taxman's online calculators).

Cost of living

Now we know the amount the average worker has to play with, let's see how much it costs them to live.

Rent

You need a roof over your head and we'll assume our worker is renting. According to landlord agency HomeLet, the average rent in the UK is **£739 a month**.

Transport

Our worker needs to get to work and weekly commuting costs, according to the Office of National Statistics spending report, totals £15.30 a week on average across the UK. Four weeks x £15.30 equals **£61.20 a month**.

Gas and electricity

If your bills aren't included in your rent then you'll have to pay for your own gas and electricity. According to Ovo Energy, the average energy bill for a small house or flat equals £784 a year, so **£65.30 a month**.

Water

Another essential utility is water and uSwitch estimates the average water bill totals £393 a year in the UK, or **£32.75 a month**.

Council tax

There is little information on average council tax paid in the UK. However, the Department for Communities and Local Government's figures show the average cost of council tax for Band D properties in the UK is £1,484 a year. Split over 12 months, the cost is **£123.66 per month**.

TV licence

Most people have a television and will therefore need a licence. In fact, if you don't have a TV but watch BBC iPlayer's catch-up service, you'll still need a licence thanks to a closing down of a loophole.

This adds another **£12.12** to your bills each month.

Mobile

There are few people who do not have a mobile phone these days and it's likely that you'll have not just a phone but a data package included in your contract. According to Ofcom, the telecoms regulator, the average monthly cost of a mobile phone and data package is **£44.37**.

Broadband

The prime minister last year said that fast broadband was to become a legal right for everyone in Britain, so let's add that into our worker's costs. Figures from Ofcom show the average person pays **£13.44 a month** for broadband.

The cost of living for our very average person totals: £1091.84.

Savings

But let's not assume our worker wants to rent forever and that they have aspirations to be a first-time buyer. In that case they would be wise to set up a Help to Buy ISA (individual savings account), as the government will contribute £50 for every £200 a month that you save.

Total savings per month: £200.

How much is left?

Let’s remind ourselves how much the average worker had left after tax, pension contribution and student loan had been paid: **£1.523.77.**

Now let’s minus the average cost of covering the basics (£1091.84), which leaves our worker with: **£431.93**.

And because they want to own their own home at some point, we’ll take away their deposit cash (£200): **£231.93**.

This means our worker has to make the remaining **£231.93** stretch to cover food, going out, presents, holidays, and hobbies.

While saving 15% of salary for retirement is the right thing to do, the fact is the average person may not be able to make their money reach that far, especially when more pressing, current needs – like purchasing a property – are weighing on their minds.

In fact, for some it may come down to making the choice between a property or pension. For Dan Wilson Craw of the Generation Rent campaign group, the figures are proof of the need to fix the housing crisis in the UK, which means young people cannot afford to have it all.

‘Young people are being pulled in all directions - not only do they have to save more to buy a house, they have to put away more for a pension,’ he said.

‘At the same time they're paying so much on rent some can't even save anything at the end of the month. Policymakers need to accept that if they want to make the pensions system sustainable, they have to fix the housing crisis.’

Osborne's pensions tax-relief dance is out of step, By Mark Cobley, Financial News, 9 March 2016

Special Report: FN at the PLSA Investment Conference 2016

Will he? Won’t he? In, out, shake it all about…the absurd little dance that the UK Chancellor, George Osborne, has appeared to do over pensions tax-relief in the past week or so is deeply worrying and not just for the palpitations it has given journalists and policywatchers in the industry.

It also underlines how policymaking, on an issue of critical long-term importance to the country, is now apparently being driven by a very small circle of people in the Treasury.

The Turner Consensus, established when a former FCA chairman's 2005 plan to auto-enrol UK workers into pension funds was backed by all three parties, feels like a very long time ago now.

At the end of last week, a flurry of reports apparently based on leaks from the Treasury suggested Osborne was dead-set on bringing in a Pensions ISA in his March 16 Budget – a reform that would turn the pensions system upside down. He was prepared to do it despite the very public opposition of his pensions minister, Ros Altmann.

Cue another round of dire warnings from the industry. Tom McPhail, the head of retirement policy at Hargreaves Lansdown, warned of the risks of a Northern Rock-style “run on pensions”. Elliott Silk, head of employee benefits at Sanlam, described it as the “worst option out of all the proposed changes”.

Perhaps more relevant for the Chancellor’s political calculations was the verdict of the Daily Mail, which shrieked of a “plan to raid your pensions”.

Sure enough, within 24 hours the headlines had turned around – the plan was off. Osborne had been frightened off by the backlash, or the Prime Minister had told him the government couldn’t afford the distraction when it has an EU referendum to win, or both, according to which report you read.

This isn’t terribly edifying.

Mind you, the Opposition is in no better state. Labour gives every impression of having a very long road ahead to develop a policy on pensions; in the current political state of the party, all bets are off.

On March 2, though, we got a taster of some ideas likely to feed into the Opposition’s thinking, with David Blake of Cass Business School’s the *Independent Review of Retirement Income*. This impressive report is over 600 pages, took two years to research and makes 32 separate policy recommendations to government. But it's not even on the same page as Osborne.

But it doesn't say much about taxation. Instead it calls for practical changes to the way the system works – such as regulators approving "safe harbour" retirement funds that trustees can recommend to members without fear of mis-selling. Such ideas deserve debate; they might make the 'pensions freedoms' work better.

Unfortunately, the report has been prepared for the wrong party. Blake was commissioned to write it in 2014, when Labour had reasonable hopes of winning the next election. But it ended up being published in a very different political environment. Osborne has every reason to ignore it.

Blake stresses the report and its conclusions are politically neutral and Labour had no hand in its writing. He wants to build a consensus on the model of the 2004-05 Turner Commission that gave rise to auto-enrolment.

There seems little chance of that now. Osborne seems to have reverted to the type of Chancellors past, treating pensions policymaking as a kind of political game – how much of a raid on the piggybank can we get away with? – instead of trying to build a sustainable system for the long-term.

There now seems little interest in creating, or reforming, the kind of institutional architecture and smart regulation that the auto-enrolment process has fostered. Think of Nest, or Independent Governance Committees.

The Budget-Day Surprise is a terrible way to make policy, especially in pensions, where savers need to make decisions with consequences that could last decades.

Government announces further review of increases in the state pension age, http://www.if.org.uk/archives/7740/government-announces-further-review-of-increases-in-the-state-pension-age, Posted on: 10 March, 2016

David Kingman reports on the recent announcement of a further review of the state pension age by the government, and what it could mean for young people

The government has announced an official review of the state pension age, which will have a remit to "***consider changes in life expectancy, wider changes in society and help ensure the State Pension remains sustainable***". What could this mean for young people and intergenerational fairness?

A faster timetable?

The review – which will be chaired by John Cridland CBE, the former Director General of the Confederation of British Industry (CBI) – will report to government by May 2017, giving enough time for its recommendations to have an impact on government policy before the next general election in 2020.

Significantly, the terms of reference for the review indicate that it will only cover further increases to the state pension age beyond April 2028, when the current timetable of increases – which has already been legislated for under the 2014 Pensions Act – will come to an end. Under current plans, the state pension age will have risen to 67 for both men and women by that point, and the 2014 Act mandated that the government should hold a review of the state pension age every five years to inform the planning of future increases.

According to pensions experts, the review is likely to recommend a further programme of relatively rapid increases in the state pension age which will affect young people who are currently entering the labour market. Tom McPhail, the head of retirement policy at financial services firm Hargreaves Lansdown, told the BBC that *"we fully expect state pension ages to go up faster than currently planned, and those joining the workforce today are likely to find themselves waiting until their mid-70s to get a payout from the state system."*

Looking at the state pension system in isolation, there are two ways of interpreting this from an intergenerational point of view. On the one hand, only applying further increases in the state pension age – beyond those which have already been planned – to current young people seems intergenerationally unfair, as they may end up spending less of their lives in retirement than the current older generation will do (especially as the Cridland Review could recommend that pension age increases should be decoupled from life expectancy in the future). On the other hand, being expected to work until 75 may not be an unreasonable proposition for today's young adults if the current trajectory of improvements in healthy life expectancy is maintained (although this would almost certainly have significant implications for the nature of peoples' working lives which ought to be considered).

Poorer pensioners in future?

Of course, state pensions can't really be examined in isolation from the other elements of the pension system which together govern how most people fund their retirements.

In relation to private pensions, the ONS has recently released data which show that the number of workers who are enrolled in private pension schemes has continued to increase over the past year, largely due to the expansion of auto enrolment. Almost two-thirds of all workers (64%) now have an occupational pension (5% more than a year ago), although this still only covers 55% of private sector workers (compared to 87% of those in the public sector).

However, a two-year policy review convened by the Labour Party, *The Independent Review of Retirement Income (IRRI)*, has recently warned that, although enrolments in occupational pension schemes are rising, most workers are still not saving enough to fund a decent old age. The average worker currently puts just 4.7% of their salary aside into a pension, whereas the Review warned that the true amount which is necessary for the typical worker is more like 15%. Currently, the auto enrolment programme will only require contributions which are equivalent to 8% of a worker's salary when it is fully implemented, which raises widespread concerns among experts that they will be insufficient, given modern life expectancy.

Overall, a combination of inadequate workplace pensions and a higher state pension age makes it seem almost inevitable that today's young workers will need to remain in work for much longer than people typically do at present in order for their old age to be affordable. What this will mean for the labour market as a whole, or for those people who can't keep working into their mid-70s for health or job-related reasons, are the big questions which society is only just beginning to grapple with.

Jeff Salway: Pension firms living on borrowed time, The Scotsman, 12 March 2016

In March 2006, the pensions industry was preparing for the start of a new regime that was aimed at simplifying the whole system.

A decade on from "A-Day", that system could barely be more complex. The Chancellor had been set to put it out of its misery in this week's Budget, driving another nail into the pension industry's coffin by abandoning the current approach to pensions tax.

A consultation launched last summer raised the prospect of moving to an Isa-style system where the tax relief is paid at the end (on withdrawal) rather than upfront (on contributions). If that were to happen, the case for pensions would crumble.

That's why the pensions industry would have been happy to see the end of higher rate tax relief on pension contributions if it meant retaining the basis of the current system. Now it seems that, after months of consultation and speculation, the system will remain mostly unchanged, at least for now.

That might well be the worst outcome, not only because it extends the uncertainty, but also because it means keeping higher rate tax relief for a while longer. Paying tax relief to savers at their highest marginal rate means the top 1 per cent of taxpayers get the same amount of pensions tax relief as the bottom 50 per cent, according to the Resolution Foundation, which describes the system as “highly regressive”.

George Osborne could have switched to a flat rate that would have helped savers on modest incomes while retaining a tax incentive for higher earners. But, mindful of the need to keep Middle England sweet ahead of the EU referendum, he won’t even do that.

It’s clear that higher rate tax relief has had its day. We simply can’t justify spending millions of pounds on encouraging affluent people to save (and with little evidence that it does so) while doing nothing to help those on more modest incomes.

A flat rate isn’t perfect, but it’s both fair and sustainable. At 30 per cent, it would boost the pension pot at retirement of a full-time median earner aged 30 by 13 per cent, and by 14 per cent for a full-time earner on the national living wage, according to the Resolution Foundation.

As the recent *Independent Review of Retirement Income* suggested, the average worker should be paying 15 per cent of their salary into a pension if they want a decent standard of living in retirement.

The pensions industry expends a lot of energy exhorting people to save, but not as much as it does on defending higher rate tax relief.

If it really believes in the power of tax relief, it would welcome an increase in the tax relief that a flat rate would give to basic-rate taxpayers.

It seems that yet another opportunity to simplify the system and make it fairer is about to go begging. Pension firms know it’s just a temporary reprieve, however.

If the Chancellor wants one thing more than a quick way of boosting Treasury coffers, it’s the keys to No 10. The EU referendum may be the crucial factor on this occasion, but the Treasury’s thirst for short-term revenue (at virtually any long-term cost) ensures pension tax reform will soon be back on the agenda.

Will pensions grab the headlines in Wednesday's UK budget?, by Darren McKeever, The Irish News, 14 March, 2016

PENSIONS, yet again, are likely to grab the headlines at this year's budget on Wednesday – just as they have been dominating the financial pages and beyond for the past few weeks.

With the prospect of today's youngsters working beyond the age of 70 before reaching state pension age, those offering specialist guidance, such as independent financial advisers (IFAs), hope the Chancellor's changes make long-term sense.

The Labour Party has just published a two-year review – *The Independent Review of Retirement Income (IRRI)*. It has recommended that the amount being paid into pension plans by workers should double.

Currently, the average worker puts just 4.7 per cent of pay into his pension – with most employers making a further contribution of less than 4 per cent.

“To get a decent-sized pension pot for retirement, it is necessary to make adequate pension contributions – something in the order of 15 per cent of pensionable salary,” recommended the report.

At the same time as this Labour report was published, the Tory government confirmed there will be yet another review of the state pension age. This review will be delivered next May (2017) and will consider what the state retirement age should be from April 2028.

It is small wonder we increasingly worry about what provisions to make for our retirement. The fact we might live for two, 12, 22 or 32 years after finishing work doesn't make planning any easier.

We can't do much about that, but what really makes pension saving a real lottery is the constant changing and tinkering of regulations and structure by various governments, who often see our pension pots as an extension of the public purse.

Governments try to justify this because pension savings receive tax relief on the way in and pay tax on the way out. To encourage us to save for the future, we are offered these and other inducements, such as the 25 per cent tax-free lump sum from our final pension pot.

Now it appears as if some of these “generous” tax breaks could be removed or reduced, especially for higher-rate tax-payers. Just how drastic and revolutionary future pension saving is about to become only the chancellor, George Osborne, knows at the moment.

While today's youngsters may worry about what life is going to be like in 50 years' time, there is some good news from the National Survey for Health and Development (NSHD).

The NSHD has been following the lives of 3,000 people since they were born in 1946. That's when the official “baby boom” started, running through to 1964.

Most “boomers” have benefited from major social changes, such as the National Health Service, free education and final salary pensions.

Those handling the study are researchers at the MCR Unit for Lifelong Health and Ageing at University College, London. These latest findings challenge assumptions that have always linked happiness with good physical health.

Those approaching seventy reported they felt cheerful, confident, optimistic, useful and relaxed, despite most reporting at least one common chronic disease. That confirmed a recent report by the Office of National Statistics (ONS) that found the 65-75 age-group were happy and satisfied compared to most other ages.

This 70-plus generation is getting a lot of attention at the moment, perhaps because of those benefits of being a “baby boomer” or having come through the second World War safely.

Nationwide Savings commissioned research into the lifestyle and memories of 2,000 70-79-year-olds; in many ways it gives a snapshot of those who enjoyed the swinging sixties and the liberating seventies.

No surprises at the choice of favourite films, TV shows and bands – “The Great Escape” and “Schindlers List”; “The Two Ronnies”, “Only Fools and Horses” and “Fawlty Towers”; and Queen, Abba, Elvis and the Beatles.

Yet, one of the most interesting aspects of this research was that one-third of those asked were still working, so the reality or prospect of working beyond 70 is nothing new and already a reality.

So is still having a mortgage. The average mortgage debt outstanding was £27,000, while the average income was £21,617.

While the contents of the budget can cause pulse rates and blood pressure to shoot up, it is another annual occasion in the March that appears to have potentially a greater impact on your health.

The answer – the change to British Summer Time and the clocks going forward!

A study of more than 15,000 people found that the rate of stroke admissions was 8 per cent higher in the two days after the clocks went forward, compared with the weeks either side of the event.

For those over 65 the rate was 20 per cent higher, while there was a 25 per cent increase for those with cancer.

Past studies have shown that changing people's body clock, in particular through jet lag, can increase the chance of a stroke (which occurs when the blood supply is cut off to part of the brain – normally because of a clot).

Yet most of us will be more concerned about Osborne's budget than British summer time – although the lighter evenings are always a welcomed relief.

More defining financial changes are definitely on the way – and their implications will go well beyond the chancellor's lunchtime speech and could last for decades.

State Pension Age and Retirement Income Reviews, Capita Employee Benefits, 16 March 2016

At the beginning of March, two important pension reviews caught the attention of the national press:

- The Department for Work and Pensions has announced a review of State Pension Age which will consider changes in life expectancy and the sustainability of the State Pension; and
- A review commissioned by the Labour Party on how to boost pension savings has been published which suggests that the target for savings should be 15% of salary.

These are both covered in more detail below.

State Pension Age Review

On 1 March 2016, the Minister for Pensions, Baroness Altmann, announced that John Cridland CBE had been appointed as the first independent reviewer of the State Pension Age (SPA).

The Pensions Act 2014 requires the Secretary of State to review whether the rules around SPA are appropriate, given life expectancy and other relevant factors, and to prepare and publish a report on the outcome of the review. The first report must be published before 7 May 2017 with subsequent reports being produced at least every six years. For the purposes of each review, the Act requires the Secretary of State to appoint a person or persons to prepare an independent report.

The John Cridland independent review is responsible for gathering evidence on SPA and will consider a broad range of factors before making its recommendations. It will consider a wide range of evidence and should produce "robust, evidence-based analysis" of the current SPA timetable and its impact. However, the review is forward looking and will not cover the existing arrangements before April 2028 which are already law. Its recommendations must:

- Be affordable in the long term;
- Fair to current and future generations of pensioners, and
- Consistent with supporting fuller working lives.

Areas to be considered include whether the current system of a universal SPA rising in line with life expectancy best supports those objectives and, if not, how SPA arrangements might better support them.

John Cridland must report to the Secretary of State by January 2017 so as to leave the Government time to consider the recommendations in time for the 7 May 2017 deadline.

Independent Review of Retirement Income

In May 2014, the Labour Party opposition commissioned Professor David Blake, Director of the Pensions Institute at the Cass Business School, to lead a review on how to boost defined contribution (DC) savers retirement income in the light of the 'freedom and choice' pension reforms announced in the 2014 Budget.

After a two year study, the Independent Review's findings were published on 2 March 2016 and are expected to strongly influence the Labour Party in the development of its pension policy and its approach to future Government's plans.

The Review concluded that savers need much more help than they are currently receiving in order to make the 2014 reforms a real success. It stated that for anyone who understands the risks involved in retirement income provision, it is clear that "many of these people will find themselves in the same kind of control as a yachtsman in the middle of the Atlantic in a force nine gale".

Recommendations

In the Review's view, a good product for delivering retirement incomes needs to offer a combination of features including:

- The flexibility to withdraw funds when needed;
- Inflation protection (either directly or through the performance of investments held); and
- Longevity insurance.

In its view "Middle Britain – with pension assets between £30,000 and £100,000 – should be recommended to use a retirement income plan that involves a simple decision tree with a limited set of pathways." These pathways would lead to a set of safe harbour products approved by the regulator. The aim would be to achieve a simple solution that was 'good enough' for those who do not wish to make financial decisions themselves and would not invest in full financial advice. Members would be able to opt out, so this would be more of a 'default' or 'nudge' in the spirit of automatic enrolment.

In contrast, arrangements which did not involve longevity insurance should be classified as "complex and high risk from a regulatory standpoint", according to the Review.

The Review also recommended:

- A 'national narrative' on pensions that would include recognition that 'an adequate pension needs adequate contributions' with a view that saving 15% of lifetime earnings (including both employer and member contributions);
- A single pensions regulator be created, with the regulatory powers of the Financial Conduct Authority over contract-based schemes being transferred to the Pensions Regulator;
- NEST should be allowed to compete in the decumulation market from 2018 to provide a value-for-money decumulation product;
- The sale of immediate annuities should be via an auction, to make it easier for challengers to enter that market;
- The Government should support the development of an online 'pensions dashboard' where individuals could see all their pension pots in one place
- The Government should establish a permanent independent Pensions, Care and Savings Commission which would report to Parliament.

UK Budget spurs renewed call for independent pensions commission, by Susanna Rust, IPE, 17 March 2016

The announcement of a Lifetime ISA by the UK chancellor yesterday has led the country's pension fund association to reiterate a call for an independent retirement savings commission.

The Lifetime ISA (Individual Savings Account) was announced by George Osborne as part of the UK Budget, which did not, as widely trailed, include major direct changes to pensions taxation.

However, several in the pensions industry see the chancellor's move as tax changes "via the back door" and also raised the question of whether the Lifetime ISA will detract from auto-enrolment into workplace pensions schemes. (Click here for more on the UK Budget changes.)

Joanne Segars, chief executive at the Pensions and Lifetime Savings Association (PLSA), said the introduction of a Lifetime ISA is an "interesting" initiative to encourage younger people to add to their retirement savings.

To do this, she added, it is important for regulation of charges and governance of the new savings product to be comparable with those on pensions, "which have been reviewed to make sure they offer savers good value".

By introducing the Lifetime ISA, the government has "extended the way in which people will be able to save for their retirement", said Segars.

It should use this "as an opportunity to agree a new consensus for pensions that focuses on the long term, builds confidence and gives savers and employers clarity and stability".

More specifically, the chancellor should create "a new independent retirement savings commission to tackle that challenge", she said.

The PLSA, and others, have called for such a body before.

It last made the call in a report published in April last year, when the PLSA was still called the National Association of Pension Funds (NAPF).

The report was backed by a wide range of organisations, including the Association of British Insurers (ABI) and the Trades Union Congress (TUC).

Then, too, the motivation for such a commission, to be permanent, was based on a desire for a "long-term view" of the retirement savings system.

The auto-enrolment policy being rolled out in the UK was first suggested by an independent commission, the Turner Commission.

More recently, a wide-ranging report by *David Blake of the Pensions Institute*, written at the behest of the opposition Labour party, called for a "Pensions, Care and Savings" commission to provide independent scrutiny of pensions freedoms unveiled in the UK in 2014.

A Trojan Horse?

On the topic of tax, the PLSA's Segars welcomed the chancellor's decision not to make changes to pensions tax relief.

However, to the extent that the Lifetime ISA is seen as being equivalent to a Pensions ISA, some have noted that it involves a new type of taxation.

Paul Sweeting, head of research at Legal & General Investment Management, said the Lifetime ISA was "essentially a pensions ISA by another name" and that the tax treatment was very generous.

"[I]f pensions are EET (exempt-exempt-taxed) and ISAs are TEE (taxed-exempt-exempt), then these are essentially EEE – at least for a basic-rate taxpayer under the age of 40, thanks to the 25% bonus the government will put in up to the £4k limit," he said.

Meanwhile, Lynda Whitney, partner at Aon Hewitt, said decisions on some key issues raised in the chancellor's pension tax consultation have been deferred, and that the new Lifetime ISA "could well be the Trojan Horse that kills off pensions at a later stage".

"[W]e fear the mixing of shorter-term saving for house purchase, with longer-term saving for pensions," she said.

"Will individuals invest in low-risk assets, focusing on protecting the capital value, and so ignore the need to take enough risk to generate returns for a long-term investment like pensions?"

Others noted that private sector employers would welcome the confirmation of pension salary sacrifice.

Kevin Wesbroom, senior partner at Aon Hewitt, said employers were likely to have a range of responses.

Some might want to extend their benefits package to contribute to Lifetime ISAs, while others might want to offer a savings allowance that could be diverted to pensions or Lifetime ISA.

"Other employers will withdraw from pensions and just contribute the auto-enrolment minimum," he said. "They will welcome wholesale opting out of pensions to fund Lifetime ISAs instead."

Too much choice can be a bad thing, so a pared-down decision tree will help people decide the best retirement strategy for their pension pot, By David Blake, FT Adviser, 23 March 2016

When pension freedoms began in April last year, the FTSE 100 index was more than 7,000. Today, it stands at 6,100, a fall of 13 per cent. In February, it was 20 per cent below the April peak.

The pension reforms were widely welcomed, and their first anniversary provides a good opportunity to take an early view on their success.

Along with the benefits of pension freedom come the risks – in particular, the investment risk associated with big falls in the stock market index, inflation risk, and, of course, longevity risk. We should not forget that the primary purpose of a pension scheme is to provide life-long retirement income security for however long the scheme member lives and, when there is no requirement to buy an annuity, there is no guarantee that the member will not run out of money before they die.

These risks are now borne directly by scheme members. Unfortunately, many people do not understand these risks, even with improved financial education. Some risks have to be experienced before they can be genuinely understood. Also, many people will have problems understanding the full range of product choices that are now available. All this makes it difficult for many people to be in a position to make sensible 'informed' choices.

How do we deal with this and make pension freedom a success? We should begin by recognising that most people should not be expected to manage retirement risks themselves. This was one of the conclusions raised in the report of the Independent Review of Retirement Income (*We Need a National Narrative: Building a Consensus around Retirement Income*) published earlier this month.

Instead, pension scheme providers should be designing products and solutions that effectively manage these risks. We also need to remember that one of the important lessons from behavioural economics is that too much choice is a bad thing. This means that people need to be shown only a limited number of well-designed default pathways using decision trees that deal holistically with the scheme member’s total assets and liabilities, health status, family circumstances, tax position, and risk appetite and capacity.

The decision tree will help people decide the best retirement financial strategy for their pension pot. This comprises an investment strategy, a strategy for investing the pension pot during retirement, a withdrawal strategy, a strategy for withdrawing cash from the pension pot to finance expenditures, and a longevity insurance strategy.

A good product for delivering retirement income needs to offer accessibility, a degree of flexibility to withdraw funds on an ad hoc basis, inflation protection – either directly or via investment performance, with minimal involvement by individuals who do not want to manage investment risk – and longevity insurance. No single product meets all these requirements, but a combination of drawdown and a deferred (inflation-linked) annuity does, for example. So a well-designed retirement income programme will have to involve a combination of products.

If any product satisfies these conditions as part of a hybrid solution, it might be considered a safe harbour product. Any adviser recommending such a product, having assessed suitability, cannot subsequently be sued for poor advice. So far ,the FCA has refused to grant safe harbour status to any UK investments.

Drawdown has three components – the fund in which the pension pot is invested according to an agreed investment strategy that reflects the member’s preferences and risk attitudes, the arrangement for delivering the pension (for example, a self-invested personal pension scheme), and the withdrawal strategy. But drawdown could not by itself be classified as a safe harbour product, since it does not hedge longevity risk. It can also be expensive if sold in the retail market.

An alternative to drawdown sold in the retail market is scheme drawdown. The scheme itself provides a withdrawal facility together with an institutional asset management solution to meet the decumulation needs of members in early retirement, that is, until longevity insurance kicks in. It is a natural extension of the default fund used by modern multi-trust, multi-employer schemes for the auto-enrolment accumulation stage. Scheme drawdown has the potential to be much cheaper and deliver more consistent results than retail drawdown, due to economies of scale, trustee oversight, and the use of a well-designed institutionally managed fund. Unfortunately, very few companies have so far offered scheme drawdown to their members. This contrasts with Australian superannuation schemes which are beginning to offer group annuities to their members.

A particularly critical issue is the withdrawal strategy. If too much is withdrawn too soon, there is a risk that the scheme member will run out of money while they are still alive. If too little is withdrawn, there is a risk that the scheme member dies with a large chunk of pension pot unspent and could have enjoyed a much higher living standard in retirement.

The US financial planning community developed the concept of a ‘safe withdrawal rate’ (SWR), as exemplified by the ‘4 per cent rule’. The individual withdraws 4 per cent of the fund in the first year and the same amount adjusted for inflation in subsequent years. If the individual is prepared to accept a 10 per cent probability of failure (that is, a 10 per cent chance of running out of money before 30 years), the SWR increases to 4.17 per cent. A 5 per cent withdrawal rate results in a failure probability of 27.5 per cent.

So there is, in fact, no safe withdrawal rate with drawdown. An important reason for this is ‘sequence-of-returns’ risk: if the fund experiences a sequence of poor returns in the early years of retirement – as has happened over the last year − and a fixed amount is withdrawn from the fund, then the fund can become so depleted that no amount of good subsequent performance can compensate and the fund will run out of money very quickly.

Another critical issue is the longevity insurance strategy. It is essential for ensuring the pension scheme serves its primary purpose of providing a lifelong income. But when should longevity insurance be purchased and when should it come into effect?

This essentially boils down to the choice between buying an immediate annuity when it is needed, and buying a deferred annuity at the point of retirement, with the deferred annuity beginning to make payments when it is needed. Most experts believe that for a normally healthy individual, longevity insurance should come into effect some time between age 75 and 80.

Charges for drawdown vary considerably and in total could have up to four components: the charge imposed by the scheme provider to cover operational costs (such as administration), the investment management charge, the platform charge (0.25 per cent to 0.50 per cent a year), and the charge for advice (0.50 per cent to 0.75 per cent a year). Even for a simple fund structure from a low-cost provider, the annual charge might be 1 per cent, plus an administration fee of £250 a year (to cover the cost of income payments and income amount reviews). A more common total cost is about 2 per cent a year. High charges can be as lethal as poor investment performance in reducing the value of the pension pot over time.

So we are still a long way from pension freedom being the long-term success everyone wants. We do not yet have companies offering a low-cost, well-designed scheme drawdown that delivers flexible access, inflation protection and longevity insurance. We do not have a well-developed deferred annuity market. Indeed, we do not have any safe-harbour products. Instead, too many people face the prospect of investing in unsuitable high-risk, high-cost products that could well run out of money before they die.

Median contribution rates into pension arrangements provided by responding employers

Type	Employer	Employee
Group personal pension	4% (5.8%)	3% (4.2%)
Trust-based DC	5% (6.9%)	4% (4.5%)

Median contribution rates into pension arrangements provided by responding employers

Nest	1% (NA)	1% (NA)
Other multi-employer schemes	3% (NA)	1% (NA)
Mixed DB/DC	11-15% (NA)	5% (NA)
DB	16-20% (21.9%)	6% (NA)

Note: Figures in brackets are 2013 mean figures Source: ACA (2013) Pensions Trends Survey Report

David Blake is professor of pension economics at the Pensions Institute of Cass Business School

Key points

Along with the benefits of pension freedom come the risks, including the investment risk associated with big falls in the stock market index.

An alternative to drawdown sold in the retail market is scheme drawdown.

Another critical issue is the longevity insurance strategy.