Welcome to the Annual Mortgage Conference

08 November 2017
Lessons from the pension sector
Session title

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Director of External Affairs, Pensions and Lifetime Savings Association
Pensions and Lifetime Savings Association

- The national association with a ninety year history of helping pension professionals run better pension scheme.
- Our members include over 1,300 pension schemes with 20 million members.
- Our purpose is: to help everyone to achieve a better income in retirement.
Agenda

- Retirement expectations
- How much is enough?
- Are we saving enough?
- What’s the relationship between property and retirement income?
- How are people using the pension freedoms?
- Priorities for improving retirement income
Lifestyle expectations for retirement

“I always thought that every day at work was a day lost because you could never make it up, you know, so it’s OK working and accumulating things; but your life’s limited, so every day you lose a day of doing the things that you want, so now, you have the time to enjoy the things that you maybe didn’t have the time to do”.

Travel  Family  Freedom

Hobbies  Opportunity
Supporting this lifestyle

How much money will you need in retirement?

- 16% Know, and can state a value
- 7% Know, cannot state a value
- 77% Do not know
However we define ‘enough’ there are issues

- Final salary pensions are now generally closed outside the public sector
- Automatic enrolment (AE) is raising the retirement incomes of many people in the UK
- But:
  - AE minimum rates are low – 8% of a band of earnings
  - AE minimum rates likely to be norm;
  - Many will never be enrolled (lower earners, long term unemployed, self employed)
How big is the adequacy problem?

- Over 55
- 36 – 54
- 18 – 35
Adequacy looks like a challenge for millennials…

Median outcomes for a male Millennial, age 28 earning £23k
...tough for Generation X...

Median outcomes for a female Generation X, age 40 earning £20k
...and unattainable for baby boomers

Median outcomes for a male Baby Boomer, age 59 earning £22k

- TRR: 73%
- New State Pension: 34%
- AE: Default: 4%
- Gap: shortfall to achieving TRR: 35%
What other wealth might be used?

- Wealth is generally in pensions and property
Consumers and property

- Use of property is limited currently
- Future generations may rely on property they don’t have
But will housing be a cost in retirement rather than an asset?

Home ownership by age group

<table>
<thead>
<tr>
<th>Age Group</th>
<th>1981</th>
<th>1991</th>
<th>2001/02</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-24</td>
<td>60%</td>
<td>36%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>25-34</td>
<td>74%</td>
<td>60%</td>
<td>44%</td>
<td>36%</td>
</tr>
<tr>
<td>35-44</td>
<td>59%</td>
<td>36%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>45-64</td>
<td>59%</td>
<td>36%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>65-74</td>
<td>59%</td>
<td>36%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>75+</td>
<td>59%</td>
<td>36%</td>
<td>24%</td>
<td>16%</td>
</tr>
</tbody>
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Source: English Housing Survey
Pension Products at retirement: Pension Freedoms

• Introduced April 2015 - changed the way in which people can access their pension.

• Those aged 55 + have more choice over how they can take money from their pension pot(s).
  • leave money invested for longer (known as drawdown);
  • take entire pension pot as cash and use it in other ways;
  • take an income from their pot (an annuity).
Pension Freedoms: October 2015 – December 2016

<table>
<thead>
<tr>
<th></th>
<th>Proportion</th>
<th>UK estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>The actioners</td>
<td>22%</td>
<td>700,000</td>
</tr>
<tr>
<td>The investigators</td>
<td>68%</td>
<td>2,100,000</td>
</tr>
<tr>
<td>The inactive</td>
<td>9%</td>
<td>300,000</td>
</tr>
</tbody>
</table>
The Actioners

700,000 with a median average DC pension wealth (£79k)

- Median age: 60
- Gender split: 70% male and 30% female
- More likely to have a pension already in payment (40%)
- More likely to have access to a DB pension (31%)
- Typically retired (56%)
- More likely to have high levels of financial confident (44%)
How is cash being used?

- **TOP 5 ACTIONS WITH CASH**
  - 60% put in a savings account
  - 43% spent on home improvements
  - 39% bought a one off purchase
  - 33% invested in a share ISA
  - 27% saved into a cash ISA
An uncertain future: the role of guidance and advice

- Pension providers and professional advisers the most common source of help
  - Reasons for not using adviser centred on ability to make own decisions and cost
- 22% used Pension Wise
  - 17% used website, 2% emailed a query, 2% face-to-face, 1% phone
- 90% found it helpful
Priorities for the PLSA

- Realistic, comprehensible retirement income targets
Priorities for the PLSA

• Realistic, comprehensible retirement income targets
• Increasing default pension savings level
• Making the most of new freedoms: introduction of a new signposted process
• Removing barriers to greater uptake of flexible equity release products
• Building confidence and understanding through targeted engagement