



# Consultation Response

## Independent Review of Retirement Income

Ref: 0515

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## About this consultation

The Independent Review of Retirement Income, led by the Pensions Institute at Cass Business School, was commissioned by the Labour Party to examine some of the key issues arising from the pension reforms. It examines how Defined Contribution (DC) savers can achieve the maximum possible income in retirement and how income can be more predictable than that provided by existing schemes.

## Key points and recommendations

- 'Good' DC schemes should aim to deliver the maximum value for scheme members at point of retirement, as well as assisting them to make the right product choices at retirement or signposting to appropriate services.
- This needs to include having suitable defaults in place to support more disengaged savers. These need to be particularly relevant for smaller savers and be based on a set of sound principles.
- A 'Retirement Savings Commission' should be established to evaluate all aspects of pension saving, including decumulation.
- There is a substantial risk associated with people u.294974( )-2.16558(a)2.16436(74(-4.33117( .33

## Introduction

The current reforms to pension decumulation are the most important changes for a generation. Age UK broadly supports the reforms, but we are concerned that there is a significant risk that people will make poor decisions that will have a lifelong impact on their finances, as well as their health and wellbeing.

We therefore believe that action needs to be taken to prevent consumers – particularly smaller savers – from losing out, for example imposing minimum standards on products, improving governance, and introducing safeguards to minimise the risk of people making ill-advised decisions. Such measures are set out in Age UK's [‘eight point plan’](#)<sup>i</sup> and in the [‘Dashboards and jam jars’](#) report.

## Consultation questions

1. (a) *What should be the primary aims of a ‘good’ DC scheme? Please explain.*
- (b) *If the provision of a predictable income should be a primary aim of a ‘good’ DC scheme, how should this be defined?*
- (c) *If value for money should be a primary aim of a ‘good’ DC scheme, how should this be defined?*

### Predictable income

Providing a predictable retirement income is likely to be an appropriate aim for DC schemes in many, if not most, circumstances. However this will not necessarily always be the case. Different people will want to take their money in different ways, for example one person may make a rational and informed decision to take most of their DC fund in cash to pay off a high interest loan, while someone else might wish to use theirs as a ‘rainy day’ account to supplement a regular DB income.

However, securing a predictable retirement income will undoubtedly be in the interests of some savers.

Different people suffer different circumstances and, in theory, being able to use DC pension saving for different purposes can optimise a lifetime of saving.

It is therefore difficult to pursue succ reformy, i

Furthermore, savers with smaller pots may have insu

**Value for money**

Value for money is of course important in delivering a 'good' DC scheme. Regulation of charges and other costs, as well as ensuring good governance, are important means of achieving this. It is difficult to define value, given changing norms, but Age UK believes

explored on what are classed as 'behavioural risks' – there are a range of different human factors that can contribute to this and are broader than simply short-termist behaviour.

There should be an independent retirement savings commission or regular independent reviews to advise the Government on any further changes to private pensions and income in later life. The consensus around the development of automatic enrolment proved very effective, and we are keen for this to be extended to a Commission looking holistically at retirement savings and decumulation. This could be set up on an on-going basis to continue monitoring and evaluation, and to independ

Conversely, there is also likely to be a problem with some people being risk averse and failing to optimise their retirement income owing to a fear of exhausting their resources.

From both perspectives, many people are likely to need help with understanding their longevity and health risks and with securing maximum value from their DC savings across their retirement.

*6. (a) Should decumulation default products provided by, say, large-scale master trusts, be subject to the same trustee-based governance and quality standards that apply to the accumulation default fund?*

*(b) Where decumulation products are offered by contract-based schemes, should they be included in the requirements for the new Independent Governance Committees to provide governance and quality standards and to assess value for money?*





are at or near state pension age should consider how to maximise income from all sources, and this should be reflected in default strategies.

This raises two further issues for public policy:

- How individuals can look across all their expected pensions income, public and private. We would like to see a single 'dashboard' covering all pensions. The possibility of a single pension forecast has been explored in the past, and should be re-visited in the light of recent changes and the introduction of the new state pension. In addition, we wonder whether it would be possible to use moves to aggregate pension pots during working life (as rece

## Part 2

22. *It is now recognised that many people face a number of behavioural barriers which prevent them behaving optimally. When it comes to decumulation, what are the key barriers?*

23. *We need to recognise that retirees: have different expenditure needs during different phases of their retirement; need to pace their spending throughout retirement in order to optimise the use of their lifetime assets and income and their ability to make intended bequests; and need a choice architecture that reflects the market segment to which they belong.*

*(a) What is your understanding of the regulatory consumer market segmentation and is this appropriate in relation to the needs of DC retirees?*

*(b) What nudges and choice architecture do people n*

Research in the USA shows the impact that framing decisions can have. For example,

We therefore think that the Government must ensure that Pension Wise is monitored and evaluated effectively and independently, and the service is continuously improved. There also needs to be an understanding of the likely impact on other advice agencies such as



insurance products or state funding, or other methods of pooling risk such as Collective Defined Contribution schemes.

It is also important to consider in this context long-term care funding. With greater longevity, and potentially reduced amounts of private finance (especially if many people do spend their DC pension fund too quickly), the care system is likely to be put under further strain, and this must be accounted for in the Government's long-term planning.

*35. Where people receive tax incentives to save into pensions, should people be required to secure a minimum lifetime income in retirement?*

Age UK would like to see pension tax relief should be reformed to provide better and fairer incentives to those on low and modest incomes. Requiring people to secure a minimum lifetime income would not be appropriate for everyone. For example, smaller savers might not have sufficient funds to generate a reasonable return, and might be better off taking a cash lump sum.

*41. Should NEST provide retirement income products to its members?*

*42. (a) Should NEST provide a default decumulation product to its members?*

