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Retirement Challenges Breakfast Event

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Speakers

David Cassidy **– CEO, WEALTH at work**

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Steve Robson **– Head of Pensions, United Utilities**

David Cassidy

Good morning everybody, my name is David Cassidy. I am from WEALTH at work. Welcome and thank you for taking your time and the trouble to join us for our retirement income options breakfast seminar this morning. There are a couple of things I would like to say. First of all the title Retirement Income Options Breakfast Seminar and the sub heading The Landscape Has Changed When Employees Decide to Retire. Well you couldn't over emphasise that right now. The thing I think is really interesting is we have not changed that since these invites went out several weeks ago. We didn't quite think we'd be referring to those new responsibilities that came out of the budget. I do believe that the fact we have not had to change this and the fact that you all registered well in advance of the Budget meant that we have a collection of people here today who are already well ahead of government thinking about the changes because you know how important it is. And I think it was Albert Einstein who said, "The war is won, but the peace is not". And I think there is a long way to go and a lot of hurdles to overcome. But this is a brand new and very exciting environment. And we have some battle hardened professionals with us today. Ros Altmann - I'm sure known to most of you as leading independent industry expert, Steven Robson, Head of Pensions at United Utilities, one of the UK's biggest companies and already putting into practice what is being proposed in the Budget speech. Michelle Cracknall runs TPAS and is there on behalf of pension scheme members nationwide already dealing with a lot of the submissions and guidance that come out of the Budget itself. My colleague Jonathan is going to talk about a recent survey and for the panel session at the end Alan Whalley our Chairman and former CEO of Mercer. So I'll shut up and get out of the way and I'd like you to join me in welcoming Ros…

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Dr Ros Altmann

Good morning everybody. Thank you for coming so bright and early to this great venue. It's a really exciting place actually. Thank you to WEALTH at work for organising this amazingly timed seminar. What I have been asked to talk to you this morning about is going through a little bit of the history of the traditional retirement income options. Emphasising, even more than before, the need for information, education and advice. A brief word about the Budget measures. The end of mass market automatic annuitisation - the Budget game- changer and what it means for the future.

So let's start with the traditional UK pension situation for members coming up to retirement. Essentially, we've typically had a one size fits all approach to pensions and retirement. For most people that's where the UK has been. Either you had a DB pension or you were in a DC scheme which pretty much automatically bought you an annuity at retirement, perhaps income drawdown if you had enough in your fund. But most members never had to choose what to do when they were coming up for retirement, whether they were in a DB or a DC scheme, so they never engaged with their retirement income options properly. In other countries it's not like that, in other countries people do have to make choices and decisions and they are not just guided to one automatic path. When people reach pension age now, they are fitter and healthier and not old at the age 60 or 65 anymore, so the scheme pension age itself may not mean that they are going to retire. Working longer is much more common – more than a million people are still working past pension age which means people are going to have to think ahead rather than the traditional ostrich approach. If you don't think you have enough in your pension you don't have to worry about you just get on with life.

Now, I hope there will be a greater understanding of the need for everybody to have their own individual financial plan. Don't ignore it, it's not going to magically appear for you and it's not easy which means most people will need help. The decisions are complex and employers and trustees, in my view, have an enormously important role to play in providing information or education and possibly advice. With auto enrolment and with all employers having to organise a pension scheme, the facility alongside it to offer pension advice and information is an obvious requirement if you want to get economies of scale and try and deliver what people need in some kind of cost effective manner. And I don't think people can actually do this right for themselves especially as we are going to have so much more flexibility and choice. The ideal is for people to have independent advice to help them understand the options.

As we move on from annuities and drawdown being the only options, making a financial plan and crucially, monitoring it over time is something that people will need help with. But currently we have

a very confused system and most people don't really understand what advice is. We've got this thing called guidance, and the Chancellor made this mistake in his Budget last week announcing the changes he said everybody will be entitled to 30 minutes of face to face advice. When you looked at the Budget small print it actually is just 'guidance'. Now if the Chancellor himself confuses those words what hope does the ordinary individual have to understand the nuances of our system which has very different regulatory protections? There are lots of very different things that are all actually called advice but are not what most people would consider true advice? And most people end up with guidance, which means the individual is given some information but is left to make their own mistakes. So guidance can guide people but what if they actually don't understand the guide book? It can help people ask the right questions but it won't ensure that people get the right answers. This is crucial, this is fundamental and this has to be part of the brave new world going forward. We have got to take this seriously to help people understand and make the changes work. If you get full advice an IFA style independent non-product sale type of advice then the adviser helps you and takes responsibility for helping you make the right choice.
And you're covered with regulatory protection if the decision was wrong. Advice, therefore, is the way to ensure people can really deal with and get the best outcome in this new world of even more complex options. And in future there are bound to be many more income options to choose from, not just the historic pushing people down one of two paths - either tax free cash and annuity or tax free cash and drawdown if you need to take money out of a pension fund. The Budget opens the way for so much more choice. For example, the industry could start developing pension income funds that will be the follow on from the accumulation phase of pension growth funds and can manage a transition maybe with partial retirement.

As income drawdown becomes completely flexible people will need help making sensible investment choices but equally the industry is likely to come up with a range of options for income extraction just like we are doing already for the growth phase, the accumulation phase, including different types of annuities and perhaps delaying the annuity decision until much later.
I still believe there will be a role for annuities. It may be for part of the fund, not all the fund. And I think part of the problem of the past environment is that people were just led to put all their pension savings in one product. Most would just buy an annuity. A standard annuity as well, not even necessarily an enhanced or an impaired life one; But there are so many other ways of taking retirement income that were not offered, including guaranteed products and investment linked annuities.

And then of course your retirement income in future could come from other places too. Whether that's ISAs, other savings, inheritance, property, equity release, all of these can and should now be considered alongside annuities because annuities will suit some but not all.

Annuities have drawbacks. They can give you a secure income. But people are concerned that their capital may be at risk. There is a need to bear in mind people wishes for a legacy. That's one of the reasons why annuities have been so unpopular. The standard single life level annuity, which more than half the market ended up buying because they didn't really understand what on earth was going on leaves no real room for bequests if you die young. That was the one they were offered and then they were told to look for a better rate. You could have had an impaired life or enhanced annuity to reflect your lifestyle, which would have offered you a better rate but your provider may never have helped you understand that. And even then that annuity only addresses one retirement risk. I think that is something the regulator belatedly became as concerned about as many of us were already. Effectively a standard annuity insures you against the risk of living an awfully long time, which is called a risk in actuarial speak. But it doesn't provide you any protection against inflation and doesn't cover you if you die young and your partner needs to benefit from your pension savings. It doesn't help with this legacy desire if you die relatively young because you lose your entire fund, it goes to the insurer. And it can't adjust if your health or other circumstances change, even if you had bought an annuity that was based on your health at the time, it could have worsened, there was no flexibility in the product to cope with that and of course there's nothing no benefit to help you if investment returns are good or if rates rise again. Once you are locked in you are locked in. And there is nothing left for care if you bought an annuity and five years later you want to spend money on a care home you can only take the annual income. So it is rather like forcing everybody to buy an insurance policy at the time that covers you only against one risk, as if you buy a house and you are told you only need to insure it against a fire. If your house burns down you'll be quite pleased you had that insurance and it will cover you. But what if you're burgled or have a flood, you'd actually need insurance against that and the standard annuity did not help. And no risk warnings were ever given and no suitability checks. All of these things look obvious when you look back but it was just a standard part of the market.

The new guidance or advice will need to help people understand these risks and I think the FCA has now worked out belatedly that it has failed to regulate this industry properly in the past. You have an inflexible, complicated set of products where the same product, exactly the same product could be sold to somebody at 20 or 30% more cost for exactly the same thing. And once it was bought you could never change it, which is unique. If you buy the wrong house you can change it. Marry the wrong spouse you can change it. But if you have the wrong annuity you're stuck. And the open market option really isn't sufficient because it led people to just find a better rate but you need to know what product you want first. And you also need to know what the right timing is. Many people would buy an annuity because they thought they had to because they had reached the pension age. But if you're still working, you have other income so you didn't need to annuitise. But they didn't know that. They got guidance which sent them to an annuity broker as many pension scheme trustees organised this thinking they were doing the right thing. Well the annuity broker wouldn't say hang on a minute you don't actually need to buy that annuity now. That is what they were there to do, to sell it to you.

No one told you that you might be able to take your trivial commutation. Not all guidance would check that for you. And there was no cap on the fees that could be charged by brokers and the RDR made it worse for people trying to give independent advice because they had to declare an upfront fee. You went to a non-advised service they could hide the commission and call it a free service and then only tell you about the charge right at the point of sale. But most importantly, the Treasury recognised in the Budget that the value for money for annuities after QE and after the dramatic drop in long term interest rates had fallen so far that many providers were simply not offering fair value.

I did this table a while ago but it was based on the ABI second annuity window, plus a quote from the Money Advice Service from the Prudential. This is for a single life level annuity at age 65. And I assumed at 3.5% investment return that the insurer might earn on your money and I know that many of them will earn a lot more than that. Some may earn less, but let's call it 3.5%. With the Prudential quote from the Money Advice Service until you were 102 the Prudential would still retain some of your money earning 3.5% investment return. With the worst providers it was around 100. With the best rate from Aviva you had to live till you were 89 before the mortality cross subsidy kicked in. Partly that is a function of the dramatic fall in rates. But partly it is a function of captive customers I suspect. And if the mortality cross subsidy isn't there what is the point of buying an annuity? Those who died before 102 or 97 (depending on whichever rate you would get for the annuity or depending on what company you were with), by the time they died the insurer still had some of their money.

And of course, we're going to move now to a position where most people will end up in some kind of income drawdown. They can get tax free cash and then have the rest of their money. That allows you the flexibility to earn investment returns, wait and see what happens to your health, you might then want to by an impaired life annuity and you get a better rate. And it is hopefully going to mean that with more competition and volume there'll be perhaps a reduction in costs. We need mass market drawdown but the high cost of current drawdown makes this problematic. The cost of on-going advice as under current stipulations would make it a very uneconomic proposition for many people with smaller funds. This is why I think we need to consider a unitised approach, the pooled approach to pension income of some kind. And effectively that would be mass market drawdown at lower cost.

Hopefully also, some products that might help with care. We need to free up the rules which have strict requirements on the way annuity pay outs can come. If you want an annuity maybe we could have a u-shape with some insurance at the end, where the income picks up if you need care in later life. Usually the highest spending is at the beginning of your retirement then there's a kind of period when you are maybe a little less active but not terribly ill until maybe a couple of years before you pass away - but you don't know exactly when it is going to start – you need to spend money on care.

So, the regulators have got a challenge haven't they? They are recognising that they can't leave it to the ABI to self-regulate anymore because it ended up dumbing down to the lowest common denominator. You know, there were and are some insurers that behaved a lot better. My sadness is that they didn't rein in some of the worst practices in the industry. It is going to be important to ensure that guidance will be independent of product selling and looks more at financial planning to help people understand the decisions and parameters they need to think about. And I think the Pensions Regulator will need to be guiding trustees to ensure that they are giving adequate information. It should impress upon trustees how important it might be for members to get independent advice and help members know that. Currently the Pension Regulators guidance suggests that non-advice or guidance services are just as valuable to members as full advice. Now some guidance is better than others but there isn't an industry approved standard for guidance. Anybody can call themselves an annuity adviser without qualifications. It doesn't mean anything as long as they make clear they're not offering advice, they're offering guidance. But that can mis-lead people very badly.

So, there is a role for the regulator to step up to the plate. And I think there is a real role for employers in this new world. Not as it was in the past providing generous pensions and so on but actually facilitating the education and advice specific to workers age and life stage. To help them, perhaps in a group setting which makes it much more affordable to deliver the advice. And help people understand the benefits of working longer, the implications of working longer, or perhaps cutting back to part time alongside their pension or perhaps changing career, there are lots of ways the workplace can help people plan their future - via advice.

So finally, what does the future look like? Well, we all know these Budget measures are an absolute game changer. Suddenly there's going to be flexibility. We have had the most inflexible pension system in the world. There's no other country that has such strict control on what you can do on the way in and what you can do on the way out. That's gone. That's amazing. More choice. We will get new products to give secure pension income but perhaps allowing up-side or to be able to mix and match pension and work income. Different types of investment income. Maybe preparing for care.

We are actually in serious danger of having a rather coherent pension system. We've got the State pension reforms which will give a flat rate State pension so the risks of people falling back on the State which were driving a lot of this nanny state policy to push people down the annuity path – have reduced significantly. Of course, if they end up on housing benefit or Council tax benefit there would still be a means test element. But the majority of people with pensions are probably not going to be falling back on housing benefit and Council tax benefit. So we leave it to the individual. We've got a flat rate base pension, then whatever else you want you need to save for. You're on your own to build up some extra savings. Auto-enrolment then kicks in to help people save with money from their employer. We know the minimum won't be enough to provide a decent income. I'd like to see some kind of perhaps auto-escalation measures come in. Maybe we'll even get that. So many of the things I've been working on for so long suddenly happened, I think anything's possible right now. Any pay rise they get, encourage people to put at least some of it into extra pension contributions. They haven't been living on the money already so they won't miss it as much as if you suddenly take money away from them.

And annuities may I believe still be the right product but for later in life. The annuity market never adjusted to rising life expectancy. Everybody was still locked in on this magic one date that you knew decades ahead that you were suddenly going to stop working from, which doesn't happen anymore. Crucial to this is workplace education and advice which can really help people. The kind of things WEALTH at Work is doing that employers are embracing now are so important. And then we can really make the most of this brave new world that brings Britain's pension system into the 21st century. And you are all part of it, you are all engaged in it, your members know that something is changing and will be looking to you to help them through. And I think we have a great opportunity it's really exciting. Thank you very much for listening.

Steve Robson

Thank you Alan. I am just going to talk through a bit about United Utilities and a bit about what we have been doing. We do pick up quite a bit on the retirement communication aspect. First of all, we are effectively North West Waters now. We used to be a a bit bigger and a bit wider, and like a lot of companies you grow and then you sell then you reduce back down back to where you started as North West water. We are a FTSE 100 water utility. As a company we are going no-where, we have a rolling 25 year licence. So if we lose our licence to do North West Water tomorrow in 25 years' time, it is taken off us. So as a covenant, as a company we are going nowhere so when we provide retirement benefits we know we will still be around to actually make sure that for people who are say retiring in 20-25 years' time it's still going to be us. We have a small pension's team and reducing on a constant basis. I am a quarter of it now. So we have sites all over the North West to get from one part to the other with places like Cumbria in the way it can take 3 hours to 4 hours to get there so it is quite difficult to actually manage the communication strategy which has to align to that. One thing I want to mention is that we do actually have social responsibility where pensions are concerned. We went through a big debate internally about should we provide pension benefits. Certainly when we moved from DB to DC a few years ago we said do we care to provide pension benefits or do we give them a full salary and let people do this themselves? As a company there is a selfish motive and a we believe its right to provide a decent income to people that work for us for a long time. But the selfish motive is a lot of people we deal with do manual based employment. They can't carry on working into, where Ros was saying you can work long, some feel you can't do manual labour for 40-50 years. A lot of people struggle in there 35+ years. So it gets to a point where people have worked with you for a long time. You don't want to end up having to actually manage an exit for them because of capability issues. You want them to be able to retire gracefully and we care about that. So that was one of the reasons why we provide generous pension arrangements. As an example our DC arrangement we will double match what members pay up to 14% if they pay 7% and that's available for everybody so we have good quality arrangements in our contributions side, so we spend a lot of money so we wanted people to value it and understand what we were doing.

So, Pension Communication history is standard I suspect for most companies. What do people know about pensions? And it really was an "I know it's a good'un because you tell us." "There is this commutation thing but I don't know what that means". And that was kind of pretty much where our communication used to be. And we used to actually genuinely think we knew what we were doing, we were doing a great job explaining pensions and all this technical wonder to people. I would stand up in front of all of my employees, and I would talk 35 minutes about how our DB pensions were calculated, about the 80th's, 60th's and the cash and the options, and you could just see people's eyes draining away. It was only 2011, when we realised we actually needed to improve our communications when I actually got the comment: "you guys are techy geeks, you need to stop boring us with the details, we don't care and we never will". And the lady who said that to me is a really nice lady but she said it as bluntly as that and we thought "yeah fair enough".

So that actually made us start to rethink about what do we do, how do we do it, and actually what is it we need to talk to people about. And the rethink came to that actually Defined Benefit and Defined Contribution is completely different. A Defined Benefit member never needs to understand how it all works never needs to understand anything about the scheme but hee will still get his pension at the end of it, sSo let's talk to him about what he might get. The Defined Contribution member may or may not end up with enough funds to retire. So you kind of have to talk to them about how they can make sure they understand it is in their gift. We will help but actually the risk is all on them. So we kind of started talking about simplicity as well. We have moved to very simple basic language and not going into the detail unless somebody asks a question. We've again as I have mentioned we have a call centre over in Whitehaven and to get to Whitehaven from where we are based in Warrington is about 3.5 hours' drive and we have 300 people there.

So, what we have done is that we have set up champions, so we train the basic level of understanding for them. They talk to new starters; they talk to people who have queries. They answer the basic questions and then they've got a direct line into us to ask about anything more complex, and a couple of times a year when we go up they actually sit alongside us as we talk through employee sessions. So you can get the word out in different ways.

For scrums that's another that, when we actually started talking we know half an hour of pensions is not interesting to anybody. Apart from me, I actually enjoy it. But most people don't. So we actually, we have homed into a scrum which is effectively, we went to a team meeting where we spent 5-10 minutes talking pensions. We would stand up and gather around, and because you were stood up you wouldn't stay long any way. But you just give the basics, they will ask a few questions and then you clear off. And actually that has gone done really well. We have a diary now of where we are going and when we are going and people are really interested in listening. So instead of speaking one to one with people., you can actually deal with 10 to 15 people within a 15 minute session internally. And the other one is videos. We have done some videos - we were half way through a video "What's a DC arrangement" until the Budget came out so we actually thought why we don't put it on hold.

We actually had the branding we had to take the pink and the green colour we had to have this bank free money. Take advantage of what you can get from the company. We put a website in place because again you have to anchor where all your communications go. We used to do an exercise, a big communications exercise, to talk about certain issues. And then we can go back to our desk and carry on and people would forget it. So we kind of have the website now and the branding, and some posters and it is trying to make it fun. It is pensions and it isn't going to be that much fun. But you could actually make it entertaining to a point.

So Defined benefit. So we have this simple website. We change the benefit statement. We have read your pink and the pink effectively says; your pension you have got up to today that you have earned is this - Your expected pension if you carry on until you reach the standard age to retire is this- And if something happens to you this is what your beneficiaries will get. And that's in pink in big letters at the top of the statement and you get all the other information you expect to see. And if you don't want to read it now read the pink. And it will take about two minutes. And it is just trying to get at least a look at something. You can see with the posters we've got, we have done a number of different DC communications. And it's trying to just make people think "ah that's pensions" and there's not much words there it's just trying to make people think about it. We don't talk about how well the fund is doing or what the investment strategy is, any of the derisking, we have stopped all that because to be honest that's the company's problem. If you are a DB member all you care about it what you get at the end. As long as you think the company is still in existence, as I said at the start we are going no-where, so why bother telling them about whether you are in deficit or not in deficit. It doesn't matter as long as the company is still there, they will get their pension. So all the communication now is about them and their pension.

One thing we have set up and we're in the process of running is this education program which we started for people the age of 53+. We say 53 because 55 is the earliest stage people can retire. We have actually invited everybody over the age of 53 to a half-day session. And that talks them through planning for retirement. When we first sent this one of the first questions was "why are you sending me this? I don't have to go now do I?" and we said no we are just trying to help you, it could be months or many years in advance but this is just to talk you through the process to think about when you might want to retire. So it talks about; taxation, the options, talks about the calculations and getting information. It talks about State benefits and about actually life style in your retirement and investment, if you do take a lump sum what you might do with that. It goes through a number of variants in a half-day session. We did a pilot with our trade unions; we have full time representatives in our trade unions that are actually above 53. They were more thinking why can I not go on this? And it's actually gone down really well. We have done 20 sessions now and we have another 20 to go. About another 30 or 20 sessions to go. The feedback comes from how much did you know at the start? How much did you know at the end? And the knowledge has improved materially over the session. The other thing is do you find it valuable? And 96% people on it said they would recommend it. So it's actually going down well. We are getting people saying but why can't I come on it? I'm a DC why aren't you doing anything or me? Why are you just doing everything for them? Well actually maybe I can afford to retire. There is a good little thing on about you kind of bet you budget, how much salary do you earn? Take it off your pension's contribution, your mortgage and other things, how much do I earn in retirement. And it's suddenly akin at times half what you might need to retire.

We actually partnered up with WEALTH at work to do this. They have actually gone down to the point we are actually looking at what we do for DC now and that will be a slightly different session. The other one that's linked into that is the joined up process. Nobody knows what retirement or how we do it. We actually have a lot of people that could earn more in retirement, than they earn working, because they have got the full pension. If you knock off certain things like pension contributions, national insurance they actually could be better off or well off without. But they didn't realise. And it's just explaining what the process is and making sure it all flows and it's just a lot more joined up.

Moving to Define Contribution. We split it into the different groups of people. I mentioned the posters; "feeling foolish". We auto enrolled in April 2013 - so we said about feeling foolish if you were to not join. In the end we have 98% of staff in a pension arrangement and the worst one was the DC pension. So we auto enrol people in it, they pay 5, we will pay 10 and they can do actually flex that as they want. We've done stuff like free money. We did a session with a cash machine nearby. We put a sign saying free money pointing over towards the stand. People asked where my free money? And we said you have got to join a pension scheme and this is what you get. The younger members, all we believe, we want them to get in, start paying and actually know that nagging thing in the back of my mind in the that's all they need to do. Then look at how much they pay. If they want to look at investments we say fine. But we used to try to force people to make an investment choice, so you ask someone to tick a box and they tick one and we ended up writing them letters (we called them reckless conservatism) where we've got people in their 20s and 100% of their money were in a cash bond. And the reason was we asked them to tick a box so they ticked a box and they said "I don't understand this share stuff and that's too risky for me so I've gone to cash because I understand how that works", so we ended up trying to explain to people how that works and say if you think that's right for you that's fine but it goes back to the guidance not advice point, you can only go so far. So we've taken the decision that we don't encourage people to make an investment choice. What we do is we say if you want to do something you can,

if you don't, there's a default fund and it's a trust based rate with trustees who will manage it for you. And then if you want it it's their choices for you.
You also actually have to ask to see your choices. The other thing we talk to people about is we do have share buy arrangements, we do have savings arrangements, and do you need to put it all in the pension? Think about the planning. Do you want an ISA.? I think the budget change will bring all this sort of thing to the fore.

Mid-career is this thinking about well actually retirement might happen, so what are you going to do? How will you have enough? Is it a mortgage or pension? Make sure people are saving and actually try to encourage them to think about how much they might want in retirement. And it's just thinking about paying the maximum so that you are not paying 7% then you will be losing out on some free money. You can pay a pound in and get £3.40 going into your pot, when you go through the fund you get tax relief. You look at it and think where else can you get that deal? People quote you get it in retirement the day after but where else do you get that option and to think about saving and saving in the right way.

Then as people are closer to retirement, we talk more about the lifestyle which is more of a bigger issue at the moment. We will talk about lifestyle, investment, and about when they might want to retire, how their fund might move,] are they looking to retire after 65. Are they looking to take a phased retirement and how these might interlink? This then leads onto DC members at retirement. Now we do what Ros said we have a company which provides guidance to people on their options at retirement. We actually have moved to a guidance and options at retirement.

So in the last 12 months they had to talk about what the choices are and how they might work. Whether they might want to go for something like the drawdown. And it depends on pot sizes and things. Because DC for us started in 2006 so the size of the pot might not have linked to what a drawdown policy would look like. But we do talk through people about their options and what sort of pensions they might want to take. And the administrator doesn't get involved in that at all. All that happens is the member contacts the administrator. The administrator says I'll pass your details onto the company of trustees, guidance service and adviser and then they actually deal with the whole retirement process for the individuals and talk them through it. That's paid by the company there's no cost on that. There's no commission for setting anything up. So even if they go down the drawdown route there's no commission involved that's all fee based paid by the company. It doesn't provide advice though so if they do actually want financial advice, they will have to pay for that on top.

The thing I have missed on the DC, when we have done the DB session we are actually in the process of looking at simple DC arrangements which will probably be for a younger audience, mainly for people 45 upwards. Which will talk them through the options for DC, how you can plan for retirement and retirement savings. And I think as we move on with the Budget it increasing becomes a savings vehicle. We actually have a 30 second "this is what a pension is". And we say oh its easy it like a building society account, you put money in, the company puts money in, you get tax relief from it, it grows and at retirement someone helps you to deal with it. I think increasingly that message is becoming more and more it is just a long term savings deal. It is no longer a pension, its retirement savings. I think there will be increasing flexibility around what that means.

I did write these three points before the budget so they aren't very apt any more. We have actually have just been through and agreed a drawdown investment alternative to our standard life style which was the standard old fashioned - you move into more certain assets into cash just before retirement over a set period. But for people that will look at drawdown that doesn't really work. So we have actually got a process which moves into things like diverse growth funds and corporate bonds. Keeps the risk in all the way through to a retirement date.. Now I think one now urgent thing we seriously need to look at is well do we just flip what the default is and keep the other option there. But I have got real concern about DC investments - it's just flawed. If you think all the time and effort put into defined benefit strategy with LDI, with risk management and you wouldn't put it all into equities so you look at investment risk and alternatives. Suddenly, your DC scheme has been in equities for 35 years then into bonds then into cash. You would just never do that with DB schemes so why is it appropriate for DC it's just flawed. So we have been looking at what else is out there and over the last 12-15 months there is an increasing number of Investment Companies coming up with different options which can protect the capital which can actually put some level of protection. It was all based again around an annuity so you get this protection that moves with an annuity matching side as you get close to retirement. I think that will all need to change but I do think the investment for DC is flawed and needs seriously looking at - hopefully with this move that people won't just retire, and once they get to 55, they can start taking whatever they want when they want. That may actually keep the investment options and risk and get people to change the way they think about it.

Now the last one is something we have been talking internally about. Within the company we have a lot of people, engineers who have been in the business for 25-30 years and we actually struggle to recruit graduate engineers because there is a shortage of them. So why are we paying good quality retirement benefits to people but not bringing in the younger staff that we actually want. So we to say to them don't worry we will give you 14% contribution for something you can get in 30 years' time. It just doesn't work - they don't value that. So we have been looking at can we flex this contribution we pay to get better value for money. One of the things is the offer maybe a short term ISA arrangement for the first X years of employment. So what we end up doing is they pay 7 and the company pays 14 for 5 years that's a year's salary they get in 5 years' time. So they get used to saving 7% so their net pay as you know is going down. And then after that it would then move into the pension arrangement. Now because it is more a long term saving I think that there is something saying well that is what we will pay. You decide where you want it to go. Does it go into my pensions? Share option, or does is go into this short term savings vehicle?. And actually leave people annually, for this year I want my money to go like this. And it doesn't really matter if it is the same money and you want to give them the income as it suits them. As long as the options are there people probably won't save into the pension early in retirement or early in the career. But they will be saving towards their mortgages so they might be able to get on the housing market so they will be able to get some income from the house value.

So actually I think the flexibility of the changed system means it is no longer we must provide that in pension. We must provide assistance to people to help them help to make their own choices. This then comes back to guidance, assistance and education so that they can make the right choices. But I think increasingly that becomes an issue. I am going to leave with a bit of a negative point, this change might not actually be good for companies, because people may want to start dipping in their pension, work fewer hours and carry on working forever and does that work with what the company wants? So I think companies need to seriously look at if the new rules that have come in are actually negative to what the companies want. But they need to rehink about what they are providing. As I said for us we have a lot of people physically wouldn't be able to carry on working until they are over 70. So they take all of their pensions at 60-65 and ask can I carry on working for 2-3 days a week and that might not be viable, that might not suit the work the company wants to do for planning. So I think there is a big issue around that. We actually talked about it around a meeting one to one. Do we actually start to offer a fund that we will pay as pensionable as they leave the company rather than putting it in a retirement pot which they would get at any time. I think that there will be a lot of development. That is it, thank you.

Michelle Cracknell

Good morning everybody. I am going to start off by talking a little bit about what the Pension Advisory Service do. In my experience, people may know a little bit about what we do, but very few people know about everything we do. So I am going to start off with that and then I am going to talk about the insights we get from the calls that we got before Wednesday and that we get from people at retirement.

We have two customer facing services. The first thing we do is provide free information and guidance for the public on pension matters. The second thing that we do that we are well known for is we help by resolving disputes that members have with their pension schemes. Our information guidance service which is based in Victoria is a help-line not a call centre. And I say that because I do want to emphasise the fact that if you phone the Pensions Advisory Service, you would speak to somebody who's got typically 10 years' worth of pensions experience. We recruit mainly from employee benefit consultancies and in-house pension schemes, people like that come and work for us.

We deal with roughly 80,000 customers and that is split between telephone calls, on line, written and web chats; We only started web chat in August 2013 and we are now up to 100 web chats a day. It's incredibly popular and it is an incredibly efficient form of communication, and of course, if we are speaking to someone on web chat and they have got their benefit statement in front of them, we don't have to get them to explain what is on the statement and not all of them are as good as United Utilities where you can easily see where the fund value is, but they can take a photo on their phone and they can just zap it across to us so we know what sort of scheme they are talking about, and that is becoming increasingly popular. And also because of the privacy factor you can do that where ever you are and it's private. We deal with 12,000 online enquiries and about 3,000 first party complaints, which I will explain a little bit about in a moment. So that's what we do on the helpline. Those were the volumes before Wednesday, we probably going to be slightly up on the year! We are certainly dealing with double volumes of calls at the moment.

On the dispute resolution - we have roughly 6,000 that people perceive as complaints coming into our office every day. Of those we have a look at them and we split them up into what we describe into first party and third party complaints. The first party complaints which I refer to in the information and guidance slide, is where we look at complaints from a member. This person is really grumpy with the scheme and really fed up with his provider and is really cross and has written to tell us that he is cross. We will have a look at it and sometimes he might not have actually lost out he might have not been told the information very well. But what we do as independent bodies is we phone them up and say look we want to talk to you through what has happened, what's gone on and we want to show to you that you haven't lost any money. And as a result they receive a complaint to answer to.

Most of those people are very grateful and say thanks a lot now, you have explained it, I understand. Unfortunately 2,500 are genuine complaints and we will then work with the member and provider to try and resolve those complaints. They range from anything like retirement, the decisions they make at retirement they don't think were well explained, pension transfers are taking too long; and one of the big sources of complaints is over payments. And sometimes the administrator, it is not their fault it might be the members fault, they have been paying out too much money. And the administrators do say you owe us £3,000. The member goes into meltdown and contacts us and what we will do is talk to the member and find out about his financial circumstances and his ability to repay to money and actions that he has taken that he would have otherwise not taken if he didn't think he was on that level of income. We speak to the scheme, and I think we are very fortunate because of our 13 year reputation in doing that, most schemes are happy to have a conversation with us and we will arrange some sort of settlement with the scheme and the member. And we do that because we are independent and impartial and we have a reputation for doing it.

Now let me quickly move onto the main thing I am going to talk about. What is the issue? The issue has changed slightly since I wrote these slides. Talking about the insights that we get from the people that call us up. The sort of queries we get from people at retirement. Finally, what is really relevant is - what help we think is really needed? And will talk a little bit about what we need to get delivered with these new flexibilities, this new flexibility that has been introduced by the government.

I will just finish off to say how we can help those of you in this room.

So, what is the issue? Shift in responsibility is absolutely massive. Ros actually picked up on this – but this private pension reform that we saw that happened on Wednesday goes hand in hand with the state pension reform for single tier pension. And the really hard message out there is there is a really low safety net and that is it. Means testing goes. The remarks that were made about buying a Lamborghini, you can if you want but then you are down to the really base level of income for the rest of your life. The really hard message that needs to go to people that this is the new hard world and it is your individual responsibility. Work and retirement has been blended, as Steven mentioned this is not always very beneficial to the company but we see it from the calls that we take is that retirement is very fluid. Funnily enough, the calls that we take from people who have been contacted by a pension scheme provider or an old scheme that has a retirement age of 65. And they think that is the only time that they can take their benefit. That's what members think. And they sit there and they wait for their pension.

We take a number of calls from people saying I have reached 65 so I have to take my benefits? And we say "why, what do you want?" I am also afraid to say that because of that sort of fixed mind set about I have got a document that says I can only get my benefits aged 65, we've seen a lot of pension liberation cases which are before the age of 55. So some cases that we are working on at the moment, most of the people being liberated out of their existing pension scheme are over the age of 55. And they could have accessed their benefits all through their main scheme. And they just didn't know it, because the policy document said 65.

The other thing is obviously people have choices to make about the income they will need during retirement. And boy do they have choices now! While we absolutely welcome and support the flexibility, it is going to be so important that people get help. I will pass over the slide on the people involved and the basic incomes we are talking about. We will move on the main insights that we have from the calls that we take. Most people do know that there is an issue that they do need to provide for retirement. We do get people that phone up and go a little bit crazy at first saying "I can't afford it", "what are they saying?, or "it is a waste of money". Most people do know it is up to them to save for their retirement but they are often confused and over whelmed. They don't understand the language that is used. Some documents are better than others. Some of them are completely incomprehensible. Even documents that are so well written have so much information and yet many people only ready what can fit on the screen of an iPhone and then their concentration lapses.

People are unaware of the options that they have got. And Ros picked this up in her talk. Before people thought the only choice was an annuity, and that was the choice they had to make what type of annuity? They didn't know they could do other things. They also think the problem is too big. And a lot of people say that they cannot afford advice. Those are the words that they use to us. Sometimes that is an exception, I think if they did a cost benefit analysis and we sometimes talk to them about the benefits of receiving advice that they would see very clearly that it would pay for itself within a couple of years of receiving that advice.

I am afraid a lot of people do not trust suppliers and they do want validation or some independent advice. And sometimes that is based on the fact that they might have received a poor service or poor communication or they might not be in contact with the original company or the original scheme that they were part of. Of our 80,000 customers a year, 15% are at retirement. And all of those things that I have also mentioned are the sort of queries they have about their pension scheme.

The biggest one that I want to draw out is understanding the gap between where we as an industry start communicating to where the individual is in their understanding. Steve mentioned some of this in his talk. We get people that phone up and say I have been with this pension company for 20 years and I have a pension with them and now they have written to me to tell me that it is over. What is all of that about? They thought they had a pension. They thought in the DB mentality that it was all just going to roll over into an income in retirement. They had no idea that they had to make a choice because they were actually in a stake holder pension plan.

The other thing is there are some practical issues. We have gone crazy in this world over personal identification, and I could go on about this for ages as I am sure all of you have suffered it. But it is a real issue for a lot of people. There is a man that is doing a labouring job, he has got a pension he has got to deal with his retirement and says to his wife - do have a look at it. Do phone up and ask a few questions. She phones up "I have got few general questions?" and they say "I can't talk to you; you are not a policy holder". "Well what time are you open to?", "5 o clock" well that is useless. So we get a lot of people that phone us up because people are not prepared to answer their questions. People do need to be stepped through the process. But most importantly a lot of people just saying "what about me? What would you do in my position?" And they need some form of assistance.

So, what help do we think is needed? Steve said this, it is time. The decisions are complex and people need to leave themselves time, but people don't. A lot of their decisions are forced upon them. Because they have phoned us up and say I am just about to go into retirement, could you tell me what my options are? We will say, when are you retiring? They might say "next week." And they say they really need the tax free sum, I really need this and I really need that. Do you really need it? Umm yes I do. So we say these are the options and it could take 4 weeks. If you get advice they need to talk to you, you need to go away and think about things. The process could take up to 2 months at the very shortest. They say they haven't got time so they take it to the incumbent insurance company and they convert it. So, giving people time to do this and I hope that the guidance is offered early enough and not just before retirement.

The second thing is that the language is impenetrable, so I think that the administrator of the scheme or somebody needs to translate it for them. I think it is quite difficult - particularly for the insurance company to sometimes realise what language actually needs to be used. So therefore I do think that we need a translator for somebody to actually explain some of the words used and put it into simple terms of what it actually means.

Access. People are really reluctant to ask. Our helpline is really British and people phone us up and go "really sorry to phone you but…" "I was wondering if you could help me", and "I hope I am not taking up to much of your time?" We do get loads of apologies and we keep saying to people that is what we are here for. But people are really reluctant. But I really hope it comes in as part of the new guidance. I hope that the guidance services are phoning people. They say look I am phoning you up, this is what we do, and we provide you with help at retirement. So I think that is really important. If you are working with your members they need to be brought into the party and say come along it is good for you. And when you are there you will probably enjoy it.

It needs to be a step by step conversation – don't have it one go. I am a little bit fearful about the 30 minute conversation. In fact I'd prefer lots of 15 minute conversations. Minimum of 2, perhaps 4 type 15 minute conversations. . So they can go away and think about it and come back and have another conversation. It has to be holistic, like organisations like WEALTH at work and ourselves can benefit from is doing a holistic piece. But of course people do get really frustrated. They go along to a pensions talk with their provider and they ask, "Can I do this?", "Oh by the way I have another policy can I use that?" and then they say I cannot talk to you about that. And so people do have 2 or 3 sources, some industries are in this position, but for most people you will find that at the moment with four or five different pensions then very soon it may be closer to 10 or 12.

And finally it is just about the "what about me?" People are still saying to me, "well what about me?" I am not going to read 30 pages; I am not going to read all of the options. If I just tell you a little bit about what I am doing could you filter out the choices for me? I have to say we probably have to force that point the hardest of all the things I have put out there. Actually a lot of people say they have got a policy they told me I need to shop around – can you tell me how to do that? We have to unpick them and say no, no, no, no, no let's talk about what you want. . In fact yesterday I was answering telephone calls on the new legislation which were just about pensions in general. And there were things like "I am 69 and I have just found a pension that i haven't taken benefits from. So, I think I should take it." And we say well why? Do you need the money? Why have you not taken it already? Let's understand what you need first before we start talking about product.

So I just wanted to finish how can we help schemes or how can we help members? And quite often I think most questions lead to questions and our mission is to talk to the industry, to scheme administrators, to trustees to say "when you reach the limit of what you are doing and the person wants to talk about what they are doing. Please don't say I can't help you, please say I cannot help you but the Pension Advisory Service can look at all your pension arrangements and provide you with guidance.

We would like to be flagged up more during communication exercises. You are the biggest source of customers we get. And we are really grateful for schemes that really push people to us to say you should have a chat with these people. Use us as an independent body and as a validator. And I say this in connection with the pension liberation, if any of you do think that one of your members could be possibly being sucked into a pension liberation scheme and indeed administrators of schemes where this is happening. The members just get cross with you because you are taking a long time and you would do that wouldn't you hanging onto my money. We just say well push them through to us. We are independent. If they are actually doing it because there is a really serious reason behind it we will explain that to you as well.

Final thing is there is an internal dispute resolution process which all of you will have in your schemes and one of the hardest jobs that we have in mediation is when you have been going through that process for 6 months and the two of you are at logger heads. You probably know the members in your scheme that are going to be banging away with that question and they can't see what you are saying. When things like that happen, we say to them don't go through the process without us getting involved. Because we can help you in the internal dispute resolution process as well as mediating after the process.

And one of the hardest jobs we have is when you have had a member who is maybe you think is being unreasonable for 6 months and just firing away and using quite abusive communication with you just because he doesn't understand. And the member feels the same way about you, and actually having an independent party in the process helping you right the letters I think speeds up the process. Because we can help the member explain to him what is going on from an independent perspective as well and that can massively help. And like I said the hardest mediation is just when both parties are just really fed up with each other.

We can help when you are raising awareness for pensions. I was really interested in some of the stuff that Steve was saying, and some of the exercises that he was going through. And as soon as you start going through the door a bit like the Government did on Wednesday. We have been bombarded with phone calls not necessarily about the budget changes. But it just opened up the door and people started talking about pensions and when you're doing that and people start thinking pensions in general beyond your scheme, we can help. So our big plea for everybody, for WEALTH at work and for you as administrators of schemes and trustees of schemes, we would say let's all as an industry say I can't help but I know somebody that can. As an industry you should join up in the process of your members.

So finally before I sit down a few words I was going to say about the new Budget rules. We are really pleased and there has been a lot of campaigning that is now being rewarded by the flexibility you have got in the pension scheme. The guidance is going to be imperative. We see that there are 3 elements to the jigsaw; there is information, and that has to be very open. There is lots and lots of information and it is brilliant when people find lots and lots of ways of communicating a lot of information in a better, smarter and quicker way and getting the message across. Then there is advice. Which again we think is absolutely fantastic. And we sign post for people to receive one to one advice, however the big bit in the middle which the government have said must be offered is to provide guidance. We think all of those things should work complimentary and are not in competition with each other. But the guidance element of it will sometimes give people enough to be able to act. But sometimes once you have had guidance you do really realise the importance of the advice and that is one of the things we would say that is so important in this guidance and we are going through a lot of effort to make sure that people do understand that advice is maybe what they need. But when they arrive with the adviser they are not there just fishing and they arrive there thinking I do know what the advice is about and I do know why I need it and I am prepared to pay for it. The Government cannot go that far, they are going to provide the guidance and I hope that they offer a good quality guidance service, covering some of the points I discussed today. Thank you very much.

Jonathan Watts-Lay

Thanks Alan. I'll move through this fairly quickly as we have a bit of time to make up. I'll try to get through this in 5 minutes.

This is a survey we carried out at the end of the turn of the year. We've done this now for about 4 years.

We have changed the focus a little bit this time to concentrate a little bit more on retirement income as opposed to retirement per se that previous studies have looked at.

You can see the breakdown of people that responded. 104 companies. Tended to be larger companies. And the individuals that responded were from the HR, benefits, pensions and reward sectors.

The first point is about people saving enough. 69% of employers have said they don't believe employees are saving enough. So this is an interesting point in itself, in terms of what are people saving into. Perhaps they are saving into other vehicles that are not pensions. Or maybe they're just not saving. And if they are not saving then actually, how can we get them to think about that savings regime and what they need to do to provide for later life?

This figure is in some ways not surprising and I guess given the Budget it is definitely not surprising in terms of the direction of travel, but 83% of employers that responded to this said that they believe it was important that professional retirement planning was provided for their employees. So I think there is a recognition that is really coming through now that says - you've provided the benefit for the employees for what might might be forty years of saving so actually there is the onus on us to explain what that means when you get to retirement and how you generate that income.

Alot of the speakers have touched on this this morning and it's understanding your options. So 73% of employees believe that their employees do not actually understand the options that available to them. Now clearly there are going to be even more options as of now and certainly as of April 2015. So it's really important that people understand not only what those options are but also what the pros and cons of each those options are. And then ultimately, as Michelle referred to," what is right for me, what is the right choice I need to make?"

Another interesting figure that came out was looking at savings generally when thinking about retirement planning and is it just about pension?. So, a lot of the companies we deal with will have things like share schemes. Many will have corporate ISAs in place as well. Of course, individuals will have built up savings in their own personal lives through general investments. So all of that needs to be taken into account when retiring. And again within the new regime it's important that is considered holistically and people understand they are making the right choices. So what does it mean for employers? Well really the first thing is it's about financial education. So, picking up the piece that Michelle referred to at the end there, so information, guidance, advice. I think what employers have done is there has always been lot of information out - there has always been information in the printed booklets. There's always been information on the company intranet site. The question with information is, was it ever engaging enough? I think Steve's done a great job in trying to make that information more engaging.

The second piece about education is that it's really about the learning exercise. That's really about explaining to individuals. "this is the generics about the scheme that you maybe in because you're employed by us. This is the generics about the pros and cons of income options that you have, not just with the scheme you have with us right now.but other schemes you may have had through previous employers as well." But then ultimately that will need to be followed up by regulated financial advice for individuals because it is about what's right for me. But I might have exactly the same pension scheme and have the exactly the same pension benefits as others, but that won't necessarily mean I want to do the same thing in terms of generating retirement income.

We offer a lot of services around this. We offer the financial education. We offer the regulated advice. We offer help desk support. We offer internet tools so there is a range of things that are on offer out there to help both employers and employees with this. There is the Pension Advisory Service as well which is also there to support. So there is already a lot of support with the changes that have come into place. The question is how they are utilised within the individual companies.

In summary, turning pension savings into retirement is a complex decision and it is going to become even more complex because there is more choice. So getting that decision right is even more important than it has ever been and that provision of education and advice is probably paramount to ensuring your employees make the right choice.

That's it - thank you.

Panel Discussion

Alan: OK Now's the time for some questions and answers and positive discussion… Thinking about questions you might want to raise… I am interested from the personal interest perspective of whether the panel members feel that the pension changes that have been introduced, or at least proposed to be introduced, by the Budget are a good thing or a bad thing. Without trying to complicate the issue, let's think about it from the perspective of the employee. Or the man or lady on the top of the bus rather than the how it impacts on employers, trustees etc. just thinking about it from a public interest perspective.

Steven, good thing or bad?
Steven: I think "a good thing." I think it opens up an interest that people didn't have before, that they can suddenly get engaged in. Because suddenly they understand it and realise whatever they say they will get. And they have flexibility to do what they wish, I think a good thing definitely.

Jonathan: Yeah definitely, I think it will increase interest in pensions because people increasingly see it as their money and what they can do with it. But there is also the complexity, when you decide to take it in making sure you get good advice.

Michelle: …Yes we absolutely support the decisions that were in the Budget. And like I said earlier, our calls has gone up and the numbers of calls have doubled in volume of calls over the last few days since Wednesday. And they haven't all been about the Budget, it is just that people started to think about pensions so I think that is a good thing. However, I am pleased that we have moved into a new environment where there are no defaults - there isn't the natural default going somewhere…and people need to sit and think about making the decisions. If there is one area that I am worried about, I am worried that people are paralysed from the choices that they have got. And again from the calls that we receive people are now saying "oh I can now take all my pension funds from April 15." Yes and they say that is really good and we explain to them that the £10,000 they thought was in their pension fund actually what they will receive is a tax free cash sum less tax on the balance of the amount so it will only be about £8,500 so that's the first thing a lot of people have missed. And then the second thing when they get the £8,500 is "why did you do that? Why did you take it out of a tax friendly environment and put it into your bank account. What are you going to do with it next?" I'm fearful that people will make the transfer and then just freeze and not do anything and of course we know if they sit the money in a bank account then it won't provide for a very comfortable retirement so I hope that the guidance is sufficient and that most people won't be paralysed with fear and they will actually do something and make the right decisions with their money.

Alan: Some words of caution but generally positive. Ros?

Ros: I think the changes are fantastic news obviously it is a shock to the system. We are used to having ordinary people being looked after or herded in a particular direction without having to make their own choices. The kind of freedom and flexibility that was introduced in the Budget last week is already available to those with lots of money. I don't believe that we could sit here and say it is not fair to allow everyone else to have those same freedoms. And I don't believe the majority of people can't be trusted with their own money. I think that ultimately if they are responsible enough to save for retirement then they're responsible enough to be trusted to spend their money wisely, but not everybody will. And of course not everybody saves for retirement in the first place. So is it that different.

Alan: Good. Are any members of the audience feeling that this not a good thing? Show of hands who thinks that this is not a good idea? Yes any, comments, questions?

Audience member 1: I am old enough to remember the 80s when our people given freedom of choice to not to have to save in a retirement scheme with an employer. And what did many people do? Nothing at all. They didn't save. Which is why we now end up with auto enrolment. Auto enrolment is supposed be taking care of people who wouldn't save and we are going to help you to do that through auto enrolment. And then when they get to the end of their saving plan they say, "There you are, you've a large pot, do whatever you like with it." That worries me intensely. For a lot of people - choice is great, but with a lot of choice, people are over whelmed and don't do anything, they put it under the bed or in a bank account, and the outcome of that for their retirement could be very, very difficult. Yes, so having the choice… is a huge, huge step forward, but that needs to be managed extremely well. Otherwise I think people are going to be very apathetic and do nothing and spend. That is my personal view.

Alan: That is interesting I was at a meeting yesterday where one of The Treasury's senior policy advisers was in the meeting; and her comments where the government are being pleasantly surprised by the warmth of the reaction. They were not expecting the reaction to be as favourable as it has been. So I thought that, that was an interesting observation. Yep.

Audience member 2: A quick questions for the panel…Part of this is just shameful politics. The ideology of the government is so confused. They don't trust people to save so they push them to auto enrolment. Over the past few years we have made requests of them asking to reduce and increase the GAD limit and they refuse to do so because they didn't want people ruining their assets. And suddenly people have become freedom seekers overnight. So clearly there is a degree of politics in this. And our perspective is that we welcome the framework of changes. But I think Michelle is very wise when she says "through the dangers of ultra-conservatism." This might be unnecessary or unfortunate evil where the rules focus. So I think guidance is absolutely crucial. And what the guys do that put on the event today and Michelle and the others that is crucial for protection. So my question on a more positive note is do the panel think as a result of these changes the government will now stop messing around with our pension system, and give us a period of stability to rebuild confidence?

Alan: I will let Ros go first. Ros will governments stop meddling after this?

Ros: Well we are going to have some more meddling this afternoon I believe. With an announcement on the charges cap for the accumulation phase of the pension saving of the auto enrolment schemes. And that all has to fit together. You can see the pieces of the jigsaw falling into place; sort out the state pension so it doesn't disincentives private saving, - a lot of the reasons why people stopped saving in pensions was rational. If you are going to end up on means testing in retirement, why bother putting money into a pension. Now, we are going to have a system where there is a clear incentive to save. And people are going to understand it. You know you are going to get that £150 a week, about £20 a day from the state, if you are going to want more than that then you are going to have to do something about it. Pensions is quite an efficient way, and it might help you to not be able to access your money when you are young, in case you are tempted to save it, but you might want to keep it for when you are more responsible. When you put your money into a pension fund you want to know that it is being managed well and that the charges will be fair. Again, the pensions companies have shot themselves in the foot so many times by all the scandals and the unfair charges - the government is going to control that. People will need guidance to help them realise the tax implications of just taking money out of their fund and not spending it. If at retirement you just take to money, pay the tax and stick it in the bank - what's the point of that? I am absolutely sure pension providers, when you reach the point of retirement will say take your tax free cash, but you don't need to take the rest. Unless you are going to spend it. Leave it invested. That makes sense if you don't need the money. Then they will definitely encourage you one way or another to just take the tax free cash. I am hoping the industry itself will ensure that people are not ultra-conservative but have investment options remaining in retirement or later life perhaps even before full retirement.

Alan: Steven?

Steven: I think what will happen, I mean this is very early days, what Ros mentioned earlier is that the providers will come up with solutions which will help. I can see deferred annuity becoming popular again. That people at retirement may purchase deferred annuity at 70 or 75. Which will give them? - They know that they will never be destitute at a certain point. And then they have the freedom to do what they want with rest of the money that is left. And I can see that sort of thing developing again. Also things like flexible annuity which may have investment elements linked within them. Because suddenly it is a choice for an annuity, if the annuity providers want to carry on they will have to offer something that people will want. So I can see that developing. And it suddenly forces them into thinking what people may want and what they will purchase from them as a sale as opposed - to well they have got to do this anyway. But if we are all about the same it doesn't matter. So I think that it will develop it will just take time as we go through.

Alan: And I think you probably need the regulators to free up the some of the restrictions on what you can and cannot offer in terms of annuity. But I agree with you. Some innovation of flexible annuity drawdown options to front load and back load the annuity to deal with healthcare cost and probably a more active life early on in retirement when you want to go on cruises and holiday and things like that. Michelle you wanted to comment?

Michelle: One of the things that I was asked; is do I think that we will suffer for legislation? I think yes. It is a bit like a water bed. One of the questions that I was asked quite a lot yesterday was “if I take all my pension at once will it affect the cover of the cost of my care. There is that water bed effect the push one side of the water bed down the over side goes up, and as a result there will be more legislation. As far as putting the money to where both of the product providers keep it; I hope that the product providers do come up with an innovative solutions that work for drawdown sums which will be for lower sums of money. Again one of the questions that we had yesterday for someone that was doing drawdown at £25,000 per annum and his total fee cost was £5,000 per annumim that seems all in the wrong proportion. So, I do hope that people come up with products that are at fair prices. So people don’t just end up with the money sitting in the bank account. But I don’t want those products to then become the default. For those of you that had endowment contracts and when the endowment contract matured there was another little booklet that came with the maturity papers that said don’t worry if you don’t to do anything you can carry on with this product. But I don’t want the defaults to happen but that’s why the guidance is going to be so essential, that is why the guidance is going to be as essential as an intervention where someone can talk about their needs rather than just being moved from product to product.

Steven: One thing I think I did think about when they came up with is that everyone will have a basic level of such we can afford to spend on anything they want. Why are we giving tax relief anymore? If they are suddenly not bothered about people needing to save, because the subsistence level is there, then what is tax relief for? So it does worry me that one thing that will come down the line is a certainly tax relief at the higher rate but certainly some change to the tax relief.

Ros: I think that we could head down the road of compulsion. We could just head down the road where the government says the employer contribution is your tax relief and we don’t need to do anything else. And then you are free to do anything you like with it. Perhaps there is a long term game plan there. But tax relief is very expensive to the public purse. It could go or could have gone anyway without the flexibility. At least from the individual’s perspective you have got the flexibility.

As to the point about products in retirement and drawdown being expensive. Today the Treasury has announced it will allow you to take your 25% tax free cash and there will no longer be any requirements to secure an income. Which actually means you should be able to take your tax free cash and leave the rest in the pension fund. You shouldn't have to go into any kind of drawdown. The providers can just say leave it where it is. With the cap coming on the charges on your pension accumulation product, you could imagine there will be an option, a later life pension product that rolls on from another product without having to have the expense of drawdown costs. So actually if you have a charge cap of 0.75% that would be what you are paying. Even after you have taken your tax free cash. It would be completely different, cost wise, from drawdown.

Alan: Certainly a lot of food for thought in those areas. I am going to throw it wide open now for comments, and take questions on any subject. Yes?

Member of the audience question 3: I have been talking to a few companies. I come from the world of employee share plans and they are doing great at the moment. And there is royal concern with companies that the great maturities that is coming out, these lump sums will cause a bit of a skilled work force mass walk out of these people that have invested wisely. My question however relating to the pension forum is, "How will the new legislation impact on the UK PLC skilled work force? And are you suddenly thinking in a couple of years as people get their heads around it, you are suddenly going to see people hit 55. And I am 50 - 51 and I'm suddenly changing my thinking in the last week. Can I get out at 55 now because I can drawdown? So are we going to lose a huge swathe of the skilled work force?"

Alan: I will throw that to the panel, but if there are any members of the audience feel that they have an employer's perspective from an employer on that I'd welcome contributions from the floor. Steven you mentioned a little bit at the end of your presentation, do you want to answer the question?

Steven: We struggle with recruiting skilled labour at the younger end, graduate engineers that sort of experience we struggle to recruit and there has been a lot of competition for it. We don't struggle to retain our talent at the later end of working life. They actually enjoy their job and coming to work. It's a social thing as much as anything. I don't think certainly from our sort of industry that is likely to happen too quickly, it may happen for some. But I think that it might be the other way around. Instead of wanting to leave they will want to reduce their hours and want to stay longer. Where they might have stayed 'til 60 I can see them wanting from 55 to 65 I can see them actually working 2-3 days a week, and actually taking some of their pension. So I can see the flexibility increasing suddenly a lot more. There has been a lot of talk saying that there isn't a retirement age anymore. People will probably start retiring at different stages, they might start doing another job, and they may start doing a different type of role. I think that will increase as we go.

Member from the audience 4: I think that as well. I have already seen that in my company if you put that together with the flexible working application, you know media and the hype that is coming around that. Particularly people with higher incomes they will anticipate a higher flexibility of working requests. But if you put that together with the flexible working applications which is coming out in June, you know Media. Some people put the two things together, particularly with the higher incomes. I noticed lots of flexible working requests which we'll struggle to accommodate.

Alan: Well speaking entirely personally I can certainly recommend the idea of working 2-3 days a week between 55 and 65 years of age. That describes exactly my personal position.

Jonathan: Some of the feedback I certainly get from organisations, is that it is often about aligning what the employer wants and what the employee wants. That can be a shared objective in a sense that employees may want to work longer but they don't want to work forever. Most employees have some sort of aspiration towards retirement at some point. Even though that might push out a little bit. Or they might go through a period of flexible working. Ultimately most people do want to retire and most employers do actually expect their employees to retire at some point. So, I think it is more of a case of getting that alignment and the best way of doing that is by going through some sort of guidance and education so they understand what those options are.

Ros: I also think that the future of retirement is completely different from the past. These pension reforms facilitate the new future which is perhaps a whole new phase of life after a full time career. So you are working part time, retirement becomes a process not an event. You are gradually cutting down. You can dip into your pension savings if you need to top up your declining income. Or you can continue saving from your working income. This matches the need for flexibility. From the European perspective other countries are locked into this idea that you can't increase retirement ages. And you have got very generous state pensions that are kicking in giving people the way to exit the labour force and trying to live off the state. And that is stirring up big problems in Europe. Here in this country we are making it easier for people to keep working longer. And most people when you ask them don't want to stop all together but they don't want to work full time. And even those who don't like their jobs often don't really want to stop. Although they might not like their work they like the people they are working with. They enjoy the social as well as the money. And that is a much better future for everybody if you can actually start to engage in a phase of part time work before you fully retire.

Alan: Next Question?

Audience member 5: Listening to Ros' comments there I think it is interesting to know that there are a lot of people in the pension that are defined benefit deferred pensions, which aren't covered by this sort of flexibility. So we have got a solution where the government feels comfortable about those people reaching retirement and being able to manage the issues associated with and the way it works. From what you are hearing from the government are they going to liberate to use the wrong phrase that is tied up in Final Salary pension plans? That is going to be the next big issue that we all want to understand.

Ros: I think that is the next task, the Budget already flagged up that this won't happen for unfunded public sector DB schemes. And it can't really because there isn't any money, they are unfunded, but for funded pension schemes, most of which are in deficit, the idea is allowing people perhaps with deferred benefits to take some money. Even if it is with some penalty it is likely to attract some of those with deferred entitlements to transfer out. This could be quite helpful in improving the funding of a DB scheme too. With the right wording, the right environment and the right safeguards. I think it makes a lot of sense for the government to be looking at that and I'm sure they are. And once again from the Treasury's perspective, as with the measures that we have had last week, it can bring in extra tax revenue to the Treasury because the money you take out will be taxed at your marginal rate. Whereas if you don't access it and you only get a small amount of annual income, you might not pay much or any tax.

Alan: Personally I can't see anything happening in that space, until after April 2015.

Ros: Oh Yeah. It's a longer term project.

Alan: Primarily because there are too many other issues going on between DB in terms of collective defined contribution schemes. Are they DB or are they DC? So there are kind of a lot of issues there. I think that the other significant issue that they are going to be grappling with to what extent they ban transfers from DB to DC. And the government has always said they don't feel that they can take the economic risk of allowing those transfers in unfunded public sector schemes, like the civil service scheme - teachers, firemen and so on. The problem is, is that I don't think that they can ban public sector unfunded schemes without banning public sector funded schemes like the local government employees and if you ban local government employees, it is a very short step there to banning private sector defined benefit program schemes from allowing such transfers. So that is kind of the post April 2015 environment. What happens between now and then? Potentially people have a year to make these transfers, before the new rules come in and stop them. So are we going to see a flurry of activity of people trying to transfer out of DB schemes in order to take this flexibility up? So there are kind of lots of issues around the transition from here to the new world apart from what the new world looks like.

Ros: I would imagine the end of contracting out in 2016 will be a watershed period where you will see the government offering employers the flexibility for deferred members to be transferred out at a discount as a quid pro quo to help the funding. And it could end up that it is only the defined benefit unfunded schemes where transfers are banned not the funded schemes.

Alan: So, lots of issues to be sorted out in that area. I am sure that the government is going to have issues with this, because of the flexibility that has been announced in the Budget is driven philosophically. That is why there was no consultation advance. Because you don't need to advance on something that is philosophical. What you consult on is how to execute the philosophical change that you want to make. If philosophically, you believe in flexibility in choice why then would you ban transfers out of defined benefit schemes. So it is completely against the philosophy. So it is really economics that really drives any considerations of bans. So let's see where that one goes. So there are lots of issues in the short term. Any other questions? Yes at the back, any other questions?

Audience member question5: Partly following up on what's been said, and a little bit about how Ros you said about other countries, more simplified systems, we're very complicated - we're coming out of it. Can you clarify the context of these changes? is there a target that the government of the day is saying "this is where we're going to and today we're only at the half way stage" or are we in a very British way, just pragmatically, I wouldn't say bumbling along but evolving as we go - we're zig zagging economically - but there is no clear model, as such, that we're aiming for. We're not aiming for the Australian model, we're not aiming for the Scandinavian model, we're just going along... Therefore all these huge changes that we're talking about, it's not as if there should be a caveat, "hang on a little bit, we're only at the half way stage" And therefore there's more to come, you may want to back off until the rest comes and then get yourself together.

Ros: I might be very naive and I may be far too optimistic. But I do believe there is a model. Start with the flat rate state pensions. Get rid of the mass means testing - Make it safe to save in a pension. Get auto enrolment up and running and nudging people to save. And make them believe that is worthwhile with the Budget changes last week. Certainly the comments that followed it showed how unpopular the current system was and how much support there is for freedom and flexibility that we have got. Pensions are starting to become life time savings as Steve was saying. Pensions are the bit that is locked up but they are part of a long term savings picture. Ultimately where does that lead you? That probably leads you to say why do we need any tax relief. And there might still be compulsion if auto enrolment is considered to be not enough. Auto escalation in future could make sense because we know the current amount isn't enough.

The bit that hasn't yet fallen into place or been part of the model that hopefully will be is how you fund social care. Because that is the next pensions crisis. The people that we will be worried about in 20 years' time are going to have a real problem if there is no money for social care. And there are no incentives in the current system for those to save for social care. And we need that. Perhaps part of pensions can become later life savings which are both pensions and care. Or it could be a separate stream. I don't know how you would bring the employer in or the insurance in. And can you build it into annuities - perhaps the impaired life type annuities which could include securing some insurance for care. All of these things are falling into place there is I think a thread. I might be completely wrong and this all could be a political opportunism. Last week's changes could also be seen as politically motivated. I think there is an element of that but at end of the day perhaps they were driven by the DWP finally convincing the Treasury and the DWP has got this road map.

Michelle: I do support what Roz says - I don't think enough comment was made at the time, I do think that the single tier pension reform that is happening in 2016 and the announcements from last week were tied up in sort of a brave new world of saying "that it is down to the individual". Because that is the only way that we can resolve something that previously everyone scratched their heads over thinking this is unresolvable how you are going to deal with the demographic time bomb. And I do think that, and it does seem to have cross party support as well. I think for a while now it does seem that pensions are taken out of the political game. However it is still a massive burden for the state in terms of not just the social care but also the healthcare and the NHS are having an elderly population. So I don't think that we are done yet, it is like the water bed effect that something is going to pop out. They are going to have to produce some more dramatic measures. And it might be the removal of tax in order to fund for later on in life.

Alan: Right well I am not sure about cross party support I thought that the Labour party had been stunned in to silence. I agree that there is definitely a clear planned evolutionary thread. For once in Steve Webb we have a new pension's minister, who has been in office for more than 2 years. I think before Steve Webb on average, we had more than one pension minister a year for ten years.

But he actually understands the issues. He is thinking deeply about the issues and believes he has a mandate for change. And I think he is certainly showing some of that. And sadly he might not be there after the next election. So we have a limited period to influence get change embedded. And I do think there is a thread there. I don't think that there is a single country model that has been followed. I think that there is a lot of interest in the policy department at both the Treasury and the DWP and also the Department of Health in relation to social care about looking at other countries and taking the best of the different models that they see. But not necessarily holding out one county to be the model that they want to follow. So I think that we have a lot to learn about DC pensions from the Australians. But I think that they would admit that they haven't got everything right. I think we have things to learn from other countries about the way that they do things, the Scandinavian countries, the US and even Chile in terms of their DC arrangements too. I think that we can learn things from elsewhere. But I don't think that we can implant them into our culture and expect them to work.

Michelle: I think that you are right. I do think that is also a point that we have a different history. Again things were said about the annuities and a comparison was made with Australia, which I think again was stretching it too far. Because it is a different culture and a different system. Because Australia did throw away their pensions rule book when they brought in their superannuation scheme. I think that you are right that the combination of culture and history means that you would be wrong to do that. I don't think that they are doing it but I think it would be wrong to look at another country and say that's the one that we are going to have.

Alan: But I think there is a road map and I also think that we have an opportunity to influence the road map. Because the various people from politicians to civil servants supporting the policy development are actually engaged and they are listening. So I think if you have any ideas of how you can improve things. I think there is an opportunity to bend people's ears because they are open right now.