

The Turcan Connell Conference 2009

'The Future of Pensions'

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Good evening everyone; It's great to be back in Scotland and I'm delighted to be here with you tonight.

I know we're here to talk about the future of pensions, but I believe the future will be less about pensions and more about more than pensions - a variety of long and short-term savings vehicles, accessed, co-ordinated, integrated, managed and monitored via the workplace.

But before I expand on that, I want to touch on the Government's proposals for personal accounts and existing schemes in 2012, which is only just around the corner. We must use the little time remaining to get the detail right or the actual outcome may well turn out the opposite to what was intended, and that would be a disaster for the future of pensions generally.

On personal accounts I have two significant concerns and one disappointment. The big concerns are, first, meanstesting, and second, the possibility that current, good quality pensions will be reduced down to the level of personal accounts.

On meanstesting – and this seems so obvious – it simply cannot be right that potentially thousands of people, who can least afford it, use their hard-earned cash to pay into pension accounts, only to find at retirement that their efforts disqualify them from a range of state benefits, and that they would have been better off keeping their money in their pockets instead. This is a scandal just waiting to happen, and it places our industry at potential risk of giving bad advice. If we are to encourage people to invest in pensions, and at the same time try to restore consumer confidence, then the benefits of doing so must be clear and simple. Meanstesting works against this principle and the Government's position has to mellow.

The other concern is the potential threat to good quality pensions. In these recessionary times, many employers have already had to look hard at their pension costs. Auto-enrolment, which is very good in principle and absolutely the right way to go, will add to employer costs as more people join, or rather, don't opt out of their schemes. We must not compound this by making the scheme-qualifying rules for self-certification so complex, and therefore administratively costly, that employers are driven to closing their schemes and opting for personal accounts instead.

As I say, there's enough downward pressure on good pension provision at the moment; the Government mustn't add to it. Whatever the rules, simplicity has to be the key. We all know that good quality pensions are not only important for people when they retire, but they are important to employers right now for attracting and retaining the good people they

need to help their businesses flourish – and that is in everyone's interest, Government included.

The budget decision to curtail tax relief on large contributions was very disappointing, because it was just another thing that adds unnecessary cost and complexity to pensions. It also sent out completely the wrong message to pension savers. I have said before that tax relief on contributions was a tangible way of all Governments of whatever colour saying to absolutely everyone, 'saving for your pension is a good thing and we will encourage it'. That unwritten contract was so important. It has now been broken for one segment of savers, meaning it can easily be broken for others sometime later. It was a poor decision, and unnecessary, as lifetime limits already apply and achieve much the same outcome.

And my one disappointment? It's that the Government is not using the opportunity of personal accounts to extend the provision of much needed life cover, which it could do very easily and cost-effectively. In Australia, under their system of personal accounts, employers pay a dollar a week per person for life cover on a falling scale, starting at 100,000 dollars for younger ages and scaling down to 20,000 dollars as the employee gets older. It's simple and it works. Good pension schemes include life cover, and it will be a real opportunity missed if we fail to incorporate something along these lines into personal accounts as well.

But I started by saying that I see the future of pensions being centred on the workplace, and I'd like to say a bit about corporate platforms, because I believe they are the future. 'Well I would say that wouldn't I?' as you'll know my company has recently announced that we are developing such a platform. But the rationale is compelling, and I'm very excited about the concept.

The idea that you save for retirement through a long-term and relatively inflexible pension policy or company pension scheme is now far too narrow. That's the old world. I say inflexible because, if you think of the traditional final salary scheme, on retiring, the member had to make a call as to how much of his or her fixed pension should be commuted for cash, and then nothing changed until death, at which time the dependents normally received a fixed level of reduced pension, again until their deaths.

In the new world there will be a range of savings vehicles that could be offered alongside the defined contribution pension scheme, which is now the norm. This would include sharesave schemes, share investment plans, corporate ISAs and Group self-invested pension plans. I believe corporate ISAs, being relatively short-term investments, will be more attractive to the younger generation who we know are not turned on by long-term pension plans. Relatively high take-up rates for share plans and SIPPs, compared to company pension schemes, is driving demand for corporate ISAs and Group SIPPs that can accept share plan 'roll overs'.

Retirement would no longer be about one day and one decision, but rather a period of time during which a person might draw down some of his pension, supplemented, for example, by an income from a share plan or a corporate ISA. In short, a tax-efficient income, plus access to capital as required. Purchasing an annuity may well be deferred until the age of 75.

Now on the face of it, this appears far more complex than the old world. And it is. But a corporate platform uses technology to bring it all together in a way that hides the complexity and presents it as simple and helpful. Technology is advancing by leaps and bounds, and the future of pensions has to ride on the back of this advance.

Employees would be able to see, in one place, the various financial products that they hold. The platform tools would enable them to explore different scenarios, illustrate projections, see the various tax implications and concessions available, and generally plan for their future needs. Online educational, guidance and engagement tools would also be included. In essence, employees would have far greater access to much more flexible savings vehicles at significantly less cost because of economies of scale.

The assets would be managed on the platform, allowing a consolidated and integrated view. And by deploying straight through processing, employees will enjoy a solution that allows them not only to save, but also to transfer their savings tax-efficiently between various product wrappers. In short, an end-to-end holistic financial solution.

For employers, the platform enables them to maximise the return on their employee benefit expenditure through staff retention and attraction, as well as leveraging tax concessions. It enables employers to improve benefits, delivering tangible value beyond remuneration packages, while reducing costs. And some of the savings products could be white-labelled in their name to cement further the employer/employee relationship.

Engagement with employees would increase, while communications with them would be improved and yet automated. And of course, the platform would enable bulk upload of data, automation of salary sacrifice and payroll deductions, and all associated administration and reporting.

I believe this is the most exciting development for the future of pensions, and is of immense potential for those saving for retirement and for those advising them.

Thank you.