

The Changing World of Workplace Saving

Meeting the needs of employers and employees

Westminster and City Conference

Thursday 5 November 2009

Hyatt Regency London

Trevor Matthews, CEO Friends Provident

[Slide 1]

G'day

[Slide 2]

All aboard! (Blow whistle.) Welcome aboard the Pensions Express!

Question: Are we in the pensions business? Are you in the pensions business?

Answer: No we are not. Friends Provident is not in the pensions business. Not any more.

[Slide 3]

We're in the **Medium and Long Term Savings** business of which pensions is an important part.

But what, I hear you musing, has that got to do with trains?

I believe there is a strong parallel between where we are now and where the railroads were in the early years of the twentieth century. Many of them mistakenly believed they were in the railroads business. The smarter ones adapted to changing times and the new technology and realised they were actually in the transportation business.

I'm going to stick with this analogy for a while because the UK pensions system reminds me that Britain was a pioneer in railways but nowadays is well off the pace. And we did have the best pensions system in the world but it's looking increasingly exhausted – more and more like a train wreck!

[Slide 4]

Here are some of the things sapping the system.

- DC is not meeting the needs of all employees.
- DC pensions don't have sufficient 'pull power' for employees.
- Employees are more resigned to working longer and are looking for more flexible working patterns and access to their savings.
- This is especially true of younger workers who are often in debt.
- But there is high take-up of Share save and Share Incentive plans.
- We know that employers want something for the **whole** of their workforce.
- And that auto-enrolment will cause them to review the cost and the value to the business of pensions.

Pensions have been getting a bit of a pasting but we're not giving up on them. What we're going to do is make them part of something bigger. We are actually in the medium and long term savings business!

[Slide 5]

The journey I want to take you on this morning can be summed up as:

- More choice and more freedom
- Public policy that incentivises saving, and
- Innovation in workplace saving.

Let's start with choice and freedom

Now that final salary pensions seem to be nearing their end the spotlight is fully falling onto DC. And the one message that comes out of the media coverage of DC is that it's risky. And we know that locking away cash **in the expectation** that it will re-emerge with interest in 40 years time requires a leap of faith that many are not prepared to make. The take up of DC schemes is lower than 50% and can be as low as 5% despite the incentives of tax relief and employer contributions.

Auto-enrolment, when it comes, will change that but it won't magically change people into active investors or avid savers. The recession, lack of confidence in pensions policy, lack of trust in financial services and poor understanding of financial matters are not encouraging saving. And **retirement saving** is a particularly hard 'sell' to younger workers.

Pensions are too rigid to meet the needs of a modern workforce.

Nevertheless, employers continue to want employee benefits that will help with recruitment and retention. And they know they need to be more than 'plain vanilla' pensions.

[Slide 6]

Where employees want to be and what they are saying to us is:

- Differentiate me from Personal Accounts **and** my competitors in the skills market
- Give me solutions for the whole workforce
- Give me a 'maturing shares' solution
- Give me a 'leavers' solution
- Give me more choice
- Give **my employees** more choice
- Promote the value of my employee benefits
- Educate my employees to make better decisions

They are asking us what benefits will be relevant to employees who are becoming resigned to working longer than the official retirement age - but don't want to do it full-time or without career breaks?

We don't want employers to 'level down'. What we need is a convincing argument for 'levelling up' and for continuing with existing pension provision - but broadening the choice of employee benefits to make them more relevant to a whole workforce. What we're advocating is 'life beyond pensions' where **workplace solutions** take the place of products and technology enables them to be delivered in a different way.

I'll go into some detail about what those solutions will look like. But before I do I want to talk about something that will help or hinder the process.

[Slide 7]

We should all be clear by now that something has to be done to re-establish a savings culture in the UK. This is not just about reducing debt and better financial management; we must improve **self-reliance**.

Public policy that incentivises saving

The workplace is a key focus for this but employers and the financial services industry can't do it without the support of policy makers. To be successful we need to operate in a broader framework of public policy that also has the goal of **incentivising saving**. Without that our efforts will be undermined.

The industry has some good ideas but it often seems that the government is on another track entirely.

I'm thinking here about the endless changes to pension policy – and ministers – and the chipping away at the principle of tax relief. For many, Personal Accounts won't make much difference to the need to work longer. The planned contribution levels are woefully inadequate and will result in many being disqualified from a range of state benefits because of means testing. They would have been better off keeping their money in their pockets instead - that makes no sense at all. Surveys tell us that people tend to trust their employers but they do not trust the government on pensions. They see that self-reliance is not rewarded but rather it attracts a **penalty**. We hope Personal Accounts will not become the 'no frills pension' taking people on a journey that stops some way short of their expected destination. But the signs are not encouraging.

Adopting Stakeholder should have been an option but instead we will have a new track running alongside existing DC provision. If we're to continue down this route then let's keep the end destination firmly in mind – we need uplift in financial security in retirement across the income ranges.

Will Personal Accounts and Auto-enrolment do it? They will increase uptake of pensions but they won't necessarily improve financial planning.

Auto-enrolment should have a real positive outcome. But we don't want 'decision free' pensions to become entirely 'engagement free' pensions.

We're told that if people are faced with too many choices they are more likely to make no choice at all. I can understand that but auto-enrolment should lead to **better guidance** and more effort to improve decision making rather than a strategy to **remove** choice all together. If we're not sensitive to these things then somewhere down the track we're going to say: ah that's not the effect we wanted at all.

[Slide 8]

What we need from policy makers is a partnership to hammer out a long term strategy please that will:

- incentivise **self reliance** and **saving**
- allow more **freedom** and more **choice**
- improve financial planning and decision making for **life** not just around pensions and
- re-build confidence in **pensions and long term savings**.

I don't see UK pensions strategy being as simple as Personal Accounts and increasing the retirement age to 68 or 70. Individuals should be able to decide when it's right for them to retire because they have the financial means to do so. Many **will** work until 68 or 70 but they may not do it full time or in the same career. Some will take late career breaks or sabbaticals. We should encourage that **flexibility** and **reward** self-reliance with some relaxation of the rules around pensions and saving.

[Slide 9]

Instead of talking about **work** and **retirement** we should promote the concept of **freedom** and how to achieve it through **saving**. It won't harm to throw in a bit of **happiness** too.

Now you're thinking: Trevor has lost the plot. Money can't buy happiness and the financial services industry can't manufacture it either. To echo a far more illustrious optimist from across the pond: "Yes we can!" We have been helping workers to a happier old age for a very long time by adding to their wealth. Studies show that higher economic freedom and high average incomes correlate strongly with higher self-reported happiness.

Or to put it another way in the words of Charles Dickens: "Annual income twenty pounds, annual expenditure nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pound ought and six, result misery."¹

It really is time to ask whether public policy is helping people towards an enjoyable 'Third Age' or a miserable 'Trapped Age' where freedom of choice diminishes year on year.

[Slide 10]

Innovation in workplace saving

So what are the reasons people **don't** get on the pensions 'train'? They don't like the idea of money being locked away and inaccessible in times of real need. They think tomorrow will look after itself and believe the state won't let them down. They lack confidence in their ability to get it right partly because pensions are said to be too complex. They see **Risk** where we see **future Freedom**.

Some of the reasons workers should be attracted to **expanded workplace savings** are that they will have more **control** over their assets and more **choice**. Savings can be accessible when needed. Transactional capability will enable them to maximise their assets and tax reliefs. Associated education will help them to manage their finances.

Our vision of the future is one where people willingly get on the **savings train**, willingly pay the fare, get off at their destination, get back on when it suits them and have quality of life and a worry free holiday at the end. Self reliance², someone said, is the only road to true freedom.

We've listened to what people say about pensions, and we've seen what's coming down the track in the form of Personal Accounts, and we've decided – to continue the railway analogy - to expand our network. In doing that we're not just adding more stations we're also using platform technology to give employees control of their own travel arrangements. Technology and expertise together are going to help to change the workplace into a richer source of wealth and income management.

¹ **Charles Dickens**, *David Copperfield*, 1849

² Attributed to Patricia Sampson

New workplace solutions are the answer. Next Generations Solutions is an apt name – so much so that it's the name we chose at Friends to describe our corporate long term savings proposition.

[Slide 11]

We're in the long term savings business and the freedom business. One of the ways we're going to achieve that is through a **corporate platform**. We think corporate platforms will be a 'tipping point' for employee benefits.

We will use technology and solutions to transform employee benefits. It will give us:

- An **holistic view** of aggregated and integrated benefits
- **Holistic solutions** for all the of the workforce
- It will enable employers to become the **facilitators of employee wealth**.

[Slide 12]

It will change the Old World of GPP and Share save and products into **New World Solutions**.

If you're an employee you can go online in your workplace and see your employee benefits and make changes to them. The platform will enable you to make decisions about contribution levels and asset choices based on illustrations and an assessment of your current appetite for risk. Platform tools will enable you to explore different scenarios, illustrate projections and the tax implications and available concessions.

You will have access to more flexible savings vehicles at significantly less cost because of economies of scale and you will be able to transfer your savings tax-efficiently between various product wrappers.

If you're an employee in a Share save plan with maturing shares you can tip them into your company's corporate ISA or your company's tax efficient Group Self-invested Personal Pension. And you can do that yourself online. At the same time you might want to look at your other investment choices in the GSIPP and adjust them to suit your current risk appetite.

If you're a young graduate in your first job advanced financial education - accessible online in the workplace - will give you some guidance on how to manage debt. Or – if you're in the lucky position of not having debt - then it will enable you to put some money into a corporate ISA. If you're just fed up with work – or are facing retirement with the prospect of supporting elderly parents - and are keen to know what kind of flexible working might be possible, you can look at the options for drawing down some of your pension and working part-time or supplementing the pension with an income from a share plan or your corporate ISA.

If you are enjoying your job you might want to know how additional years in work will affect your pension and make a decision about when would be the right time to retire. You may also want to defer buying an annuity until 75.

Scenarios, options, decision enabling tools, advanced financial education, flexible and cheaper products because of economies of scale. **Choice and Freedom**.

Yes, some will say, but are employees going to get onboard? Well a survey by the Chartered Insurance Institute & Reform³ late last year found that the IPOD generation (the under 35s) **is** accessing banking, credit, and insurance at a relatively young age compared with their parents. But they think their choices are limited by a financial establishment that concentrates on older people and patronises the young. We need to engage in a technologically savvy way with IPODs but make it fun and enjoyable at the same time.

What will corporate platforms do for employers?

If you're looking to recruit and retain talented people in a competitive skills market, it will offer some new and interesting solutions for the employee benefits package. These solutions will be integrated with existing benefits and systems and provide a range of benefits to meet the needs of the whole workforce. The platform will enable bulk upload of data, automation of salary sacrifice and payroll deductions, and all associated administration and reporting.

If you're an employer with a Share save scheme then you will probably want your employees to diversify out of company shares at some point and build a broader equities portfolio.

If you're an employer who is managing pension assets for a large number of **former** employees you might well want a system that can either administer this burden more cost efficiently or enable you to transfer leavers to individual SIPP or ISA arrangements.

If you're an employer who is concerned that employees offered more choice should get some guidance on how to make decisions then corporate platform will offer advanced **financial** education to improve employees' financial management skills.

[Slide 13]

I'm stressing **financial** education here because just as we're moving beyond pensions in the workplace we're also moving beyond pension scheme communications. At Friends I am pleased to announce that today we're launching our latest innovation - the Friends mymoneyandme – a financial education package that covers subjects from debt management to investment decisions, using ideas from Behavioural Finance, interactive workshops and incorporating innovative educational techniques.

Corporate platforms will open an exciting new chapter in employee benefits **and** pensions. They're emerging from a maelstrom of economic challenges and changing pensions policy. I'm sure they're going to play their part in getting the UK saving again. But we want this to be a partnership. The industry is on track to deliver more choice in the workplace to boost self-reliance and a savings culture. We need support from policymakers.

[Slide 14]

- Allow employers to pay their contributions to Personal Accounts into a corporate ISA for younger workers so they can get a taste for saving and access to their money. When the fund reaches a fixed limit any subsequent contributions can then be poured into the pension fund.

³ *Money's too tight to mention: Will the IPOD* generation ever trust financial services?* A report by Reform and the Chartered Insurance Institute, Nick Bosanquet, Andrew Haldenby, Lucy Parsons, Elizabeth Truss, Laurence Baxter, October 2008

- Allow auto-enrolment as soon as possible. Why is this being shackled to Personal Accounts? If it makes sense let's get on with it.
- Sort out the impact of means testing on low income contributors to pensions.
- Add life insurance to Personal Accounts. In Australia the dollar per week contribution provides useful amounts of life cover, £30,000 or so to the 95 per cent of Australians in the superannuation system.
- Encourage 'levelling' up and avoid 'levelling down' - incentivise employee benefits that are better than the 'norm'.

[Slide 15]

- Look at different ways to make pensions more accessible – and therefore more attractive. The US allows people to take loans from their 401(k) funds and pay them back with interest. The KiwiSaver allows early access to pension savings under certain circumstances with no obligation to repay.
- Simplify pensions rules: no rule should result in a diminution of confidence and clarity.
- Review existing disincentives and **don't add** to them. The budget decision to curtail tax relief for high income earners is a monumental disaster. It adds unnecessary cost and massive complexity to pensions and sends out completely the wrong message to savers. If the government wants to limit tax incentives for the "rich" reduce the maximum allowable annual contribution. Don't corrupt the system. Don't destroy the integrity of the system for short term political expediency. Tax relief on contributions is a tangible way for all governments around the world to say 'saving for your pension is a good thing and we will encourage it'. That unwritten contract has now been broken for one segment of savers and risks bringing the whole system down. A disastrous decision and unnecessary, as the existing lifetime limits and reduced maximum allowable annual contributions could achieve much the same outcome.
- Create a long term strategy for pensions and saving and stop meddling with short term fixes.
- And please can we talk **up** DC? I can well understand why people compare it with final salary and say it's more risky and there are things that need improvement. I'm an Aussie so I'm programmed to look on the bright side – but hey there really is one: the UK is adapting to DC and DC has plenty of good things to offer.
- Let's lift the **confidence quotient** in savings by giving DC a good name **and** making employee benefits more relevant to the needs of the whole workforce.

[Slide 16]

Welcome aboard the shiny new workplace saving express.

Thank you