PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

WPSC CALL FOR EVIDENCE: SAVING FOR LATER LIFE

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EXECUTIVE SUMMARY

- The PLSA's mission is to help everyone achieve a better income in retirement. Pensions adequacy is also our key strategic policy priority for 2022.
- Automatic Enrolment has been a great success with over 10 million people automatically enrolled and 87% of eligible workers in a workplace pension scheme in 2019, compared to 55% in 2012.
- However, many people are not automatically enrolled into pension saving and contribution levels are not likely to give people the level of retirement income they expect. The majority of savers do not understand this risk.

Pensions Adequacy

- There are two main approaches to the assessment of pensions adequacy: measures based on the replacement of pre-retirement earnings, such as the Pension Commission's Target Replacement Rates (TRR) and, measures focussed on living standards, such as the PLSA's Retirement Living Standards. Currently there is no consensus on what is the right level of pension adequacy and it remains a highly subjective concept.
- PLSA research shows that 13.6 million people are at high risk of not saving enough to achieve the Pension Commission's Target Replacement Rate (TRR). Only around half (51%) of savers are on track to meet the TRRs, and this figure falls to 3% in the case of people who only have DC pension savings.

Changes to Automatic Enrolment

- A timetable for the 2017 Automatic Review recommendations, of lowering the minimum age to 18, removing the lower earnings band limit (£6,240) and improving saving for the self-employed, needs to be laid before Parliament as soon as possible. We suggest that the increases take place in the mid-2020s, in line with the current Government's current promises, over a 2-to-4-year period.
- The government should also set out a roadmap to increase minimum contributions gradually over 10 or more years to 12% for automatic enrolment. Increasing contributions is the most powerful lever in creating better retirement outcomes. In light of the current cost of living crisis and the impact of Covid 19 pandemic, we believe this should proceed a little slower than we have previously argued.
- We think the emphasis should be on "levelling up" pensions by getting employer contributions up to the same level as employee contributions - first, in the late 2020s aiming for 10% in total by 2030 (with no extra savings from the employee and 2% extra from the employer) and then moving towards 12% at some point in the early 2030s (requiring an additional 1% extra from the employee and employer).

Advice and Guidance

- ❖ Whilst acknowledging the place of regulated financial advice in the pension journey, it is important to note inertia, nudges, information and guidance also help to improve retirement outcomes. Indeed, the success of automatic enrolment is based on making the most of the lessons from behavioural economics. Such initiatives as the PLSA's Guided Retirement Income Choices show that scheme design can also mitigate the need for regulated financial advice, which is often beyond the financial reach of many savers.
- ❖ We have identified five areas where advice or guidance is currently needed: contribution levels, decisions on going part-time or taking a career break, consolidation of pensions, review of investments, and decumulation options prior to retirement.

Retirement Income Targets

- ❖ There is considerable evidence that the "goal setting" used in retirement income targets helps support individuals in planning for retirement. There are also many features of the UK pension landscape, such as low financial literacy, which suggest they can help people get good retirement outcomes.
- ❖ The PLSA's Retirement Living Standards have been widely adopted by pension schemes, employers, regulated advisers and guidance bodies. We estimate that already over 15 million people receive pension information that reference them, either in annual statements, in on-line tools, or being used by financial advisers. They are an engagement tool that is already helping savers by making their retirements more tangible.

Role of Government

- ❖ Other than increasing automatic enrolment contributions, the Government can improve pension adequacy, by increasing the scope of automatic enrolment to include younger workers and those on low earnings with multiple jobs who earn over £10,000 per year. It also has a central role to play in setting up pensions dashboards, maintaining the current regime for pensions tax relief, and reforming the advice/guidance boundary.

Role of Scheme Design

- ❖ Schemes are already operating at low costs – the average charge for an occupational pension scheme is 0.48% AMC which is well below the 0.75% AMC charge cap - and delivering high investment performance especially in automatic enrolment enabled default funds. They are also engaging in communication campaigns to drive up contribution levels.

The Self-Employed

- ❖ The Self-employed are a diverse group and pensions will be right for many but not for all. DWP's Self-Employed Working Group is doing some good work trialling interventions but it may need fiscal incentives or a solution that mimics the inertia in automatic enrolment to drive-up long-term savings for this group.

Gig-Workers

- We support a solution where more gig workers are classified as employees and, therefore, would benefit from automatic enrolment pensions. There are 1.3 million gig workers and the High Court decision on *Uber B.V. and Others v Mr Y Aslam and Others* means more may be redefined as workers for automatic enrolment purposes. This may need further legislation depending on how other court cases are determined.

Gender Pensions Gap and the Under-pensioned

- Implementing the 2017 AE Review recommendations would help all under-pensioned groups. Other measures for helping to bridge the gender pensions gap could include:
  - Streamlining the pension sharing on divorce process and mandating that pensions should be considered even as part of any non-financial settlement
  - Re-considering whether it is technically possible for the total income of multiple jobholders with low earnings to trigger automatic enrolment where all their jobs taken together amount to at £10,000 p.a. and above.

ABOUT THE PLSA

We're the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

INTRODUCTION

We welcome the Work and Pensions Select Committee's Inquiry into areas of pensions adequacy, automatic enrolment, touchpoints for advice and guidance, the self-employed and the gender pensions gap.

The PLSA's stated objective is to help everyone achieve a better income in retirement. After extensive research and consultation with the PLSA membership across the pensions industry we published *Hitting the Target: Final Recommendations* in July 2018. *Hitting the Target* set out the landscape on pension adequacy and automatic enrolment and possible solutions to endemic under-saving. We set out a timetable for implementing the 2017 Automatic Enrolment Review recommendations, and how contributions should rise gradually over 10 or more years to 12% contributions, with employer and employees both paying an equal share. The pandemic and the current financial challenges for savers and employers alike, results in us adjusting this timetable to reflect the new realities.

Hitting the Target led to the creation of the Retirement Living Standards, that have become a widely adopted engagement tool seen and used by over 15 million pension savers. The Retirement Living Standards set out minimum, moderate and comfortable levels of expenditure in retirement that make retirement more tangible to many pension savers. They overcome "present bias", by focussing in on the everyday spending needs of their future retirement and bigger expenditure such as buying a new car, going on holiday or refurbishing a kitchen. The standards are based on research commissioned by the PLSA from Loughborough University, exploring expectations and attitudes with members of the public and they are reviewed every year.

To inform our answers to the Inquiry's questions we held a series of roundtables with a cross-section of our members and commissioned a survey of members of the public. We also build on evidence we have presented to the Committee in the previous two phases of the Inquiry and our body of research and publications.

When considering pensions adequacy, we believe it is important to look at the scope of the system as a whole and acknowledge the gaps in provision, whether they are in respect of under-pensioned cohorts of the working age population or in respect of different World Bank pillars of pension saving. We have aimed to do this in our responses and have touched on other under-pensioned groups beyond the self-employed and women.

Ultimately inroads have been made into improving pensions adequacy through the success of automatic enrolment, but this needs to be leveraged further by increasing the scope and contribution levels to turn pensions adequacy into a reality for all. We will be researching and assessing these areas further throughout 2022 and will welcome further opportunities to engage with the Select Committee throughout the year.

If you would like further information about the material in this submission please contact: Katy Little, Parliamentary & Stakeholder Manager, PLSA (katy.little@plsa.co.uk) or Craig Rimmer, Policy Lead, PLSA (craig.rimmer@plsa.co.uk.)

INQUIRY QUESTIONS

1. Do households in the UK have adequate pension savings for retirement?

1. There are different measures of pensions adequacy and households, and individuals will have their own perspectives based on their circumstances and expectations. However, most evidence indicates that millions of UK households will not have adequate savings for retirement.

Pensions Adequacy Metrics

2. The two most common approaches to considering pensions adequacy are:

- Replacement rates: these aim to ensure a person can carry on the same lifestyle before and after retirement
- Living standards: these aim to identify a certain level of living standard or lifestyle in retirement.

3. The Pension Commission (2003-5) considered the issue of Target Replacement Rates (TRR) and came to the conclusion that someone on average earnings might need about 67% of former income, someone on half average earnings around 80%, and someone on twice average earnings would need around 50%.

4. In 2019, the PLSA launched a set of adequacy metrics, the Retirement Living Standards, aimed at helping people plan their retirement savings. Based on independent research with the UK public, these identified three levels of retirement expenditure: minimum, moderate and comfortable (see also answer to Question 4).

5. It is worth noting that the RLS made use of the pre-existing Minimum Income Standard, used by the Joseph Rowntree Foundation, and the same methodology to identify the minimum level of income deemed necessary to enable someone in the UK to fully take part in society.

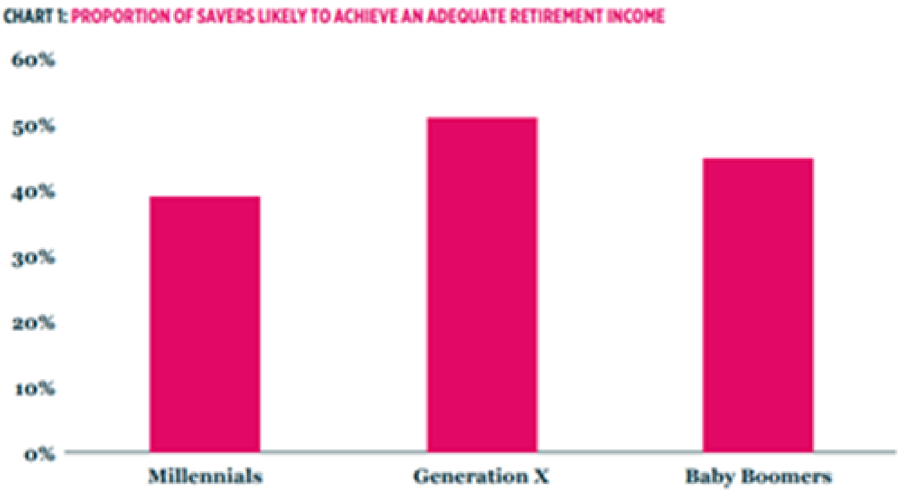
6. Although the Government does not have a declared definition of pension adequacy, it does have an implied minimum level of adequacy to avoid poverty, i.e. the 'safety net' level of income provided by the new State Pension plus pension credit for those entitled to it (baseline of £9,209.20 per annum). However, the discrepancy between this figure and the income levels outlined in the RLS, for instance, highlight the high degree of subjectivity over adequacy.

7. As noted in the Pensions Policy Institute's *What is an adequate retirement income?*[1] report, the definition of 'adequate' also depends on who is assessing it. For most individuals, whether based on a TRR as a proportion of previous earnings, or a measure of the RLS with quality-of-life indicators, an 'adequate' retirement income is likely to be considerably higher than that provided by the State Pension alone.

[1] https://www.pensionspolicyinstitute.org.uk/media/3927/20210609-adequate-retirement-income-final.pdf

Under-saving

8. Our Hitting the Target[2] research showed that at the current contribution rate of 8% of automatic enrolment band earnings, 51% are unlikely to meet the Pension Commission's TRRs quoted above, while of those savers with solely DC entitlements, only 3% will achieve this level. The research also illustrated some generational differences as shown in this chart from Hitting the Target:



9. In many ways it is not surprising that most people are not likely to achieve the Target Replacement Rates outlined above, as the Pensions Commission never expected automatic enrolment alone would be sufficient to ensure people would get adequate incomes. Indeed, they proposed that about half the pension saving could be done via automatic enrolment and the other half through voluntary saving. However, during the 10 years since the introduction of automatic enrolment there has been little evidence of such extra saving. It is likely this is the result of wider economic forces following the financial crisis and an extended period of wage stagnation.
10. The PPI report indicates a similar situation in 2021: assuming a full State Pension entitlement, anyone earning over £12,700 will require to save more than the 8% Automatic Enrolment (AE) minimum to meet their target replacement rate. In fact, the PPI goes on to say that for those on median earnings in 2020 of £24,900, the total contribution rate from employee and employer needs to be about 20% to achieve this goal.
11. According to the PPI, individuals in single person households are around four times more likely to be below the Joesph Rowntree Foundation Minimum Income Standard of £10,712 p.a. of pension provision , and higher again for single women[3].
12. How much retirement saving is needed also depends on when a saver plans to retire, as well as whether they plan to continue working in some form during retirement to supplement their income. State Pension Age (SPa) has risen progressively, and following the Cridland Review in 2017, will rise further to 68 by 2039 to reflect increasing life expectancy and the affordability challenges posed by an aging UK population. Many people choose to retire before SPa though, in which case, private pensions and other savings will have an even larger gap to fill.

[2] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2018/Hitting%20The%20Target%20-%20A%20Vision%20For%20Retirement%20Income%20Adequacy.pdf

[3] https://www.pensionspolicyinstitute.org.uk/media/3927/20210609-adequate-retirement-income-final.pdf

13. Irrespective of which adequacy metric is employed, the three biggest sources of retirement income are the State Pension, property, and private pensions. The tables below illustrate the unequal spread of property wealth (Table 2) and financial wealth (Table 3) amongst Millennials, Generation X and Baby Boomers, from *Hitting the Target*.

TABLE 2: DISTRIBUTION OF NET PROPERTY WEALTH FOR GENERATIONS BY NET PROPERTY WEALTH IN GB, 2014-16 (£)[13]

	20TH PERCENTILE	40TH PERCENTILE	MEDIAN	60TH PERCENTILE	80TH PERCENTILE
Millennials	£0	£0	£0	£0	£28,750
Generation X	£0	£26,750	£47,000	£67,500	£133,500
Baby Boomers	£0	£75,000	£100,000	£125,000	£212,500

TABLE 3: DISTRIBUTION OF NET FINANCIAL WEALTH FOR GENERATIONS BY NET FINANCIAL WEALTH IN GB, 2014-16 (£)[14]

	20TH PERCENTILE	40TH PERCENTILE	MEDIAN	60TH PERCENTILE	80TH PERCENTILE
Millennials	£-2,674	£20	£200	£800	£4,900
Generation X	£-1,192	£250	£1,000	£2,950	£18,250
Baby Boomers	£48	£3,209	£8,700	£17,800	£60,700

14. While 97% of pensioners are in receipt of the most universal of these, the State Pension, this will amount to £9,630 in 2022-23, which will get savers a large part of the way to the minimum annual income according to the RLS (£10,900). This then leaves property assets and private pensions to make up a considerable amount for many people. However, as can be seen from these figures, people on median incomes and below do not hold substantial amounts of either property or financial wealth. Perhaps only the top 20% of each type of wealth have sufficient to make a material contribution to retirement income.
15. Unfortunately, savers are unaware of the fact they are under-saving, with 51% believing that 8% of automatic enrolment band earnings is the Government's recommended contribution rate[4]. This is why we are advocating an increase to the minimum contribution rate gradually to rise over 10 or more years to 12% of earnings, as well as the implementation of the 2017 AE review recommendations including the removal of the lower earnings limit and the inclusion of younger workers. Such changes will take time to make a difference; like AE itself – it will only be after decades of the policy that savers' AE pots make up the majority of their retirement savings. While we acknowledge that due to the increasing cost of living placing a great strain on households, now is not the time to increase automatic enrolment contributions, recent PLSA polling indicates that 41% of working adults believe increasing contributions to 12% would be a good idea, with only 16% disagreeing[5].
16. Overall, while there are different ways to assess adequacy, wide variation in how people would like to spend their retirement savings and variation in the age at which people will retire, the UK population, as a whole, is under saving for retirement given current contribution levels and the current level of support afforded by the state. Therefore, as noted in the PPI report referenced above, adequate retirement incomes in the future are only likely to be achieved by a combination of increasing contributions, retiring later in life, increasing the state pension, and acceptance of a lower standard of living in retirement than enjoyed by recent generations of pensioners.

[4] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2018/Hitting%20The%20Target%20-%20A%20Vision%20For%20Retirement%20Income%20Adequacy.pdf

[5] Cost of living crisis means almost half say they cannot afford to save | Pensions and Lifetime Savings Association (plsa.co.uk)

2. **Are changes needed to auto-enrolment to provide an adequate level of pension savings for retirement?**

17. The 2017 Automatic Enrolment Review found that changes were needed and made recommendations accordingly. At the time the government reacted positively, making a commitment to implement these changes by the mid-2020s. As this milestone is now only three years away, it is essential that we soon see legislation and a timetable to implement the recommendations.

18. The recommendations were as follows:

- Removal of the Lower Earnings Limit (£6,240) as a qualifying earnings threshold – so that workers and their employers contribute on every pound earnt. Removing the LEL would generate an estimated further £2.6 billion into pension savings[6].
- Changing the minimum age from 22 to 18 – so that 900,000 young people are brought into the automatic enrolment system, employers have simpler administration, and workers and their employers save earlier and longing into pensions[7].
- Tasked government to trial targeted interventions for the self-employed to encourage long-term saving.

17. These measures in themselves would help to improve retirement outcomes and pensions adequacy, by increasing the amount of contributions and the length of time that workers are saving into a pension.

18. In our publication, *Hitting the Target*[8], we proposed that removing the Lower Earnings Limit as a qualifying earnings band should be done in two phases to reduce – and smooth – the significant effect it would have on the take-home pay for lower income workers. We originally recommended that the removal should take place over a two-year period from 2023 to 2024. However, in light of the current cost of living crisis, and the Government's stated intention of introducing this change in the mid-2020s, we would support removing the limit in phases over two to four years.

19. Also within *Hitting the Target*[9], we proposed affordability measures to be built into Automatic Enrolment with the ability for employees to opt-down to lower contribution levels rather than having the current binary decision of opting out or remaining auto-enrolled in the workplace pension scheme. For example, some have proposed that any opt-down by the employee should not result in the employer also automatically reducing their contributions and we would be supportive of this approach.

20. We have long supported the ambition of increasing contributions from the current level of 8% of band earnings to 12% of earnings with equal contributions from the employer and the employee. (Under the current rules, employees pay a minimum of 5% of band earnings and employers pay a minimum of 3%.) Our analysis in *Hitting the Target* found that increasing minimum automatic enrolment contributions to 12% of salary, along with a later retirement

[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668971/automatic-enrolment-review-2017-maintaining-the-momentum.PDF

[7] Ibid.

[8] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2018/Hitting%20The%20Target%20-%20A%20Vision%20For%20Retirement%20Income%20Adequacy.pdf

[9] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2018/Hitting%20The%20Target%20-%20A%20Vision%20For%20Retirement%20Income%20Adequacy.pdf

date, would probably bring Millennials close to the TRR proposed by the Pensions Commission[10].

21. This "levelling up" of pensions, could take place in two phases: first, in the late 2020s, employer contributions should increase by 2% (in 0.5% increments) so that they equal employee contributions and, together, amount to 10%. This first phase would not require any extra contribution from employees. Then, as a second step, in the early 2030s, overall contributions should increase from 10% to 12% (requiring an additional 1% extra from the employee and employer). In all cases, the increases could be in 0.5% increments to smooth the impact of this extra saving.

22. (Our original proposal was for 12% contributions by 2030, but, as this feels too ambitious in the current climate, our aspiration is to see 10% by 2030 with a move towards 12% at some point in the early 2030s instead.)

23. Another change that could be considered relates to multiple jobholders who earn below the £10,000 earnings trigger in each role but would qualify if their earnings were with one employer. 975,000 multiple jobholders were identified by the 2017 AE Review as being in this position. All of whom are missing out on the benefits of employer contributions and tax relief. The reviewers considered whether it was technically possible for the total earnings of the multiple jobholders to trigger automatic enrolment and at the time concluded this was not possible. However, it is our understanding that the complexity identified at the time may now, five years on, be easier to overcome in light of recent technological and system advances. Therefore, we believe this issue should be considered again by Government.

3. What advice and guidance do people need when saving for retirement?

24. The need for advice and guidance in pensions has never been greater with more people having to take on the decisions about how they invest and access their pensions. We believe there are 5 areas where advice and guidance are needed to save for retirement:

- Contribution levels
- Decisions to go part-time, taking a break from work for caring responsibilities, study or on an involuntary basis
- Consolidation of different workplace pensions
- Reviewing investments
- Decumulation options prior to retirement

Background

25. The PLSA's membership has long called for greater clarity on the advice/guidance boundary to enable pension schemes and employers to have more confidence giving guidance and in working with financial advisers. Although a recent attempt at clarity by the FCA and TPR is a step in the right direction, it doesn't go far enough to enable the high-quality financial wellbeing support that schemes, and employers wish to provide to their members. We note the Committee's recent recommendations in this area.

26. The PLSA has produced guidance for employers and schemes on how to help their employees/members with their pensions and other financial wellbeing[11]. Our guidance sought to help employers and schemes navigate financial promotion rules, regulated

[10] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2017/Hitting-the-target-delivering-better-retirement-outcomes.pdf?ver=2017-10-10-120119-607

[11] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2021/An-employers-guide-to-talking-about-workplace-pensions.pdf

activity orders and the advice/guidance boundary. Lack of clarity around the rules has been a barrier for many employers and schemes to give guidance in the past.

27. In the workplace setting, the power of inertia, the use of nudges and information are as instrumental as advice and guidance to delivering better retirement outcomes. In fact, the power of inertia has underpinned the success of automatic enrolment.

28. The design of the pension proposition and the accompanying engagement activity may mitigate the need for financial advice for most pension savers. For example, 90% of pension savers remain within the default fund of a pension scheme, this figure rises to the high 90s in larger automatic enrolment master trusts. This actually gives a focus to pension schemes to make sure that their default fund gives the best outcomes for most people.

29. In answering this question, we looked at different advice/guidance points that were possible in the workplace pensions setting:

Advice/Guidance on contribution levels

30. Employers and schemes set default contribution levels, with most allowing employees to increase contributions. The PLSA operates the Pensions Quality Mark (PQM) where schemes have contribution levels of 12% (Standard) or 15% or higher (Plus). PQM holders also actively engage with their members to increase take up of contribution matching and voluntary additional contributions.

31. Pension savers may benefit from guidance on the level of contributions but nudges and the use of engagement tools such as the Retirement Living Standards could be more effective for most people.

32. Financial Advice may prove too costly for most pension savers during the early accumulation stages of the pension journey but could prove useful for some savers who are seeking the right contribution levels for their personal circumstances.

Advice/Guidance on going part-time, taking a break from work for caring responsibilities, study or involuntarily

33. Workplace guidance that helps people understand implications of going part-time or taking a career break on their pensions would help many to understand the actions that they may have to take to mitigate. This was cited as a proposal in the CII's Insuring Women's Future to help solve the gender pensions gap[12].

Advice/guidance on consolidating different workplace pensions

34. With workers changing jobs on average at a rate of 9% per annum during 2000 to 2018 according to ONS figures[13], many will end up with multiple workplace pensions and may wish to consider consolidating them. Consolidating pension pots could be beneficial to the saver in managing risk, exposure to sectors and markets, and costs and charges. Many find it easier to plan for their retirement with fewer but larger pension pots and usually have more options at the decumulation stage as a result. It is however rightly recommended to seek out regulated financial advice prior to consolidating pensions, as valuable guaranteed benefits, potentially worth considerably more than the monetary value, could be lost. It is

[12] Insuring Women's Future, CII, 2020

[13] https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/compendium/economicreview/april2019/analysisofjobchangersandstayers

also important for savers to assess the potentially significant long-term impact of charges on savings, for example when moving from a charge capped AE scheme to a retail product.

Advice reviewing investments

35. Seeking out regulated advice to review investments within and across pensions can be a useful exercise, especially where the saver has several deferred pension pots. However, it is worth noting, as mentioned above, that remaining in a default fund within an active pension scheme is likely to be best for most people due to the focus that schemes, and the regulatory system, place on getting the default right.

Advice/guidance on decumulation options prior to retirement

36. Schemes and employers should be allowed to complement Pension Wise guidance with their own information and guidance too. This would help bridge the guidance gap at decumulation. To increase the overall uptake of Pension Wise, we are also supportive of proposals for automated appointments.

37. The PLSA's Guided Retirement Income Choices proposals[14] mix guidance and behavioural science to help the saver make informed choices from a menu of scheme chosen decumulation solutions that meet standards set out in regulations. The saver is still free to opt out of the process and choose an alternative to the inhouse or signposted solutions.

38. Pension Wise currently only guides savers on decumulation options with the saver left to independently negotiate the market for the choose and buy decisions. Regulated financial advice can help with the 'choose and buy' decisions but this is currently too costly for most pension savers; this is one of the reasons why we believe Guided Retirement Income Choices are needed to close the advice gap in decumulation.

4. Could retirement income targets help savers plan for retirement?

A summary of the evidenced of the benefits of targets

39. There are many elements of the pensions landscape that support the need for retirement income targets from the perspective of the member. These include, but are not limited to:

- Low levels of financial literacy and, particularly, understanding of the value of pensions,
- People's tendency to focus on their current needs and wants at the expense of providing for their future, and;
- Prior to the Retirement Living Standards, there was a lack of consistent benchmarks or goals, which make it difficult to think about their retirement in the rare cases they do so.

40. Evidence suggests that goal clarity is an important 'psychological mechanism' that enables individuals to plan for the future. The adoption of a 'goal-setting' approach can promote engagement with savings activities, particularly among those people who have poorly defined goals and those who have done little or no previous planning[15]. One of the most recognisable examples of this sort of approach is the five-a-day campaign, which has increased the average number of fruit and vegetables people in the UK eat.

41. PLSA research, conducted in 2017/18, showed that savers supported the idea of straightforward lifestyle targets that can guide saving behaviour effectively. Repeatedly evidence suggests that retirement income targets help people understand if they are on track for their desired retirement lifestyle, and plan for retirement. From a saver

[14] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/DC-Decumulation-Final-Recommendations-Oct-2020.pdf
[15] See, for example, R. Stawski et al, 'Goal Clarity and Financial Planning Activities as Determinants of Retirement Savings Contributions', International Journal of Aging and Human Development, Vol.64, Iss.1 (2007)

perspective 74% of people believe that retirement income targets would make it easier to plan for retirement. Our original consultation on this idea, during our *Hitting the Target*[16] work, found that there was widespread stakeholder support for developing retirement income targets (as opposed to a pot size target, for example) developing using a basket of goods methodology. Income targets are favoured as they are more easily relatable to the incomes of savers in working life, which increases the likelihood of them appearing achievable (again, when compared with a pot size target which would appear unachievable and likely discourage pension saving).

42. Targets can help engage savers to plan for retirement, though they serve a different purpose to replacement rate approaches. For example, replacement rate approaches can still be highly impactful for designing and assessing both system-wide and individual implementation of saving, investment or legislative approaches, whereas targets or standards can be more illustrative and imaginative, and therefore engaging.

Imagining retirement – 'Picture your future'

43. Pitched at three different levels – minimum, moderate and comfortable – the PLSA's Retirement Living Standards are designed to help people picture the lifestyle they want when they retire and understand the cost. The Retirement Living Standards offer a starting point, moving beyond retirement cliches and stereotypes, in setting out concrete examples of what retirement 'looks like' at a minimum, moderate and comfortable standard. They are predominantly an engagement tool, and therefore attempt to capture savers' imagination in a way that TRR typically does not.

44. Developed and maintained independently by the Centre for Research in Social Policy at Loughborough University, they describe the cost of three different baskets of goods and services, established by what the public considers realistic and relevant expectations for retirement living. These baskets comprise household bills, food and drink, transport, holidays and leisure, clothing and social and cultural participation[17].

45. The Minimum Retirement Living Standard is based on the Joseph Rowntree Foundation's Minimum Income Standard and covers all a retiree's needs plus enough for social and cultural participation. It includes a week's holiday in the UK, eating out about once a month and some affordable leisure activities about twice a week. It does not include budget to run a car.

46. The annual budget for the minimum standard has risen since 2019 by £700 to £10,900 for a single person and by £1,000 to £16,700 for a couple in 2021.[18]

47. Through a combination of the full state pension of £9,339 per year, and auto-enrolment in a workplace pension, this level should be very achievable for most people. About three quarters of single employees are likely to achieve the minimum standard. Everyone who is in a couple, who are able to share costs, can expect to meet the Minimum level simply from having a full state pension entitlement.

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[16] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2018/Hitting%20The%20Target%20-%20A%20Vision%20For%20Retirement%20Income%20Adequacy.pdf

[17] Like the Consumer Price Index (CPI) measure of inflation, the Retirement Living Standards are regularly reviewed to ensure they keep up with changes in spending habits as well as changes to prices on the shelves to remain relevant to real world retirement spending.

[18] Much of the increase has been driven by the rising cost of transport (by road and railway, but not in a private vehicle), which has increased by an average of 10% between 2019 and 2021. The minimum basket also now includes an increase in the budget for hairdressing, from £15 to £25 for women and from £8 to £10 for men, and the inclusion of Netflix, adding around £1.38 each week.

	SINGLE	COUPLE
MINIMUM Covers all your needs, with some left over for fun	£10,900 LONDON £13,200	£16,700 LONDON £21,100
MODERATE More financial security and flexibility	£20,800 LONDON £24,500	£30,600 LONDON £36,200
COMFORTABLE More financial freedom and some luxuries	£33,600 LONDON £36,700	£49,700 LONDON £51,500

But the power of the Retirement Living Standards lies in giving people a real sense of what they will be doing and how they could be spending their money when they finish work.

Talking to people about the building blocks of their lives - their car, their home comforts, how much they can give their family, the kind of holidays they'll have - helps them to engage with their pension.

Of course, we're all different. Everyone who reaches the minimum standard is not going to have exactly £10,900 or £16,700 to spend. And anyone who can get above the minimum standard will be able to spend money on some of the lifestyle choices available to people who can afford a higher standard of living, even if they can't achieve every aspect of a moderate or comfortable lifestyle.

FIGURE 1 – EXCERPT FROM THE RETIREMENT LIVING STANDARDS WEBPAGE
https://www.retirementlivingstandards.org.uk/details

Adoption – numbers and experiences

48. The Retirement Living Standards have become a widely adopted engagement tool – seen and used by over 15 million pension savers.

49. The Retirement Living Standards are frequently discussed in the national, regional and trade press, in the context of retirement planning such as saving, at-retirement choices and adequacy more generally, and this illustrates the degree to which they have captured the public's imagination. In the middle of 2021 we estimated that, at that time, personal finance media quoting the Retirement Living Standards reached an estimated 37 million people.

50. In 2021 we also launched a new series of awards to recognise excellence in adopting the Retirement Living Standards for member communications[19] and those adopters alone represented millions of savers.

Recent updates and the impact of Covid 19

51. Just as the most recent updates to the CPI basket of goods included hand sanitiser and home gym equipment, reflecting changes in buying habits brought about by the pandemic, so too the Retirement Living Standards reflect changing attitudes towards retirement lifestyles post Covid-19. Researchers from Loughborough University held 13 discussion groups with members of the public from across the UK including both retirees and those approaching retirement (55+) to determine changes to the baskets of goods. Detailed findings were published in the Centre for Research in Social Policy's report[20].

52. The PLSA also commissioned the Centre for Research in Social Policy to report[21] on the impact of COVID-19 on thinking about and planning for retirement. Many participants said the loss of freedoms as a result of the Covid-19 lockdown had highlighted the importance and value placed upon foreign travel and holidays. The pandemic had reinforced the

[19] Further information about award winners, including a showcase of all the shortlisted applicants, can be found at the following link https://www.plsa.co.uk/Policy-and-Research/Defined-Contribution/Retirement-Living-Standards
[20] Retirement-living-standards-in-the-UK-in-2021.pdf (retirementlivingstandards.org.uk)
[21] Impact-of-COVID-19-on-RLS-Oct21.pdf (retirementlivingstandards.org.uk)

importance of having choices and opportunities, but also economic security – central concepts and ideas contained within the definitions of the Retirement Living Standards. What is clear from this research is that the pandemic has prompted people to think about their preparedness for retirement and whether or not they are likely to have the resources necessary to provide the living standard they want.

Evidence from other jurisdictions

53. In 2004 the Association of Superannuation Funds of Australia (ASFA) adopted a similar approach to pension target setting. The Retirement Standards that ASFA developed act as a guide to retirees' financial needs in later life. They are also based on a basket of goods approach, where each target is related to the cost of buying a number of different goods and services.

54. The retirement lifestyle levels are also pitched at different levels – in Australia these are called 'Modest' and 'Comfortable' – with the 'Age Pension'[22] allowing only for the basics. All assume the retirees own their own home outright and are relatively healthy, but have evolved over the past ten years to become more comprehensive, reflect changes in living standards, lifestyle expectations and their evolving spending patterns. Over time this has led to increases in the total expenditure, particularly at the 'Modest' level.

55. In Australia retirement targets have provided savers with clear goals to aim for[23].

5. Apart from increasing contributions, how can the Government improve outcomes for savers?

AE Scope

56. First and foremost, 2017 AE Review recommendations that do not relate to increases in contribution levels but to increasing the scope of automatic enrolment, such as reducing the minimum age to 18 and seeking interventions to increase long term saving amongst the self-employed should be implemented. Reducing the minimum age would ensure workers are saving longer for retirement, which in itself will be beneficial, but also can help to offset the chance of career breaks interrupting contributions and better retirement outcomes. In addition, as noted above, we think the scope of automatic enrolment should be amended so as to bring low earners with multiple jobs into pension saving where the income from all their roles amount to the £10,000 threshold.

Engagement / Pensions Dashboards

57. There is also a need to make it easier for people to keep track of, and engage with, their pension savings. The pensions dashboards will have a vital role to play in enabling savers to understand exactly what entitlements they have in different places, and ultimately their options. It will be important that the information is presented in a clear manner, that has been tested for comprehensibility with users, in order to generate confidence in the dashboard; it will also be necessary to set consumer expectations from the outset that not all pensions may be visible and that they cannot transact on the platform. The PLSA believes a key way of helping people make effective use of pensions dashboards is for them to include links or references to the Retirement Living Standards so that people can have a clear sense of the target income they are seeking to achieve.

[22] Similar, though different to, the state pension in the UK. For further information see, for example, https://www.dss.gov.au/seniors/benefits-payments/age-pension.

[23] https://www.superannuation.asn.au/resources/retirement-standard

Tax Relief

58. One of the key incentives to save into a pension is the tax relief an individual receives on their contributions, which is provided by the government at their marginal income tax rate, while at the point of drawing a pension, the first 25% can be drawn tax free. Given most people pay a lower rate of tax in retirement than while working, this represents a material tax saving overall. The fact that tax relief makes pension saving so cost effective is one of the reasons automatic enrolment has been so successful in enrolling over ten million people in pension schemes. As such we would not recommend any wholesale changes to tax relief at present which may undermine savers' confidence they will receive the outcomes they expect. We would stress that any changes on this highly complex area must be undertaken only following comprehensive consultation with the industry.

The Advice / Guidance Boundary

59. Also, with a view to increasing savers' understanding of their pensions and options is the question of advice and guidance. As we discussed in depth in our submission to the second part of this inquiry, the advice gap is growing as more people are in need of help to manage their retirement finances, but due to ever increasing regulatory costs and burdens, the cost of providing advice is growing, and so therefore is the cost of these services to customers. It is therefore imperative that firms and providers are better enabled to provide free guidance to their customers to support them in their decision-making. At present they are prohibited from providing many such services for fear of inadvertently crossing the FCA's advice-guidance boundary. We would welcome a review of the boundary to make certain areas clearer in terms of non-personalised guidance, and therefore afford firms the confidence to provide more help to their customers to understand their pension options. Please see our answer in relation to advice above and also our oral and written evidence to the Committee and phase two of the Inquiry.

6. Can pension providers change the design of pension products to improve outcomes for savers?

60. It is our view that pension products – for accumulation – are not in need of any fundamental change to improve outcomes. As above, the AE system is predicated on employer and employee contributions, which in the vast majority of cases, the employee is either unaware of or unwilling to change voluntarily. As such, the basis for DC accumulation vehicles is relatively simple: a secure pot to receive contributions, and an investment strategy designed by trustees or the provider aimed at growing that pot over the long term, with the protection of a charge cap.
61. The most important factor, therefore, is the level and regularity of contributions, which while some employees will take an interest in, the majority will not, hence the importance of gradually increasing minimum contributions and removing friction for the pension saver.
62. There are however a number of other factors which together will have an impact on outcomes, including cost, investment performance and communications/engagement.

Costs

63. Costs are already low for occupational pension schemes, on average 0.48%,– especially in AE schemes, thanks to the charge cap (0.75% AMC) – and consolidation may continue this trend. Consolidation is not necessarily the best option for many small schemes, as low cost does not automatically equate to better value.

Investment Performance

64. The average performance of default funds in workplace pensions was shown to be 8.6%[24] annualised return over 5 years in 2019 (pre-pandemic). Past performance is not a guide to future performance but combined with the low charging structure this is some indication that a default fund with the attention it receives from asset managers and trustees is a good enough and potentially the best option for most pension savers.

Communications / Engagement

65. We tend to see different approaches to member communications, with the most detail and frequency of information being conveyed as members near retirement, the point at which they need to actively take decisions. Before that point, schemes must strike a balance in their communications, on the one hand encouraging higher member contributions where appropriate, but without providing an information overload. Our members use a wide range of channels to deliver this, using apps, email, traditional benefits statements, and also leveraging key milestones in a saving journey, e.g., £50k reached, a new job, pay rises, re-enrolment, and so on, all to prompt savers to assess whether they're on track for the retirement they would like. Increasing numbers of schemes are also providing free pension seminars for their employees, both during accumulation and at retirement, to enable more personalised help for their employees.

Consolidation

66. One widely acknowledged problem that has resulted from AE is the proliferation of small pots, as workers more between jobs more frequently and in some cases work multiple jobs, each of which may be providing a pension for them. The PLSA jointly convenes the industry working group on small pots, set up in 2020 by the DWP. The aims of the group are two-fold and include reducing the number of already accumulated small pots (10.5m savers have a pot of under £1000), and to prevent more of these building up in future. The two most likely solutions are a 'default consolidator' which would automatically consolidate pots under a certain value which had been deferred for a certain period, and 'pot follows member' where an existing workplace pension would automatically transfer to the new employer's scheme when the employee changes jobs. The working group published it's initial report[25] in September of last year, and will publish its next report and recommendations to DWP during 2022.
67. As we noted in our submission[26] to the second part of the Committee's inquiry on accessing pension savings, we do believe further innovation is required at the point of retirement and for decumulation. Our proposal is Guided Retirement Income Choices, a framework whereby providers would be required to guide and signpost members to a range of products (either provided in-house or externally) which would cater for their specific needs, and in some cases provide blended solutions to meet these differing requirements.
68. We were pleased that the WPSC agreed with our assessment that people need a blend of the main pension decumulation products – annuities, investment drawdown and cash. However, we were concerned that the Committee concluded that our proposals would prove too expensive on the grounds people would need to take regulated financial advice. We do not believe this to be the case. Our assumption is that because schemes and providers would be required to identify products that are broadly appropriate to the needs of their members, and guide them through an engagement journey so that they can choose how to

[24] https://www.professionalpensions.com/news/4014528/national-pension-trust-tops-dc-default-fund-performance-league-tables-2019

[25] https://www.plsa.co.uk/Policy-and-Research/Defined-Contribution/Small-Pots-Cross-Industry-Co-ordination-Group

[26] PLSA response

use their retirement pot most appropriately for their own circumstances, it would not be necessary for them take regulated financial advice.

7. What should the Government be doing to support self-employed people to save for retirement?

69. The self-employed are not a homogenous group and therefore there will be different potential solutions for different segments. The AE Review 2017 also commented on the diverse nature of the self-employed stating that in the past they had largely been made up of those in construction and skilled trades such as plumbing, joinery and hairdressing, and although this is still true for 60%, growth in "knowledge professional" occupations, such as education, communication sectors and technical information has driven the recent swell in self-employed numbers, accounting for 57 per cent of all growth in self-employment since 2009.

70. With the diverse nature of self-employed people, pensions will be suitable for a significant proportion of self-employed workers but may not be the most suitable long-term savings vehicle for all self-employed workers.

71. DWP have facilitated some very constructive trials by pension schemes, providers and banks on interventions to increase long-term saving amongst self-employed workers, through their Self-Employed Working Group. For example, NEST Insight are currently running trials with MoneyHub and Penfold on long-term savings interventions for the self-employed.

72. Some of the ideas we have heard, and will continue to explore throughout our work this year, are the following:

- The success of automatic enrolment has been underpinned by the power of inertia and the government could look to leverage inertia by designing solutions integrated with the tax system but into a private pension/long-term savings product. There is also a case for making pensions more attractive for self-employed people by allowing salary sacrifice. Employees can salary sacrifice into a pension and save on National Insurance Contributions as well as Income Tax. If somebody is self-employed and decides to set up their own company and pay themselves, they can also effectively salary sacrifice into a pension and, if self-employed people were able to salary sacrifice into a pension without the friction of setting up their own company this may act as an incentive to more people to save for their retirements.

8. Are different or additional measures required to help gig economy workers save for retirement?

73. The gig economy refers to workers who are paid for the provision of individual products or services, where their service has been matched to a client's need through a digital platform.
74. As such, while the typical gig workers that come to mind tend to be Uber Drivers and delivery drivers, this sector of the economy in fact comprises a far greater range and therefore number of people, for instance those renting a spare room, those selling items as a hobby, or anyone offering a range of services on online platforms.
75. Employment in this sector has grown rapidly in recent years; the Chartered Institute of Personnel and Development[27] revealed that in 2017 1.3m (4% of all in employment) workers were employed in gig roles, while Ipsos Mori data suggests that between 2016 and 2019, those working at least once a week for online platforms in this manner doubled to 10% of

[27] https://www.cipd.co.uk/Images/to-gig-or-not-to-gig_2017-stories-from-the-modern-economy_tcm18-18955.pdf

the UK workforce[28]. The pandemic has only accelerated this trend since, as workers have sought alternative ways to supplement incomes as well as the increased lifestyle flexibility gig work affords. According to a 2020 Aon report[29], 12% of businesses typically comprise 51—75% gig workers, and 18% of HR Directors expect this figure to rise to over 75% in the next five years.

76. As gig work makes up an increasing share of incomes it is right that we consider pension provision, including possibilities to extend the success of automatic enrolment to those employed in these industries. As stated in our 2018 Hitting the Target Report[30], the PLSA view is that the estimated 1.3 million gig workers should be classified as 'employed'; this way "younger people aged 18-22, multiple job holders earning above £10,000 in aggregate and some categories of the self-employed, including 'gig' economy workers, could be incorporated into default pension saving via a modified version of the automatic enrolment regime".
77. Since the February 2021 Supreme Court ruling that Uber drivers be entitled to employee status, and therefore a minimum level of benefits including pension provision, there is now a precedent for the platforms supplying the 'gigs' to be responsible for enrolling their employees in a scheme to enable them to save for later life. Central to the ruling was the level of control Uber has over its drivers and the factors affecting how much they can earn, effectively making them 'employees' rather than 'workers', so we believe other platforms exercising a similar level of control should be expected to pick up a similar level of responsibility.
78. Given the Uber ruling was less than a year ago, it will take time to assess the impact is has on pensions adequacy for their drivers.
79. Although the above would be our current preferred – and the simplest – solution, other provisions are proposed in other countries, and we will actively look at these in our current work. For example, in the USA where the gig economy is more established. State legislators in Washington are currently working on a Bill to require gig employers to appoint a benefits fund to collect a flat fee from gross earnings; this would cover pension provision and health insurance among other benefits. The fund would then be portable, following the worker between jobs, similar to the proposed 'pot follows member' solution to the UK's small pots issue.
80. Overall, we would support a solution where more gig workers are classified as employees and therefore benefit from AE contributions where necessary thresholds are met. While this may require individual court judgements for individual gig employers or legislation, it would nonetheless be the simplest solution from the saver perspective, utilising the inertia on which the system is based. We would welcome further work in this area and would gladly assist with future government initiatives aimed at improving outcomes for gig economy workers.

9. Are there measures which the Government should consider to close the gender pension gap?

81. According to the Pensions Policy Institute (PPI), 1.2 million women have no private pension at all, and women's pension wealth is calculated to be £51,100 by their 60s compared to £156,500 for men.

[28] https://www.feps-europe.eu/attachments/publications/platform%20work%20in%20the%20uk%202016-2019%20v3-converted.pdf

[29] https://img.response.aonunited.com/Web/AonUnited/%7B1c18275a-fdd7-4b48-a3ed-d55c57a536da%7D_gig_economy_report.pdf

[30] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2017/Hitting-the-target-delivering-better-retirement-outcomes.pdf?ver=2017-10-10-120119-607

82. We believe the gender pensions gap in the UK is primarily a result of the structural inequalities and the gender pay gap, but other factors such as working patterns, the structural design of automatic enrolment and the treatment of pensions on divorce also come into play. There must be a more collaborative approach to address the gender pensions gap which involves the following:
83. The government should consider changing the law to ensure that pensions rights are considered on a mandatory basis as part of divorce. Currently pensions may only be considered if there is a financial settlement considered by the courts. The process of pension sharing on divorce could also be better streamlined to remove friction and delay for all parties.
84. The PLSA have long held the view that savings under automatic enrolment for savers should count from the first pound, rather than the existing Lower Earnings Limit being used to as the lowest band of earnings. This is also recommended in the 2017 AE Review. This will positively impact lower paid part-time workers, who are disproportionately female. According to the PPI and Now: Pensions, 5.4 million women work part-time, compared to 1.7 million men[31].
85. The government could consider encouraging employers to maintain full employer contributions whilst employees are on maternity leave for the full period of their maternity leave, up to a maximum of 12 months.
86. The important role of carers (for children and adults) is something we will look at in our policy work when looking at the gender pensions gap and the under pensioned in the year ahead.
87. Any measures considered by the government to address the gender pension gap could also be beneficial to other under pensioned groups. Socio-economic factors and working patterns are also partially responsible for creating pension gaps based on ethnicity, disability and LGBTQ+ groups. It is also important to factor in intersectionality, with some under-pensioned groups being worse affected through belonging to more than one protected characteristic. The PPI's Under pensioned Index showed that women in particular under pensioned ethnic groups have an even greater pension gap than men in that ethnic group and more than white British women[32].
88. We should look to educate people about the importance of pensions early. Starting at school, we should be teaching children / school leavers the importance of saving towards retirement and encourage employers to make information on workplace pensions more accessible.

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[31] https://www.nowpensions.com/app/uploads/2020/12/NP-gender-pensions-gap-report.pdf

[32] https://www.pensionspolicyinstitute.org.uk/media/3678/20201208-the-underpensioned-index-exec-summary-final.pdf#:~:text=Underpensioned%20groups%20have%20retirement%20incomes%20equivalent%20to%20less,population%20average%20by%20underpensioned%20group%2C%20aged%2065%2B%2C%202018

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