NAPF

Securing the future of pensions

The case for an

INDEPENDENT RETIREMENT SAVINGS COMMISSION

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April 2015

This publication is designed to promote discussion and debate about the potential future role of an Independent Retirement Savings Commission in the UK.

The NAPF is grateful for the contributions provided by the authors. The views expressed in this publication are those of the authors and not necessarily the views of the NAPF.

Our contributors

Joanne Segars, Chief Executive, National Association of Pension Funds (NAPF)

"We need to go back to first principles and agree a collective vision for what a good retirement savings system looks like for the long-term."

We have come a long way over the past five years.

Decades of long-term pensions decline have finally been reversed. Thanks to automatic enrolment, 5.2 million people are saving in a workplace pension today who were not five years ago. Nine out of every ten people auto-enrolled are staying in their scheme and pension saving is rapidly becoming the norm rather than the exception, with the proportion of the working population saving for old age at its highest levels since records began.

This remarkable turnaround has been achieved in what, in pensions policy terms, is just a blink of an eye.

This achievement has its foundations in the work of the Pensions Commission, chaired by Lord Turner a decade ago. It is success built on:

- a shared understanding of the problem, namely that voluntarism meant too few people saving enough for old age;
- a shared building of the policy solution – and a collective vision of what needed to change; and
- a shared responsibility for the delivery and success of that solution – not just that the delivery of automatic enrolment should be shared between private sector and government, but more importantly the shared acknowledgement that automatic enrolment could not fail.

The Commission's process of decision making – thoughtful, evidence-based and inclusive – laid the foundations for a consensus which has delivered one of the most far-reaching public policy interventions in recent decades across any part of government. It is now unthinkable that any government of any colour (or colours) would undo automatic enrolment, or that the social partners or industry would peel away from its core tenets. It is a part of the pensions landscape that is here to stay.

This massive increase in new savers is not the only positive development to occur since the Commission first made its recommendations. The Government has also radically simplified the state pension system, introducing a single-tier pension, providing greater clarity than ever before around what individuals can expect from the state when they retire, and creating a crucial floor of provision that supports automatic enrolment, ensuring that it pays to save.

At the same time, savers are getting more value for money from their pension schemes. More than 4 million savers are now in pension schemes covered by the NAPF's Pension Quality Mark, thereby benefitting from strong governance, clear communications and low charges. More generally, average charges across our DC membership have fallen to 0.43% over the past five years[1], with much of this driven by the emergence of new master trusts operating at large scale.

Most recently, the 2014 Budget introduced further changes giving people complete 'freedom and choice' about how they use their pension savings.

Some of the changes of the past five years support automatic enrolment and the collective, long-term vision the Pensions Commission created. Others have been driven by short-term priorities and political expediency, creating a feeling of uncertainty amongst many employers that contribute to pensions and the savers that rely on them.

As a result, savers' – and, indeed, voters' – perceptions of pensions are not keeping pace with the very substantial progress which has been made over the past five years. Fewer than one in three (29%) think that recent changes to pension policy have made them more confident about the future of their pension savings, while a majority (56%) feel more uncertain about what the future holds for their retirement. Furthermore, a degree of scepticism is evident in savers' assessment of the motives behind the reforms - 53% of those we surveyed thought the changes were introduced in order to chase votes, with only 22% disagreeing[2].

1 NAPF Annual Survey, December 2014
2 NAPF consumer research, April 2015

Despite how far we have come, there is further to go and issues that still need to be addressed. These include agreeing what a "good" retirement outcome looks like, how to ensure people are saving enough to reach it, the best way to balance the interests of savers and taxpayers in the system of tax relief, how future demographic and longevity trends will affect the level of the State Pension and the age at which it is paid. None of these questions have easy answers, but it is vital we get the answers right, or we risk undermining – or worse, even undoing – the welcome and significant progress we have made so far.

To answer these questions, we need to go back to first principles and agree a collective vision for what a good retirement savings system looks like for the long-term. That also means agreeing what role we want for retirement savings in people's lives – and how far we want to enable, nudge or force them to make it happen.

Once we have done that, we need to relentlessly pursue that vision. We need to advocate policies which take us toward that vision and challenge those which distract us.

It is why one of the first actions for the new Government must be to establish an Independent Retirement Savings Commission. Its job would be to create that long-term view of the retirement savings system, build consensus around it and hold the Government to account for delivering it. It is not about taking decisions away from politicians. Rather it is about ensuring there is some ballast to counteract short-term opportunistic decision making.

A Commission will help to ensure we can put the long- term interests of savers, not the short-term interests of politicians, at the heart of pensions policy. That matters because someone starting work today will see 8 or 9 General Elections before they start to draw their pension. That is 8 or 9 potential swings of the pensions policy pendulum which will do little to build saver confidence.

We envisage a Commission consisting of a small group of select commissioners, whose knowledge and expertise would enable them to represent the interests of savers, employers, the industry and the wider economy. The Commission would undertake detailed research and analysis of evidence, taking an open and consultative approach to its work and gathering information through wide-ranging research and consultation. It would consider not just pension saving but the wider issues affecting retirement, including health, housing and living standards, on both domestic and international levels. It would report to Government and Parliament on an annual basis, providing an assessment of the UK pensions and retirement landscape, making recommendations for appropriate changes where necessary.

We are encouraged to see that there is growing support for the idea of an Independent Retirement Savings Commission. Influential voices, speaking for employees, employers and the industry, as well as independent voices, are joining together to call on the next Government to make this happen. In political circles, too, the idea is gaining traction, with the cross-party Work and Pensions Select Committee recently recommending the creation of a Commission to assess the impact of recent pension reforms and recommendations for further improvements. Dame Anne Begg MP, Chair of the Committee, commented that a new Commission along the lines of the Turner Commission was needed, ***"to provide coherence in pensions policy and to build public confidence and long-term stability in the system"***[3], taking a consultative approach with stakeholders towards addressing emerging risks.

Interestingly, one of the recommendations of the Turner Commission was for a permanent successor body to be established, regularly reporting to Government on the pensions landscape and suggesting necessary changes[4]. This recommendation was not taken forward at the time – a decision which has since become a cause for regret. Lord Hutton of Furness, Work and Pensions Secretary at the time of the Turner Commission, recently expressed regret at not having accepted this recommendation, stating, ***"I do regret turning down the recommendation from Turner that we should come up with a standing commission and I think we need to reverse that"***[5].

The call for a Commission is not about creating another body for pension insiders to talk to one another. It is about building savers' confidence in pensions and turning around today's low confidence in pensions in the same way we have turned around savings levels with automatic enrolment.

Given the lack of public confidence in pensions, it is not surprising savers also support the need for a Commission.

NAPF research showed an overwhelming majority (84%) agree that an independent commission should be set up by a future Government[6]. A similar proportion said it should be politically neutral (85%), impartial in its recommendations to Government (85%), and should focus not just on pensions but include the wider range of issues that affect both when people retire

3 Dame Anne Begg MP, Work and Pensions Select Committee press release, March 2015
4 Pensions Commission final report, 2005
5 Lord Hutton of Furness, speaking to Money Marketing, March 2015
6 NAPF consumer research, April 2015

and the kind of retirement they have (87%). Eight in ten (83%) were in favour of a ***permanent*** commission – one that would last more than one parliamentary term, would endure through future political cycles and provide independent, expert advice to all future UK Governments, regardless of their political make-up.

Regardless of who forms the next Government, the next Pensions Minister faces some important, yet difficult, decisions about the future of policy around pensions, savings and retirement. While the decisions they make will be influenced by a number of factors, paramount among these must be the best interests of savers, along with those of the employers who provide their pensions and the industry that supports them. The existence of an independent Commission, with the right remit, working alongside the Government, would provide the expertise and independent analysis that would help ensure that the options are clear and the solutions are made for the long-term. Perhaps more importantly, however, it would build consensus around what needs to be done and the best way to do it, ensuring that decisions are made in the long-term interests of savers, not the short-term interests of politicians.

We urge Government to listen, and to act – Lord Hutton wishes he had made the Pensions Commission permanent. Now is the time to take that decision.

Huw Evans – Director General, Association of British Insurers (ABI)

"For reform to be successful, it must be made with a long-term goal in mind."

As our society ages and lifespans increase the challenge of how to help people retire well becomes ever more pressing. For most individuals, securing an adequate income in retirement takes half a lifetime or more. It is this long-term nature of the challenge that makes it so hard for individuals to manage – we are asking them to make sacrifices today which they will benefit from in 40 years' time.

Given the extended timeframe for decision-making, people need certainty and confidence in the system so they can make long-term financial plans. If people expect frequent changes to the system, it undermines their confidence and willingness to engage with the challenge and save for their retirement.

It is therefore vital that policy-making takes a long-term view, with policies lasting beyond a single Parliamentary term. Unfortunately, savings and retirement income policy is an increasingly politicised area. Consequently there is a significant risk that important long-term policy will be developed in a piecemeal way and will be subject to short-term fluctuations. For this reason, an Independent Retirement Savings Commission is essential if we are to develop and execute a long-term savings strategy that works for consumers, employers, providers and wider society.

To date the Government has not assessed the implications of an ageing society holistically, preferring instead for individual departments and regulators to look at the implications for their own policies and costs.

The Department for Work and Pensions (DWP) is responsible for pension provision in the workplace, while the Treasury is responsible for tax policy and other savings and investment products and has overall responsibility for the health of the financial services sector. HMRC is responsible for formulating the tax rules for retirement income and pension schemes, and the Department of Health is responsible for social care funding.

The FCA is responsible for regulating providers of private pensions, savings and investment products, and can make rules that directly bind providers. The Pensions Regulator (TPR) is responsible for occupational (trust-based) pensions, but relies on DWP to legislate to effect binding changes for schemes it regulates. TPR is also responsible for employer compliance with automatic enrolment.

The consequence of having such a diverse set of departments and regulators taking decisions about the savings and retirement system has been a reform agenda that is aiming to an indeterminate end. Rather than a coherent strategy, the system favours the pursuit of a disparate set of policies that aren't designed to outlast the political cycle they originate in.

We believe that long-term savings policy should be an area outside of political combat. Parliament will always need to take the final policy decisions, but the policy development process would benefit from greater arms' length advice and evidence gathering.

Recent policy successes provide a model for how this could be achieved. Automatic enrolment was proposed by the independent Turner Commission. The outcome has been tremendously successful; by the end of 2014 more than 5 million people were newly enrolled and saving into a workplace pension. This is not coincidental; the Turner Commission was an excellent example of policy-making founded on a strong evidence base, with decisions implemented with cross-party support. The other main recommendation from the Turner Commission – the New State Pension – also has legislation in place to be implemented in an ambitious timetable with widespread support.

While the success of these policies in large part reflects their development by cross-party agreement, there is noticeably less agreement in debate on private pensions. Short-term policies often trump long-term strategies designed with all those affected – consumers, employers and providers – in mind. With more reform in the next parliament almost certain, it is vital that issues such as tax incentivisation and social care funding are considered with a long-term view to sustainability, with decisions taken on the back of a sound evidence base and following an informed debate.

An Independent Retirement Savings Commission, set up on the same basis as the Office for Budget Responsibility, could be the right body to fulfil this role. Such a body could play an important role in taking the politics out of pensions by setting a national long-term savings strategy which should bring together the diverse departments and regulators with responsibility for different aspects of long-term savings and retirement. But, like the Turner Commission, it could also produce policy advice and recommendations on the numerous interrelated issues that affect savings and retirement. For example, the Commission's remit should include topics such as housing and health policy, which have a material impact on standards of living in retirement and must be considered when making value judgements about the level of support government should provide for different individuals and generations.

This Commission could also investigate whether the twin regulators for pensions are the optimal structure for pensions regulation in the future. Recent changes have highlighted tensions in the current model, where a single policy change often needs to be made twice before it can take effect – once by the FCA and once by the DWP on behalf of TPR. Making a single body responsible for the regulation of pensions should lead to more consistent outcomes and more clarity in the decision-making process.

An Independent Retirement Savings Commission that leads the debate on pensions in an apolitical way would be welcomed by the industry. We fully support reforms that will help to tackle the challenges of an ageing society, decreasing Government budgets and low levels of private saving, and we stand ready to work with the Government to make the bold changes necessary to meet these challenges. However, for reform to be successful it must be made with a long-term goal in mind; the current haphazard approach places an unreasonable regulatory cost on providers and the inconsistency further undermines consumer trust in the system we need them to engage with.

We are pleased to see that other key stakeholders are supportive of the concept of an independent body playing a role in long-term retirement and savings policy. Only last month the Work and Pensions Select Committee called for the establishment of a new independent pension commission, similar to the Turner Commission. The Committee has argued that this should take the same evidence-based and inclusive approach to assess the impact of recent pension reforms, and recommend further improvements where necessary.

Given how short our political cycles are relative to a lifetime of saving, we need to ensure that retirement and savings policy does not become a political football. An Independent Retirement Savings Commission, providing analysis and shaping a national long-term savings strategy so that the implications of an ageing society are assessed holistically, would play a key role in ensuring this does not happen. Building a decent retirement income is a long-term process that should be viewed as a national priority, and we must not leave future generations to fend for themselves.

Nigel Stanley – Head of Campaigns and Communications, Trades Union Congress (TUC)

"The case for an Independent Retirement Savings Commission is that it can make the politics of pensions work better."

We live in an age of anti-politics. Politicians are held in low esteem and support for the two big parties is at its lowest ever. Much political journalism is hard to tell apart from the sports pages – it is all about tactics, team formation, who is up and who is down. Political interviews are too often gaffe hunts as a good slip can drive the news agenda for hours afterwards.

It is not surprising, then, that we often hear calls to take the politics out of something as if this is self-evidently a good thing. And when policies are often announced to get a quick headline, but with no reference to evidence or without even an explanation of what problem something is meant to address, there is some appeal in asking experts to draw up technical solutions for society's problems.

But while the way that politics is done in the UK today may be often dysfunctional, there are still fundamental choices that societies need to make that should be resolved through the democratic process. 'Technical' solutions rarely challenge the current power relations of a society. How much inequality or poverty we should tolerate is not just a question for experts, but one that society as a whole must answer, and certainly not one that should be left only to those who benefit from current arrangements.

Every year, all round the world, people campaign against authoritarian regimes and for the right to vote. They are not on the whole marching or agitating to take the politics out of anything, but to subject power and authority to democratic accountability.

In arguing for an independent commission to look at pensions, we therefore need to be careful about the language we use. The whole history of pensions is wrapped up in politics. The first pensions were set up by the state in what is now Germany to provide support for the widows of church ministers, and the history of state pensions from Lloyd George onwards in the UK will be familiar.

Instead of taking politics out of pensions, the case for an Independent Retirement Savings Commission is that it can make the politics of pensions work better. It should not be the decision-making body, but should make recommendations that elected politicians then judge. But by using its independence to assess evidence, its expertise to produce technically workable solutions and its political smarts to produce policies that have a good chance of lasting by achieving wide consensus, it can improve the politics of pension decision-making.

This is not a case that we need to make in the abstract, for we already have a great model in the original Pensions Commission. The introduction of auto-enrolment is one of the great social policy changes of recent years, yet ended up being almost entirely uncontroversial. To see why, it is worth looking at how the Pensions Commission came into being and how it worked.

Its birth was not uncontroversial. It took a lot of campaigning by unions, consumer groups and many others to establish that there was a problem and that individual responsibility and market provision was failing. One of the biggest behind-the-scenes rows of the New Labour years was over its remit, with the Treasury fighting hard to exclude consideration of state provision.

It started by assembling the evidence. Never before had so many statistics and so much research on UK pensions been gathered as in its initial reports. The problem was established. The question became not whether we needed a new approach, but what it should be.

Nor were its eventual recommendations simply technical. Automatic enrolment was something of a leap in the dark as it had never been tried across a society before. You could make a strong case for either the state or the taxpayer to play a bigger role, as in many other advanced economies, or go to saver compulsion, as in Australia. But neither were likely to pass the political sustainability test. Instead, they recommended a system that gave everyone in the debate some of what they wanted, but nobody everything.

In particular, those on the right, suspicious of the state, got a two-tier pensions system with much retirement income based on investment, and with people retaining the right to opt-out. Those on the left who wanted better income in retirement for the low and average-paid got employer compulsion for the first time. Those concerned about affordability got an increase in the State Pension Age. Those worried about market failure got a low charge champion in what became NEST. And perhaps almost everyone could welcome a better deal for women.

It also helped that its membership, while undeniably expert, also came from different interest groups. Its chair was from the CBI, one member from a trade union and another an academic. If they could agree, then that suggested others could too.

Another analogous body is the Low Pay Commission. It makes recommendations rather than takes decisions. It has members drawn from employers, unions and independent experts. It engages with stakeholders, hears evidence and sets out the reasoning behind its recommendations. But it is the Government that decides, and only if very occasionally, does not accept Commission recommendations, as the recent decision to boost apprentice rates shows.

So how could this approach benefit pensions in future? The obvious advantage is that evidence-based policy making and consultation prevents the headline-capturing initiative that turns out not to have been properly thought through. I certainly agree with both the major parties that the current system of pension taxation is too skewed towards better-off taxpayers, but there is a case for a thorough review of the whole tax relief system and review of evidence of incentives and savings patterns. Rather than taking perks from the better off to fund other policy areas, we should have had a thorough discussion of whether we can refocus the tax system to help low to middle earners do better in retirement.

Similarly, increases in the State Pension Age have been Budget Day announcements aimed at the bond market with no serious consideration of longevity trends or engagement with growing inequality in how long people can expect to live. We might also have ended up with a consensual reform agenda for decumulation rather than finding that the so-called Freedom and Choice agenda had broken up the valuable consensus that developed under Labour and continued under the coalition around the basic architecture of how pensions in the UK will work.

A lot of the pension reform agenda in the UK in recent years has used the insights of behavioural economics. We have backed policies that have nudged people in ways that overcome our natural difficulties in thinking about the future.

It is time to do the same with the politics of pensions. There will always be legitimate debates about how we share paying for pensions, the role of the state and minimum standards in retirement. These are rightly highly ideological politics. But what we can do is construct a framework that nudges politicians to think long-term, consider the evidence and justify their conclusions. And that can only be for the better.

David Thomson – Director of Policy and Public Affairs, Chartered Insurance Institute (CII)

"A Commission should ensure that the public interest is properly served."

The concept of an independent commission to navigate the future landscape for pensions and retirement is a good one. It is also one which is based on two excellent predecessor examples in Lord Turner's and Lord Hutton's commissions on workplace pensions and public pensions respectively. Both had the virtue of being led by experienced figures who knew their way around the political environment and were able to call upon experts to help them provide a prospectus that would allow a government to proceed on a broadly consensual basis.

As described in his excellent compendium 'The Too Difficult Box', former Cabinet Minister Charles Clarke describes a number of important policy areas which have become bogged down and where it has become impossible to develop much-needed reforming prescriptions. The blocks were mainly attributed to the short-time political horizons which make it difficult to make long-term decisions. Pensions and long-term solutions for retirement fit cleanly into the short-term horizons trap. Any major reform needs to have broad-based support, both among policy-makers and across society to address tricky intergenerational challenges. A Pensions Commission might prove to be an elegant solution to the need to address (at least some) long-term demographic challenges.

What could or should the Commission cover?

The challenges of longevity and the social and economic impact of an ageing society provide major long-term implications for most, if not all, western industrial societies (as well as quite a few emerging economic nations). We suggest that a future Commission should:

- Draw on the latest academic and other research work to look at the public funding implications as well as the levels of awareness and public readiness to cope with the likely consequences of a gradual transfer of responsibility from state to individual in relation to decumulation, as well as the growing cost of living longer;
- Look at the totality of the public wealth in this area, not just a narrow focus on pensions;
- Review what behavioural techniques can be used to help advance public engagement;
- Identify the major decisions which need to be addressed over the next twenty-five years based on the latest evidence, drawn from not just the UK but comparable international examples of policy development;
- Host a national debate to help engage and involve different generational groups, as well as across the public and private sectors to address, where possible, perceptions and awareness;
- Develop innovative solutions - for example, more imaginative ways to unlock inter-generational equity, in a similar fashion to the way auto-enrolment was developed.

Most importantly from the perspective of the Chartered Insurance Institute, a Commission should ensure that the public interest is properly served through building closer relationships between the public, the various parts of the product and advice sector, government, regulators and consumer groups.

In a major report we produced in 2011, ***An Age Old Problem: developing solutions for funding retirement***, we identified three major factors or barriers that needed to be addressed:

- Complexity: Despite recent reform this whole area remains a complex mix of tax and other incentives, plus benefits as well other rules, which make it highly technical and frankly baffling to all but the most expert individual;

- Awareness: It would be unrealistic to expect the entire population to reach a state of high awareness and engagement with issues relating to retirement, as well as associated issues like long-term care (both in terms of funding and what services are available) but better co-ordination of information and engagement at vital life-points must be possible;

- Trust: Fundamental to the above is building higher levels of public trust with the organisations consumers have to work with to achieve their hopes and dreams. Scandals, costs, complexity and confusion plus constant change and 'moving the goalposts' have led to a worrying level of disengagement by much of the population.

We believe that all three of these barriers remain – despite some recent changes – and therefore should be addressed by any future Commission. In terms of personnel, we would not be prescriptive, save to say it should have a balance of expertise as well as the seniority and political experience to help ensure the Commission does not fall back on being a well-meaning but ineffectual body. It must have cut-through.

A Commission cannot and should not be seen as the panacea to all ills. It would be unrealistic to believe that it can, of itself, solve or indeed substitute some major political public policy choices which politicians are there to make. What it can do – as evidenced by the work of the Hutton and Turner inquiries – is help create the pathway to solutions where common ground exists and to try to help achieve the kind of policy consensus 'lock-in' that is often difficult to achieve within short-term political cycles.

Steven Robson FPMI – Head of Pensions, United Utilities Group PLC

"Change is not the issue, nor is the amount of change. The real issue is the lack of a non-political long-term strategy, which is a real barrier to long-term savings."

Should the UK have an Independent Retirement Savings Commission? Why is it needed and what would it do that isn't already being done to manage the pensions landscape in the UK?

As someone who has to manage and implement the result of ever-changing rules, which are increasingly complex and often go hand-in-hand with negative or incorrect reporting, I am struggling to see why it could be a bad idea.

Indeed, if works it correctly, it could actually drive coordination, longevity and lead to a sensible structure for UK pensions. Given the way pension policy has been managed in the last 20 years then it seems a no-brainer.

I recall being told on my first day in pensions back in the late 1980s that ***"pensions are just too complicated these days and all this change is not for the better"***. I wonder what that individual makes of the current state of the UK pensions landscape.

Working at the coal face of pensions, for an employer who still believes in providing good pension arrangements, I feel that there is absolutely no certainty about the rules of the game anymore. Instead we try to do the right thing within the current rules while allowing enough flexibility for the next round of legislation changes, rules, regulations or tax announcements that will no doubt arrive with increasing frequency and even quicker timelines for implementation. Change is not the issue, nor is the amount of change. The real issue is the lack of a non-political long-term strategy, which is a real barrier to long-term savings.

We also need a joined-up approach across various different stakeholders, noting that they have their own specific remit. We have the Treasury, DWP, The Pensions Regulator and Financial Conduct Authority who all have a say in the way things operate. Additionally we have EIOPA and other European bodies increasing their remit over time.

In the last twelve months we have had to deal with:-

- DC flexibility changes;
- DB funding rules;
- DC governance structures;
- DB to DC transfer rules;
- Lifetime Allowance changes;
- DC charging cap;
- Same-sex marriage legislation;
- PPF changes;
- Automatic enrolment;
- Preparation for central clearing of derivative contracts;
- VAT on pension costs;
- Pension scams (commonly known as liberation);
- Single state pension and abolition to contracting-out;
- Changes to pension scheme accounting.

Additionally, on the horizon are:-

- Pot follows member;
- Removal of the refund of contributions;
- Annuity sales by pensioners;
- Potential for more changes to taxation and Annual and Lifetime Allowances;
- The Holistic Balance Sheet;
- Standardised benefit statements.

When you add the serious financial issues around DB arrangements and the need to manage the impact of quantitative easing and all-time-low interest rates, then is it any wonder that companies are increasingly looking to do the bare minimum?

In Australia they now have a culture which has led to pensions sitting with the individual and their provider. The employer is not really engaged in the process and simply pays the minimum contribution needed to comply.

In the UK, fortunately, we do not have that system and many employers are still willing to engage and go significantly beyond the minimum to assist employees with saving for their retirement. The value of this should not be underestimated and an Independent Retirement Savings Commission would hopefully provide employers with the comfort they require to accept that although changes will still occur, they will happen as part of a joined-up and considered process, allowing employers the ability to factor future changes into their plans.

There are a number of current changes which collectively appear to be making a real positive change to individuals. If you add up the combined effect of a higher Single Tier Pension, DC flexibility, automatic enrolment and charge caps, then many more individuals should be in a much better place in retirement. Collectively, these work well for the individual. However, if companies decide to stop going beyond the minimum required due to concerns about increasing regulation, future rule changes and the move to saving for later working life (as opposed to retirement saving), it will undo a lot of the positive benefits. A Commission would be a perfect place to work through such issues.

Additionally, a smooth flexible retirement option has finally arrived with the ability to reduce hours and start to drawdown income from pension pots. It could lead to a never-retired group of employees who start enjoying their savings from their late 50s but accept that they will continue working long after their State Pension Age.

Employers need to decide whether that fits with their requirements as if it doesn't, they may vote with their feet. At a recent pensions dinner I heard an interesting suggestion that employers should offer automatic enrolment compliance and nothing more. They could then offer one-off lump sum payments into a pension arrangement as part of an agreed exit strategy with the employee at a time that suits the employer. This way the employer, rather than the employee, retains control over accessing their funds and how they will move into retirement.

While I do not agree with this view, it shows that all these changes for employees will only work if the employer is kept onside, retaining their willingness to engage with pension savings. This should be a key consideration when contemplating any policy change. A Commission would enable these types of issues to be carefully considered, with implementation being for the long-term benefit of all.

Without carefully-considered, long-term, non-political retirement savings policy that an Independent Retirement Savings Commission could help to provide, we risk the continuing decline of employer engagement with retirement saving, which is not, in my opinion, in the interest of individuals, the Government or the wider UK economy.

Baroness Sally Greengross – Chief Executive, International Longevity Centre-UK (ILC-UK)

“A new Parliament requires a new consensus on pensions”

Retirement is an uncertain business. Even at the best of times it is difficult to know how much money to save for retirement and how to generate an income from those savings at the point of leaving the workforce. But retirement is made particularly hard by the current political and economic environment, which seems to make the future more intangible than ever.

The relentless march of pensions policy has seen myriad changes taking place over the last five years. Some of these, such as automatic enrolment, have been carefully thought through, but there have been a number of other measures which, arguably, have not benefitted from such extensive public planning and consultation. Sudden and deep changes to the pensions landscape make it harder to plan for the future, as everyone has come to terms with the new rules of the game. This problem is exacerbated when there are a number of big changes taking place simultaneously.

It is, however, undoubtedly the case that some of the reforms over the last five few years should help achieve better outcomes in retirement. Automatic enrolment in particular, should ensure that people have at least some private long-term savings which they can use to generate an income in later life. But contribution rates may have to rise significantly in order to ensure employees secure pension pots of sufficient size to deliver an adequate income in retirement. And, as a result of the new pension freedoms, people could decide to ‘blow’ their pension pot at the point of retirement, losing out on the potential value of an income stream over the remainder of their lifetime.

Uncertainty around retirement is compounded by the perfect storm of stagnant real income growth and low investment returns. The UK's economic recovery is founded on rising household spending, but in the absence of rising incomes, savings will fall and indebtedness will rise. According to the Office for Budget Responsibility, the household debt-to-income ratio will rise above its pre-financial crisis peak in 2018, while the savings ratio will fall to its lowest level since 1997.

At the same time, we are potentially entering a "new normal" period of relatively low investment returns, with average annual returns on bonds and equities expected to be at least 50% smaller than they were in the 30 years prior to the financial crisis. So not only are people finding it harder to put money away at the end of the month, they are also finding that those savings are growing more slowly.

While political and economic uncertainty is making retirement planning harder, life expectancy is continuing to rise. By the year 2020, women aged 65 are expected to live to the age of 90 – almost 30% longer than they were expected to live in 1990. As a result of such gains, and even with the Government's proposed changes to the State Pension Age, people are still likely to need sufficient savings in order to fund up to a third of their adult life in retirement.

It was with these challenges and uncertainties in mind that earlier this year the International Longevity Centre-UK proposed a new Pensions Commission to take a holistic, non-partisan view of pensions policy. In our view, the Commission would have a central focus on ensuring adequate retirement incomes for the long-term and could set out a road map for future pensions stability. It would define target outcomes for retirement savings and extending working lives, develop a mechanism for regularly monitoring progress against these targets and decide whether further policy reforms are needed. We believe that a Commission has the potential to garner cross-party support and should be established as early as possible in the next Parliament.

We have set out a blueprint for a new Commission, which we believe should:

- Be set up with cross-party support;
- Place a central focus on ensuring adequate retirement incomes for the long-term;
- Specifically focus on:
  - Defining target outcomes for retirement savings and extending working lives;
  - Developing a mechanism to regularly monitor progress against these targets;
  - Consulting and ultimately deciding on whether new policy reforms are needed;
- Seek to set out the rights and responsibilities of individuals, employers and Government with respect to long-term retirement income adequacy;
- Report to the Secretary of State for Work and Pensions, the Chancellor of the Exchequer and the Prime Minister;
- Be headed by a group of four experts from; academia, charity sector, industry and employees.

While there is clearly an opposing case for Government departments and their officials running such an exercise this would not give it the independence that is needed to build vital consensus across the various stakeholders whose buy-in will be critical to success.

Consider, for example, the issue of raising the minimum contribution rates for people who have been auto-enrolled into a private sector pension scheme. An independent commission would be well placed to develop an evidence base about what the trade-offs might be – not just in terms of people opting out of saving altogether, but also for economic growth because it would involve people delaying their consumption of goods and services, as well as for employers, because firms may need to raise their own contribution levels, which would come at a cost. Without considering this issue as a multifaceted, multi-agent problem, the debate about whether and how contribution rates should rise would be dead and buried before it had even begun. This is why the first Pensions Commission was seen as so successful – taking the necessary time and effort to build a detailed evidence base and develop widespread consensus on the appropriate direction of travel.

A word of caution: setting up a commission will not guarantee success. While many are now calling for a new Commission, including most recently the Work and Pensions Select Committee, the creation of such a body is no guarantee of success. Any Commission is only as good as the people who are running it and the resources it has at its disposal to undertake the necessary evidence gathering and stakeholder engagement. And while it is important that the Commission takes time to deliberate and build consensus on the future direction of pensions policy, it must not take so long as to miss the boat. It must be in a position to influence legislation during the next Parliament if we are to meet the substantial retirement income challenges of today and tomorrow. We must not kid ourselves, this is no easy task. But in the right hands, an independent Pensions Commission can play a critical role in helping to ensure that future pensioners are not caught dreadfully short of money during their retirement years.

Patrick Heath-Lay, Chief Executive, B&CE, provider of The People's Pension

"With no clearly-articulated long-term strategy, we risk a lack of joined-up thinking."

Pensions policy has too often become a political football. Much needed long-term direction is too often compromised by short-term political influence. The result is pensions policy-making that is confused at best and damaging at worst.

It is clear that government needs an overarching pensions strategy to bring about the long-term savings culture required to alleviate the burden on the state. With no clearly articulated long-term strategy, we risk a lack of joined-up thinking. Governments are not effectively held to account for the decisions they take. Combined with a lack of clear market insight and a contradictory regulatory environment, there is a potentially toxic mix for pension savers and the industry that serves them.

There is a clear need for the next government to go further than creating another temporary commission to look at these issues. We think they should create a permanent and Independent Retirement Savings Commission to oversee long-term plans for the pensions market, hold the government and regulators to account, and ensure pensions policy is designed for the long-term.

Pensions are long-term products that require people to lock away their money for decades. When household budgets are stretched and families are struggling to pay this month's bills, saving for retirement is a big ask. Creating the right landscape for that to happen, as well as reinvigorating trust in the system, is paramount for policy to be successful.

Policy changes today can have a profound impact for decades to come. Many Government ministers have made tough and radical decisions for the long-term, including the current Pensions Minister. But there is always a temptation to look no further than the next election.

The challenges for today's pension system need long-term solutions. This would remove the red tape which pre-dates the new automatic enrolment landscape, and would encourage transparency, best practice and an efficient competitive market. The new challenges also mean that government and industry need to plan together and ahead of emerging issues. We have seen radical and widely-welcomed new pension flexibilities introduced at incredible speed. These have created a series of knee-jerk reactions which are yet to strike the right balance between appropriate guidance and letting savers decide what to do with their money. We do not believe that the resulting confusion is what the Chancellor intended. Current press attention on this issue demonstrates that we are far from where we would want to be on this.

Pensions policy is split between two government departments: the Treasury and the Department for Work and Pensions (DWP). Each has a different way of seeing the world. There is no clear over-arching strategy. This divide applies to the regulators too, where there are contradictory approaches between the Financial Conduct Authority and The Pensions Regulator.

The last Pensions Commission, which led the way towards reforming the State Pension system and laid the foundations for automatic enrolment, is a good starting point for thinking about how to address some of these critical issues. Crucial to its success were its independence, focus on consensus-building and recommendations made on the basis of evidence. Put simply, it was able to break down the divisions that have hampered pensions policy-making.

It is notable that one of the key recommendations of the Commission - for it to be established as a permanent body to guide pensions policy-making - was one of the few not taken forward by government.

This is not merely about building consensus between political parties or government departments. Pensions are a wider social issue. There is nobody working with schools, communities and businesses to bring about a savings culture. This is where an independent body could bring a genuine contribution, and tie in wider strategic influences and activities to support the development of that culture.

We see the answer as an independent Retirement Savings Commission, modelled on the Office for Budget Responsibility, which oversees fiscal policy and the public finances.

There have been calls to take the pensions out of politics. But when decisions about tax, public spending and welfare have huge implications for people's lives, this might be just a step too far. That is not to say, however, that this new body cannot address the fundamental issues affecting pension savers, or work with government and regulators to review wider policy changes or initiatives.

In summary, the Commission would be an independent and trusted source of politically neutral information on the industry and pensions market. It would be the leading authority on ageing society and retirement issues. It would ensure pensions policy is based on evidence, and would have a clear and transparent remit to explain the trade-offs that society faces when it comes to retirement issues. With its key role in building a political consensus around pensions policy, the Commission would also have the remit to make recommendations for pensions and regulatory policy.

The Commission should also look at the effective oversight of the pensions market. The Office of Fair Trading's 2013 report shone a bright light on the problems within the market, and reached the damning conclusion that competition alone could not be relied upon to protect consumers. Although much work has been done to raise standards and improve governance, the job is far from being done. Having a body looking at the market as a whole and ensuring the mistakes of the past do not happen again is crucial to ensure good outcomes.

The issues for a Commission are as follows:

- A plan for the future escalation of contributions for auto-enrolment;
- A review of regulation to ensure the system remains appropriate and encourages an efficient market;
- Review the rules around transfers and pot consolidation, to ensure a joined-up approach to new initiatives such as automatic transfers, the pensions dashboard and the pensions passport;
- To introduce the concept of effective pensions market oversight ensuring fair competition, including oversight of the role of NEST in the market and their relationship with the DWP;

- A review of existing government bodies and regulators around the industry to create the right support infrastructure;
- Wider policy initiatives which could support the development of strategy and encourage a savings culture, including tax relief, other incentives and financial education.

The pension system lacks a long-term plan. When we are asking people to save over several decades for their retirement, it is essential we provide the right long-term environment to encourage transparency, best practice and an efficient market. Without this there is a very real danger that short term policy changes will damage pensions and threaten the societal change that successive governments need to bring about.

Dermot Courtier – Secretary, Kingfisher Pension Trustee Limited

"It is not simply a case of winning the argument for why more long-term and impartial policy-making is a good thing."

I am supportive of the idea of an Independent Retirement Savings Commission. I believe that the existence of an independent, objective body would help to ensure that future policy decisions relating to pensions, members and levels of retirement saving would be made with a long-term, lasting settlement in mind, with less short-term political interference.

However, that is not to say that there are not a number of important things to consider before such a commission could be set up and able to operate successfully. It is not simply a case of winning the argument for why more long-term and impartial policy-making is a good thing, but how to ensure that if a Commission is to be set up by the next Government, it is able to make this aspiration a reality.

An independent Commission should be a credible body, able to make real and lasting positive change, both for schemes and savers. In order to do this, it should have a clearly-established remit, backed up by clear Terms of Reference. It must be clear what its responsibilities and accountabilities are for and, conversely, what they are not. Too broad a remit and it risks diluting its message and recommendations; too narrow and it would not fully address the wide range of factors that affect member retirement incomes (and outcomes).

Having this clarity will be particularly important when it comes to working with Governments. If the Commission is to be purely advisory, with ultimate power over decision-making remaining with politicians, this should be made as clear as possible, to avoid confusion and the risk of alienating the next Pensions Minister before the next Government has even really got started.

The Commission's credibility must be such that the Government of the day will take its recommendations very seriously – or indeed, adopt them. Credibility is not usually established overnight, but built over time as the value of the thing in question is established and proven. However, an important starting point will be having the right commissioners in place – experts, representing the wide spectrum of relevant stakeholder views.

It is also not just about the Commission itself – its remit, operation and its various commissioners – but about the person leading it, shaping its agenda and driving its activity. It goes without saying that this person should be an expert, but this on its own is not enough. Whoever heads up any future Commission should be a high-profile figurehead that future Governments will recognise, respect, listen to and be comfortable working alongside. They must bring vision and direction to the Commission's work, and be a strong advocate for what it is trying to achieve. If the Chair of the Commission operates on a rotational basis, the same principles must apply consistently.

Whether the new Government establishes a standing independent Commission or not, there are issues in the area of pensions, retirement and savings that they will need to address almost immediately after taking office. We are in the middle of the roll-out of automatic enrolment, which has been a success so far, but we will face new challenges as small and micro-employers enrol their employees and the contribution levels increase in 2017 and 2018 – Government will need to be alert to these issues and address them swiftly as they arise.

There is also the crucial issue of savings activity, and the amount of money people are putting away for their retirement. It is now widely acknowledged that 8% of salary contributions is not enough to provide a decent retirement income for most people, and the next Government will need to solve the communication and engagement problem of how to encourage people to save more for their retirement – whether through compulsion, incentivising them through things like tax relief, or through increased engagement and financial education. In many ways, this big, important issue is one that would be perfectly addressed by an independent Commission which, by drawing on industry-wide professional expertise that reflects the broad range of interested and affected parties, will be able to suggest the best way forward for savers in the long-term.

Mike Cherry – Policy Director, Federation of Small Businesses (FSB)

"Promoting certainty and long-term consistency in pensions ought to be an important public policy goal."

Over the past five years, we have witnessed a significant amount of change to the pensions policy landscape. This includes the creation of a new single state pension, abolition of the Default Retirement Age, the capping of pension scheme charges and the emergence of the Defined Ambition agenda. In recent months, the industry has turned its attention to the introduction of new pension freedoms, announced in the 2014 Budget.

All this is happening at a time when small employers are preparing for the biggest reform to workplace pension rules in a generation. Automatic enrolment will affect every single employer across the UK. After a successful initial phase of the roll-out, we are now coming to the sharp end of implementation. Tens of thousands of small and micro-businesses will this year begin the task of preparing for automatic enrolment ahead of their respective staging dates, with the bulk of employers staging between January 2016 and April 2018.

It is no exaggeration to say that this year and next are 'make or break' years for the future of automatic enrolment. The sheer volume of businesses that are still to go through the process of complying with their duties presents the industry with a major challenge. As if this wasn't challenging enough, most small business owners are not pension experts, and do not have dedicated HR teams. While a growing number of micro-businesses are aware that automatic enrolment affects them, few know precisely what they need to do to comply.

I, along with my colleagues at the FSB, have spent much time over the past few years making the case to Government and the industry to focus their collective efforts on supporting small and micro-businesses through auto-enrolment. Small and micro-firms want a low-cost solution that enables them to comply with minimal time and administrative hassle. They want access to clear guidance written in simple terms, using plain English, including information on how to set up a qualifying scheme and what schemes are available to them. They also want to know that in complying, they are providing their staff with a good-quality pension that will support them in their retirement.

Many, though not all, will turn to a trusted intermediary to do the job for them. To that end, the FSB has established a scheme with Scottish Widows to assist our own members. We've also been working with the other pension providers, as well as the payroll industry, accountancy bodies and the IFA sector to ensure that they recognise the very different needs of the smallest businesses and focus on providing products and services that are 'micro' friendly. That includes catering for the many businesses that use basic software or manual payroll systems.

What does this all mean for Government policy? The simple answer is that over the next few years, the focus needs to be on finishing the job. Every incoming administration struggles to resist the temptation to bring a new set of policy proposals to the table – and there are often very good reasons for this, beyond simply a case of individual Ministers wishing to make their mark in a new department.

Nevertheless, employers need time to adjust. This is true of any area of legislative change, particularly one which has such big implications for so many aspects of running a business: from payroll to administration, wages and wider remuneration practices. It is for this reason that the FSB and other employer representative groups have argued that we now need to see a period of stability in workplace pensions policy to allow recent changes to bed in.

Now is not the time to make wholesale changes, whether that be altering the automatic enrolment earnings trigger or increasing the current minimum contributions. Any significant reforms should wait at the very earliest until existing employers have staged, not least to reflect the experiences of small and micro-firms that have gone through the process. As in other areas, businesses need stability and certainty from Government policy and employers will want to know that once they have complied with their duties, they can get back to focusing on running their business.

Promoting certainty and long-term consistency in pensions ought therefore to be an important public policy goal. Indeed, let us not forget that pensions are essentially for the long-term. However, we currently lack the policy or institutional mechanism to deliver this. An Independent Retirement Savings Commission, of the type recommended by the NAPF, could have an important role to play. It could monitor Government's progress against its policy objectives, and consult on what changes can and should be made to pensions, in a way that balances the interests of employers and employees. This is a balance that is expertly struck by independent advisory bodies in other areas of Government policy, such as the Low Pay Commission in its work on the National Minimum Wage, reflecting a wide variety of views and putting workable recommendations to the Government of the day.

Once established, an independent Commission could go further. It could provide a recognised independent voice to scrutinise new Government proposals, and could work closely with employer groups and other stakeholders to ascertain – and subsequently recommend ways to minimise - the impact of any policy changes. It could also monitor the response of the pensions industry and raise concerns when the latter is failing to adequately respond to change – whether those triggered by legislative developments, or wider societal trends.

Creating a new institution should not be seen as a panacea. Good policymaking requires more than this. But NAPF's recommendation has many merits and could, I believe, play a valuable role in promoting the certainty and consistency that employers and savers require. For this reason alone, it is worth considering.

Chris Hitchen – Chief Executive, RPMI and Railpen Investments

“Something is needed to temper a populist agenda, to make retirement provision less subject to the vicissitudes of electoral fortune.”

“Democracy is the worst form of Government, except for all the others” - Churchill’s quip helps to explain the difficulty in managing to long-term goals, whether in business, in government, or in life. Stuff happens. Opinions, public and personal, change. Those with the power and obligation to convert opinion into edict, do so, and do so with a periodicity far lower than a human lifetime. And that’s even without allowance for increases in life expectancy.

Benevolent dictatorship can sometimes be highly effective: Churchill’s own National Government in the Second World War, for instance, and Lee Kuan Yew’s transformation of Singapore from ex-colonial backwater to global powerhouse. What better model for ensuring fairness and sustainability in areas requiring long-term planning, such as retirement provision? The difficulty is keeping going without losing either power or, worse, purpose. Few populations would be as unquestioning of the Wizard’s rule as were the Munchkins of Oz. Even Churchill, a national hero, was unceremoniously dumped out of office as soon as the crisis had passed. More determined dictators become ever less benevolent as they keep their grip on power.

Every nation needs a system for retirement provision which is adequate, affordable and (reasonably) fair between generations. The UK has struggled to strike the right balance between these three objectives over many years. The 1946 National Insurance Act which first introduced a universal, contributory state pension, and the Social Security Pensions Act 1975, which brought in the now-defunct State Earnings-Related Pension Scheme, are examples of legislation which improved benefit levels and coverage, the priorities of the day. Less attention was perhaps paid at the time to the continued affordability of the Nation's promises once working populations had matured and dependency ratios increased.

Conversely, most legislative and regulatory action over the last 25 years has prioritised security, transparency and the protection of the Exchequer over the encouragement of private provision. As a result, good employer-sponsored pensions are now for most younger people as unattainable as the moon, or home ownership. Automatic enrolment into large, efficient multi-employer schemes such as NEST, still being phased in under the provisions of the Pensions Act 2008, may yet turn the tide, but only if contribution rates continue to rise beyond what is currently legislated, and if fiscal encouragement for long-term saving remains intact. We are likely to have at least one lost generation of savers, who will face financial struggle in their later years, before this happens.

This situation does not appear inter-generationally fair, at a time when current pensioners are more comfortable than ever before, through legacy defined benefit occupational pensions and the policy success of the "triple lock" increases to the Basic State Pension. These successes were hard won and should not be denigrated, but they may not be available to many of the current generation of workers, or their children.

No-one should blame elected politicians for doing their job. They could rightly be criticised if they did not reflect the preferences of the people who elected them, and it is hardly their fault if the Grey Vote turns out whilst the Russell Brand generation stays away. But something is needed to temper a populist agenda, to make retirement provision less subject to the vicissitudes of electoral fortune. An Independent Retirement Savings Commission would not usurp the democratic mandate, but could be a wise counsellor in the ear of a Minister, Secretary of State or Chancellor, encouraging them to take a longer view and have regard to sustainability.

Roughly every ten or fifteen years, it seems, there is a turnaround in how the State views the individual's role in his or her own retirement planning. The pre-Thatcherite consensus was that State and employer knew best and pension participation was often compulsory. This changed in 1988 with the introduction of personal pensions and personal choice, but then reversed again following the 2005 Turner report, which ushered in the politics of Nudge2, exemplified by automatic enrolment. Now we are back to Freedom and Choice, with individuals free to encash defined contribution pensions at will. Each shift had its justifications, but collectively they do not add up to a coherent approach. Many people, myself included, have worked and saved under all of the four regimes outlined. We are the same people we always were, but regarded very differently by successive governments.

An Independent Retirement Savings Commission, appropriately resourced, could oversee long-term research into the efficacy of different approaches to retirement planning and provide advice to Government.

When a new approach is genuinely needed, then an inspired genius with a comprehensive grasp of the issues is required. The Beveridge Report of 1942 and the Turner Report of 2005 stand out as game-changers for national retirement provision. Interestingly, we remember the chairs of the able groups who produced the reports rather than the politicians who steered the enabling legislation through Parliament. James Griffiths, National Insurance Minister in the Attlee Government of the late Forties, has faded from view with the passage of nearly seventy years (no longer a human lifetime, but still a long time). In the case of the Turner report, its legislation passed in the late Noughties, unhindered by a revolving door of Secretaries and Ministers of State, few of whom regarded pensions as the field for which they wished to be remembered.

When a new approach is already in train, then an inspired genius with a comprehensive grasp of the issues, far from being required, may become a frustrated and frustrating meddler. It has been a joy to watch the stable, able ministerial team at the Department of Work and Pensions in recent years, but we should not need such a stream of new initiatives in the next Parliament. An Independent Retirement Savings Commission would help to keep Ministers' eyes on the prizes of adequacy and coverage.

There are examples elsewhere in Government of bodies with a duty and mandate to advise. An Independent Retirement Savings Commission would not, could not, override Government's right to decide, let alone bind the hands of a future Parliament. But it would be able to define target outcomes for retirement provision, and to measure progress towards them. Government would commit itself at least to listen, and in doing so, would improve the odds for a long-term sustainable retirement system emerging in the UK.

NAPF

Securing the future of pensions

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