**Written evidence from Hymans Robertson (PSL0037)**

## Introduction

Hymans Robertson provides independent pensions, investments, benefits & risk consulting services, as well as data & tech solutions, to employers, trustees and financial services institutions.

We are passionate about helping members to achieve better retirement outcomes and have significant experience of modelling outcomes for members to help them plan for retirement. We therefore welcome the government's call for evidence and would be happy to provide further information and support as required.

## Responses

**Question 1:** Do households in the UK have adequate pension savings for retirement?

### Challenges with defining a household income

In our view, it is difficult to judge whether households have sufficient savings for retirement, as most of the analysis currently available focusses on expected income in retirement for *individuals* rather than *households*. More focus from the industry on households rather than individuals would be beneficial to helping us understand this point but we acknowledge that there will be significant challenges accessing this type of information. We also already know that there is a Gender Pensions Gap (as evidenced by several recent studies including a helpful one by Scottish Widows The gender pension gap | International Women's Day 2021 | Scottish Widows ). Additionally, we know that there were over 100,000 divorces in England and Wales in 2020. This could potentially leave many female-only households with insufficient income in retirement (Divorce - Office for National Statistics (ons.gov.uk). We note that evidence also shows that the value of a spouse's pension is often not included in a divorce settlement (with the female generally preferring to retain the family home).

### What is adequate?

Establishing a universal definition of retirement income adequacy is challenging because, in practice, "adequate" means different things to different people and usually depends on the circumstances of an individual or household and the standard of living to which they are accustomed. It is therefore important to engage households in understanding their retirement needs and to empower them to make informed decisions.

We are supportive of the Pension and Lifetime Savings Association's (PLSA) Retirement Living Standards (RLS), which define the levels of expenditure required to achieve Minimum, Moderate and Comfortable standards of living in retirement.

- **Minimum**: Single: £10,900, Couple: £16,700
- **Moderate**: Single: £20,800, Couple: £30,600
- **Comfortable**: Single: £33,600, Couple: £49,700

The RLS provide a useful framework for helping households understand their potential income requirements because each Standard is defined as a basket of goods and services. This helps households understand the assumed pattern of spending under each Standard, make judgements about which elements of the basket are relevant for them and use that information to calculate a tailored income requirement. Hymans Robertson has developed the following tool to help members calculate tailored standards:

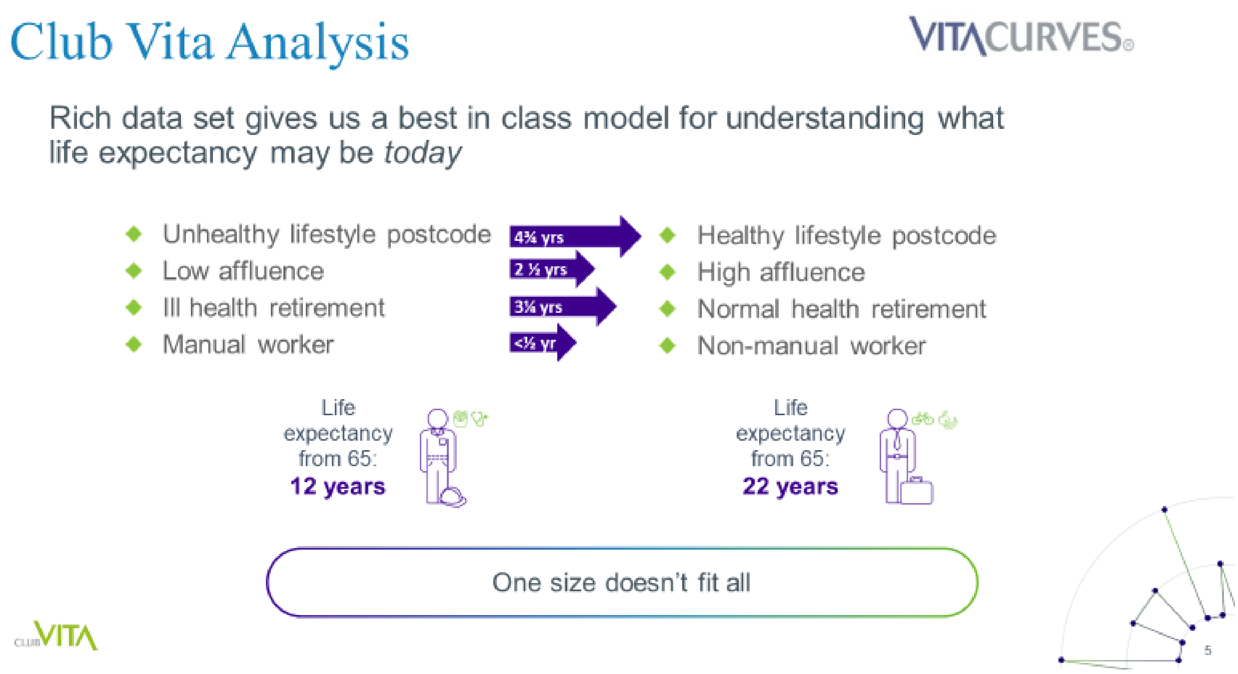
https://incomestandardsdemo-hymans.azurewebsites.net/

We make the following observations on the Standards:

1) Where an individual is eligible for the **full State Pension**, this will take them close to the minimum standard, with only a small amount needed from any private provision. However, we note that particularly for women who have taken time off in the past to support childcare, or where people are required to care for elderly parents, they may not have gained enough credits to qualify for the full State Pension. We believe that better guidance should be given to everyone over the age of 50 to help them understand what their State Pension will be and what actions they can potentially take (e.g. making additional payments to buy extra years).

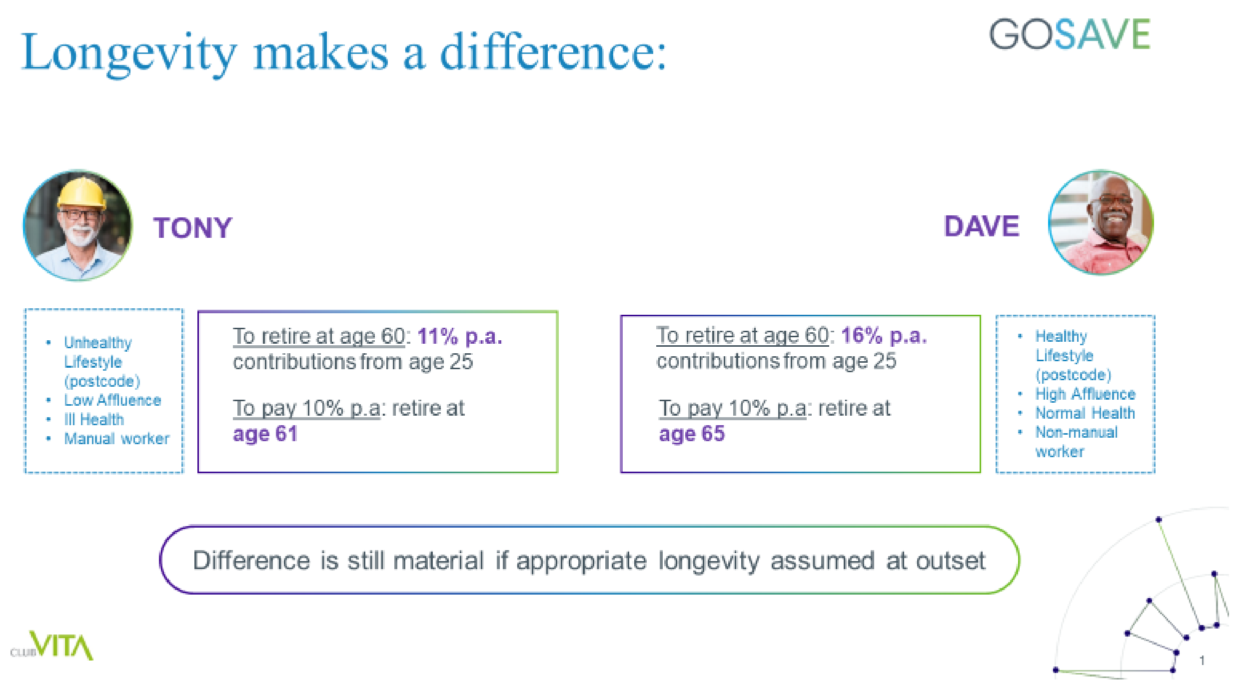
2) The RLS **do not currently have an allowance for housing costs or social care costs** and therefore, for many, will underestimate the amount of income they will require in retirement. This is likely to vary by pre-retirement income level. This is an area that the PLSA are working on in terms of the next developments for the RLS.

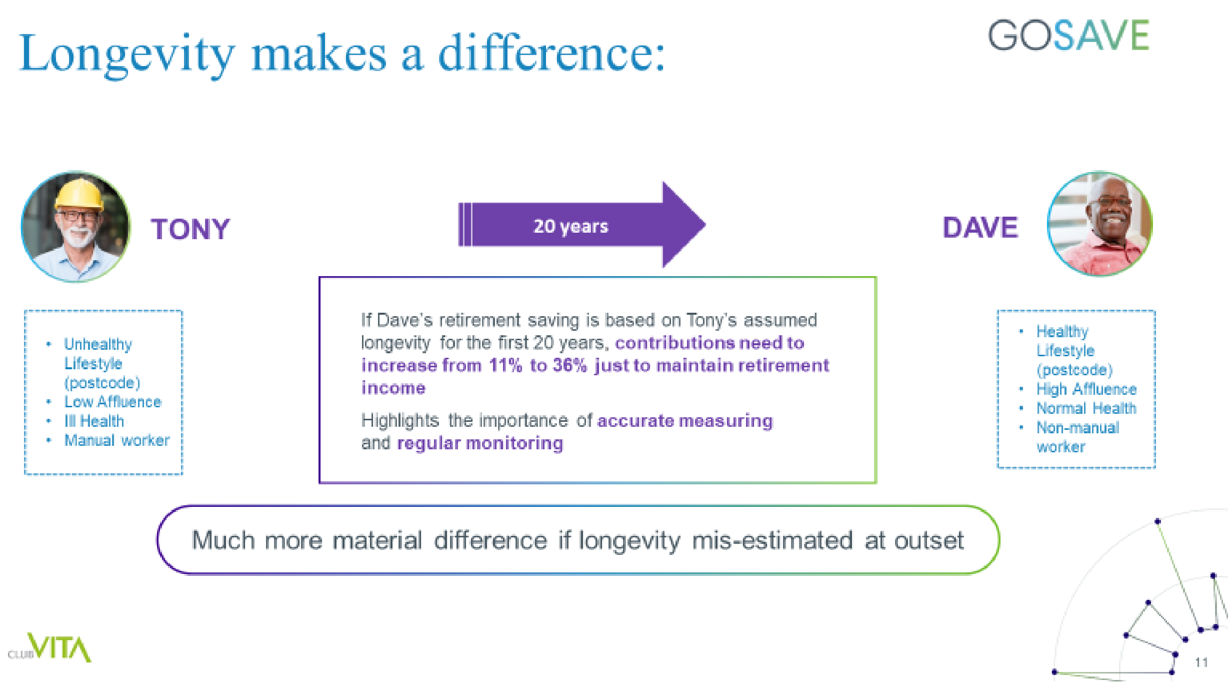
3) An often-overlooked consideration is that **some cohorts of retirees tend to live longer than others** and therefore need to sustain their incomes for a longer period. Analysis from specialist longevity provider Club Vita indicates that a healthy, affluent white-collar male worker retiring at age 65 is likely to live 10 years longer than a less affluent blue-collar worker of relatively poor health.




4) Not only will this impact the amount of money these people need in retirement, but it will **also impact the level of savings that they need to make during their working lives**.

We have shown an example of this below:




5) This requirement for pension assets to last longer is an important consideration as many retirees with larger pots have been accessing income drawdown rather than annuity purchase since the introduction of the pension freedoms in 2015. **We believe the "risk of ruin" (i.e. running out of money completely and having to rely on the State pension) could be meaningful for these members**. This has potentially wider impacts given a significant proportion of UK economic growth is currently being funded by relatively affluent former defined benefit scheme members. We believe there could be a wider danger to economic growth due to this shortfall in the medium term.

6) We also note that, where annuities are being purchased, these are still **almost exclusively being bought on a single life basis, with no escalation**. This is largely because annuities appear to offer poor value at current interest rate levels. This could lead to two consequences – 1) an inadequate

retirement income for a member's surviving spouse and 2) a significant reduction in purchasing power in periods of higher inflation. These could both have a meaningful impact on the adequacy of household income in retirement.

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

Yes. For most members, a higher AE minimum rate is required to provide anything beyond a minimum standard of living (as defined by the PLSA). In our experience, most members would regard an adequate retirement income as one which offers more financial security and flexibility than the PLSA's Minimum Standard.

The following table shows the total contribution rates required to have a good chance of achieving the different PLSA RLS for members earning £20k, £30k and £40k p.a. and planning to retire at State Pension Age (when we assume they will be entitled to the full basic State Pension).

| | £20k salary | £30k salary | £40k salary |
|---|---|---|---|
| **Minimum** | AE minimum = 8% | AE minimum = 8% | AE minimum = 8% |
| **Moderate** | 25% | 17% | 13% |
| **Comfortable** | 54% | 36% | 27% |

- The State Pension plus auto-enrolment minimum contributions gives a good chance of achieving the Minimum Standard for most members.
- However, even assuming an above average salary of £40k p.a., total contributions of 13% p.a. are required to have a good chance of achieving the Moderate Standard and more than double those contributions (27% p.a.) are needed for a good chance of achieving the Comfortable Standard.
- An average earner (taken here to be £30k p.a.) would need a generous contribution of 17% p.a. to have a good chance of achieving the Moderate Standard.
- The Comfortable Standard is out of reach for most members and the Moderate Standard is probably an unrealistic goal for members earning £20k p.a.
- Required contribution rates for those planning to retire before State Pension Age will be even higher than those shown in the table.
- Research by the PLSA indicates that 51% of savers believe the minimum auto-enrolment rate is enough but, for an average earner, the auto-enrolment minimum level would provide only a 1 in 3 chance of achieving the Moderate Standard.

### Changes to the £10,000 AE threshold

One key issue with AE is that 2.8 million workers are not captured by the £10k threshold (The pandemic and pensions inequality | NOW:Pensions). Employees who work part-time or work multiple jobs are missing out on AE and it is disproportionately affecting women, ethnic minorities and the disabled. Reducing or even removing the £10,000 threshold would significantly help this group to achieve an adequate income in retirement.

**Question 3:** What advice and guidance do people need when saving for retirement?

The average DC member will have little or no idea of how much they need to save to have an adequate income in retirement.

To help overcome this, Hymans Robertson launched Guided Outcomes (GO™) in 2013, with the objective of introducing a new approach to DC pensions - one which puts member outcomes at its heart. GO is built on three key principles and considers:

- What incomes members will need in retirement and the targets they could reasonably set for themselves.
- What incomes they're currently on track to achieve, and
- The actions that would be most effective in helping them achieve their savings goals.

Since launch, we've used GO to assess the pension adequacy of around half a million members and monitor the savings behaviour of members with continuous, online access to a personal Guided Outcomes assessment. Our experience is that setting members a target, helping them understand their current position relative to that target and empowering them to take action (and see the positive impact of that action) has been transformational in improving engagement:

- **93% of users rated GO as "useful" or "very useful"**
- **37% of all members using GO started to save more**
- **Of those members using GO, we observed an average increase in total contributions of 4.5%, with many members taking advantage of matching contributions available from their employer.**
- **After 3 years of using GO, the number of members assessed as "on-track to meet target" had more than doubled.**

Encouragingly, of those members taking action, most chose to pay more rather than only change their retirement age (which could be viewed as deferring the problem). Nearly two-thirds of members making a change chose to increase contributions, c.30% made changes to both contributions and retirement age, and only c.5% made a change to retirement age in isolation.

Given these statistics, we fundamentally believe that DC pension scheme members should be given a target and proactive nudges to get them towards this.

We are happy to provide further information on Guided Outcome and the positive impact it has had.

Looking ahead, the launch of the Pensions Dashboard will be hugely important in helping members understand the sources of income that will be available to them in retirement. However, members will inevitably want to know, "what does that mean?" and that question can only be addressed by helping them understand their likely retirement needs, how well-positioned they are to achieve them and what they can do to improve their outcomes.

Guidance and advice are mostly concentrated on the stage where individuals are approaching retirement. It should be made available throughout the accumulation stages that covers all "life point" decisions where there is a financial consideration to be made (for example, changing contractual hours, changing jobs, buying a home, taking a period of leave to have children etc). Each decision will have implications for pension savings.

**Question 4:** Could retirement income targets help savers plan for retirement?

Yes. We would encourage members to work back from their retirement goals to work out what their current level of contributions should be. This ties in with GO (discussed in Question 3) and Hymans Robertson have produced a Retirement Living Standards tool to help members plan for retirement based on their unique circumstances: https://incomestandardsdemo-hymans.azurewebsites.net/

**Question 5:** Apart from increasing contributions, how can the Government improve outcomes for savers?

Some potential policy changes are outlined below which we feel could improve outcomes:

- Further tax relief
    - Abolishing or significantly increasing the Lifetime Allowance and the Annual Allowance would encourage further pension savings from higher earners, allowing them to deal with the increased longevity issues we have highlighted above.
    - Confirm that there will be no tax relief changes in the next, say, 10 years to allow people to better plan for their retirement

- Improved education
    - Pensions should be included in the school curriculum as part of wider financial education. Educating children on the basics of pensions will encourage them to become more engaged members once they leave education.
    - Reducing the age of access to Pension Wise from 50 would encourage younger savers to engage with their pension and start planning for retirement.

**Question 6:** Can pension providers change the design of pension products to improve outcomes for savers?

There are a number of different possible design changes that could improve outcomes for savers:

1) In the savings phase, an outcomes focused approach could be adopted whereby a member is able to choose a target retirement pension outcome and given guidance on the savings rate, investment strategy and retirement age required to meet this. Provided it includes the flexibility to adjust the parameters to fit personal circumstances, our experience shows this results in higher savings rates as people can attach the amount required to save with a positive outcome that means something to them: an attractive income in retirement.

2) Salary related contribution increases, where the provider automatically suggests increases in savings rates based on the members' earnings as captured through an interface with employer payroll.

3) Default retirement paths, where members who reach the age they can start taking their pension pot are given guided retirement options which direct them to remain invested for longer, similar to the principle of investment pathways but with more flexibility for the provider to design the options and associated investments.

4) Duration related savings bonuses, where providers top up members pension accounts by an agreed amount based on the length of time they have left their money invested with that provider or continued to make regular contributions. If designed in the right way, this would incentivise the member to save more and for longer and the provider who benefits from this shares some of that back to the member, rather than relying solely on investment performance for any gain.

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

We have no specific comments on this question

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

We have no specific comments on this question.

**Question 9:** Are there measures which the Government should consider to close the gender pension gap?

The biggest driver behind the Gender Pensions Gap is in fact the Gender Pay Gap. Enforcing companies to pay the same salaries for all individuals performing the same role would be the biggest action that would have an impact.

The Government should expedite its review of auto-enrolment minimums to remove the barriers (minimum earnings and age) that are inadvertently adding to the Gender Pensions Gap.

Divorce is another area where the Government could take an action. Women are significantly more likely to waive their rights to a partner's pension as part of a divorce. Making it compulsory for pensions to be considered in all financial divorce settlements could be considered.

***February 2022***