

Private pensions

(UK)

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All current and future pensioners should have sufficient income from state and private sources to live comfortably and participate in society.

Introduction

The last decade has seen the introduction of automatic enrolment and the ‘freedom and choice’ reforms, dramatically changing the private pensions landscape. Over 19 million people are now saving into a pension through their employer (DWP, 2020); while the end of compulsory annuitisation (‘freedom and choice’) – has given people a wider range of options for using their savings from the age of 55 (from 2028, this will rise to 57).

Key issues

1. Automatic enrolment (AE)

The roll-out of AE has been very successful, and is widely supported by stakeholders, including employers (DWP, 2018). Encouragingly, it has retained broad cross-party support in Parliament and within the Treasury, which has not altered the arrangement even throughout the coronavirus pandemic. In 2017 the Government put forward a number of policy recommendations aimed at widening the eligibility criteria, which included lowering the £10,000 earnings and minimum age thresholds. Although the Government has committed to implementing these, as yet the reform has not been forthcoming.

2. Freedom and choice

The most concerning issue for older people is the new flexibility given to people as they access and use their pension saving. From April 2015, the requirement on most savers to annuitise their savings before the age of 75 was ended, meaning many people are instead moving their money to income drawdown products or taking cash, which are not always appropriate options.

These choices bring greater complexity.ⁱ Many savers do not understand the choices available – only half of DC pension savers understood what an annuity is, for example,ⁱⁱ and this lack of knowledge can make choosing the right product difficult. It also has serious consequences for people’s long-term income, as people may make inappropriate decisions, for example spending their money too quickly or too slowly, and suffer a reduced standard of living as a result. The FCA has recently introduced Investment Pathways which will help manage this risk, but there are still significant gaps in support and provision.

Public Policy Proposals

- Consumers accessing their pension under the ‘freedom and choice’ reforms – especially those without access to regulated financial advice – should receive greater protection from poor quality products and more support to make good decisions.
- Given its usefulness, popularity, and current lack of usage, the Government should trial an auto-appointment system for Pension Wise, with savers being defaulted in and the ability to opt-out should they not wish to receive guidance. It is unacceptable that there is still not a workable solution in place more than three years on from the Financial Guidance and Claims Act 2018.
- The FCA, industry and Government should build on the new investment pathways to develop ‘retirement income pathways’ to help consumers get the most out of the flexibilities. This should include pathways to guide people through the product market, and ensure that people are avoiding unnecessary charges and poor investment choices.
- Governance of retirement income products, in particular income drawdown, must be improved. The concept of value for money, across all pension products, should be carefully defined to create a transparent system that genuinely gives savers and consumers clarity and access to good quality products.
- Data monitoring of the reforms should be improved by the FCA, alongside a regular and substantive review of how the pension flexibilities are affecting individuals. This should include the impact they are having on different age groups.
- We continue to support auto-enrolment. The measures proposed in the DWP’s Auto-Enrolment Review should be taken forward as soon as possible. The Government should set out a road-map for increasing the minimum level pension contributions.
- People earning less than the income tax personal allowance and being paid through a ‘net-pay’ payroll system are losing out on the government contribution to their pension saving. The Government must take immediate action to amend pension tax relief to ensure that all savers are being treated fairly.

Want to find out more?

Age UK has agreed policy positions on a wide range of public policy issues. Our policies cover money matters, health and wellbeing, care and support, housing and communities. There are also some crosscutting themes, such as age equality and human rights, age-friendly government and information and advice.

www.ageuk.org.uk/our-impact/policy-research/policypositions

ⁱ PPI (2015), ‘Supporting DC members with defaults and choices up to, into, and through retirement’

ⁱⁱ International Longevity Centre UK (2015), ‘Making the system fit for purpose’