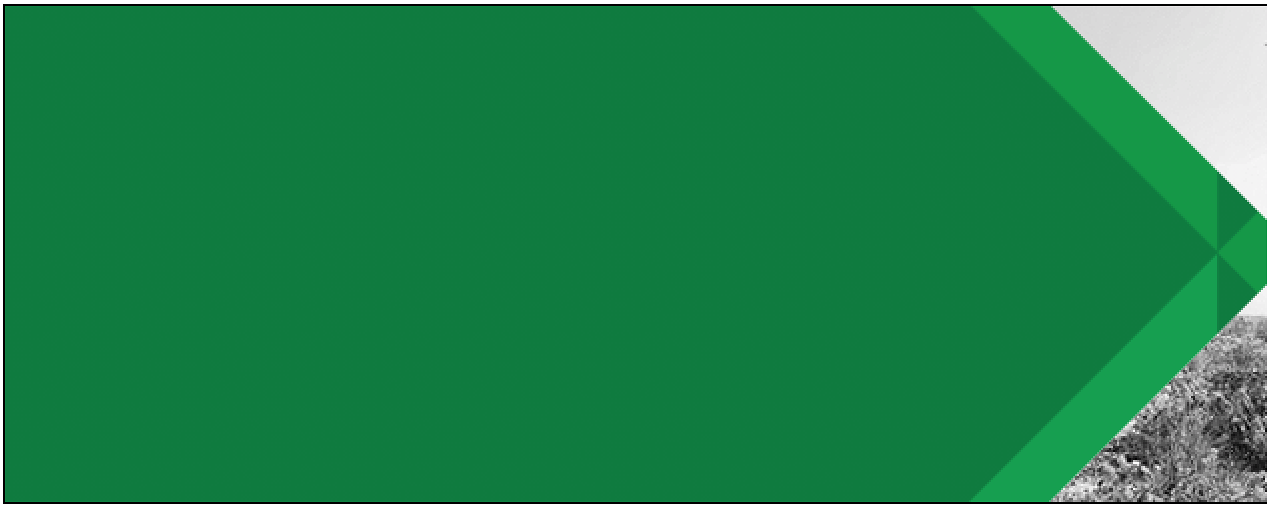

ADVISERS AUTO-ENROLMENT PENSIONS REGULATION OPINION ADVISE

Ros Altmann: The real opportunities of auto-enrolment have been missed

Auto-enrolment has had a significant impact on the take-up of pensions but could have achieved so much more

By **Ros Altmann** | 18th May 2022 8:00 am

Over the past 10 years, government policy has handed the pensions industry billions of pounds. Auto-enrolment (AE) has seen millions of new customers benefit from 'free money' in the pensions wrapper.

We all understand the enormous advantages of investing in pensions. They are a brilliant product, with generous tax breaks and additional money not available to most Isas or other investment accounts.

> The market for customer-focused investment approaches is still wide open

However, the AE programme has relied on automatic payroll deductions of workers' money, without any understanding of investment details and relying on the employer's chosen provider for suitable products.

The failure of stakeholder products — partly due to historic pension scandals, complex jargon, regulatory barriers and a lack of financial education — clearly indicated the need for behavioural nudges to improve pension take-up across the population. But, despite unexpectedly low opt-out rates, there has been little advance in customer engagement or product development for these new pension investors.

This is puzzling given the context of radical pension freedom reforms from 2015. Although elements of these changes remain divisive in some corners of the advice sector, the reforms have made pensions far more flexible and potentially better suited to later-life financial planning and changing retirement patterns.

> Most workers in their 50s and 60s have no idea their money is switching out of higher expected-return assets for about 15 years

Ending mandatory annuitisation and traditional drawdown restrictions could have paved the way for people to pay into pensions for longer, and mandatory employer provision could have provided lower-cost means of engaging, informing and serving customers in the workplace.

The industry has had a tremendous opportunity to reach out directly to millions of new or existing customers; helping them to understand all the benefits of pensions, encouraging them to contribute more and explaining about the extra ‘free money’ available — from possible employer matching and tax relief — when adding to the legally required minimum contributions.

Unfortunately, this has not been seized upon as many experts hoped.

Potential product improvement

Pension providers do not seem to have grasped this golden opportunity to design better products to cater for a different work-and-pensions landscape. They have not risen to the challenge of engaging their customers and promoting pensions.

Yes, there have been governance improvements and movement towards ethical, environmentally friendly ESG investing. But these changes do not mean much to the uninitiated investor and new types of drawdown, such as flexi-access and uncrystallised funds pension lump sums, are hardly likely to excite popular interest.

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The industry has not succeeded in engaging customers at either accumulation or decumulation stage. More suitable pension products and direct-to-consumer solutions are missing.

Flagship offerings for most AE schemes are still their 'default' funds. Marketing advisers would surely suggest consumer-focused companies steer clear of this word. Why would anyone outside pensions think putting people's money into something that offered 'default' was an attractive, customer-friendly proposition?

We may all understand this jargon but does it add positive value? At least 'standard' funds or 'expert's choice' may have some positive resonance.

21st century lives

Most of these so-called default funds are still just lifestyling or target date, which will be unsuitable for many customers. Where are the attractive new approaches to fit 21st century lives?

Most workers in their 50s and 60s have no idea their money is switching out of higher expected-return assets for about 15 years, which could be entirely wrong for them. Gearing their funds to a date selected many years previously, which may not be the date at which they actually retire or need to draw their pension, without any requirement to review it regularly, is unwise.

> The industry has not succeeded in engaging customers at either accumulation or decumulation stage

Switching mostly into cash by this date is probably unsuitable for those who will work longer, or keep contributing, and for those who will not buy annuities or will keep most of their money invested in drawdown products for several years. They would be better off with just 25% cash and the remainder staying invested, but are not told this.

The big opportunities of AE have been missed. The market for truly customer-focused investment approaches, engaging individuals with their money and helping them to build better pensions over time, remains wide open. Hopefully, exciting new approaches will evolve soon.

Ros Altmann is a former pensions minister

This article featured in the May edition of MM.