

**SCOTTISH WIDOWS**

*official pensions and investment provider*



# Scottish Widows Workplace Pensions Report

September 2011



# Introduction

**Through the recent pensions reform and automatic enrolment debate, the workplace has emerged as a key area to help increase long-term savings in the UK. The diminishing role of the state in providing for retirement has meant greater responsibility for the individual who, whilst generally understanding the shift towards greater personal responsibility, need help and support from people they trust to actually start saving.**

There is great potential for employers to play a positive role in supporting employees and encouraging them to save. This ranges from offering information and guidance, access to a pension and saving vehicles to making contributions to their employees' saving plans.

The Scottish Widows Workplace Pensions report was commissioned in light of the upcoming changes. It examines the employees' level of preparation and attitudes towards retirement, and also their views around the upcoming 2012 reforms. We find there is a strong divergence on provision of workplace pensions between workers of small and large organisations, indicating that more support may need to be provided to those working for small businesses.

The survey also reveals that while employees felt positive about automatic enrolment in general, many people still have unrealistic expectations of what they will have to pay. This signifies potential challenges in successfully implementing the upcoming changes and this report seeks to highlight the key issues while making some recommendations as to how these can be addressed.

For this year's report we have sought the opinions of a number of industry experts, including the DWP, NEST, TUC, CBI, NAPF and The Work Foundation. Key observations from these commentators are presented throughout the report, with their full contributions included at the end. The representations featured broadly focus on the financial and health challenges linked to an increasing life expectancy, and how they can and will be addressed through policies such as the introduction of automatic enrolment.

Based on an online sample of 5,200 UK adults this is one of the largest surveys undertaken into employee attitudes on pensions. The research was conducted by YouGov in March 2011 and forms part of the Scottish Widows ongoing consumer research programme which aims to better understand the context within which people plan for their retirement.

# Contents

Closing the advice gap	2
People with pension	2
People without pension	3
The role of employers	5
The significance of the workplace	5
Benefits of pension provision to employers	6
Retirement planning is not all about pensions	7
Automatic Enrolment	8
Focusing on small businesses	8
Thoughts and expectations from pensions reform	9
Conclusion	10
Industry views	12

**Throughout the report the following convention is used to refer to the size of enterprise:**

Enterprise category	Headcount
large	>250
medium	50 – 249
small	10 – 49
micro	< 10

# Closing the advice gap

Only around half the population is preparing adequately for retirement, and one-in five people are saving nothing at all. Given the scale of the task to reach more people with appropriate advice on retirement savings, it is clear that the workplace is a critical part of the solution. This section will first examine ways to close the advice gap for those who currently have some pension provision and then will look at how to reach those who do not.

“ Millions are not saving enough to achieve the retirement income they want, while life expectancy continues to increase. ”

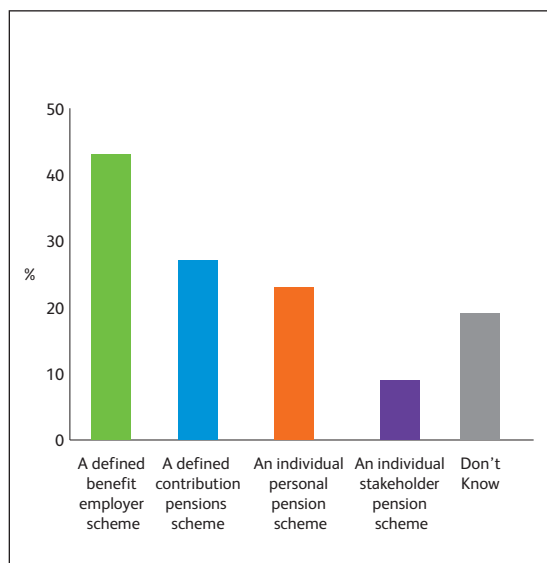
Caroline Rookes, DWP

## People with pension

**Almost three quarters of (73%) of non-retired survey participants say they have a private pension, however a significant proportion are uncertain about their contributions into the schemes.**

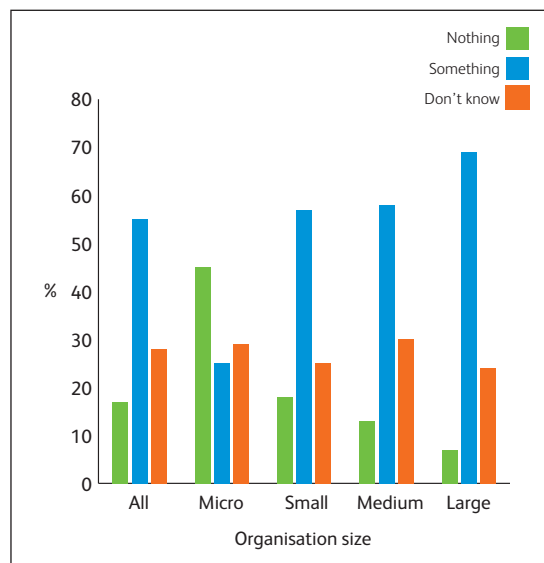
Workplace pensions are currently the most common type of private pensions with 43% having a Defined Benefit (DB) scheme and 27% having a Defined Contribution (DC) pension. Given the decline in DB schemes in the private sector, we might expect to see the numbers of those with DC schemes increase in the years to come.

**Chart 1:** Types of private pensions held



However, amongst those with DC pensions, there seems to be a degree of uncertainty around the contributions being made and the benefit that will be received. Just over half (55%) know what they are contributing into their scheme and are aware of doing so. Of the remaining DC scheme members, 28% don't know how much or if they contribute, while 17% are not currently contributing anything. In addition, 38% are unaware how much their employer contributes, suggesting that some may be unaware of the potential benefits from employer contributions.

**Chart 2:** Average monthly savings into Defined Contribution employer arranged pension schemes



For those employed by micro organisations this trend is more pronounced, where almost half of workers (45%) are not contributing anything and 29% don't know how much they contribute. On the other hand, of those employed by large companies 69% of employees are paying into their workplace DC pension, only 7% are not contributing and 24% don't know. Despite a clear divide in attitudes from employees of different size organisations, the proportion of those who do not know how much they contribute is consistently high across all sizes.

These findings bring to light two problems. First, that entering a pension scheme is only half the solution, encouraging adequate level contributions still remains a challenge in particular for those working for small businesses. Secondly, there is a significant lack of financial understanding and employee engagement within the workplace, in companies of all sizes.

If employees are not aware of how much they are saving, it is questionable whether they would have realistic expectations of their retirement income. Employees need to know what they're saving now in order to plan for the future. They are also much more likely to appreciate the benefit of an employer contribution if they know what it is.

## Recommendations

- Pensions should be positioned as deferred pay to a workplace audience in order to highlight the benefits.
- One simple step many employers could take is to produce a Total Reward Statement, including details of how much is being paid into the pension by employer and employee, or how much could be in the case of employees who have opted out.

## People without pension

**44% of those without a pension do not plan to ever start savings into one and 28% are unsure of when they will.**

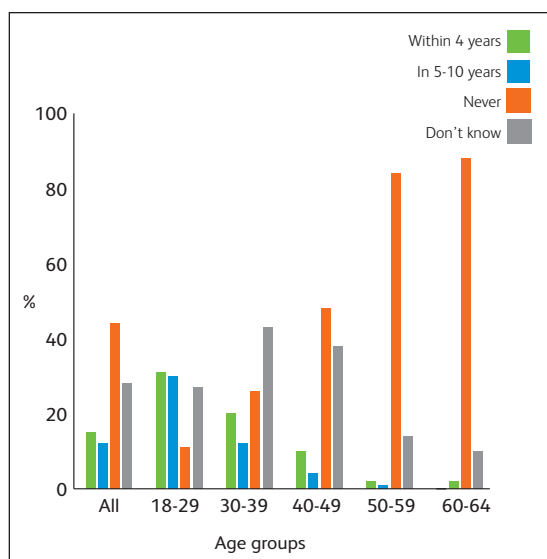
For those without a private pension, there are a number of reasons for not saving into one. 'Lack of spare money' is by far the most quoted cause. The other top ranking reasons are 'not thinking about retirement savings seriously' and 'not understanding pensions'.

This demonstrates that lack of engagement and familiarity with pensions may be deterring a considerable number of people from saving in a pension.

Reasons for not saving into a private pension	
I have no spare money	55%
I've never thought about it seriously	14%
I don't understand pensions	13%
I don't trust pension providers	13%
I have never worked full time	11%

Looking at people’s plans to start saving into a pension, we found that 44% of those currently without a pension do not plan to ever start saving into one and 28% are unsure of when or if they will.

**Chart 3:** When, if ever, do you expect you will start paying into a private pension



All non-retired who do not have a private pension

Looking at the results in more detail, it emerges that these attitudes vary significantly across different age groups. Over half of 18-29 year olds have indicated that they wish to start saving into a pension within the next 10 years.

It was surprising to find that 40% of 30-50 year olds are unsure of when they will start saving into a pension and 64% cite that having no spare money is the reason for not saving. This contrasts with the 18-29 age group, where only 27% are unsure when they’ll start saving and 46% cite no spare money as the reason.

This seems counterintuitive as the higher levels of uncertainty and lack of spare money would be expected amongst the younger generations. This may indicate that the 30-50 year olds understand they need to save for retirement however have other financial liabilities that take priorities.

The survey also reveals that 84% of 50-59 year olds without a pension say that they do not plan to ever start saving into a private pension. This might be because many in this age group may feel like it is too late, however they could still make the most of opportunities such as employer contributions and tax relief, even if they have alternative ways of funding their retirement.

### Recommendations

- Targeting the younger generation for education about retirement savings may help embed a saving mentality and equip people with the knowledge to make smart financial choices to ensure a good retirement income in the future. An obvious place to start this would be in the workplace, when people start their first job.
- There is however a need for targeted messages to engage the older workers too, as some may feel that it is too late to start saving for retirement and miss out on attractive saving opportunities. It is important to clearly demonstrate the benefits of workplace pensions, particularly on how little people need to put aside to make a real difference when employer contributions and tax relief are taken into account.

“ Our definition of ‘working age’ will stretch closer to 70 years than 60 or 65. A higher proportion of over-60’s will be in work, though most will be in jobs which do not use their skill or experience. ”

Stephen Bevan, The Work Foundation

# The role of employers

As well as providing access to pensions, 40% of employees state that employers should provide full financial advice and 55% expect general information about retirement.

“ If a savings culture, and workplace pensions in particular, is to be reinvigorated, we need to start thinking about it in the context of a relationship based on individualised employee engagement, flexible working hours and more tailored packages of reward. ”

Jim Bligh, CBI

## The significance of the workplace

Employers have a critical role in helping workers prepare for their retirement. When asked about what encourages them to start saving, 17% of all respondents selected ‘starting work’ as a driver and 29% selected ‘qualifying to join a company scheme’. Furthermore, 70% say their employer should not only provide access to a scheme but also make contributions.

Moreover, the vast majority of respondents say that where an employer provides access to a pension scheme they should also provide full financial advice (40%) or general information about retirement planning (55%).

This demonstrates that people expect a lot more from employers than just access to pensions. However, although the vast majority of employees think their employer should provide this advice or information, only 19% have selected employers as someone they would personally turn to for this.

Financial advisers are the most cited source of information on pensions (33%) followed by friends and family and then by pensions providers. These findings show that although workers would like their employers provide better support and advice, in practice they believe their expectations cannot currently be met by employers alone. Advisers and providers need to help employers to meet this need.

If you wanted to find out more information about pensions where would you go for guidance?					
	Average	Micro	Small	Medium	Large
Independent financial advisors	33%	41%	34%	40%	35%
Friends and Family	27%	22%	28%	27%	27%
Pension providers	23%	22%	29%	28%	24%
Online aggregator sites	23%	20%	23%	25%	25%
FSA (Financial Services Authority) website	21%	20%	19%	21%	23%
Your employer	19%	6%	14%	22%	28%
The Government	13%	12%	12%	13%	14%
Don't know	12%	11%	10%	9%	10%
High street banks	11%	10%	12%	10%	11%
The media	7%	8%	8%	8%	8%

Furthermore, only 6% of those who work for micro companies and 14% of small company employees consider their employer as a source of advice and information, compared to 28% of those employed by large organisations. This is an indicator that small businesses may find it more difficult to cater for the advice demand and the impact of additional costs of financial guidance for employers post automatic enrolment could be significant.

There also seems to be an intergenerational shift between how popular financial advisers are as a main source of advice on financial decisions. The 30-50 age group is more likely to turn to a financial adviser for advice whereas 18-29 year olds are likely go to friends and family.

## Benefits of pension provision to employers

**Workplace pensions can help attract and retain staff as they are now seen as more important than bonus and overtime.**

The survey shows that 56% of employees say their employer's pension scheme is an incentive to remain with that employer. We also found that prospective employees value workplace pensions as more important than bonus potential, flexitime, a company car or potential overtime pay when deciding whether to accept a job offer.

Small and micro company employees find a workplace pension to be less of an incentive to stay with an employer than their larger counterparts. Only 23% of micro business employees selecting pensions as an incentive compared to 72% of large business employees.

### Recommendations

- Employers need to meet their employees' expectations of pension provision and the industry needs to clearly communicate the benefits of pensions and make them easy to implement.

“ We need a culture change that encourages people to engage with saving and their pension. To do that we need to cut through the complexity and develop a new language that engages people and does not overcomplicate. ”

Darren Philp, NAPF

# Retirement planning is not all about pensions

For many, alternative methods of retirement savings such as ISAs are just as important as pensions.

We asked people where they expected their retirement income to come from and found a broad range of answers, with state pensions being the most quoted.

Overall there appears to be a slight shift towards reliance on the state and on cash and investments to provide for retirement.

In the 2010 survey, 47% thought that company pensions will ensure a good standard of living for retirement and 33% selected Cash ISAs, this years results show a decline to 40% for company pensions and a significant increase to 44% for Cash ISAs. Almost a third of people are still relying on property however there has been a slight decline from last year.

The survey also found that an average of £124 per month is being invested for retirement excluding pensions and property. This significant amount being saved reinforces that for many, saving for retirement is not just about pensions.

## Recommendations

- Broader retirement saving strategies and appropriate advice would enable employees to understand the wide spectrum of savings options available so they can make an informed decision which is right for them.

Thinking specifically of retirement which of the following do you think will help ensure that you have a reasonable standard of living?

	2011	2010
State pension(s)	50%	45%
Cash savings, including Cash ISAs	44%	33%
Company pension(s)	40%	47%
Personal pension(s)	35%	35%
Income from property 'downsizing' / sale / rental	28%	31%
Inheritance	22%	24%
Spouse / partner's income	22%	18%
Investment bonds, endowments, equity ISAs	15%	10%

# Automatic Enrolment

The implementation of automatic enrolment from October 2012 and the introduction of the National Employment Savings Trust (NEST) will aim to significantly improve the savings landscape. NEST is a new, low cost pension scheme any employer will be able to use to meet the new legal duties, which will be introduced from 2012. The scheme has been set up to help people who currently don't have access to a workplace pension, and our research has highlighted that it is particularly needed for those who work for a business with less than 25 staff and earn between £10,000 and £30,000.

“ The changes happening to workplace pension schemes introduced from next year and explored in the Scottish Widows' report, are set to make saving for retirement the norm in the UK, as opposed to the minority sport it is today. ”

Tim Jones, NEST

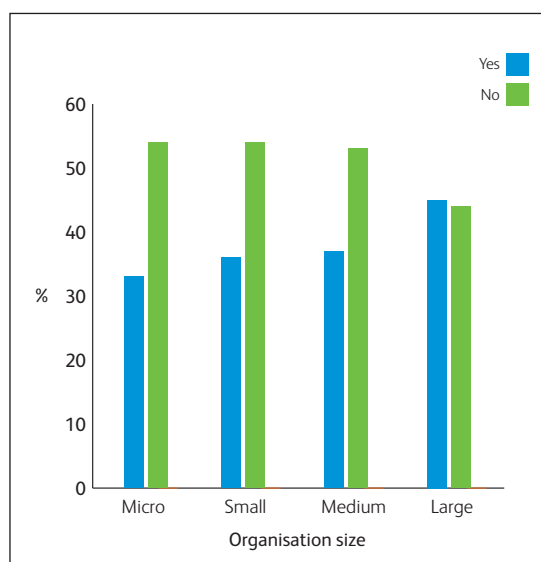
## Focusing on small businesses

**Those who work for small businesses tend to feel more pessimistic about retirement with over half saying they feel they are not preparing adequately for retirement.**

Only around one in ten of those working for small businesses and earning £10,000-£30,000 say they have a defined benefit or defined contribution pension through their current employer, far fewer than for any other group. Over half (54%) of those employed by small organisations say that they feel they are not preparing adequately for their retirement whereas this figure is lower (44%) for those employed by large organisations.

As many small organisations do not currently provide workplace pension schemes there tends to be less expectation and dependence on company pensions amongst their employees. When asked what would provide the most retirement income in the future, those who work for medium and large companies selected company pensions as the top option, while those who work for micro and small companies selected state pension as the main provider. It is clear that the small businesses have the greatest pension need and the private sector have a responsibility to assist.

**Chart 4:** Overall, financially do you think that you are preparing adequately for your retirement



## Thoughts and expectations from automatic enrolment

### **Three quarters of those who are interested in saving into a pension expect to contribute less than they may be required to.**

On the whole, the attitudes towards automatic enrolment and NEST appear to be positive. Half of those who are currently not retired and do not already have a pension say that they support automatic enrolment and NEST schemes. This rate is even higher for those who work for companies with under 25 employees with 60% expressing interest. However almost a third (32%) say that they are still unsure about what they would do indicating that there still remains uncertainty in many peoples minds about the pensions reform.

Between 2012-2016 all eligible workers will be automatically enrolled into a workplace pension and will be required to contribute 4% of their salary. Although in general people are positive about the aim of automatic enrolment, the expectations of what they would need to contribute appear somewhat unrealistic.

Assuming national average full time earnings of £26,470, a 4% net employee contribution after the phasing in period would amount to around £70 per month. The survey found that the average expected contribution is £35.40 per month (average includes those who answered “nothing” ) and although this has increased from last year’s £31.70 per month it is still a significant underestimate of the amount which may be required.

Over one third (34%) of potential savers envisage saving as little as £10 per month, and 75% say they would save under £50 per month. This means that over three quarters of those who want to be automatically enrolled expect to contribute less than would be required. Such unrealistic expectations may result in high opt out rates once the changes take place.

### Recommendations

- Whether NEST and auto enrolment will provide a complete solution to the savings gap remains to be seen. What does seem to be evident however is the need for appropriate action to keep the population engaged. Engagement techniques from the Government as well as within the workplace should be introduced as early as possible before companies reach their automatic enrolment staging date to minimise opt out.

“ The basic state pension has begun to return to being the building block of retirement income, and for the first time employers are compelled to contribute to staff pensions. ”

Nigel Stanley, TUC

# Conclusion

The landscape for workplace pensions is set to go through radical change in the next few years, with the introduction of automatic enrolment.

Fundamentally, automatic enrolment signifies what we have known for a long time – the state will play a far smaller role in supporting people's retirement than previously. Responsibility for retirement savings is shifting to individuals and their employers.

So what are the key conclusions we should draw from this report for the new pensions landscape?

**1) People need the confidence to manage their own retirement savings effectively, and the appropriate level of information and guidance could come from the workplace.**

Perceived affordability and a lack of understanding of pensions are the two major barriers that prevent people from saving into a pension.

Our report shows that for those without any pension savings, there need to be tailored messages for different age groups as it is clear that different pressures come to bear on people's lives at different times. There is also a large proportion who do not plan to ever start saving for their retirement, and a further group who are unsure as to when or if they will start saving.

Amongst workers saving into a pension, there is a large degree of uncertainty about how much they are contributing and what their employer is putting in.

Engagement with employees in the workplace to help them understand what they have and what they need is vital. This report shows that more advice and guidance in the workplace is both needed and wanted, not only to attract those who are not currently saving into a pension, but also to ensure those with pensions are making the most of them.

Our report shows that the vast majority of employees are keen for their employer to provide advice and guidance on retirement planning in addition to a pension; but is this achievable?

The need to control costs in the workplace combined with the upcoming Retail Distribution Review (RDR) changes to the advice market and the RDR proposals on group pensions means that the provision of good quality, face-to-face advice in the workplace may be reduced. Employers therefore need to find solutions to facilitate provision of financial education, guidance and advice.

Our report shows that far fewer people working for small businesses feel their employer can assist them with retirement planning compared to those working for large organisations. Particular focus needs to be paid to small business employers to help them provide financial guidance and advice in the workplace.

**2) Long term savings are about more than pensions**

Workplace pensions will clearly play a large part in helping people have a more comfortable retirement. Further to this, automatic enrolment will increase the number of people with a pension, however our report shows there is increasing demand for greater choice and flexibility when it comes to considering options for retirement savings.

For many, relying solely on pensions for retirement income is no longer sufficient, so if an employer is to provide advice on retirement savings, they will need to consider this increased demand for choice amongst their employees. This could mean providing a holistic view of people's personal finances, including workplace benefits, to help them plan for the future.

Workplace savings tools can enable employees to assess what they have now in order to take control of their short, medium and long term finances.

### 3) To make auto-enrolment work the right behaviour amongst employers and employees should be encouraged

Automatic enrolment will give employee retirement savings a boost but it presents one of the biggest challenges facing employers over the next few years.

For employers currently providing pensions, there is a risk they might level down their existing provision in reacting to the changes in legislation.

All businesses, but in particular small and micro businesses, are likely to be impacted by the changes. Smaller organisations are less likely to have the experience of larger organisations in providing a pension scheme to employees, and are also likely to be affected by the increase in costs to carry out their new legal duties.

There is a risk of disengagement amongst employers at what could be regarded as automatic enrolments negative features, such as extra cost and an increased administrative burden, something all involved in the pensions industry must work to address.

One way to do this, is to highlight that a workplace pension is actually a valuable benefit for employers to attract and retain staff. Our report shows that a workplace pension can be a key differentiator. We found that many employees value work pension over bonus and overtime.

With regard to employees, too many still have unrealistic expectations of how much they will need to contribute under automatic enrolment, and some don't expect to contribute anything at all. These findings highlight the potential risk of high opt-out rates when people face contributions they were not accounting for.

Although people may be aware of the need for retirement saving, more employee engagement and education is needed to improve understanding of the upcoming changes and benefits of a workplace pension.

The onus is now on employers to make sure their employees understand their financial needs and help them take control of their finances. Providers, industry bodies, and advisers need to help employers do this through the workplace.

“ We have a once-in-a-generation opportunity to revolutionise our savings culture and ensure that millions of our citizens are able to enjoy security and dignity in retirement. ”

Caroline Rookes, DWP

## Industry Views



Tim Jones,  
Chief Executive, NEST

**The changes happening to workplace pension schemes introduced from next year and explored in Scottish Widows' report, are set to make saving for retirement the norm in the UK, as opposed to the minority sport it is today.**

For some employers, their response will be to adapt the provisions they may already have in place, perhaps by extending an existing pension arrangement.

Others may want to use the change in the law as an opportunity to consolidate different schemes and set up a new arrangement. For many smaller businesses, it will be a case of starting from scratch when the time comes for them to act on their new duties – although they are some way from the starting post, with many not being affected until 2015.

NEST has been designed to work for all employers from large to small, and to fit in with however employers may want to use us. Employee benefits consultants and other intermediaries, pension providers and employers have been telling us about the many ways they expect to use NEST.

For organisations of perhaps up to a hundred workers, NEST might be the only scheme in place. In other cases, likely in medium up to large employers, NEST might be put in place for a particular category of worker.

For some of the largest employers, we're being told that NEST will be used alongside other provision where an organisation has two distinct types of workers. This could be, for example, where there are head office and shop floor staff with different earnings levels, or hourly-paid staff and salaried staff.

We've been working with a number of providers with a view to putting joint arrangements in place ahead of 2012 and we'll be sharing more details on this and our work with a variety of employers in the autumn.

NEST is launching throughout 2011 and we're looking forward to continuing to work with other providers, advisers and the range of stakeholders who are all helping employers and savers meet the exciting challenges of 2012 and beyond.





Jim Bligh,  
Principal Policy Adviser, CBI

**Someone born in the UK today can expect to live 30 years longer than a person born a century ago. Higher life expectancy should be celebrated, but it also poses a serious social and fiscal challenge for the future. Longer lives mean that people will need to work longer and start saving earlier as well as more if they are to achieve the retirement income they need. Automatic enrolment, starting from October 2012, is designed to help achieve this.**

Business supports the introduction of automatic enrolment, as it will get more people saving for their pension. But it is important that we do not think it is the silver bullet that will solve all problems. Automatic enrolment could be the stepping stone to rebuilding a real savings culture in the UK. But to achieve this it is important to understand people's spending priorities and for workplace pension saving to be reactive to this.

Younger generations of employees face greater financial pressures during their working life, such as higher tuition fees repayments and home deposit rates. Balancing those pressures and the need to save appropriately for retirement will be key. Recently, more flexible workplace saving arrangements have started to emerge which allow people to access some of their savings during their working life alongside building a pension. Sometimes, these come with an employer's contribution. Some of these arrangements could increase people's engagement with saving, helping build a culture that ultimately benefits rates of retirement income more generally.

The future of workplace pensions should be seen in the framework of a new employment relationship that has been developing over the past 20 years. In it, the employee voice is no longer collective, but individual.

A relationship based on individualised employee engagement, flexible working hours and more tailored packages of reward are the norm. If a savings culture, and workplace pensions in particular, is to be reinvigorated, we need to start thinking about it within the context of this new relationship and developing products for the modern workplace.

For employers, this more flexible workplace reward package that better meets the financial demands of their employees will be a welcome development – it can be the retention and recruitment package that defined benefit schemes are for an increasingly few number of people. The days of reward being just pay and pension are over as people come to terms with the competing demands on their money throughout their lifetime.



Nigel Stanley,  
Head of Campaigns, TUC

**We have a consensus, let the arguments begin. Lord Turner's Pensions Commission has to rank as one of the most successful bits of policy making of recent years. It produced radical recommendations far from the agenda of any of the political parties, but was so well crafted that it was able to win wide support almost as soon as it reported. No-one got everything they wanted, but everyone got enough. Even more importantly, it dealt with most potential objections in advance. Even those who disliked it have had to go on along with it.**

Almost five years later its key recommendations have survived a change in government and heavy lobbying from a big range of lobby groups to move in their particular direction. 2012 will see the start of a rather slow process of phasing in auto-enrolment, NEST taking its first mandatory contributions and a re-linking of state pensions to earnings as part of the triple lock. It is already easier to qualify for the state retirement pension – a boon for women and others with broken careers – even if much of this is being paid for by a more rapid increase in the state pension age, particularly for women, than the Commission wanted.

This all means we can justifiably talk of a new pensions consensus. Almost everyone supports auto-enrolment and recognises that the state needs to produce a basic retirement pension that lifts the bulk of pensioners free of means testing. In the private sector the big majority of pensions saving will go into DC schemes.

From a union point of view – despite our unhappiness at raising the state pension age, particularly without any consideration of precisely what jobs older workers will do – the new consensus represents considerable progress. The basic state pension has begun to return to being the basic building block of retirement income, and for the first time employers are compelled to contribute to staff pensions.

But within that consensus, there are just as many issues to argue about as in the past. Are the minimum contributions enough? Do not forget they are not the widely quoted eight percent as that is only levied on a band of earnings. The maximum anyone will get (at the top of the earnings band) is about 6.8 per cent. Those earning towards the bottom of the band can get a very small percentage.

Can we make DC better by cutting charges, giving scheme members a voice and sharing some of the risk either with employers or between members? Has NEST been hobbled too much by the limits on contributions and bans on transfers? Is relaxing those in return for making it the default home for small pots a good deal?

Do we need a reform of pensions tax relief, ending the absurdity that means it costs me 60p to save an extra pensions pound, but a standard rate tax-payer 80p – and if we change can we make sure savings go into better pensions?

So celebrate the new consensus, and get ready for the new debates.



Stephen Bevan,  
Director of the Workforce Effectiveness Centre,  
The Work Foundation

**Growing life expectancy has, for centuries, been both an aspiration and an indicator of a nation's economic success and social sophistication. Yet, for many, an aging population may be more of a curse than a blessing unless radical action is taken... well... yesterday.**

So here's the 'Doomsday' scenario. By 2050, to be elderly in the UK will mean living longer but in poorer health as a result of, among other things, a doubling of the prevalence of diabetes and a rapid growth in dementia. More elderly people will suffer from three or more chronic health conditions simultaneously. For those elderly Britons not in care (and perhaps some in care), social isolation and chronic loneliness will be endemic. Our definition of 'working age' will stretch closer to 70 years than 60 or 65. A higher proportion of over-60's will be in work, though most will be in jobs which do not use their skill or experience. Early retirement will, even more than now, be the preserve of those who had defined benefit (final salary) pensions. Those with defined contribution schemes will need, as today, to work much longer. But even these people will be better off than those with no pension provision at all, or those who only took out a pension plan in their 40's (once they have saved up for a deposit on a property or paid off most their student loan).

This isn't just a gloomy, fictional conceit. Very robust and detailed studies, like the English Longitudinal Study of Ageing (ELSA), tell us that aspects of the 2050 picture I paint are with us already. This is especially the case with some groups of older people, such as those in poverty with multiple health problems. In part, this is the result of some rapid changes in demography. For example, in 1950 a man aged 65 could expect to live for a further 12 years.

Today – within the space of one generation – life expectancy is some 20 years beyond the old state retirement age. In 2030 it is projected to be 21 years and in 2050 almost 22 years.

In the face of this irresistible tide of demographic reality, it is now accepted that increased longevity, and poorer pension provision, points in the direction of longer working lives. By and large, The Work Foundation believes that encouraging and supporting healthy and active ageing through work is to be encouraged – not least because good work can improve physical and mental health and well-being.

Next year is the European Year of Healthy and Active Ageing. It is explicit and ambitious in its aim to increase the number of healthy years that EU citizens live by a further two years. Yet, to achieve this we need to be radical. Auto-enrolment into a pension scheme is a start, but we also need labour market policy which encourages older workers to move into fulfilling jobs. We also need public health interventions which go beyond 'nudge' theory to reduce lifestyle-induced health problems and their consequences in old age. The 2050 vision can be averted, but the clock is ticking.



Caroline Rookes,  
Director of Private Pensions, DWP

**The case for tackling the UK's decline in pension saving is compelling. Millions are not saving enough to achieve the retirement income they want, while life expectancy continues to increase. It is great that we can expect to live longer and fuller lives than previous generations, but the challenge of ensuring financial security in retirement for an ageing population is increasingly acute.**

The Coalition Government are committed to reinvigorating pension saving and have set out a wide-ranging strategy, including a revised approach to providing tax-relief and greater flexibility in accessing savings in retirement.

Under the 'triple guarantee', the state pension will increase by the higher of earnings growth, price inflation or 2.5%, and we are consulting on how the state system can be simplified and improved. Our aim is that the state provides a decent basic income, which supports people in planning for their retirement and improves incentives for people to save, with the state pension age increased to 66 to ensure financial sustainability.

But the state cannot meet people's aspirations on its own. We are also reforming workplace pensions through the introduction of automatic enrolment. This will ensure all qualifying workers have access to a workplace pension and overcome savings inertia by requiring an active decision not to save. We have established "NEST", a trust-based pension scheme to ensure every employer has access to suitable, low-cost pension provision.

The reforms include a new mandatory employer contribution, rising to 3% of a band of earnings by 2017. This provides an incentive for workers to continue saving and, with a minimum employee contribution and tax-relief, will result in a minimum of 8% of band earnings going into pension saving. Many people will need to save more, and they can do so if they want.

Our priority is to introduce the reforms in a way that best manages the scale of change for all concerned. Once the reforms are in place, how we encourage people to save more will be very much on the "to do" list.

We are working on a number of knotty issues that come with more widespread pension saving, including enabling people to consolidate their savings and improving regulatory requirements to enable employers and pension schemes to provide good quality, low cost pensions. We have, for example, recently consulted on how to address the regulatory differences between occupational and workplace personal pension schemes, and we are working with the Pensions Regulator to ensure the regulatory landscape is fit for purpose.

I'm conscious of the huge support we need from employers and pension schemes to make the reforms a success, and I'm grateful for the support the reforms continue to receive. They are, of course, questions of detail we need to debate between us and I look forward to engaging with you on these.

But the prize here cannot be over-estimated. We have a once-in-a-generation opportunity to revolutionise our savings culture and ensure that millions of our citizens are able to enjoy security and dignity in retirement.



Darren Philp,  
Director of Policy, NAPF

**All employees deserve a good workplace pension. The auto-enrolment reforms being introduced from next year are a once in a generation reform to our pension system and should increase pension saving across the board.**

But at the National Association of Pension Funds (NAPF) we see the auto-enrolment reforms as the start, not the end of a long journey. Reform of the state pension system is vital if we are to remove the trap of means tested benefits and ensure that it pays to save. The Government's decision to introduce the triple lock for the basic state pension is a good start, and the recent proposals to simplify the state pension system, if implemented, will provide a solid foundation for auto-enrolment and allow people to save with confidence. Ultimately, the success of auto-enrolment will hinge on the Government taking bold steps to push through this visionary reform.

But even with auto-enrolment and a solid foundation provided by the state, people may still not get enough for a decent retirement. We need to rebuild the savings culture in the UK and ensure we do not see the minimum contribution level required for auto-enrolment as the end of the reform process.

People need to be able to save with confidence – confidence that their savings are protected and that they will get a decent return on their hard-earned cash. People need help in navigating through the difficult decisions in an increasingly Defined Contribution pensions world. They need to be encouraged to save beyond the minimum so they get a decent retirement income. And they need to know that their savings are working for them and are not being eroded by excessive charges or poor investment performance. And people need to be guided through the difficult decisions around taking their pension, ensuring they maximise the value from their pot.

We need a new approach to delivering pensions. We need to put the worker at the heart of the process. And we need to drive good governance and efficiency. This can be achieved through consolidation and the creation of new Super Trusts – large-scale multi-employer DC schemes that would deliver a high-quality service to their members. Such schemes would enable better governance, better communications, better investment decisions, the potential for sharing risk between employer and employee, and lower charges. In short we need a new type of provision that complements NEST, in an environment that allows firms to innovate and pensions to flourish.

But, above all, we need a culture change that encourages people to engage with saving and their pension. To do that we need to cut through the complexity and develop a new language that engages people and does not overcomplicate.

The Coalition Government made a commitment to reinvigorate occupational pensions. It is an important commitment that, if delivered, will set a positive course for saving over the next decades. We have come a long way since auto-enrolment was first envisaged by the Pensions Commission. We now need to focus on the final stages of implementing that vision and build on the consensus so that retirement is something we can all look forward to.

**SCOTTISH WIDOWS**

*official pensions and investment provider*



As part of the Lloyds Banking Group, Scottish Widows is proud to be an Official Provider of the London 2012 Olympic and Paralympic Games.

Scottish Widows plc. Registered in Scotland No. 199549. Registered Office in the United Kingdom at 69 Morrison Street, Edinburgh EH3 8YF. Telephone: 0131 655 6000.

Scottish Widows plc is authorised and regulated by the Financial Services Authority. Our FSA Register number is 191517.

49952 09/11