Legal & General responds to the Minister for Pensions shake up of private pensions

The Minister for Pensions has announced several private pension reforms aimed to improve fairness, adequacy and predictability for members:

- A consultation on a new framework for assessing Value for Money for workplace schemes
- A consultation on extending the framework for Collective DC schemes
- A call for evidence on options for addressing the growing number of small dormant pots
- Confirmation that the regulations for excluding performance fees from the charge cap will take effect from 6 April this year, and trustees will need to start explaining their policy on illiquid assets from October.

These measures are a very welcome boost to the industry and will go some way in creating fairer outcomes for members.

The confirmation that performance fees will be excluded from the charge cap from 6 April 2023 means one of the key regulatory barriers to investing in illiquid assets has now been removed.

It will give trustees greater flexibility to invest at more meaningful levels, maximising the opportunity for members and benefitting more people in the long-term.

This democratisation of productive finance is also key for levelling up the UK and is something Legal & General has been calling for.

However, more can – and has – to be done to encourage saving and make it as easy as possible to do so, which is why Legal & General continues to call for:

1. **Regulated personalised guidance to close the advice gap and help savers understand their pension choices**

Due to the regulatory restrictions currently in place, pension providers are not able to directly alert customers to financial solutions that might be better for them as this would be seen as advice. While free support services such as Pension Wise and MoneyHelper provide useful guidance, they remain largely underutilised. More needs to be done to help prompt and nudge customers to making a decision that is tailored to their own circumstances, particularly as the cost of living continues to squeeze.

The FCA has signalled its intentions to carry out a review of the boundary between advice and guidance and we hope they look at examples where the boundary isn't working. The provider accepts that any review needs to be considered but believes changes to the rules are necessary so that people who reach retirement are confident that they are making choices that will serve them well, and those who are still saving are equipped to make informed decisions on how much they need to save.

2. A review of auto-enrolment and a greater focus on engagement efforts

While auto-enrolment has been the big pension success story, industry and government need to make sure that it does not inspire false confidence and that savers see their workplace pension as part of the overall picture which makes up their retirement.

According to the recent update of the Retirement Living Standards by the PLSA, the minimum required by a single person to cover the basic needs in retirement is £12,800 each year[5]. With the full state pension currently worth just over £9,500 to those who qualify, the pressure is on for people to make private provisions, even to meet the basic day-to-day living standards in retirement.

Further analysis[6] from Legal & General highlighted that if the average 32-year-old – who represents the first generation to have fully benefitted from the introduction of the auto-enrolment reforms – had started contributing to their pension at 22 then they would have £19,181 in their pot now. This would mean that they would be on track to have an annual retirement income of £14,543. While this positions them comfortably within the PLSA's minimum standard of living, it still might not meet people's retirement expectations.

This is why Legal & General is calling for a review into auto-enrolment to assess whether it has been truly effective in creating adequate and sustainable retirement incomes.

3. A clear timetable for implementing AE changes

It's important that there is a clear action plan to implement the government's proposed automatic enrolment reforms to give providers, employers and members a clear timeline to prepare. Even in difficult economic times, it is vital the momentum is maintained with cross-party support.

And while it's fantastic that the age threshold will be lowered to 18 – the question is: when? Legal & General calculations show that lowering the age threshold by four years would have a huge impact.

If the same 32-year-old mentioned above had started to contribute to their pension at age 18, then they would have an additional £8,309 more in their pot now, meaning they'd be on track to have a retirement income of £15,110 per year.

The longer it takes for this change to be implemented, the more people will miss out on the benefits of saving early.

Colin Clarke Head of Product Policy Strategy at Legal & General commented:

"It's fantastic that the Minister for Pensions has confirmed the removal of performance fees from the charge cap. This opens the door to more opportunities for schemes to improve outcomes for members and democratise investments.

"The issue isn't that people are only saving 'just enough' to get by in later life. It's the fact they aren't saving enough but don't realise it, so are under a false impression about the state of their retirement. We all need to help savers understand their pension choices and improve engagement levels. These factors have always been important, but against the backdrop of rising living costs they are now critical to help boost pension adequacy in the UK.

"The new measures announced to help close the pensions inequality gap are very welcome by Legal & General and will ensure those saving into a workplace pension are treated fairly."

-ENDS-

Notes to editors

[1] On average, the best indicator of how many people will retire in a given year is still how many people will reach the statutory retirement age of 66. Based on the number of people expected to reach the state retirement age in 2023. ONS Mid Year Estimates for 2020 (released in 2021) show 747,241 people aged 63 in 2020 who would therefore reach 66 in 2023. Taking into account expected deaths (ONS number of certified deaths in the UK of people aged 63, 64 and 65 in 2021 was 19,377), this leaves 727,864 people expected to reach 66 in 2023.

[2] Research was carried out online by Opinium Research amongst 2,003 UK adults aged 55+ who are still in work between the 8th-17th November 2022.

According to ONS statistics there are over 6,000,000 UK adults aged 55+ who still work. 41% plan to delay retirement, keep working part time or keep working full time equating to 2.5 million people.

1,161,00 working adults aged 55+ plan to work indefinitely part time and 546,000 plan to work indefinitely full time. Adding these together results in 1.7 million planning to delay retirement and working either full or part time.

[3] Workplace pension participation and savings trends of eligible employees: 2009 to 2020

[4] As cited in the PLSA's report: https://www.plsa.co.uk/Policy-and-Research/Document-library/A-research-report-supplement-to-Five-Steps-to-Better-Pensions

[5] Retirement Living Standards, PLSA

[6] Legal & General modelling based on the following assumptions:

Between the ages of 18/22 and 32:

- Modelling is based on an individual
- Salary increased by 3.5% and is now £29,224
- The AE lower band increased by 2.5% and is now £6,240 (we haven't used actual historic values)
- Contributions of 8% of qualifying earnings were made each year (we haven't used actual minimum contribution percentages)
- Fund growth rate was 5% net of all charges (we haven't used actual growth rates or charges for any fund)
- PLSA living standards are based on today's money terms for those living outside London
- Figures are for an individual and includes state pension

About Legal & General

Established in 1836, Legal & General is one of the UK's leading financial services groups and a major global investor, with over £1.4 trillion in total assets under management* of which a third is international. We also provide powerful asset origination capabilities. Together, these underpin our leading retirement and protection solutions: we are a leading international player in pension risk transfer, in UK and US life insurance, and in UK workplace pensions and retirement income. Through inclusive capitalism, we aim to build a better society by investing in long-term assets that benefit everyone.
** at 31 December 2021*

About Legal & General Retail

As of 1st January 2022, Legal & General Retail Retirement and Legal & General Insurance (our two retail businesses) have been combined into one division, Legal & General Retail, to enable us to better serve the needs of our retail customers.

Legal & General Retail helps protect the lives and futures of our customers; the division covers the savings, protection and retirement needs of our c12 million retail policyholders and workplace members. In 2021, we wrote £957 million of annuity premiums, and issued £848 million of Lifetime Mortgages and Retirement Interest Only Mortgages. Our Workplace pension platform served 4.4 million members, while in the UK we paid out a total of £1,133.8 million in insurance claims.

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