TISAtalks **24th October 2013**

Welcome to TISAtalk, this week –

- Malcolm Small, Policy Director at TISA, offers a potential solution to the pensions crisis.
- Jeffrey Mushens, Technical/Finance Director at TISA, outlines the importance of engagement between the industry and The FCA.
- Peter Smith, Head of Distribution Engagement at TISA, debates whether auto-enrolment could lead to an advice gap similar to that left in the wake of RDR.

RETIREMENT SAVING – JUST TOO DIFFICULT?

The Scottish Widows annual UK Pensions Report is now in its ninth year of publication and I've been giving the 2013 version a good read. Unfortunately, at a time when commentators are seeking every chance to say positive things about retirement saving in general, and pension saving in particular, against the backdrop of automatic enrolment, it makes for depressing reading.

It's annually surveyed Pensions Index suggests the numbers saving adequately for retirement are at an all-time low of 45%, down from 46% last year, with 20% saving nothing at all. Most of those surveyed thought they would need an income of £25,000 per annum in retirement, but the report identified that, to achieve this at current state pension ages, and at current annuity rates, they would have needed to save £1000 a month from the age of 30! This figure is daunting and would clearly be beyond the capacity of all but a very, very, few to achieve. The sheer scale of the financial sacrifices required may well put people off doing anything.

Elsewhere, a paper from the Association of Consulting Actuaries suggests that the recent increases we have seen in the State Pension Age (SPA) are only the beginning, and that the state pension was never designed to fund a 'retirement' of one-third of an entire life.

Maybe the answer looks something like this? We will all need to work as long as we can, but if a 'living' state pension of perhaps £15,000 per annum was available from, say 73, then the task of private saving is to 'bridge' the financial gap between when an individual wants to stop work, and the new SPA, with anything spare being used to top it up.

This would be much less of a mountain to climb – but it would also need us to change our thinking about how retirement income is provided.

Malcolm Small, Policy Director

LIVING WITH THE FCA

Last week saw the close of the FCA Consultation on Client Assets. This is a big deal. Major proposals on removal of fund manager exemption, on intra day settlement, changes on reconciliations, ban on unbreakable deposits, introduction of new reporting to customers on client assets, and these are just the highlights.

The process has shown the importance of engagement - by the members and with the FCA.

We've had very constructive dialogue, both TISA and the members of the Client Assets Technical Committee, with the FCA. We learnt quite a bit about FCA concerns, and we hope we'll be able to shape the new rules going forward.

Yesterday we had advance warning of proposed consultation on share class conversions. We've already started engaging on this issue and will keep members posted when we are in a position to do so.

We'd appreciate specific cost concerns from affected firms so we can raise issues with FCA. They'd like to hear from us, the more fact specific the better. Contact me directly at jeffrey.mushens@tisa.uk.com if there's something you'd like us to raise. Our experience is that the FCA is willing to listen. And so are we.

Jeffrey Mushens, Technical/Finance Director

SOMEBODY HELP ME

The success so far of auto-enrolment in the world of pensions and workplace saving is being heralded in many publications even though we are at the earliest period of employers staging.

We are one year into auto-enrolment currently and on the surface everything is looking good, with the pensions regulator telling us 1.6 million people have been enrolled into a qualifying workplace pension scheme and the dreaded opt-out rates have yet to materialise in any numbers (DWP currently estimates somewhere near 9%).

However we have only travelled a short distance and there is a much longer journey ahead. I fear a similarity in the world of auto-enrolment and workplace pensions to that which has emerged under RDR, creating a potential advice gap where consumers are unwilling to purchase financial advice once they see the cost upfront. This has been exacerbated by the withdrawal of High Street advice from banks and building societies.

The next few years will see thousands of smaller employers get into their staging dates and potentially a great deal of whom will lack the resources and support enjoyed by the larger corporations within the United Kingdom to help them. Support for the smaller employers is going to be much harder to come by and such employers will not be used to having to pay for advice or indeed may not wish to.

Unusually in our fast developing technological world, there do not appear to be any digital solutions currently in the workplace to help either. It is likely these employers will still feel they can make do with their current systems but could be in trouble very quickly if things do not go according to plan.

Should a similar advice gap emerge, who is going to help deliver advice and good consumer outcomes to the many employees who will be involved here?

Peter Smith, Head of Distribution Engagement