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REFORM

The world in 2050

Meeting the challenges of an ageing population

The world in 2050: meeting the challenge of an ageing population

Reform was delighted to host a policy roundtable on the future of pensions in October 2020, with the generous support of Standard Life Aberdeen and Phoenix Group. The discussion was introduced by Guy Opperman, Minister for Pensions and Financial Inclusion at the Department for Work and Pensions; Andy Briggs, Group Chief Executive at Phoenix Group & Governments Business Champion for Older Workers; and Mark Foster, Global Head of Pension Solutions at Aberdeen Standard Investments.

It is not easy to predict what the world will look like in 2050. In the past decade alone, bookended by a financial crash and a pandemic, we have experienced considerable upheaval and uncertainty. But one trend that has remained constant is our ageing society. That people are living longer is to be celebrated, but it also presents challenges: an increasing demand for health and social care is set against an increasing dependency ratio.

Enabling longer working lives and ensuring a sustainable and adequate pension system are key to managing this transition – and both are priorities for government. Succeeding in both will mean harnessing the potential of technology and meaningful collaboration between government and industry.

On pensions, the focus of the roundtable, significant progress has been made, but there is more to be done to engage savers and ensure adequacy. Encouragingly, there is plenty of ambition to do just that. And as industry delivers for savers, it can also help tackle another grand challenge: climate change.

A changing context

In 2050 – just three decades from now – one in four people will be aged over 65. That means we have to act now to put in place the policies, initiatives and regulations that will enable people to flourish in older age.

The world of work is already changing. Today's 35-year-old, the 2050s pensioner, will likely already have changed jobs several times. The concept of a 'career' and 'retirement' will look very different for them than for the previous generation, and that will shift again for the next. This has significant implications for long-term wealth management – both in terms of the life cycle of saving, but also the fragmentation of pension pots. And the rise in self-employment and 'gig' work adds another level of complexity for pension saving. positive environmental and social outcomes.

"We have to act now to put in place the policies, initiatives and regulations that will enable people to flourish in older age."

Charlotte Pickles
Director, *Reform* Think Thank

Addressing adequacy

With people living longer, and spending more time in retirement, ensuring adequate pension provision remains a crucial policy challenge. The state pension remains a core part of the answer – particularly for those on lower incomes – but private pension provision is essential if people are to have sufficient income in retirement. Adequacy in pensions has four key components: when you start saving and how long you keep saving; your contribution levels; the returns to your investment; and the charges and costs that are deducted.

Encouraging greater saving

Auto-enrolment has delivered a huge extension in pension coverage – 10 million more people are now saving into a workplace pension as a result. Starting to save into a pension as early as possible is key – which auto-enrolment has had a big positive impact on – but so too is ensuring people understand what 'adequacy' actually means.

Research shows that young people in particular are not clear on what the right level of saving is. The auto-enrolment default risks anchoring people to that level of contribution, but for many this is not high enough to ensure adequacy in retirement. This will have to be addressed. The 'fuller working lives' agenda means people can continue to save for longer, boosting their pot, but again, action is needed to support people to stay in work as they get older. Pensions also need to be seen in the wider context of increasing saving overall.

Understanding the nudges and structures that can incentivise increased saving at the appropriate points in people's lives could make a sizeable difference. Sidecar saving accounts are one way of helping achieve this – and enabling people to balance the need for both short- and long-term savings.

Boosting returns

Nurturing investments to ensure they deliver the maximum return is also key to growing pension pots. Asset managers need to play a proactive and creative role, but the right regulatory and policy environment is key.

Smart asset management should be focused on delivering the best possible outcomes for members. Minimising charges can contribute to ensuring adequacy, but this should be appropriately balanced with the need for active, and therefore potentially more costly, management to maximise returns.

The pension system will consolidate at pace over the coming years, enabling greater economies of scale and improved governance. Superfunds and master trusts will play a key role in delivering enhanced value to savers, but the right models and regulatory frameworks for both defined contribution and defined benefit schemes are needed to improve member outcomes while minimising risk.

Opening up and encouraging investment in illiquid assets is also key to growing pension pots – with Government driving this as a priority. This can help drive increased returns in a low interest/low growth environment, and by enabling greater diversification offers additional protection for savers. This can also have broader economic and social benefits where the illiquid assets being targeted are enabling core infrastructure, including social housing.

Harnessing technology

Accessibility, transparency and personalisation are all characteristics of technology-enabled products. There is a huge opportunity for the pensions industry to harness technology to drive engagement, and thereby boost adequacy. Open banking is enabling innovation, what might open pensions look like?

In the coming years, as people increasingly seek to bring aspects of their lives together on tech platforms, we will see integration of banking, saving and pension apps. We will likely see industry responding by merging these different aspects of personal finance.

Investing for good

The potential to engage individual savers through 'impact' investing is also huge. People are increasingly wanting to know that their funds are driving positive environmental and social outcomes – and this is not just a 'young people' phenomenon. Tackling climate change in particular is a key priority for both individuals and government.

The pensions industry has a huge role to play, from improving their own ESG standards to using their clout to drive higher standards in others, to investing in renewables and green infrastructure. The UK is leading the world on ESG and tackling climate change, including applying new reporting requirements. Asset managers will have a fundamental role to play both in adopting ESG principles and in supporting schemes to comply with the new rules.

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