The Pensions Regulator

Pensions of the future – a discussion on our strategy

Putting the saver at the heart of all that we do

Pensions of the future – A discussion on our strategy

TPR's strategy will establish our commitment to put the pension saver at the heart of our work and set a stretching ambition for the future. It will detail our aspirations for different groups of pension saver and the role we will play in achieving them, setting high-level goals which we will pursue over a 15-year horizon.

This document sets out our provisional strategy for discussion with stakeholders. In it we outline our commitment to savers and the five strategic priorities that we have identified as our potential future focus. We are seeking overall feedback on the contents of this document and include some questions to consider in Section 6.

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1. Chairman's introduction: Our changing world

In my six years with The Pensions Regulator, I have witnessed a huge amount of change in the world around us. This past year has shown us just how much things can change in such a short space of time: the impact of coronavirus will be far-reaching and long lasting and one thing we can be certain of is that more change will come. In an uncertain and changeable future, the security and value that pensions provide for millions of savers feels more important than ever before.

This strategy is intended to be a living document. It starts with a discussion and will most certainly evolve over time as society, the economy, government policy and our funding and priorities change. We welcome your involvement in this discussion.

Societal and technological change have transformed the way we live our lives and the pace of this change is quickening. Mainstream adoption of email took almost 30 years from its creation in 1971, yet today email and much of our everyday lives can be controlled from a smartphone – an invention that only came to market in 2007.

The transformation in the way we work is also quickening. While self-employment has grown by just over 50% in the past twenty years, the 'gig economy' has more than doubled in just three. We can already see the effects of coronavirus intensifying and further accelerating this change. Less prominent career structures and more flexible working enable longer and more varied working lives and this has an impact on how and when we save for retirement.

Different groups of savers face distinct challenges in meeting their needs today and making provision for tomorrow. The impact of coronavirus is heightening inter-generational inequalities and it is essential that we adapt to the challenges that new generations of savers will face.

In the 15 years since TPR was formed, saving for retirement has rapidly evolved. The changes proposed in the Turner Pensions Commission of 2005 have transformed the profile of savers as well as the pensions landscape. At our inception, workplace pension saving was for the minority, with most savings held in defined benefit (DB) schemes which promised a set retirement income, leaving the financial risk to be borne by the employer. Today, most DB schemes are closed to new members, with savers relying on us to ensure that their schemes are well run and funded to meet the promises made to them.

More than 10 million new savers, many of whom would not have previously had access to pensions, have begun saving for retirement through automatic enrolment – mostly into defined contribution (DC) schemes. Our role for these savers is very different. With no promised levels of retirement income, their financial futures rely upon well run schemes providing good value for money.

More change is on the horizon for pensions. The current Pensions Bill will introduce a pensions dashboards programme connecting savers with their savings, collective defined contribution schemes to allow the market to adapt, and greater powers for TPR to secure saver outcomes. Over the course of this 15-year strategy, we know we can expect more change to follow.

In 15 years, the UK will be halfway towards its legally binding net zero emissions target. All pension schemes' investment decisions will need to take account of climate risk, as action by governments, companies and savers alter the valuation of different business sectors, individual covenants and the economic outlook.

In this changing world we must be clear about the role of TPR and how we prioritise our work. Our six statutory objectives give us our remit and provide the foundation for our strategy. Building on our new operating model and clearer, quicker and tougher approach, this strategy provides us both the focus and the flexibility to meet the challenges of tomorrow.

We have not undertaken this work in isolation. We began our strategy-setting process with a TPR-wide consultation, drawing on the ideas and expertise of our team. We have collated an extensive bank of intelligence and insight to help us understand how the world in which we operate is changing and to consider our own evolution.

We have sought early input from stakeholders across industry, government and the regulatory family to test our analysis and our ideas. We have greatly benefited from the insight and scrutiny that this process brought. I am very grateful to all who have taken part and look forward to the contributions that this discussion phase will bring.

Our statutory objectives

- To protect the benefits of members of occupational schemes
- To protect the benefits of members of personal pension schemes where direct payment arrangements are in place
- To reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF)
- In relation to our functions for DB scheme funding only, to minimise any adverse impact on the sustainable growth of an employer
- To maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008
- To promote, and to improve understanding of, the good administration of work-based pension schemes

2. CEO's introduction: Our purpose

This strategy has been a long time coming. We had intended to publish it in the spring but paused in light of the coronavirus pandemic. A great deal in the world has happened since then and things feel very different to when I came back to TPR just over a year ago. Today, the security and support that we provide to millions of people saving for later life has never felt more important. Pensions are for the long-term: regular, manageable contributions made over a sustained period help to provide savers with security in retirement. Yet in difficult times they can be overlooked in favour of near-term issues.

At the end of our 15th year, and in the face of such change, it is timely to look ahead and consider how TPR must evolve if we are to continue to protect and enhance savers' outcomes. We have looked forward to what we think the next 15 years may bring, including any long-term impacts from the coronavirus pandemic, to set this ambitious strategy for our evolution.

Pensions occupy a unique position among long-term savings options. Millions of savers rely on pensions to replace income in later life. These are the only savings that cannot be accessed before the age of 55 and are enhanced through tax relief and employer contributions. For many, a pension (including the state pension) will be the only money they have to live on in retirement.

The shift to DC means savers carry the financial risk on their investments as no set income is promised by these schemes. Savers' outcomes are therefore dependent upon the right contributions being made at the right time, being invested in the right place, and that their savings are not eroded by high costs and charges or poor performance. The decisions that determine these factors will largely be made by others.

Our focus must change from a scheme-based view to one that puts the saver at the heart of all that we do. This strategy centres on our commitment to pension savers.

For savers in retirement or entering retirement over the next 15 years, we will focus on **protecting their savings outcomes** so that money built up over a lifetime of saving is secure.

For savers that are further away from retirement, we will focus on driving **participation and enhancing the outcomes** they get from their pensions.

This will not be an overnight change for us. There is still much to do to secure the outcomes for members of DB schemes, both open and closed. Equally, as the automatic enrolment-driven system matures we must increasingly focus our efforts on ensuring that it delivers good quality outcomes for savers. We will therefore need to carefully balance our focus to ensure we take the right actions at the right time where we can make the most difference.

We will take a system-wide view of our regulation of pensions to make sure that money goes into pensions when it should, that it is well looked after and delivers value, and that savers can make good decisions and are protected when it comes to taking their money out.

We are not alone in pursuing good outcomes for savers. We are committed to working with our partners in regulation at the Financial Conduct Authority, the Prudential Regulation Authority and the Money and Pensions Service, and with government and industry to deliver on our commitment to pension savers.

We set out below our initial analysis of who savers are and how their profile will change over the next 15 years. We also explore how the landscape may change and how we will respond.

As we evolve, we will continue to use our expertise in pensions regulation to sustain our authoritative, independent voice on how the system is working.

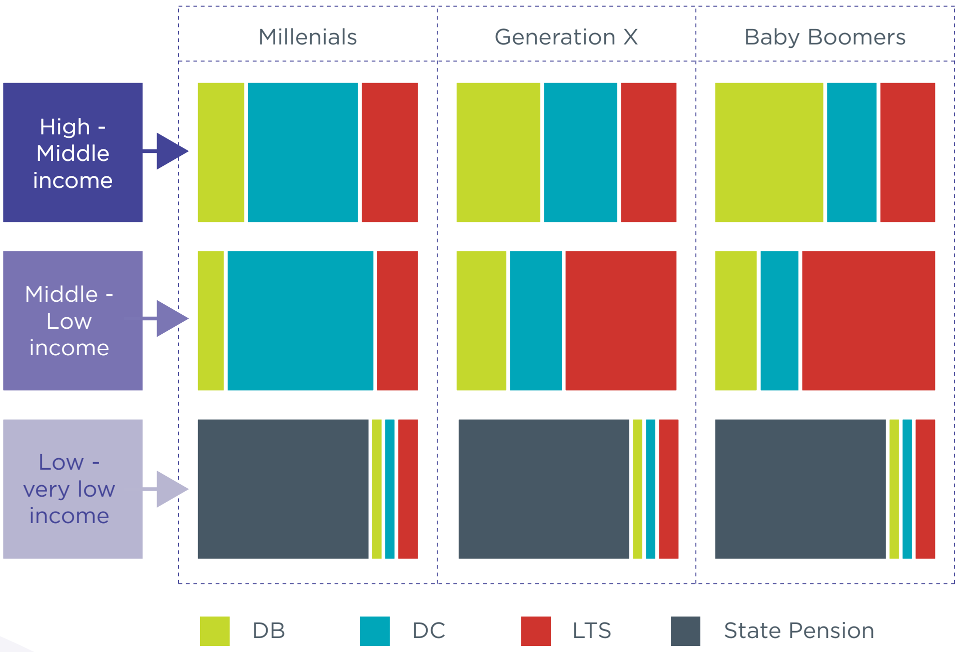
Our work is guided by the Better Regulation framework and the Regulators' Code, to which all UK regulators must comply. Building on this platform, we will be bold innovators of our own regulatory approach and work to reduce friction in the system, making compliance easier and less burdensome. We will set clear expectations, acting quickly where these are not met, and be tough where we need to be to protect and enhance savers' outcomes.

I am extremely proud of our hugely talented and committed team who will implement this ambitious strategy. The drive and expertise of our people underpins all that we achieve. As we look to the future we will prioritise attracting, retaining and developing the best people for the task ahead. In doing so we can be confident that we will fulfil our ambitions for the savers we exist to protect.

3. Pension savers and how they will evolve

We think about savers by considering their age (where they are in their working lives and how long they may be saving for) and their levels of income. We use data and insight to analyse the challenges that different groups face so that we can tailor our approaches to all types of pension saver.

This graphic depicts our estimation of the relative reliance that different saver groups are likely to place on DB, DC and other long-term savings (LTS). If our focus shifts over time towards younger generations, this in turn has implications for which markets we focus upon.



Baby Boomers

Over the coming 15 years the relatively financially secure Baby Boomer generation (born between 1946 and 1964) will complete their move into retirement. While some Baby Boomers have never held a workplace pension, this generation has historically saved into pensions more than later generations, most commonly through DB schemes.

Higher-income Baby Boomers will rely on DB pensions more than any other group.

Baby Boomers		
High - middle income	• Face confusing retirement choices • High exposure to DB • Targets for scams and mis-selling	
Middle - low income	• Some are less secure financially • Limited pensions saving – those automatically enrolled have little time to build up savings • Many have not thought about retirement and expect to rely on state pension	
Low - very low income	• High levels of debt, many have no savings at all • Vast majority have no pension at all and expect to rely wholly on the state pension	

DB DC LTS State Pension

Key risks and opportunities

Sponsors of DB schemes have experienced long-standing economic volatility and, in the wake of coronavirus, we expect financial strain and economic volatility to continue. Many DB schemes are not currently funded to meet the promises on which the Baby Boomers rely (the majority of DB schemes are currently in deficit[1]). Our new Defined Benefit Funding Code of Practice will provide greater clarity around funding standards, setting out our expectations of trustees and employers.

We know from the Money and Pensions Service that many Baby Boomers do not feel financially capable. They face the challenges of a complex retirement market and a lack of transparency around their pensions. This hinders decision-making among this group, who are the most likely to fall victim to pension mis-selling and scams.

Our core objective for Baby Boomer pension savers of all income brackets is to protect their savings outcomes.

Key areas of focus will include:

- **security and value in DB pension schemes**
- **working with our partners to prevent and tackle pension scams, and**
- **understanding and enabling good saver decision-making.**

We have determined these themes to protect Baby Boomer savers in line with our statutory objectives to protect the benefits of pension savers, to reduce the risk of compensation being payable from the PPF, and to minimise any adverse impact on the sustainable growth of an employer.

Two very different generations follow Baby Boomers: Generation X (born between 1965 and 1984) and Millennials (born between 1985 and 2004).

1 Pension Protection Fund, Purple Book 2019

Generation X

While many higher-income Generation X savers will be in DB schemes, a high proportion are saving into DC schemes – most commonly single employer schemes or master trusts run by large, established providers.

Many lower-income Generation X savers have been automatically enrolled into master trusts, saving into a pension for the first time. Most will be making the minimum statutory contributions and have relatively limited time in which to build up their pension pots. Many may be unaware that a few years of statutory minimum contributions will not, by themselves, meet their financial needs in retirement. Added to this, our research shows us the vast majority have given little or no thought to how they will manage financially in retirement.

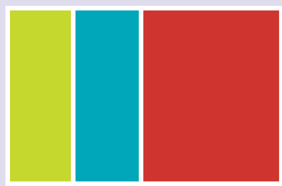
Generation X

High - middle income

- Many will reach retirement caring for both parents and children
- High levels of unsecured debt
- Many do not engage with pensions

Middle - low income

- Many will reach retirement caring for both parents and children
- Many are over indebted
- Automatically enrolled into master trusts but limited time to build up savings



Low - very low income

- High levels of debt, many are not saving at all
- Vast majority not pension saving at all – do not meet the automatic enrolment threshold

DB DC LTS State Pension

Key risks and opportunities

Research shows us that higher-income Generation X savers generally feel financially resilient and confident about managing their money. However, this group has higher levels of unsecured debt than other groups of savers. Many within this 'sandwich generation' will reach retirement supporting both their children and their parents.

Automatically enrolled Generation X savers are generally less likely to engage with their pensions than Baby Boomers. A factor behind low engagement may be the lack of transparency and perceived complexity of pensions. For these savers, with small pension pots unlikely to meet their full income needs in retirement, the efficiency and value of the pensions system will be a key determinant of their financial futures. Their savings risk erosion from poor or unsuitable investments, high costs and charges, and low-quality services which are exacerbated by data issues.

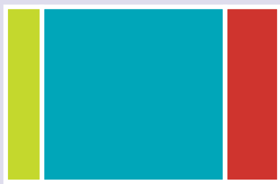
Generation X savers would benefit from market innovations and regulatory developments that drive greater transparency and simplicity, for example through improved data quality and the simplification of benefits statements and decumulation products.

Millennials

Millennials exemplify savers' changing needs. They will earn their money differently to other generations, working more flexibly and seeking flexible saving solutions to match.

We expect the growth in multiple short-term employments, zero hours contracts and 'gig economy' work will be concentrated particularly among lower-income Millennials. Although most will at some point be automatically enrolled, these savers will typically make the statutory minimum level of contributions and their more erratic employment patterns could make pension saving a challenge.

Higher-income Millennial savers generally feel financially resilient and are already saving for their long-term futures. While some of these savers will be in DB (principally public service) schemes, most will have DC pensions. As with Generation X savers, the efficiency and value in the pensions system will be a key determinant of their financial futures.

Millenials		
High - middle income	• Flexible work across multiple employments • Predominantly in master trusts • Don't feel able to make informed choices on pension saving	
Middle - low income	• Flexible work across multiple employments • Many have limited pension savings and are more heavily reliant on housing wealth to fund retirement • Many have lower financial confidence	
Low - very low income	• High levels of debt, many are not saving at all • Vast majority not pension saving at all – do not meet the automatic enrolment threshold	

DB DC LTS State Pension

Key risks and opportunities

Many Millennials have no savings. Our research shows us the vast majority feel they don't know enough about pensions to make suitable choices.

Millennials will increasingly concentrate into large master trusts as consolidation takes effect. This brings the opportunity for enhanced savings outcomes where schemes are well run, offer access to a wider range of investments, and bring economies of scale. Consolidation can however amplify systemic risk, for instance in relation to cyber security, and could possibly suppress market competition were a handful of schemes to dominate.

Advances in technology should improve the quality and security of data. While investment and increased compliance will increase costs in the shorter-term, technology can make administration more efficient and lower costs in the longer-term. We also expect dashboards and fintech to increase transparency and reduce the cost and effort of making decisions.

Our core objective for Generation X and Millennial savers of all income brackets is to enhance their savings outcomes. Key areas of focus will include:

- ***driving participation in workplace pensions***
- ***ensuring that savers get value from their pensions and that their money is secure, and***
- ***encouraging and supporting innovation.***

We have determined these themes in line with our statutory objectives to maximise employer compliance with automatic enrolment and to promote and improve understanding of the good administration of pension schemes.

Generation Z

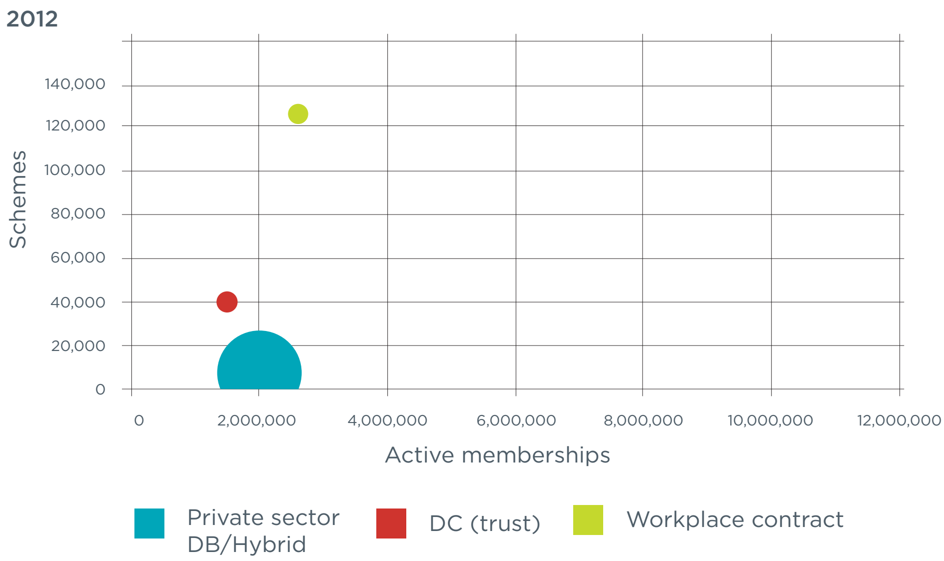
Over the course of this strategy, a new generation will begin to enter the employment market – Generation Z (born from 2005 onwards). These savers will have their own blend of needs and challenges and work in a markedly different world compared with the savers who are currently entering retirement. We will continue to evolve to meet these new savers' needs and in readiness for the generations that follow.

4. The pensions landscape and how it will evolve

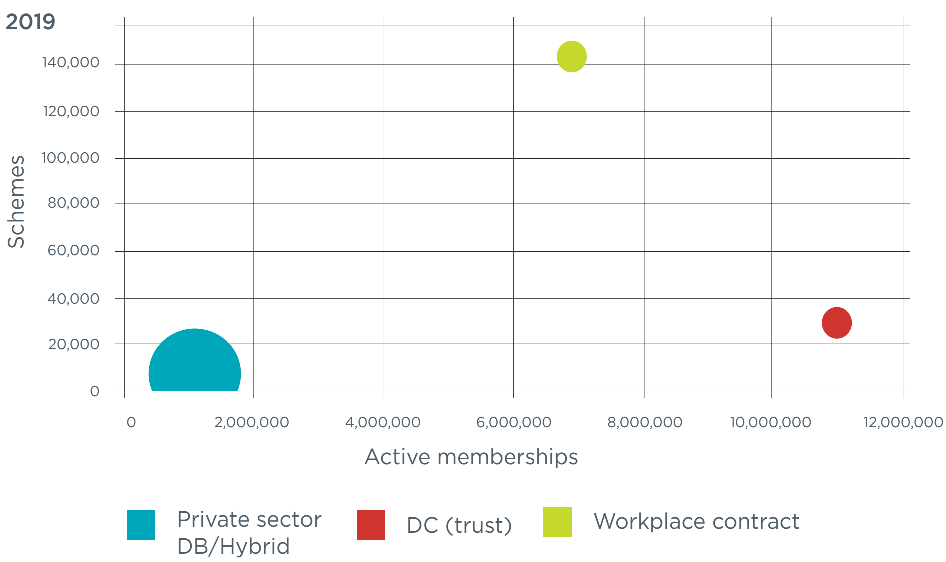
The scale and pace of the changes we have seen in the pensions landscape over the past decade show no sign of slowing down. As we look forward to the coming 15 years, our analysis suggests we will be regulating fewer but larger schemes of all types as the market consolidates: for occupational DC this could be around 50% fewer schemes and for DB around a third fewer.

These larger schemes come with their own risks and yet will become systemically important to UK financial stability. Given their size and importance, our regulatory approach will need to be highly integrated with other financial and system-wide regulators.

Before automatic enrolment, 3.5 million people saved into occupational pension schemes in a market where DB memberships and assets far outstripped those for DC



Today, following the roll-out of automatic enrolment, the number of savers in DC has overtaken the number in DB – and many have different needs and face different challenges



Charts source: TPR estimate based on TPR data and Broadridge, UK & RI Market Intelligence 2019. Note: DB liabilities do not take into account future active accruals or future transfers.

Beyond this shift in the make-up of pension schemes we anticipate substantial evolution of the broader pensions landscape.

Our analysis has highlighted a set of seven overarching trends that will shape the future of retirement saving.

By 2034, we expect further consolidation in both DB and DC – if trends continue this would mean fewer than 15,000 DC and 4,000 DB schemes

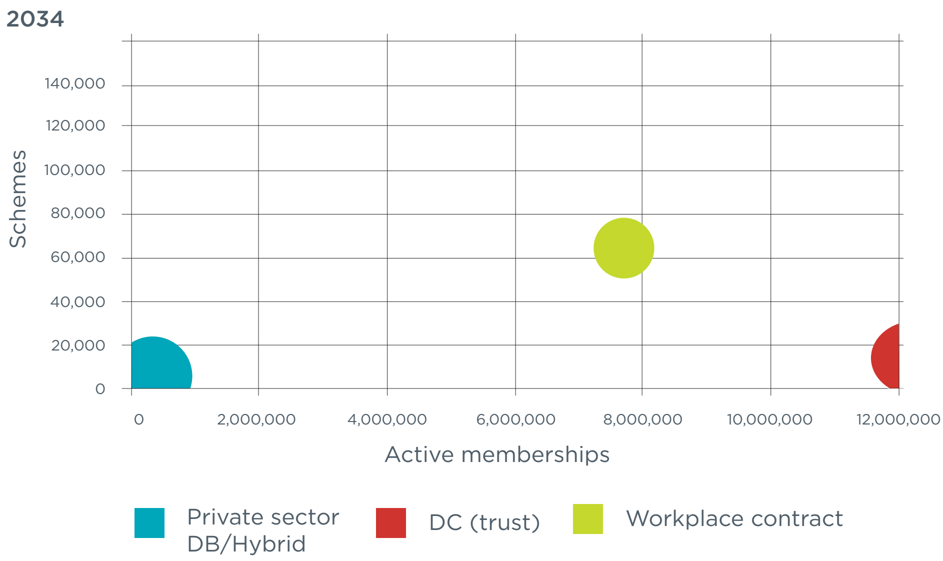
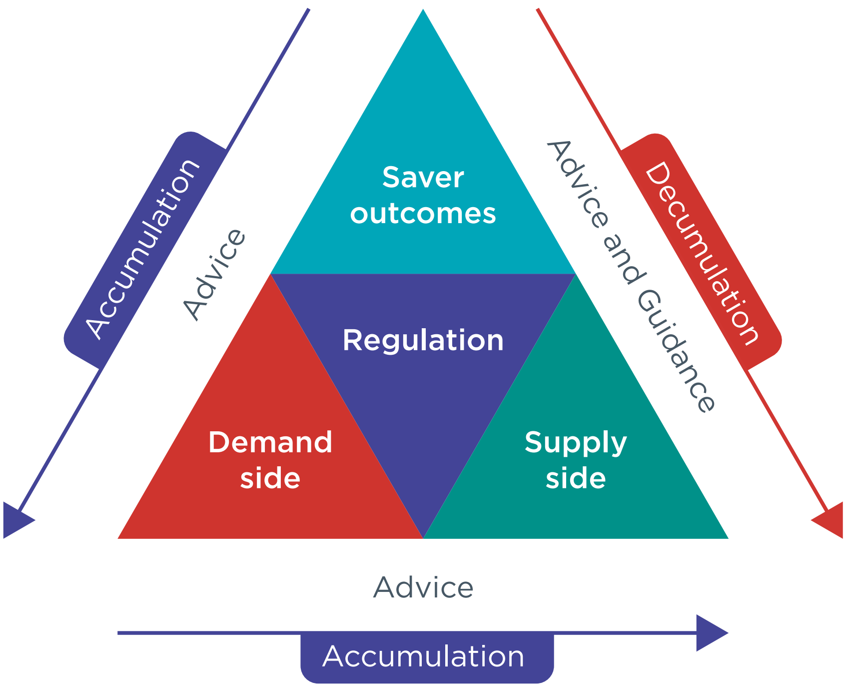


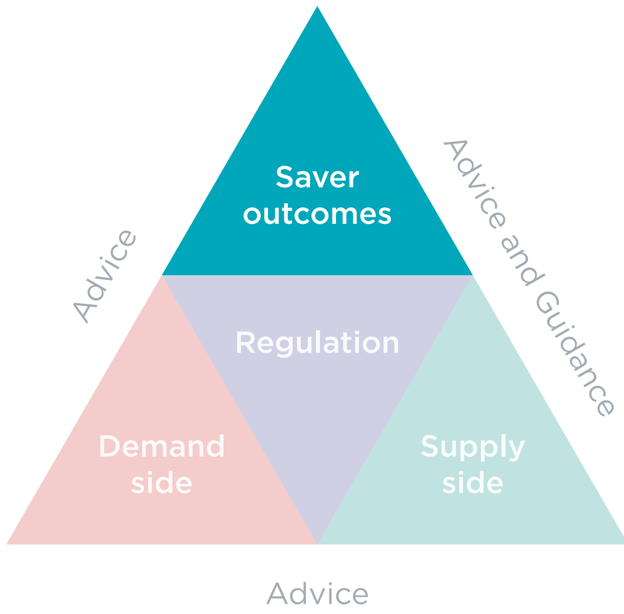
Chart source: TPR estimate based on TPR data and Broadridge, UK & RI Market Intelligence 2019. Note: DB liabilities do not take into account future active accruals or future transfers.

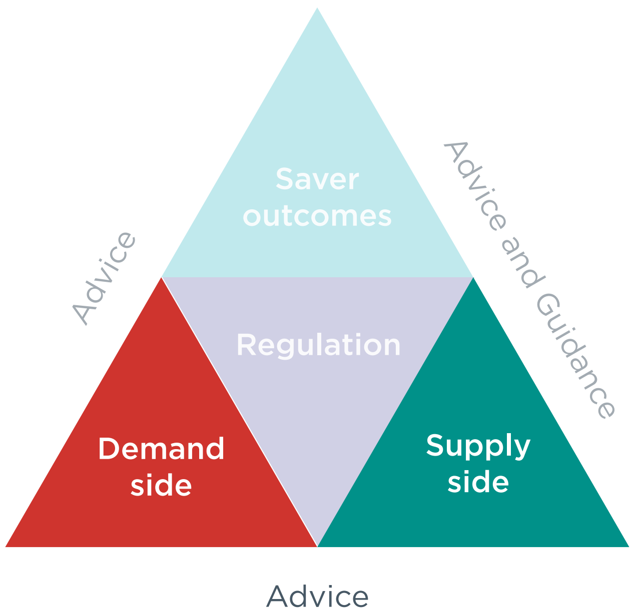
We are using this market map to aid our thinking on the landscape. By considering which part(s) of the market are most affected by a trend, we can then think through the implications for other parts of the market and the leverage we have in helping to shape or respond to that trend in the interests of savers. For each of the trends below we have highlighted the relevant part(s) of the market.



The nature of work and retirement is changing.

While traditional employment models will continue, many people will work and earn money differently. This ongoing change to the way we work has quickened in the wake of coronavirus. We expect a growing number of people to work part-time in retirement to supplement their income while they can. The market will respond to these changes and how people save for the long-term will continue to evolve.





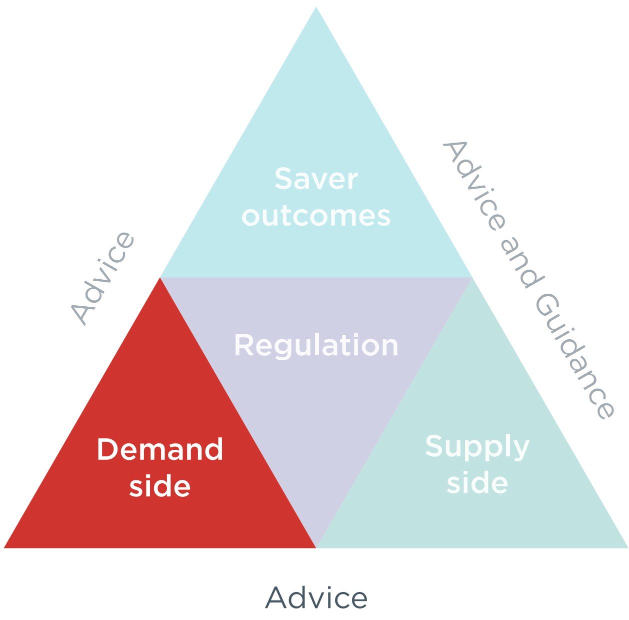
The balance of the marketplace is shifting.

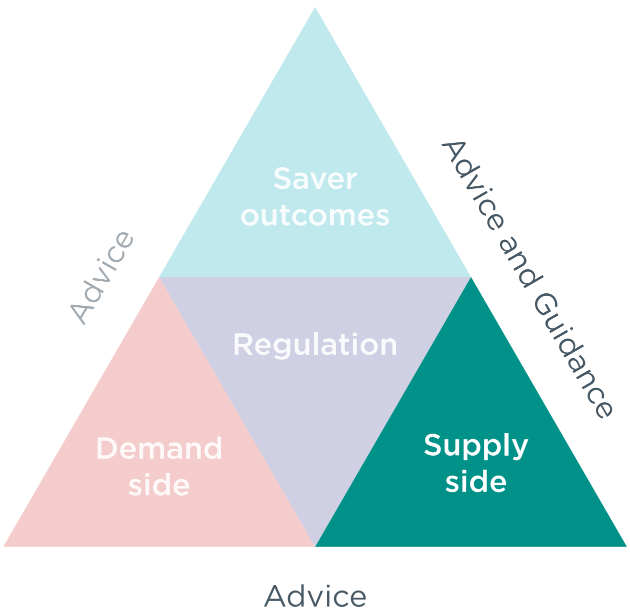
We expect a shift in the trustee model, with fewer, more professionalised trustees who are increasingly appointed by providers rather than employers/members. We also anticipate employers will continue to evolve benefits packages to meet employees' changing needs and working patterns. The shift away from promised benefits means the quality of saver outcomes will increasingly be defined by decisions made by employers, providers and others in the system. In DC pensions especially, employer choices could come to dominate the 'demand' side of the market.

It is important for us to monitor the market if we are to protect and enhance savers outcomes in the face of this change. This includes understanding the impact of decisions made by employers and provider-employed trustees on saver outcomes and how the market for employer advice is working.

The proportion of DB memberships and assets continues to reduce.

For all but a few sizeable (principally public service) schemes, DB schemes will be closed to new members and as they mature will become increasingly focused on matching their liabilities. For closed schemes, a priority will be to address any funding gaps and ensure there are clear plans in place to meet the promises made to members. We expect the economic impact of coronavirus will quicken consolidation and anticipate that the market will innovate and develop alternatives to traditional DB schemes.



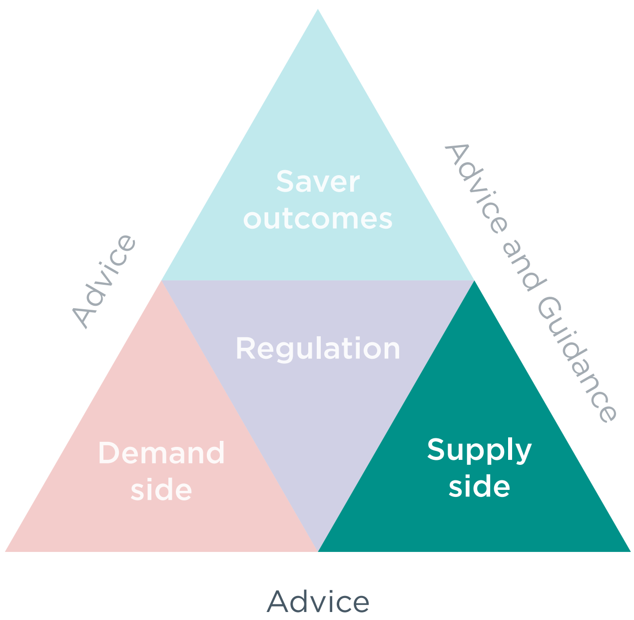


The DC market is growing and consolidating.

This consolidation provides the opportunity for enhancing saver outcomes through better governance, administration and value. It is important that we closely monitor the market as it develops and use data and intelligence to drive a differentiated approach to our supervisory work, ensuring we remain focussed on those schemes which pose the biggest risk to saver outcomes.

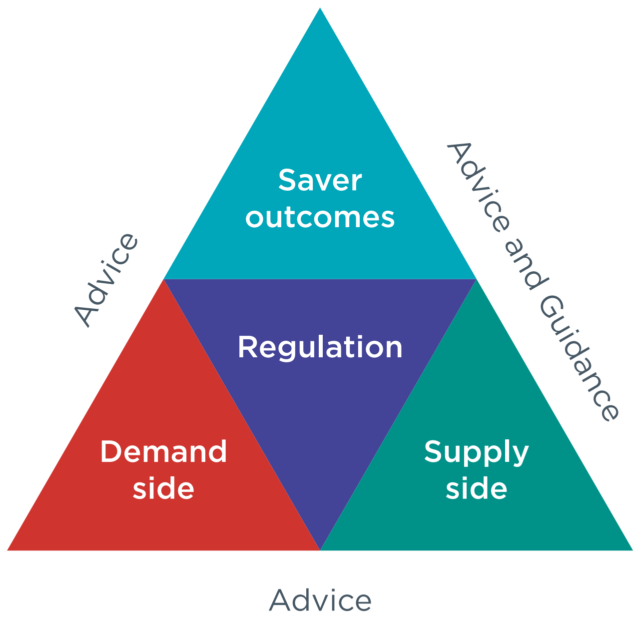
Suppliers will innovate and integrate.

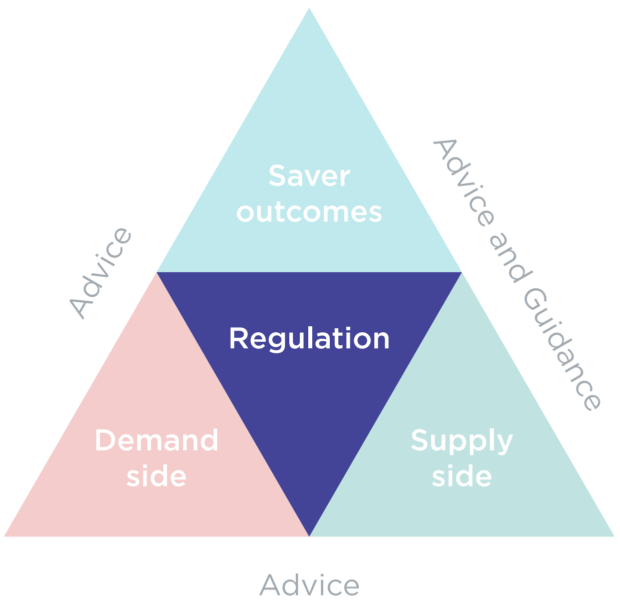
We anticipate that some providers will expand to operate across the full supply chain, offering advice, products and services. Some will offer a wider range of products, including decumulation and alternative long-term savings products. We will need to keep pace with innovations and develop effective regulatory responses.



Technology will drive and enable change.

The pensions system is overdue a technology-driven change and the pensions dashboard may be a catalyst for accelerating the pace of this change. While some in the market may not prioritise investment in new technology during financially difficult times, we expect some others to innovate as a means of responding to the challenges that savers and the system now face. Advances in technology should drive transparency and increase the quality of data, bringing improvements in administration and member communications while lowering costs. It will be vital for us to embrace the changes brought about by technology, both for ourselves as a regulator but also for the market in general. We expect to work closely with industry in driving and embedding technology, sharing good practice, and ensuring strong associated governance.





Regulatory frameworks will evolve.

In light of consolidation, innovation and market integration, we anticipate further evolution of regulatory frameworks. We also expect the pace of this change may quicken in response to the impact of coronavirus. Other environmental factors will also have the effect of shaping the market (as the current initiatives relating to climate change are already doing) which will have implications for our own evolution and for our regulatory regime.

We work with others to deliver security and value for pension savers. It will be important for us to focus on strengthening and deepening our relationships with government and our regulatory partners as part of a coherent system which demonstrates value for money.

5. Our strategic priorities

Our strategic priorities enable us to meet our statutory objectives and deliver on our commitment to pension savers.

Our commitment to pension savers

We are putting the pension saver at the heart of all the we do.

Savers entering, or in retirement, over the next 15 years can expect us to protect their savings.

Savers who are further away from retirement can expect us to drive participation and enhance the quality of their savings outcomes.

We do not underestimate the size of our challenge. Millions of new savers will rely solely on their pensions to fund their retirements. They are primarily in schemes without promised outcomes and depend upon the value the pensions system provides.

Savers need us to understand their needs and challenges and how these differ between generations. They need us to be alert to how the landscape is changing and proactive in helping to shape those changes in their interests. They need us to scrutinise the market and to respond promptly and decisively to protect and enhance their savings outcomes.

Strategic priorities

We have five strategic priorities, each with a strategic goal:

Security

Strategic goal: Savers' money is secure

Our primary goal is to protect the money that savers invest in pensions. In the early stages of delivering this strategy, we will maintain our focus on the promises that are made to savers in DB schemes and on protecting their pensions from scammers. We will work to ensure that these schemes are funded to meet their commitments and that savers can continue to rely on the security provided by the Pension Protection Fund where necessary. We will encourage the simplification of DB schemes, work with the market on alternatives to 'traditional' schemes and drive consolidation where this is in savers' interests. As assets in DC schemes grow we will, over the 15-year horizon of this strategy, shift our primary focus to the security and value that these schemes provide savers.

Value for money

Strategic goal: Savers get good value for their money

Pension savers are entitled to expect good value for their money. This means that savers' money must be suitably invested, costs and charges must be reasonable, and good quality, efficient services and administration are driven by robust data. We expect and will actively pursue value for money throughout the pensions system and will intervene where our expectations are not met. Where consolidation occurs, we expect it to deliver improvements in the value of savers' outcomes.

Scrutiny of decision-making

Strategic goal: Decisions made on behalf of savers are in their best interests

We will monitor those who make decisions that impact savers' outcomes, closely scrutinising any decisions that pose a heightened risk to the quality of these outcomes. We will increase our focus on managing savers' exposure to both economic and environmental, social, and governance risks. We expect diversity among those who take decisions on behalf of savers. We also expect decisions that affect savers to be fair and transparent and will intervene where we believe poor decisions may lead to bad outcomes for savers.

Embracing innovation

Strategic goal: The market innovates to meet savers' needs

The market should meet and keep pace with savers' needs. We will encourage innovation and good practice, collaborating with the market to enhance security, efficiency, transparency, simplicity, and choice. We do not underestimate the scale of change in the pensions landscape and as we evolve we will balance our resources to intervene where we will have the greatest impact on saver outcomes.

Bold and effective regulation

Strategic goal: TPR is a bold and effective regulator

TPR has undergone significant change in recent years, but we do not underestimate the need for adaptability as the pensions market and our focus shifts. We will transform the way we regulate to put the saver at the heart of our work, driving participation in pensions saving and enhancing and protecting savers' outcomes. We will remain a key part of a coherent regulatory system. Our approach will be proportionate to the challenges we face and we will demonstrate our own effectiveness and value. Throughout our evolution we will maintain a sharp focus on bold and innovative regulation, anticipating and preventing issues before they materialise. We will adapt to a changing world, flexing our approach to the opportunities and constraints of the time and work with our partners and industry to deliver on our commitment to pension savers.

6. Questions for discussion with stakeholders

We are seeking feedback on the overall content and ambition of this provisional strategy by **16 December 2020**. Please email us at: Strategy.DiscussionResponses@tpr.gov.uk. We are particularly interested in stakeholders' thoughts and ideas in relation to the below four questions:

Q1: Do you think our approach to thinking about savers has identified the most significant current and future challenges for each cohort?

Q2: To what extent should we differentiate our approach to regulation for these different saver groups? At what pace would you expect to see this happen?

Q3: Do you think the key trends we have identified adequately capture the most likely system-level changes pensions will experience over the next 15 years? Are there other system-level changes you believe we need to consider?

Q4: Do our strategic priorities provide the coverage, focus and flexibility we need to achieve our ambitions for savers over the next 15 years?

7. Finalising our strategy

We are looking forward to a series of discussions on our strategy with key stakeholders during the autumn. These will centre on our analysis and strategic priorities and explore how we will work together to deliver our goals.

Following these discussions, we will refine and then publish our strategy in the new year. We then look forward to working with our many partners in the regulatory family, government and industry to bring this strategy to life and put the saver at the heart of all that we do.

8. Our sources

In producing this strategy we reviewed evidence from more than 160 internal and external sources to build our initial view of the pensions 'waterfront'. We are particularly grateful to the insight provided through the following sources:

- Financial Conduct Authority, Financial Lives Survey
- Money and Pensions Service, Financial Capability Survey
- The Pension and Lifetime Savings Association, Retirement Living Standards Report
- Resolution Foundation, The kids aren't alright: a new approach to tackle the challenges faced by young people in the UK labour market
- Broadridge, UK Defined Contribution & Retirement Income Report 2019
- Office of National Statistics, Wealth and Assets Survey
- TPR's own data

How to contact us

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www.trusteetoolkit.com
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Pensions of the future
– a discussion on our strategy