VIEWPOINT

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Planning for retirement: Long-term savings and investment in the UK

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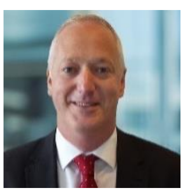

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Executive summary

People are living longer. This is good news, but if they are to reap the benefits of longer lives, it is essential that policy initiatives are developed to help individuals save more, start earlier and invest their capital in a way that is most likely to enable them to meet the financial challenge of longevity.

BlackRock's Global Investor Pulse survey highlights that many people are put off by the complexity of planning for retirement, which is often compounded by a lack of financial capability.[1] Low levels of financial awareness, especially among those without access to advice, can make financial planning an unnecessarily emotional or distressing process, leading to poor long-term financial decision-making. This translates directly to low savings rates, poor asset allocation, and an over-reliance on cash to deliver long-term returns. This runs counter to research showing that the three most important factors in generating adequate levels of retirement income **are (i) increased contribution rates, (ii) time in the market and (iii) asset allocation decisions.**[2]

In 2015 the UK's pensions freedoms reform brought the importance of financial decision-making into sharper focus, which policymakers and industry must now address.[3] One of the most pressing aspects to address is how to boost financial capability, by giving individuals the support they need to make adequate provision for their own retirement. Industry also has a role to play, in developing new product solutions that not only provide a glidepath up *to* retirement, but also *through* retirement.

A sustainable policy framework for pensions will support people of all ages to prepare for retirement, while enabling companies to grow and innovate. Such a set of policies can also help **address increasing concerns regarding inter-generational fairness** by setting out a clear path to retirement for younger generations.

In this *ViewPoint*, we first examine the underlying causes of the current retirement savings gap. We then look at the challenges and opportunities for individuals looking to save for retirement.[4] and conclude with key recommendations for the Government and industry to work together to develop a range of solutions that help individuals plan more effectively for their retirement.

The opinions expressed are as of July 2017 and may change as subsequent conditions vary.

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KEY RECOMMENDATIONS

GOVERNMENT INITIATIVES: Commitment to a long-term and consistent framework for retirement savings

- Provide honest goals for the contribution rates most people should aim for, and develop tools to help them reach these goals. We favour targeting a minimum contribution rate of 15% of salary over time.
- Enhance automatic enrolment into workplace pensions with the inclusion of auto-escalation, whereby individuals pre-elect to increase their contribution rate when receiving any future pay increases, as this can help people reach higher contribution rates. Consider how to extend the scope of coverage to the self-employed.
- Maintain incentives for employers to support retirement savings though matching contributions and payroll management.
- Provide long-term stability to the retirement savings system through consistent retirement policy-making.
- Commit to easy to understand, transparent and fair tax treatment for pensions that provide incentives for individuals to save.
- Develop a longer-term investment culture. Encourage investment in assets that match peoples' long-term liabilities.

JOINT GOVERNMENT AND INDUSTRY INITIATIVES: Increase people's confidence and financial capability.

- Continue to develop a framework for guidance and simplified advice, to help give people the confidence to start saving.
- Use technology to develop initiatives that give people a comprehensive view of, and control over, their retirement savings. These include continued support for the development of a digital identity and a comprehensive pensions dashboard that shows likely income from all potential sources, both public and private.
- Focus on steps to generate an appropriate income *throughout* retirement, rather than just generating a retirement pot, recognising the increasingly flexible nature of retirement.
- Develop incentives to start saving earlier and access the long-term benefits of compound interest.

INDUSTRY INITIATIVES: Overcome barriers to retirement saving

- Focus on developing outcomes-driven retirement solutions that not only help people build up assets in advance of retirement (accumulation) but also generate income during retirement (decumulation). In particular, traditional lifecycle solutions must evolve for the new world and be designed with the latest glidepath insight.
- Make the case for why value for money is more than just buying the cheapest product, but also includes assessing risk and performance and quality of servicing.
- Give full costs of investing across the distribution chain giving people confidence that there are no hidden charges.

The underlying causes of the current retirement savings gap, and the challenge of longevity

Empowering people with the confidence that they will have adequate resources in retirement is a crucial area of both social and industrial policy. At the same time, long-term savings, productively invested in the economy, bring benefits to everyone by helping to generate growth, stability and prosperity for both current and future generations of UK citizens. When invested in the economy, regular long-term savings can provide capital markets with a reliable source of financing to help businesses grow, contributing to a virtuous circle of jobs and growth.

Traditionally, individuals in the UK have needed to prepare for two major financial decisions. The first, owning their own home, is aspirational and remains a key driver for people planning their personal finances. The second, planning for retirement, is largely still not seen as an aspirational goal, though it is equally, if not more important, than home ownership. The challenge now is **how to frame retirement savings in an aspirational way** and provide people with effective tools that empower them to take control of their retirement.

Historically, responsibility for retirement planning in the UK has rested primarily with the State and employers. While the State pension and employer-run occupational schemes will remain an important source of retirement income for many[5], the increasing moves from defined benefit (DB) to defined contribution (DC) schemes, as well as fragmented employment patterns in the workplace (such as the growth of the self-employed and the gig economy), mean that responsibility for retirement planning is increasingly shifting to the individual. While many people have previously been able to rely on the combination of state provision and DB schemes from employers, going forward this is challenged by the costs linked to increased longevity.[6]

Yet BlackRock's research shows that many individuals do not feel able take the steps necessary to plan for a comfortable retirement. Whereas the majority of individuals in the UK rate saving money and enjoying a comfortable retirement as their greatest financial goals, less than half feel confident that they are making the right savings and investment decisions.[7] The UK's National Employment Savings Trust (NEST) sums up the underlying causes of why many people fail to engage with pensions: "*They're considered dull because they're seen as complex and hard work to understand. They're emotive because ultimately they're about future financial security*."[8] As life expectancy increases, the importance of pensions savings becomes more pressing.

BlackRock Global Investor Pulse

A study of consumer behaviours and attitudes to saving and investment

One of the largest global surveys ever conducted, the BlackRock Global Investor Pulse survey in 2017 interviewed 29,500 respondents, in 19 nations:

- In North America, the US and Canada
- In Europe, France, Germany, Italy, the Netherlands, Spain, Sweden, and the UK
- In Latin America, Brazil, Chile, Colombia, and Mexico
- In Asia, China, Hong Kong, India, Japan, Singapore and Taiwan

The UK sample included 4,000 respondents, all of whom were main or joint household financial decision makers, but otherwise no income or asset qualifications were used in selecting the survey's participants, making the survey a truly representative sampling of the nation's population. Executed with the support of TNS, an independent market research company, the survey took place in February 2017. The study has been running for 5 years.

Longer lives: A demographic reality check

Individuals accumulating a retirement savings pot today must recognise that it will need to provide an income for far longer than in previous generations. The current average life expectancy of a 65 year old in England and Wales is 21 years for men, and 24 for women[9]. This means a man currently aged 65 has a life expectancy of 86. However, he also has a one in four chance of living to 94, and a one in ten chance of living to 99. If this cohort save with the expectation of living to 86, a quarter will have under-saved, and live for a further 7 years, potentially without adequate income.[10] Polls and surveys show that many people underestimate their life expectancy significantly.[11] The use of average figures also hides the fact that for many people, lifespans are likely to be considerably longer. Around a third of babies born in 2013 are expected to live to 100.[12]

In the past, retirement expectations for most were based on the assumption that living costs would be limited and that any retirement pot would need to provide only a modest income. Any mortgage would have long been paid off and downsizing the family home was an option to supplement income. Current trends suggest that this may no longer be the case. Apart from the undesirability of making 'old age' the longest phase of one's life, it's unrealistic to expect that most workers will be able save enough over the course of a 40-year working life to fund a possible 30-year (or longer) retirement using traditional retirement planning tools.

Changing housing patterns: Recent decades have seen a gradual increase in the average age of the first-time home buyer, from 23 in the 1960s, to 30 in 2016, according to the Halifax report.[13] Only 26% of current 20 to 39 year olds are projected to be homeowners by 2025.[14] Lenders report that average mortgage lengths in the UK have increased from 25 to 35 years.[15] Reflecting this, some have recently extended the maximum age of borrowers at the end of mortgage terms beyond the age of 80.[16] Since 2001, there has also been a steady increase in the number of households renting. Home ownership in the UK peaked at 69% in 2001, but declined to 64% at the time of the 2011 UK census.[17] If this trend continues, more people are likely to be renting or paying off their mortgage into retirement age, increasing their living costs.

Changing family patterns: At the same time, the average age of parenthood has been increasing. In 2015, over half (53%) of all live births in England and Wales were to mothers aged 30 or over and two-thirds (68%) of fathers were aged 30 and over.[18] As a result, more parents may reach retirement age with children who are not entirely financially independent. They will need to budget carefully for this.

Changing working patterns: A theme evident in our own discussions is that the traditional concept of retirement is outmoded.[19] The idea that people should want to (or be forced to) stop working at 65 no longer makes sense, given many are living longer, remaining healthier as they age, and the ratio of old to young is growing. Mandatory retirement ages at the employer level must be reconsidered. Instead, thinking in terms of a new 'life script' may allow for greater flexibility, time off, or part-time work. This will require more opportunities for education and retraining and phased retirement, in which individuals may reduce their hours or shift into less demanding roles, but do not abruptly leave the workforce at a pre-set age. The traditional single company pension scheme, which in the past has been the backbone of many people's savings plan, fails to address the needs of workers that have followed more varied work patterns. Retirement solutions need to evolve to be flexible and portable, and allow individuals to remain in control of their savings. We must also consider the potential cognitive and health benefits of phased retirement.

A more expensive retirement?

A recent study by Royal London suggested that the average monthly spend on essential goods and services for a single UK pensioner may rise from £1,084 in 2015 to £2,764 in 2050. The average monthly state pension is only expected to rise from £654 in 2015 to £1,558 over the same time period. If the state pension increases more slowly than living costs, this could see many pensioners unable to cover essential outgoings unless they have adequate additional sources of income in retirement.

Source: Royal London[20]

All of this suggests that individuals in the UK must prepare for a longer and more expensive retirement than in the past. People will need to engage earlier, and save more effectively throughout their working lives, if they are to achieve adequate retirement provision for themselves. Failure to act translates into the threat that those retiring in 2035 may be poorer than their parents retiring today.[21]

Barriers to achieving adequate retirement income

The demographic and social changes outlined above point to an urgent need to identify and overcome the barriers to achieving adequate retirement income. These include not saving at all, or not saving enough, and the complexity of the savings process, which damages people's confidence leading to confusion and a lack of financial capability.

In this section we address the following key barriers:

- Not engaging early enough
- Complexity of the system
- Lack of consistent tax rules to support long-term planning
- Advice and capability gaps
- Low level of contribution rates to workplace schemes
- Failure to manage the transition from work to retirement

1: Not engaging early enough: Conflicting priorities, comfort of cash, and unrealistic expectations

Conflicting priorities

Many people struggle to understand the imperative for saving for retirement. BlackRock's Global Investor Pulse asked people how they prioritised saving for retirement. Setting aside sufficient income for retirement is a priority that many don't appreciate or cannot meet – especially in the context of paying off student debt, saving for a mortgage deposit, and increasing rents and living costs. This means many people are missing out on the benefit of long-term compound interest in driving total return, and may need to take serious remedial measures to improve their pension provisioning as they approach retirement, or face the prospect of poverty in old age. Setting the habit early, even if contributions are small, will be to the benefit of one's future self.

Comfort of cash

Individuals in the UK hold on average 69% of their wealth in cash.[22] Many acknowledge holding too much of their wealth in cash, but are comforted by the perceived safety of cash. They are reluctant to invest, equating this to gambling with their hard earned savings.

Gap between expectation and reality

There is a widespread lack of appreciation of how long people are likely to live.[23] Accordingly, many underestimate how much they need to save in order to meet their retirement income goals. This greatly increases the risk that they will not have sufficient income in later life, or will run out of savings. This hampers effective retirement planning.

Exhibit 1: Timeline of key pensions-related reforms

2: Complexity of the system: Moving goal posts erodes engagement

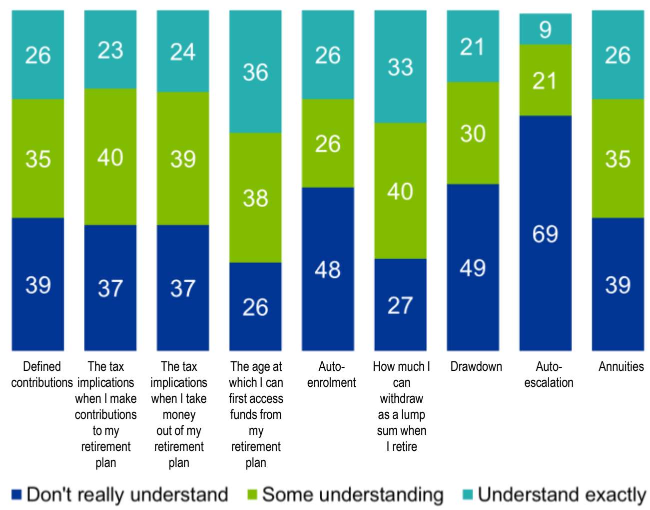
The UK has witnessed a continual wave of pension reforms in the last decade. While these have been well-intentioned, many would agree with remarks by Andy Haldane, Deputy Governor of the Bank of England:

> *"I consider myself moderately financially literate. Yet I confess to not being able to make the remotest sense of pensions. Conversations with countless experts and independent financial advisors have confirmed for me only one thing - that they have no clue either. That is a desperately poor basis for sound financial planning."*[24]

Previous Governments have recognised that "*for too many people, pension planning has become an incomprehensible maze. In particular, the complexity of current tax rules have made pensions hard to understand even for experts*".[25] The 2006 Pensions Simplification sought to address this, aiming to achieve a 'single set of simple rules'.

While many of the reforms since Pensions Simplification have brought some benefit to investors, the system overall remains confusing and difficult to navigate. The original purpose was that "*the tax system will simply cease to be a consideration when planning for retirement. Instead [people] will be free to concentrate on the real issues – deciding when and how much to save*."[26] We remain far from achieving this goal. Our research (see Exhibit 2) shows that levels of understanding of the various elements of retirement are very low. Only **around a quarter of people understand the different elements of retirement savings,** with auto-escalation, one of the potentially most beneficial tools, being the least understood.

Exhibit 2: Understanding of aspects of retirement savings



Source: BlackRock[27]

2006: Pensions Simplification and ongoing changes to the lifetime allowance

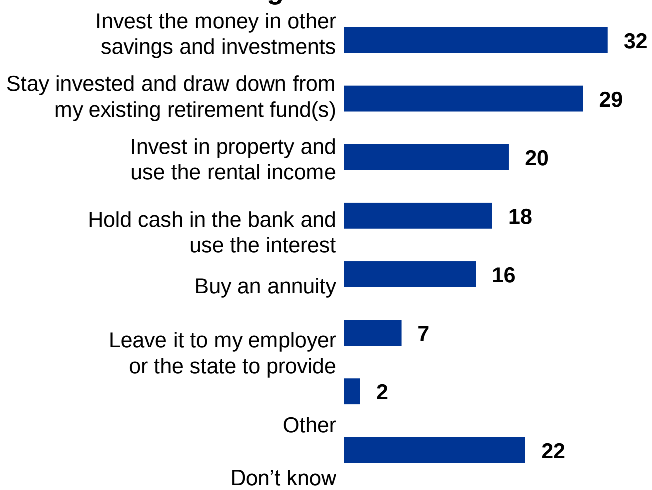
Pensions Simplification sought to create a single universal regime to replace eight different tax regimes. The work began in December 2002, with the joint HM Treasury and Inland Revenue consultation *Simplifying the taxation of pensions: increasing choice and flexibility for all*. The overall principle for reform was to "*achieve a transparent, consistent and flexible system which can be readily understood*" and to "*deliver clearer incentives to save*."

According to the 2006 reform, individuals were to be able to save subject to a lifetime allowance of £1.5 million and an annual allowance of £215,000, without incurring tax penalties.

Since 2006, the reality has instead become more complicated. The lifetime allowance (LTA) has been cut repeatedly to £1 million since its introduction. The annual allowance has been reduced to £40,000 and will now be indexed from the 2018/19 tax year. The annual allowance is also tapered by 50p for every £1 of income between £150,000 and £210,000 down to a maximum contribution level of £10,000 (with the unintended consequence of disincentivising many higher earners from having a stake in the governance of their company scheme). The number of changes and complexity of application are in marked contrast to the relative simplicity of the ISA tax regime for other savings, with a single annual allowance which has been gradually increased over time.

As people draw closer to retirement, the realisation that they need to prepare for retirement grows. While just over 60% of people over 50 would put in place an investment strategy such as re-investing and income draw down to generate an investment income during retirement, just under a quarter (22%) say they do not have an idea of how to generate an income in retirement, as shown in Exhibit 3.

Exhibit 3: Generating income in retirement?



Source: BlackRock [28]

3: Lack of consistent tax rules to support long-term planning

To attract and retain public engagement, the pensions system needs stability above all. Scarcely a single fiscal event now goes by without some tinkering to the regime for pension tax reliefs. Asking individuals to commit their capital to a savings product over many years, even decades, requires a degree of trust that cannot be expected if pensions rules are constantly moving.

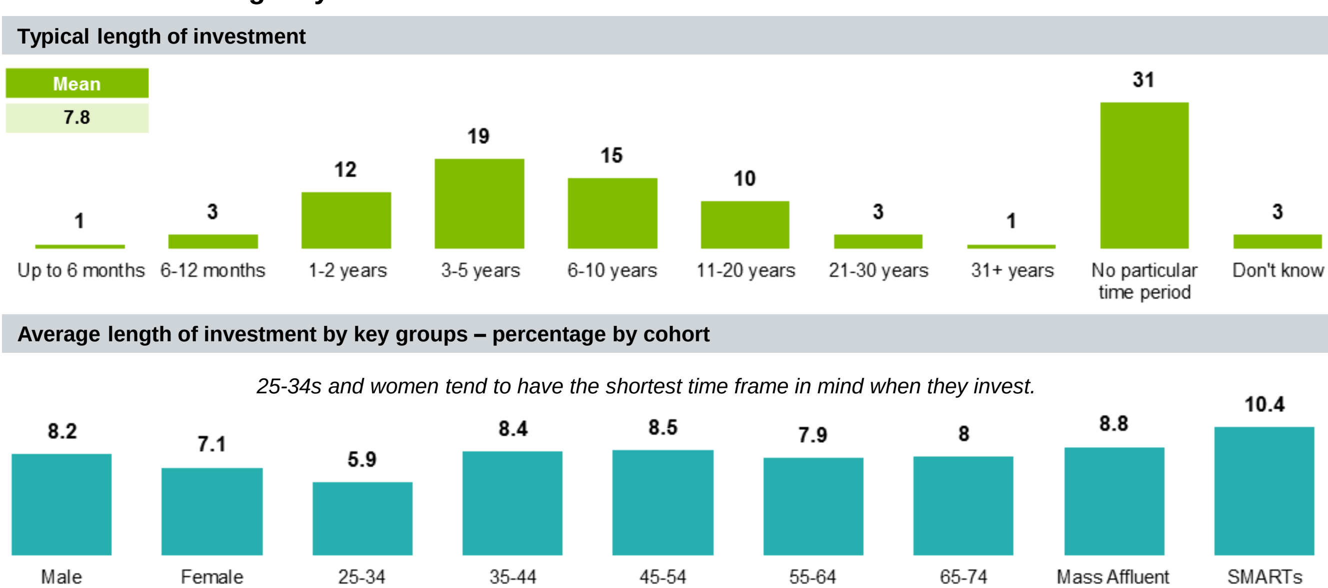
2015: Reforming tax relief to provide a stable and consistent tax system to support long-term planning

In 2015, the Government published a Consultation proposing extensive changes to the pension tax system, including switching taxation from taxation on pension income (EET) to contributions when paid in (TEE).[29] There was a widespread lack of support for the more radical changes to TEE from providers and employers.[30] The Consultation sparked a range of alternative proposals, which sought to combine the beneficial features of an EET-based tax regime[31] with alternative proposals such as abolishing the LTA for DC pension schemes in exchange for a lower annual allowance or for a fixed rate of tax relief, regardless of the tax bracket of the individual, to target relief on lower – to middle income earners.[32] The debate on how to provide proper incentives for retirement savings in a manner which is consistent with sustainable public finances has yet to be resolved. The result is that the considerable benefits of tax reliefs in building up retirement capital are rarely properly understood.

4: Advice and capability gaps: Enhancing individuals' understanding on how much to save

Individual savers are generally more focused on shorter-term savings goals, and less equipped to plan to meet long-term saving goals (such as generating retirement income). Psychologically, many individuals put the near-term goal of securing a place on the housing ladder well before saving for a pension. This can both delay the time when people start saving for retirement and encourage the view that '*my house*

Exhibit 4: How long do you intend to invest for?



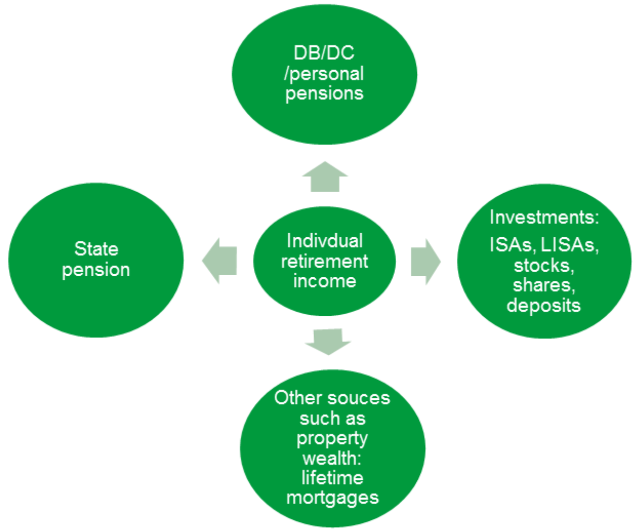
Source: BlackRock[33]

2015-16: The Financial Advice Market Review – enhancing capability[34]

One of the unintended consequences of the abolition of commission payments to financial advisors in the UK's Retail Distribution Review has been a reduction in the availability of advice. The Financial Advice Market Review (FAMR) represents a much-needed opportunity to rethink the entire framework of financial advice in the UK, without returning to the conflicts of interest inherent in the previous regime.

The final report, published in 2016, covered 28 recommendations, which the UK Government and FCA have committed to implement over the coming years. This includes a review of the Regulated Activities Order, to differentiate between "advice" (personalised recommendation) and "guidance" (generic information that can be provided to individuals to help understand their savings options). The FCA will also be developing rules-of-thumb and nudge techniques to raise greater awareness of the importance of saving and investing.

Exhibit 5: Potential sources of retirement income



Source: BlackRock

is my pension'. Although our data shows that the preferred length of time people want to invest for is short to medium-term, just under a third (31%) don't have a particular time frame in mind. Millennials in particular take a short-term view (not unsurprising as many wish to retain liquid savings as a deposit for a property purchase).[35]

As well as promoting the very considerable benefits of tax relief and employer matching available in pensions savings, all elements of household wealth must be combined in a way that enables an individual to answer key questions such as, 'How much money can I expect to live on in retirement?' and 'What do I need to do to save more for retirement?' Advice and guidance is also needed on how to use other forms of wealth, such as property, in the retirement planning process.[36] This is not a straightforward area. We recognise that the use of an individual's home to generate a retirement income calls for very specialist advice and robust consumer protections (such as the current regime for lifetime mortgages).

5: Low level of contribution rates to workplace schemes

Generating proactive individual engagement in such a complex system is undoubtedly a challenge. In this context, workplace schemes with well-designed default solutions can provide invaluable support in helping individuals to start contributing early-on in life, and, with the support of employer matching, reach their goal of receiving an adequate replacement income in retirement.

In a bid to halt a 20 year decline in participation in occupational pension schemes, the Government introduced automatic enrolment – or auto-enrolment – enrolment in 2012.

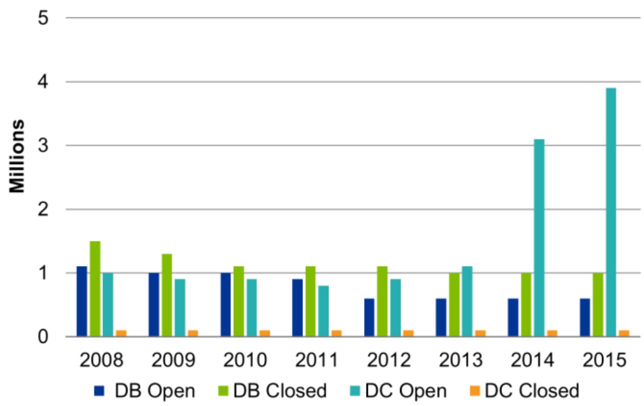
2008 and 2011: Pensions Act and auto-enrolment

The Pensions Acts of 2008 and 2011 laid the foundations of a new pension framework requiring every employer to enrol automatically all eligible employees into a qualifying pension scheme and to make contributions on behalf of those employees. Implementation began in 2012 and is due to be complete by 2018/2019. The DWP has recently launched a review of the effectiveness of auto-enrolment and is looking at what other steps it should take to support the system.[37]

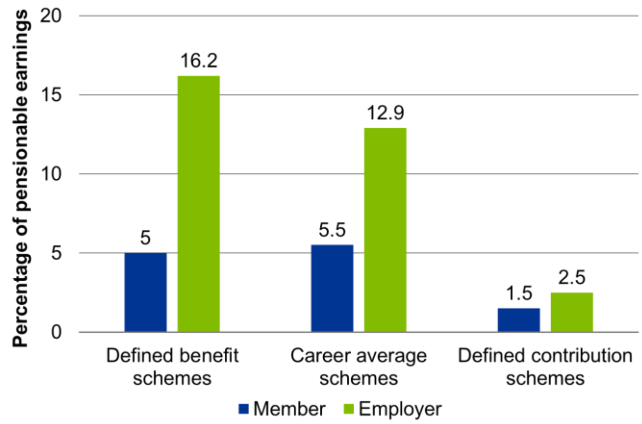
Despite the possibility for qualifying employees to opt out of auto-enrolment, there has been a marked arrest in the decline in participation in workplace schemes (see Exhibit 6). In terms of coverage auto-enrolment is well on the way to achieving its objective of increasing coverage.

Exhibit 6: Membership of private sector occupational pensions and average contribution rates

Active membership of private sector occupational pension schemes by status and benefit structure, 2008 to 2015



Weighted-average contribution rates to private sector occupational pension schemes by benefit structure and contributor, 2015



Source: Office for National Statistics[38]

However, at the current trajectory, auto-enrolment is only set to raise minimum DC scheme contributions to 8% of qualifying earnings by 2018-19. Using the Department for Work & Pensions' (DWP) own analysis, this contribution rate is unlikely to be sufficient to generate adequate retirement income for most individuals.[39] We explore on page 9 how auto-escalation techniques could be used to gradually increase employee contributions to a more appropriate rate in the medium term.

6: Failure to manage the transition from work to retirement

While auto-enrolment leads to 'inertia saving' – employees are contributing, by default, throughout their career to their occupational pension scheme with their employer matching their contribution – those approaching retirement age are suddenly prompted to become more proactive about their retirement planning.

Having enjoyed the comfort of being enrolled in a company scheme, many people lack the financial capability to make decisions in prior to retirement and are often ill equipped to take responsibility for their financial needs post-retirement.

2015: Pensions' freedoms

The UK Government in April 2015 removed the requirement to purchase an annuity, allowing people to draw down their pensions pot or reinvest it during retirement. Pensions freedoms substantially increased the needs for the 55+ age group to take advice when planning their retirement.

According to Investor Pulse, the engagement by the 55+ age group is low, indicating that many in this age group fail to properly engage in their retirement financial planning. Over 300,000 people need to make retirement income / annuity purchase decisions each year, but the majority are not seeking the financial advice they need to make this decision.[40] Without professional support, individuals run the risk of inappropriate asset allocation to meet their retirement needs - for example by adopting too conservative an approach, or by drawing down all their retirement pot at once and so potentially attracting a punitive tax charge.

Recommendations for Government and industry to help individuals plan more effectively for their retirement

The UK pensions framework remains the "*incomprehensible maze*" that the Pensions Simplification of 2006 sought to resolve. Low levels of contribution remains the single most important barrier to delivering successful outcomes in retirement. Our recommendations provide a set of measures to address this and other concerns. In the next section we:

- set out a series of policy measures for Government to bring about a sustainable policy framework for retirement savings,
- consider how to increase people's confidence and financial capability,
- discuss a number of ways industry initiatives can help to address barriers to savings and assist people save more effectively.

Government initiatives: Commitment to a long-term and consistent framework for retirement savings

We make the following recommendations to the Government, to support individual engagement with the process of saving for retirement and build on recent reforms.

1: Provide honest goals for the contribution rates most people should aim for, and develop tools to help them reach these goals

We welcome auto-enrolment as it increases the number of people saving for retirement, but it should come with an honest debate regarding the level of retirement savings needed to meet an individual's likely income needs. The current trajectory of auto-enrolment towards 8% contribution rates, whilst a landmark first step, will not enable people to build up sufficiently large pots to develop an adequate replacement income in retirement. People deserve an honest assessment of what percentage of their earnings they need to save to generate a given level of income in retirement. The DWP's own calculations suggest a minimum level of around 12% to 15%.[41] **We favour a minimum rate of 15%.** Where achievable, people should be encouraged to plan to reach higher contribution rates of 20% to match the typical contributions made to private sector Defined Benefit (DB) schemes. We recognise that these percentages are likely to be considerably higher than most people's expectations and, in many cases, may be higher than their current, but not necessarily their future ability, to save. A move to significantly higher contributions is clearly not a move that can happen overnight; however, we believe there is much opportunity for using auto-escalation techniques such as "Save More Tomorrow" schemes to bridge this gap in ability to save.

2: Enhance auto-enrolment with the inclusion of auto-escalation techniques in "Save More Tomorrow" schemes and consider how to extend the scope of coverage to the self-employed

BlackRock supports auto-enrolment and believe that cases in which employers are exempted from automatic enrolment should be strictly limited so as to give the majority of people the opportunity to save for their retirement. Rather than looking at further exemptions[42] we believe the focus should be on further simplifying the process of auto-enrolment and where possible by considering appropriate incentives for employers to make matching contributions to employee pensions above the statutory minimum.

The use of nudge techniques in the US has led to the development of solutions to circumventing the problem of savings inertia with '*Save More Tomorrow*' schemes. These schemes aim to ensure that people never have to cut their spending power in order to save more. These simple schemes allow individuals to pre-elect a percentage of any future pay increases for investment into their pension pot. As salaries increase, savings are increased automatically and savers aren't forced to make the difficult decision of where and how to cut their spending. It is considerably easier giving up something you haven't had.

We believe this could be replicated in the UK as part of the review of auto-enrolment, allowing people to start at the minimum contribution rate with individuals gradually saving more each time they receive a pay rise. This could help to address the issue of affordability of pensions to new entrants to the market place – many of whom are likely to be saving for a first home or paying off student loans. Auto-escalation techniques could be used to ensure that the amount of contribution and rate of increase could be aligned to a number of factors such as age, time to retirement, and affordability so that people can gradually reach the right level of savings. By the time younger employees reach the age of 30 or over, they could be making significantly higher contribution but it could have been considerably less painful along the way.

This could help mitigate the effect of the forthcoming increase of employee contributions to 5% in 2018/19 by aligning contribution increases to salary growth so as not to impact on individuals' ability to budget and meet existing outgoings.

The increase in self-employed workers and changing working increase the importance of pension portability as people move between employment and self-employment. We believe the auto-enrolment review should work through a number of scenarios to assess how access by the self-employed could be increased:

- *Individuals who start out their working career as self-employed*. In this case the challenge is to encourage individuals to seek an appropriate balance of liquid savings and protection to cover potential periods of unemployment as well as encourage long-term savings. If the amounts that can be saved are relatively small then the challenge is to find a cost-effective administrative platform allowing self-employed to make both regular and one-off payments into a cost-effective default scheme.
- *Couples where one partner is employed and the other is self-employed or earning below the current minimum income level.* The opportunity to make contributions alongside the employed partner into the relevant company default scheme on a voluntary basis could be a cost effective way of providing cover for many.

- *Individuals who move into self-employment after a period of employment.* In this case the priority may lie with finding a mechanism for allowing self-employed people to continue to invest into pre-existing schemes, but setting up a mechanism other than payroll deduction to allow contributions to be made on an ongoing basis. Initiatives such as smart invoicing could provide an easy way for the self-employed to contribute to a personal pension. Our research shows that half of those who are currently self-employed say they are saving for retirement.[44] This may be because many self-employed people were previously employed and had set up plans, even if they are not currently contributing to them (or contributing less).
- *Individuals who are self-employed but who are in fact contracted to work primarily for one organisation for a period of time.* In this case there may opportunities for contracting entities to facilitate deductions directly to the individual's own scheme.
- *Individuals who have self-employed status, e.g. as partners within a professional organisation.* Further work is needed to determine whether there are significant gaps in provisions as many of these professional organisations will already provide access to pension schemes for their partners.

3: Maintain incentives for employers to support retirement savings though matching contributions and payroll management

Employees trust their employer with sensitive data, such as details of payroll. It is therefore easier to collect contributions and make additional contributions to employees' pension pots. This engagement is significant in terms of the long-term sustainability and integrity of the pensions system. Our research indicates that employees see Government top ups and employer matching as two valuable incentives to increase savings.

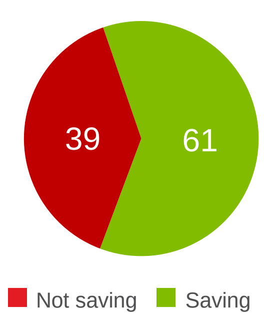
Government should recognise the valuable role employers play in encouraging high rates of retirement savings by matching contributions under the current auto-enrolment regime, and by maintaining an easy-to-use administrative framework for employees. Government should continue to incentivise employers to make matching contributions as these provide material support for individuals to reach an adequate savings rate. We also welcome recent steps under the Financial Advice Market Review to encourage the provision of workplace advice to employees, in particular through NIC relief.[45]

4: Commit to provide long-term stability to the retirement savings system through consistent retirement and savings policy-making

Government needs to convince people that there is a stable pensions system by addressing concerns that the Government is constantly tinkering with the pension system. The combination of frequent changes and complex rules complicates the decision-making process and disincentivises individuals from saving for retirement through pensions. As people take more individual responsibility for their retirement, it is vital the system is made as simple and transparent as possible. The frequent changes to the UK savings regime, especially in pension policy, however necessary or well-intentioned, have not been accompanied by clear long-term messaging causing uncertainty and

Exhibit 7: Barriers and incentives to saving for retirement

Barriers to starting saving	%
Not enough money to save for retirement	48
I have other more immediate financial priorities	20
I live for today	12
I just don't want to think about it	10



External reasons for saving	%
If I had a pay rise	46
Tax incentives	31
If I had lower outgoings	30
Government would top up the contributions I make	27
My employer would match my contributions	24
Knowing that I am likely to live longer	16
Reduction in state retirement provision	13

Internal reasons for saving	
Knowing impact additional contributions will have	15
Knowing my plan is not on track to deliver	14
Financial advice on how much I need/ how best to save	13
Greater certainty about plan's investment performance	13
"Rule of thumb" guidance on what I should be doing	11

Source: BlackRock[44]

disengagement. It is important that changes that lead people to embark on a particular course of action are not reversed by successive governments.

To encourage people to save sufficiently early into their pensions **there is a pressing need for an institutional framework that provides pensions certainty, and ensures that short-term budgetary or political constraints do not erode the long-term sustainability and adequacy of pensions** as a vehicle for saving for retirement. A 29-year old today expecting to retire in 40 years' time at 69 can expect to live through at least eight different governments each of whom may make significant changes to the regulatory regime for pensions – this inhibits effective planning.

Whilst there has been either a Minister of State or Parliamentary Under-Secretary for Pensions since 2010, we believe the Government might now go one step further, with the appointment of a Savings Minister, or, even the creation of an independent, apolitical post – the Office of Pensions Responsibility (OPR). This role could be designed specifically to champion and promote a savings culture across the UK and to provide independent data and projections on what proposed tax or regulatory changes could mean for the sustainability of the pensions system in the short, medium and long-term, building on ongoing research by the ONS. We therefore recommend:

- Simplifying the tax regime to make retirement saving more accessible.
- Minimising subsequent changes, to allow for clear and consistent long-term messaging, by setting up a clear framework to distinguish between major policy changes that require cross-party support and full public consultation, and ongoing second tier adjustments.
- Ensuring mid-term and long-term budget compatibility to underpin consistent policy.
- Gaining cross-party support for major changes as fro the successful introduction of auto-enrolment , thereby removing the habit of successive governments to alter the rules according to short-term priorities.
- Creating an independent, institutional framework (e.g. Office of Pension Responsibility or OPR) as a way of depoliticising the formation and maintenance of savings policy-making, and ensuring continuity. This could complement industry calls for a Savings Minister to coordinate long-term savings policy. This level of long-term institutional transparency could in turn help incentivise individuals to take a longer-term view of their savings.

We believe the creation of an OPR would not increase bureaucracy, but could instead act as a way of streamlining the current system and depoliticising it.

The OPR could review the whole system, and also look at the unintended consequences for savers of introducing new legislation across government departments (e.g. Treasury, Cabinet Office, Department of Work and Pensions, Department for Communities and Local Government, Department for Business, Energy & Industrial Strategy).

5: Commit to easy to understand, transparent and fair tax treatment for pensions that provide incentives for individuals to save

People need a comprehensible and attractive tax framework if they are to commit an adequate portion of their income to retirement savings. Equally, they must be able to do so with confidence that they are not going to find that the rules are constantly changed. We believe that it is an efficient use of public money to ensure that contributions and investment returns are tax-exempt, while retirement income is taxed under the EET model. The benefit to savers is that more capital is invested for longer, allowing compounding of return on capital plus the value of tax relief. This should generate larger pension pots and increase the likelihood of individuals being able to achieve their retirement savings goals.

We do, however, support a more streamlined use of tax reliefs under the current system, targeting lower and middle income earners who need the most support by moving to a flat rate of tax relief for pension schemes to deliver a more progressive tax rate. To make it simpler, this could be shown as the State putting in £1 for every £2 put in by the individual from net salary (post income tax and national insurance contributions or NICs) – or to put it even more simply "Buy 2, Get 1 Free".[46] Research bodies such as the Pension Policy Institute have estimated that the cost of this should at least be cost neutral for the Exchequer.[47] Rebranding the relief as a "government-matched contribution" as recommended by TISA, could help encourage uptake further among all earners.

The move to a single rate would place higher rate earners in the same position as other savers but without the anomalous disincentive of the current annual allowance – for example maintaining the 25% tax free lump sum could still put them in an advantageous tax situation. We also recognise that the move to a single rate of tax relief will present some operational challenges for those managing payrolls but we believe these can be worked through with proper consultation with industry participants to minimise the costs of implementation.[48] The Government would also need to work with employers to develop simple and easy to use means to administer these changes. While we believe that further changes will be inevitable to deal with issues of affordability and inter-generational fairness the Government must first convince individual savers that there is a stable pensions system underpinned by consistent policy before making further changes. The longstanding habit of successive governments to alter the rules according to short-term political priorities will only continue to harm faith in the pensions system.

In parallel, we recommend removing the lifetime allowance for DC and personal pension schemes which has been steadily eroded over time and so create more certainty for those who might otherwise refrain from saving into a pension due to concerns around exceeding limits on the value of their savings. As it stands, the lifetime allowance undermines the very personal responsibility that the Government is keen to promote. Instead we support a single annual cap on the amount of savings that can be saved into pensions which could be increased over time to replace the confusing mix of LTA and annual allowance people have to navigate. Similar to ISAs, this could be provided on a "use it or lose it" basis.

6: Develop a longer-term investment culture, which encourages investment in long-term assets which meet peoples' long-term liabilities

Auto-enrolment helps protect individuals against the risk of under-saving. The reliance on default investment strategies is crucial in mitigating individual's inherent investment risk-aversion. From an investment perspective it is essential that individuals have access to a wide range of appropriate asset classes in which to invest their savings and build an income in retirement.

Long-term investment can generate long-term consistent growth for the economy and pension fund investment forms the bedrock of this wider long-term funding. By definition pension liabilities are long-term and individuals should therefore be incentivised to take a long-term investment view. The pensions regime should be designed to provide savers with a form of illiquidity premium to reward those who lock away money. Further, any tax reform should strengthen the link between pensions and long-term investment, not weaken it. Any change that makes short-term investment or cash holdings more attractive will, in our view, be to the detriment of both individuals and the long-term health of the economy.

There is a real and pressing need for investment in long-term assets such as infrastructure and we note increasing calls for public sector DB schemes to combine assets to invest in this area.[49] However, within private sector DC pensions the very construct required to facilitate individual investment decision-making forces investment to be channelled towards investment in more liquid instruments traded on public markets. **As part of our call for an Office of Pensions Responsibility we call for further work on how both DC schemes and a wider section of the population could be incentivised to invest more in longer-term assets**.

This requires innovative thinking. It could be beneficial to review the investment rules to encourage investment in longer-term assets. The liability matching benefits of longer-term assets such as infrastructure come with a number of associated structural issues. These are largely "buy-and-hold" assets and schemes would need to maintain a limit on the total percentage of illiquid assets they hold, say around 20%. Schemes will also need a detailed liquidity management policy, such as that required under the Alternative Investment Funds Management Directive (AIFMD) to cover the effect of transfers out of the scheme which might generate greater concentration in illiquid assets. This could be effectively mitigated by the use of mechanisms such as side pockets to facilitate secondary market transfers of the underlying assets. These initiatives would need to be accompanied by clear messaging to pension schemes members that transfers during the accumulation phase could be phased. Further work on the liability of trustees and independent governance committees would also be needed to provide them with appropriate safe harbours if they put in place longer-term investment strategies of this nature as well as further guidance on the inclusion of longer-term assets in the assessment of value for money they are required to make.

Joint Government and industry initiatives: Increase people's confidence and financial capability with the overall aim of increasing contribution rates

Industry and government must work together to make it as easy to save as it is to get into debt. We set out four recommendations to help increase contribution rates. These build on many existing proposals and focus on those initiatives such as the FAMR which we believe will have the most impact on savers.

7: Develop a new framework for guidance and simplified advice to get people started

We support the Government's call for the development of **simplified advice and guidance** to enable advisers to give affordable advice focused on specific needs, without conducting a disproportionately long and expensive fact find.[50]

- The development of simplified advice is necessary if people are going to have the cost-effective access to the support they need to make appropriate decisions on how to generate sufficient income in retirement.

- Government needs to support the development of consistent member communications by employers with a clear set of guidance standards from the UK's new guidance body.[51] We believe it is essential to encourage consistent messaging to people as they move jobs and to encourage the take up of retirement savings by the self-employed and those in non-traditional employment.
- Additionally, we would welcome the development of generic guidance material and "rules of thumb" messages to help raise awareness of the need to invest earlier and secure the benefit of compounding returns.[52] These could be disseminated not only by employers to staff enabling a very broad coverage of individuals approaching retirement.

We therefore need to introduce a system that provides access to engaging, consistent and standardised guidance. This should allow individuals to combine all of their various sources of potential income, not only at retirement but well in advance, to enable them to take informed decisions and break the culture of debt. Individuals will benefit from clarity and consistent messaging across the industry as to what they need to save to achieve a given level of income.

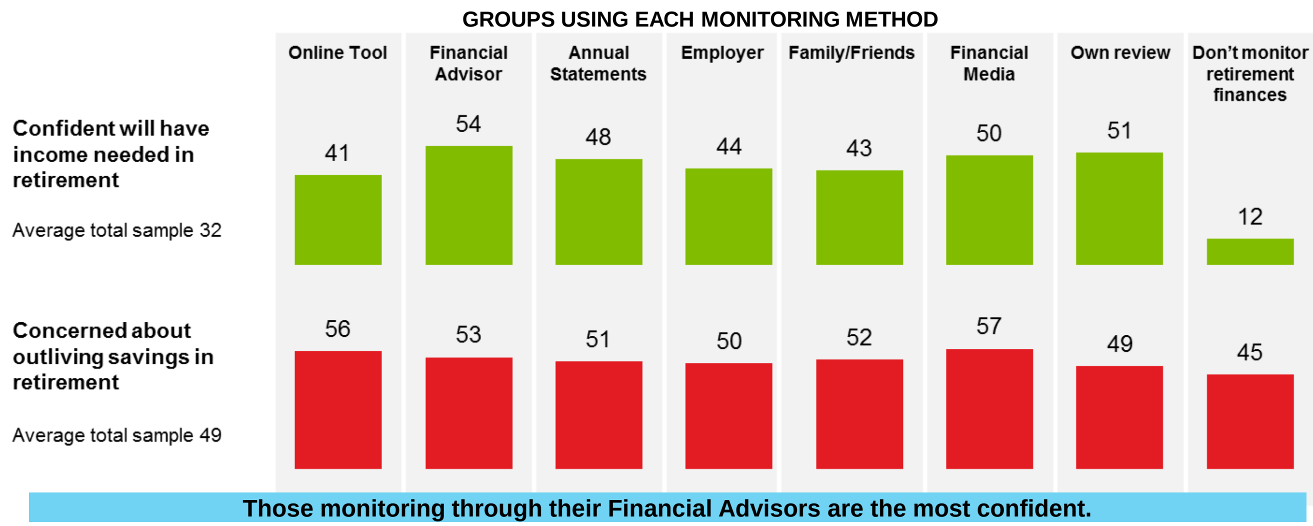
Financial education plays an important role and is certainly improving, but at the moment is poorly coordinated and sends out mixed messages to the end-investor. Given the challenge in persuading individuals to save effectively there needs to be more consistency both in the content and delivery of financial education. It is essential that people receive consistent and helpful messages from industry, employers, charities and the official sector on effective savings and investment habits.

In the savings accumulation phase we see a significant role for workplace access to other forms of support ('face to faces'), e.g. onsite presentations to larger groups of employees, webinars via employer portals etc. as part of an overall provider to employer support programme. However, employer engagement with post retirees will not be a feature in most cases and hence a guidance regime which encourages direct engagement between provider and individual will be key in the post-retirement phase, especially as people move from annuities to other types of income drawdown products where ongoing advice and support is needed, to minimise savers' exposure to the risk of outliving their savings. Technology and scale will be central to providing tools to address the needs of this audience.

8: Use technology to develop initiatives to give people a comprehensive view of and control over their retirement savings.

Technology offers the opportunity to address many of the barriers people face when they try to take control of their retirement savings. In today's society, younger consumers move homes and jobs much more frequently than in previous generations. As such, an individual is likely to have contributed to multiple pension schemes and the risk is that people lose track of their savings and are unable to assess whether they are on track with their retirement planning. **Account aggregation technologies play an important role in allowing people to see all of their accounts in one place.** We set out below some specific examples of how these technologies could assist in supporting retirement savings. Our research shows that that those who monitor their retirement plans online are nearly four times as likely to be confident that they have the retirement income they need.

Exhibit 8: The impact of different types of monitoring tools on investor confidence



Source: BlackRock[53]

While this emphasises that online monitoring is beneficial, it also shows just doing something (whether through discussion with a financial advisor or talking to family or friends) can be beneficial.

The development of the Pensions Dashboard is of particular importance **in giving people an aggregate view of the value of their pension savings**. We do not underestimate the complexity of bringing together data from the vast number of pension schemes in the UK but building in these technology links is fundamental to giving people back control over their savings and developing increased engagement.[54] In comparison when we asked Dutch investors about the Dutch pensions dashboard, www.mijnpensioenoverzicht.nl, three quarters of those surveyed were aware of the site and half had visited it indicating the positive effect that an effective dashboard can have. See Exhibit 9 below.

In parallel, we support wider industry initiatives such as the development of **a digital identity providing people with a single point of entry to a range of different financial service providers such as insurers, banks, and asset managers.** This could make it much easier for people to manage their assets in one place, with the added benefits of all anti-money laundering and know your customer procedures being completed once, up front. An initiative like this could reduce complexity and mean that individuals may be less likely to lose track of their savings, as they could all be accessed in one place. A digital identity could facilitate the development of digital account aggregation applications, especially if linked to a facility that could automatically update an individual's profile as their circumstances change.[55]

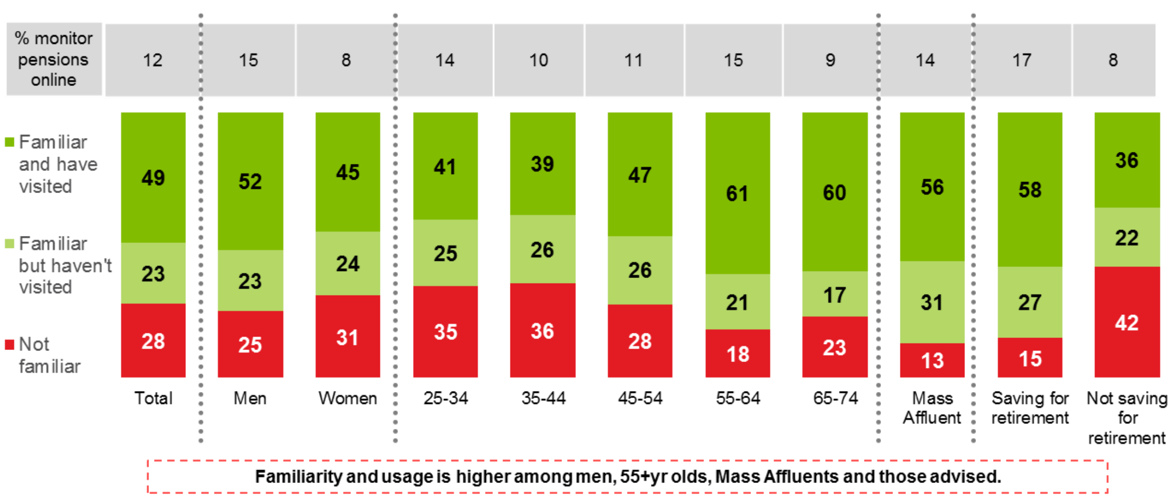
The creation of a working Dashboard links into other initiatives designed to put people in control of their savings such as Retirement Income Planners (see Recommendation 9). Putting these technologies together will allow the industry to better support people in a world of changing work patterns and contribute significantly to giving people control of their savings.

9: Focus on the long-term benefits of generating retirement income

The Government and industry should focus on the development of **clear and engaging messaging** to help people save more and better for retirement. The later people leave saving for their retirement, the more expensive a process it becomes and the greater the risk that they may need to work longer to generate sufficient retirement income. Key to this is convincing people to save earlier to make their money work more efficiently and take advantage of the benefits of compound interest. Planning for retirement should be more than just saving into your pension. We should establish a comprehensive framework for long-term savings, giving people clear messages on how to use their savings from pensions, ISAs, housing wealth and other non-traditional sources of retirement savings to generate sustainable retirement income.

Our research indicates that people underestimate the amount of savings they will need to generate the level of retirement income they need. Regardless of whether people chose to take an annuity or remain invested or use a combination of the two, they need to understand how much income their savings may generate each year when they retire. We suggest that simple metrics could be useful, such

Exhibit 9: Three quarters of individuals in the Netherlands are aware of the website 'www.mijnpensioenoverzicht.nl, and half have visited it.



Source: BlackRock[56]

as how much income a pot of £100,000, £250,000, £500,000 could buy you now, and may buy in 10 years' time. **Given the benefits of compounding over time, we strongly recommend using messages that show the likely income from a pound saved when an individual is in their '20s, their '30s and '40s**. We need to give people support on pulling together a plan to address the shortfall in expected annual income. We also need to recognise that to encourage investment away from cash people require more certainty of outcome and income generated by any investment. Currently, different sources of income are treated differently in terms of advice. Moving to a fully investor-centred advice model could allow individuals to access a holistic view of their assets and potential income, combining both sources of state and private pension entitlement.

Tools to understand likely income are an important and complimentary part of empowering people to meet their saving and retirement goals. For example, the Government's Pensionwise service provides an income calculator as part of its at retirement service.[57] However, people need to consider their likely income much earlier.

BlackRock's Cost of Retirement Index (CoRI®) – an example of a retirement income planner

In the US, UK and Japan, the CoRI indexes use institutional analytics to set out the estimated cost today of one unit of currency, e.g. $1, £1, or 1¥, as annual income in retirement. The indexes aim to help investors and advisers estimate annual retirement income based on savings. Investors use their age and current retirement pot to receive an estimated annual retirement income. By focusing earlier on whether they are on track, individuals have more time to act to help reach their desired annual retirement income. Possible options include adjusting current spending patterns, saving more, retiring later or gradually phasing in retirement.[58]

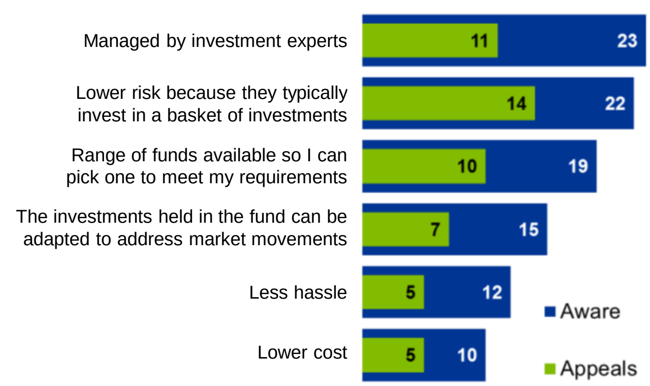
10: Build in incentives to start saving earlier and ultimately access the long-term benefits of compound interest – time in the market matters more than timing the market

Industry and government need to bring to life in an engaging way the benefits of starting to invest early, thereby harnessing the power of compound interest over an individual's full lifetime. As our research shows long-term investment strategies often take second place to short-term priorities. The risk is that savers will miss out on the benefits of investing for the long-term – **savers can't invest for the future in the future**. One of the most effective initiatives which could be taken to encourage higher rates of savings earlier in a career is through the use of auto-escalation techniques (see Recommendation 13). This should be accompanied by a simple communications strategy with key messages targeted at specific age groups.

Industry initiatives: Dismantle barriers to investing

Industry has a key role to play in bringing down barriers to investing by making it easier to save and by increasing trust and confidence in the products it offers to savers. The need for general financial education remains an ongoing issue given the lack of knowledge many savers have of basic investment vehicles; for example our research showed that nearly half were unaware of the benefits of non-complex instruments such as investment funds.

Exhibit 10: Awareness and appeal of benefits of investment funds



	Total	Mass Affluent
% that don't know enough about investment funds	48	23

Around a quarter (23%) of Mass Affluents aren't aware of any of the benefits of investment funds.

Source: BlackRock[59]

We set our key recommendations to industry below:

11: Focus on developing outcomes-driven retirement investment solutions which help people to prepare for retirement during their working life (accumulation) and as well as supporting them more effectively during retirement (decumulation). In particular traditional lifecycle solutions need to evolve for the new world and be designed with the latest glidepath insights.

In parallel to our first recommendation of a simplified advice and guidance regime we also highlight the importance of simpler long-terms savings products, which are both easy to understand and to explain. One of the opportunities arising from the end of compulsory annuitisation is the development of 'through retirement' rather than 'to retirement' products

Understanding lifestyling

Not many individual investors know the term 'lifecycle investing'. But the concept is relatively easy to explain: that an investor's asset allocation should change as they go through life, to reflect shorter time horizons and protect against risk. This approach is different to traditional asset allocation, which is typically based on an investor's risk profile, rather than targeting a specific retirement income. It's a simple idea that can be applied in different ways. In the UK, lifecycle approaches typically move an investor automatically between funds with different risk profiles as they age, in a process known as 'lifestyling'. In the US – and increasingly the UK too – target date funds are common, and do the same thing within one investment vehicle, by tapering off risk as members approach retirement.

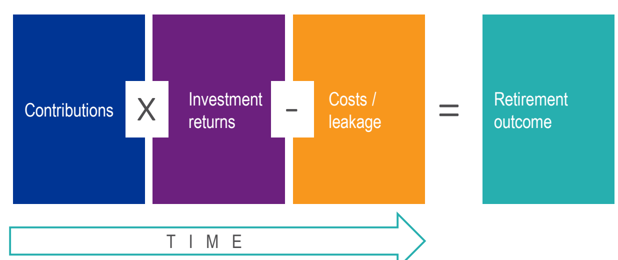
In the past lifecycle solutions have done an effective job of transitioning individuals to annuity tracking portfolios at retirement. Now, however, they need to accommodate multiple outcomes – as well as traditional annuity tracking, these will include capital protection and drawdown. It is important that lifestyling solutions remain fit for purpose.[60] With increasing longevity one of the most important developments is ensuring that people do not de-risk too soon. One of the challenges with compulsory annuitisation on retirement was that it forced many people to reduce their exposure to potential future market growth too soon and a more flexible approach was needed. The essence of lifecycle solutions currently being developed is that they can continue to provide simplicity at the point of use but can be underpinned by the extensive academic research and investment insight that will help meet the goal of delivering income independence so people can maintain their desired standard of living without running out of money.

With many people likely to live up to 30 years after retirement they run the risk of significantly reduced incomes if they do not continue to have market exposure in their retirement portfolios or if they annuitise too early. Pension providers have a role to play in designing flexible products which enable individuals to make the right decisions for their retirement, depending on their individual retirement decisions. The traditional 'at retirement' design of lifestyling funds will increasingly require more flexibility to adjust asset allocation to meet the different outcomes its members may require. For example, a default fund targeting cash withdrawals might move to cash during the de-risking phase, for example, but one targeting drawdown might shift some equity exposure into a more stable multi-asset strategy, so as not to compromise investment growth. As the retirement landscape evolves, so the completeness of retirement solutions needs to develop.

12: Make the case for why value for money is more than just buying the cheapest product but also includes assessing risk and performance and quality of servicing

The core outcome in retirement savings is ability to generate an adequate and regular income in retirement. While scheme charges (the total cost of portfolio management, administration, advice and underlying transaction costs) can all contribute to the level of net returns it is also important that the industry explains and show the situations where higher charging strategies add additional value. Underlying the existing charges cap for default DC schemes is the implication that cheaper products naturally provide greater value for end investors. We believe that this is an oversimplification. The focus should be on how to deliver a retirement pot which can meet an investor's needs by focussing on likely outcomes as well as costs. We portray this as the following equation:

Exhibit 11: Generating retirement outcomes



For illustrative purposes only

Source: BlackRock

This allows us to separate the different elements of growing wealth.

Contribution rates

The level of contributions is the most crucial part of the equation. It is for the individual to decide – ideally with the benefit of auto enrolment and employer matching contributions (see recommendations below) - the level of contributions which will best assist them in delivering returns.

Include higher risk/return products

The multiplier of cost adjusted investment returns is then the second most important determinant of success. The role of an investment manager is to find the right balance between providing a suitable range of investment approaches within relevant cost constraints. We recommend against using cost as the sole basis for excluding strategies which have the potential to deliver higher investment returns (e.g. by blending active and index strategies) or increased risk mitigation. Risk mitigation strategies also become increasingly important as people approach their retirement or draw down date. While these strategies may have an additional cost they are important to helping people meet their expected outcomes. We note that the combined effect of the charges cap and regulation such as the permitted links rules effectively rules out a number of strategies such as investment into long-term illiquid assets, even on a blended investment basis. There are grounds for revisiting these regulations as part of a broader analysis of the risks and benefits of long-term investing.

Differentiate between the costs of investment and the costs of the wrapper

A further issue here relates to the attribution of costs that are borne by individual investment funds which form part of the scheme's portfolio and how these should be allocated to individual scheme member accounts. With recent developments in the pension industry – notably the use of platforms and the ease of fund switching which has resulted in increased usage of this option – the ability to allocate fund costs across individual scheme members has become increasingly complex. In the debate as to whether scheme members are receiving value for money we believe it is essential to ensure that the underlying investment costs are clearly differentiated from those associated with the wrapper vehicle around the individual funds. Breaking down the costs between different providers in the distribution chain will allow a more meaningful debate as to whether the strategies used are effective in delivering the outcomes scheme members expect.

We also note that many costs, in particular administration costs, fall outside the asset manager's control. Rather than further lowering the charges cap we recommend that a more effective way of managing costs could be to allocate a maximum percentage for investment and for administration within the current charges cap. This would give trust and contract-based schemes the flexibility to allocate costs in a way which reflect their specific structures and allow a more meaningful value for money assessment by governance bodies. It could also take into account cases where employers subsidise administration costs, especially in trust–based schemes. We recommend that these considerations be taken into account by the DWP as part of its initial review on whether the cap on charges for default schemes should be reduced and/or amended to include underlying transaction costs.

13: Disclose the full costs of savings for retirement across the distribution chain giving people confidence that there are no hidden charges

Industry will, however, only be able to engage effectively on value for money if it gives people the confidence that are no hidden charges by implementing comprehensive standards on cost transparency. BlackRock is supportive of increased transparency to provide investors with sufficient information in order to make informed decisions without the need for excessive product related information. We have, in particular worked with trustees an independent governance committees to explain how we manage transaction costs on investors' behalf.[61] However, a siloed regulatory approach to improved cost transparency means there are multiple regulations seeking to implement new requirements for cost disclosure. These include the Undertakings for Collective Investment in Transferable Securities Directive (UCITS IV), MiFID II, PRIIPs and the Insurance Distribution Directive (IDD). The implementation of the UK Government's Better Workplace Pensions initiative could bring yet an additional set of cost disclosures. The risk of fragmentation of disclosure standards is that savers, pension schemes or pension platform operators receive different statements of the cost of investing depending on how they invest rather than on what product they invest in. It is also operationally complex to develop multiple cost reporting to meet the needs of different regulatory requirements.

We believe it is essential to focus on developing a standardised and consistent basis for the disclosure of fees across all regulation. We support the aim of the Investment Association's work in developing an industry wide disclosure code which is intended to meet a number of regulatory standards for transaction cost disclosure, returns, fees and research payment accounts.[62]

BlackRock supports observations reported in the FCA's recent consultation on disclosure standards for DC pensions that investors may find difficult to understand fund charges. We have called for a move to a 'pounds and pence' approach to be adopted for a number of years.[63] For this approach to be successful, all other changes applied on the investor throughout the value chain (e.g. platform fees and distribution fees etc.) would also need to be demonstrated in this way and we welcome moves in this direction from January 2018 as part of the implementation of PRIIPs and MiFID II.

In this context we recommend reporting transaction costs alongside, the manager's ongoing charges figure given the variable nature of transaction costs which are incurred in order for the manager to meet the investment objectives of the fund.

Conclusion

Our recommendations are based on extensive feedback from UK savers on their priorities for retirement savings and on what prevents them saving more effectively. We believe that, as never before, there is widespread consensus across industry as to the measures needed to develop a long-term savings culture in the UK, show how the industry provides value for money and ensure the next generation can reap the benefits of increased longevity.

Related content

- *ViewPoint: Digital Investment Advice: Robo Advisors Come of Age*
- *Response to HMT financial advice*
- *Response to FCA Transaction cost disclosure in workplace pensions*
- *Response to FCA Financial Advice Market Review*
- *Response to Joint ESA Consultation on automated advice*
- *Response to the European Commission's Green paper on Retail Financial Services*
- *Response to HMT Strengthening the Incentive to Save: a Consultation on Pensions Tax Relief*
- *Response to joint FCA/DWP consultation on costs and charges*
- *Response to FCA CP 16-30 on transaction cost disclosures in workplace pensions*
- *Response to DWP Review of Auto-enrolment*
- *Response to FCA Interim report on asset management*
- *BlackRock Guide to transaction costs*

For more information

For access to our full collection of public policy commentaries, including the *ViewPoint* series and comment letters to regulators, please visit http://www2.blackrock.com/global/home/PublicPolicy/PublicPolicyhome/index.htm.

Endnotes

1. About Investor Pulse: BlackRock's survey was conducted on 4,000 adults aged between 25 and 74 in the- UK. The fieldwork was conducted during February 2017 and the detailed findings was published in June 2017. The result of previous years' surveys can be found at [https://www.blackrock.com/uk/individual/literature/brochure/global-investor-pulse-uk.pdf] Investor Pulse shows that those who are able to take advantage of the services of a professional advisor to put together a financial plan have increased levels of confidence in their ability to face the future: 63% of those who are advised are feel confident, compared to only 35% of those who are not advised.
2. Cardono: What does good look like in Defined Contribution? http://www.cardano.com/en-GB/Industry-Insights/What-does-good-look-like-in-Defined-Contribution
3. The most important of the reforms was the removal of the requirement to purchase an annuity on retirement.
4. While we recognise the importance of and the funding and governance challenges faced by existing occupational schemes both Defined Benefit (DB) and Defined Contribution (DC) and the challenges faced in maintaining state pension coverage, we do not make specific recommendations on these issues in this ViewPoint. For a further discussion of the issues we refer to commentary on (i) the Pension Schemes Bill 2016-17 the main purpose of which is to improve regulation of Master Trusts - a type of occupational pension scheme used by many employers to meet their duties to auto-enrol workers into a pension saving scheme - http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7874, and (ii) independent review by John Cridland CBE of the state pension age March 2017 https://www.gov.uk/government/publications/state-pension-age-independent-review-final-report and proposals in the 2017 Conservative Party manifesto "Forward Together" to replace the triple lock with a double lock by 2020 https://www.conservatives.com/manifesto
5. In 2010 the government committed to increase the state pension every year by the higher of inflation, average earnings or a minimum of 2.5% with the aim of ensuring that pensioners' income was not eroded by the gradual increase in the cost of living.
6. BlackRock Investor Pulse 2017.
7. According to BlackRock's Investor Pulse only 39% reporting feeling confident they are making the right savings and investment decisions
8. NEST: Improving consumer confidence in saving for retirement available at : http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/improving-consumer-confidence-in-saving-for-retirement,PDF.pdf
9. ONS Life expectancy at 65, available at: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/lifeexpectancyatbirthandatage65bylocalareasinenglandandwales/2015-11-04#national-life-expectancy-at-age-65
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11. Institute and Faculty of Actuaries – Longevity Risk, December 2015: https://www.actuaries.org.uk/.../policy-summary-longevity-risk-december-2015
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    For example, if an individual is 55 years old and has a CoRI Index level of £24.66, it means that a pound of lifetime income beginning at age 65 would cost £24.66 today. And that estimate can change daily based on the factors that affect the market price of lifetime retirement income. For the next ten years after they turn 65, the Index helps an individual estimate how much lifetime retirement income they could receive. The CoRI Retirement Indexes and the CoRI tool do not guarantee future income or protect against loss of principal. There can be no assurance that an investment strategy based on the CoRI Retirement Indexes or the CoRI tool will be successful. Indexes are unmanaged and one cannot invest directly in an index. The CoRI Retirement Indexes are maintained by BlackRock Index Services, LLC (the "Affiliated Index Provider"), a subsidiary of BlackRock, Inc., that designs, sponsors and publishes indices for use in portfolio benchmarking and portfolio management. While the Affiliated Index Provider publishes descriptions of what the CoRI Retirement Indexes are designed to achieve, the Affiliated Index Provider does not provide any warranty or accept any liability in relation to quality, accuracy or completeness of data in respect of the CoRI Retirement Indexes, and does not guarantee that the CoRI Retirement Indexes will not deviate from their stated methodologies. The Affiliated Index Provider does not provide any warranty or guarantee for Affiliated Index Provider errors.
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