The need for innovation - The Pensions Regulator

Ageing population:
meeting needs through innovation

Rebecca Woodley
Industry liaison manager

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Agenda

- The pensions landscape and where we are today
- Opportunities for innovation:
  - Engagement – how can we get people interested?
  - Better decisions – how can we help them make the right decision at the right time?
  - Scams – how do we protect people from scams?

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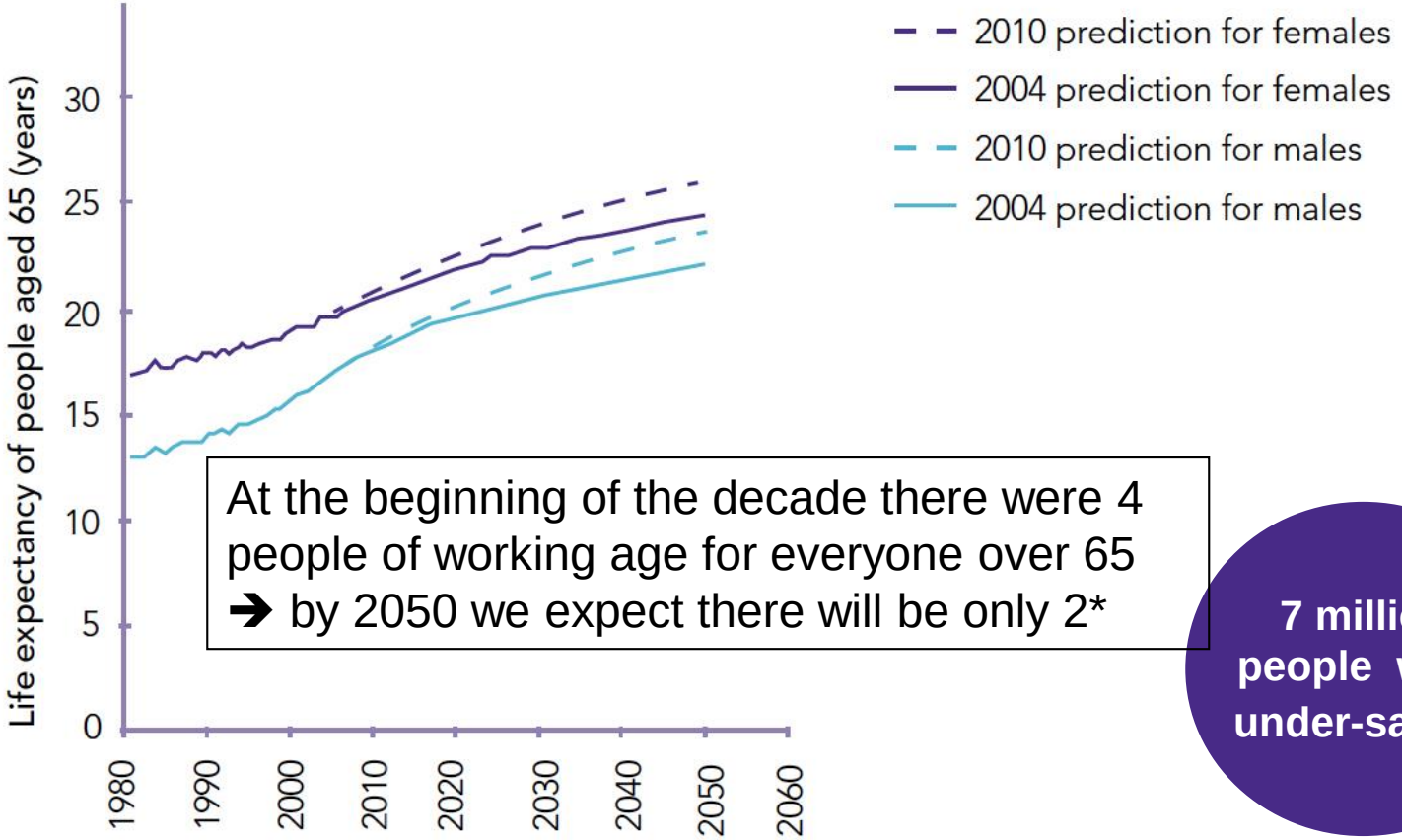
Why was automatic enrolment introduced?



At the beginning of the decade there were 4 people of working age for everyone over 65
➔ by 2050 we expect there will be only 2*

7 million people were under-saving

Past and predicted trends in the life expectancy period of 65 year old men and women in the UK as of 2004 and 2010.
*Source Office National Statistics - Article 'Overview of the UK population: July 2017'

automatic enrolment

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More people put into workplace pensions since 2012

Over 9.7 million employees have been enrolled in workplace pensions since 2012

More than **1.2 million** employers have automatically enrolled their staff

Source: www.tpr.gov.uk/doc-library/research-analysis.aspx#s16190

automatic enrolment

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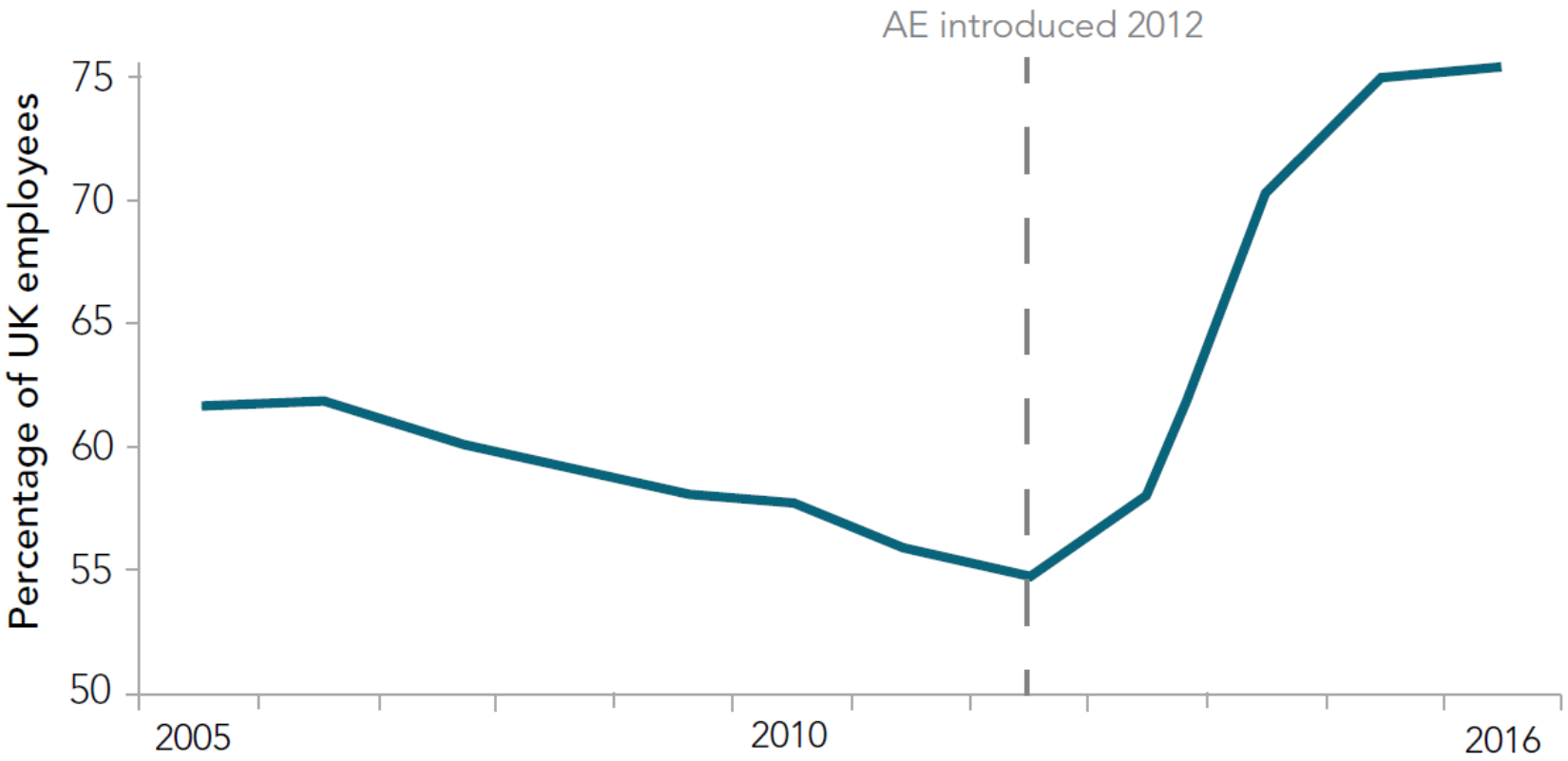
Employees belonging to a workplace pension



Source: www.tpr.gov.uk/docs/automatic-enrolment-commentary-analysis-2017.pdf

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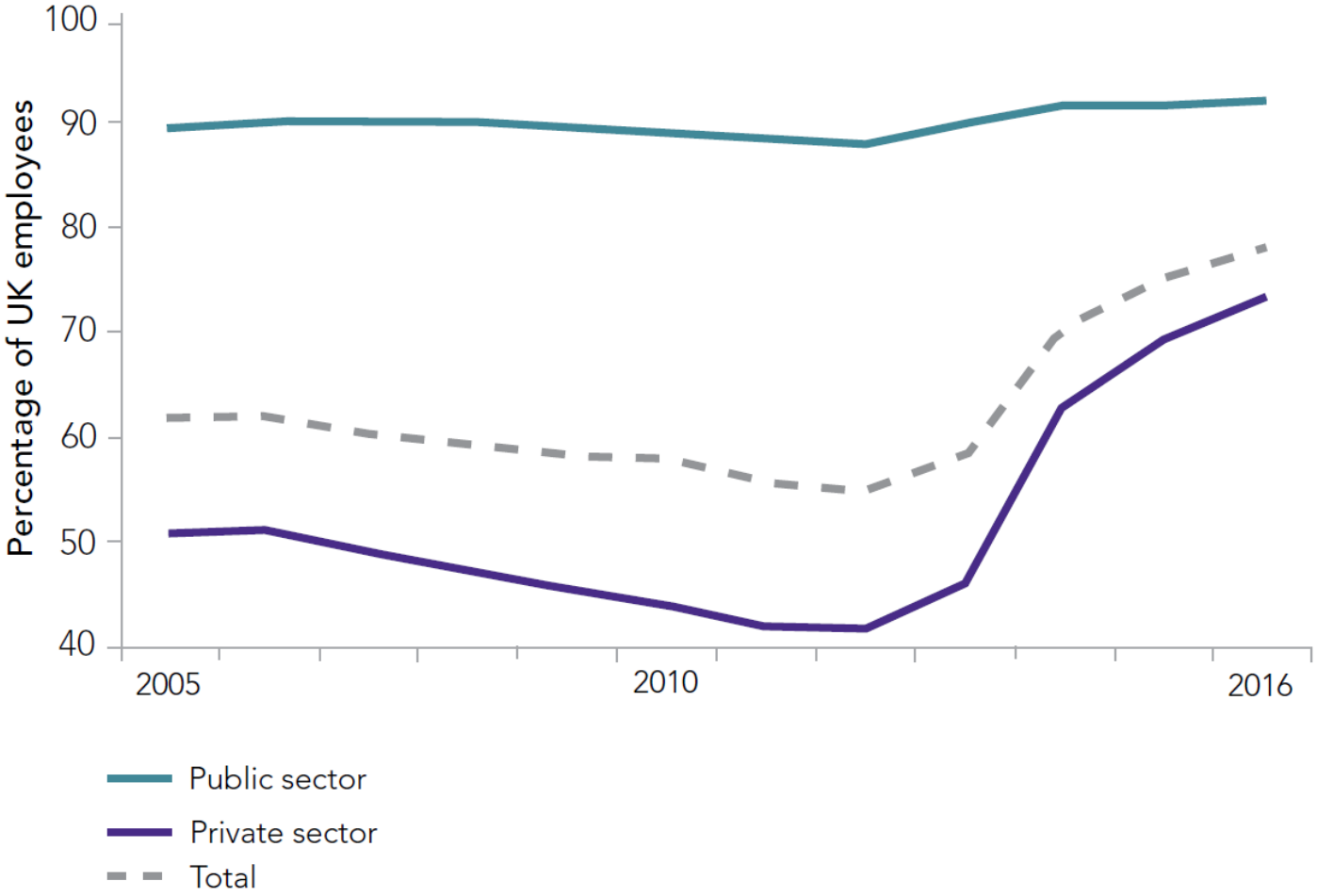
Workers' participation by sector



Source: www.tpr.gov.uk/docs/automatic-enrolment-commentary-analysis-2017.pdf

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What types of pensions are out there?

- **Defined Contribution (DC)** is a savings pot and:
  - you can pay yourself an income from it (from age 55 or later)
  - the savings will grow, depending on:
    - the level of charges you pay,
    - how well your investments perform
    - how much you (and your employer, if you are employed) pay in
- **Defined Benefit (DB)** is salary-related and:
  - it will pay out an income for life which will increase every year (you may be able to change the date it starts to pay out)
  - the amount you will be paid depends on:
    - how long you've been a member of the scheme
    - your final salary (or average salary) when you stop paying into the scheme (eg when you stop working for the employer)
- The **state pension** is payable from your State Pension Age and is:
  - an income for life (typically increases by the rate of inflation each year)
  - the amount paid is based on your National Insurance contributions (the full state pension is £8,546)

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State pension

Workplace pension schemes

Individual pension schemes

Trust based schemes

Contract based schemes

Defined Benefit schemes

Defined Contribution schemes

Final salary or career average

Master trust schemes

Group personal pension schemes

DC trust schemes

Individual personal pension schemes

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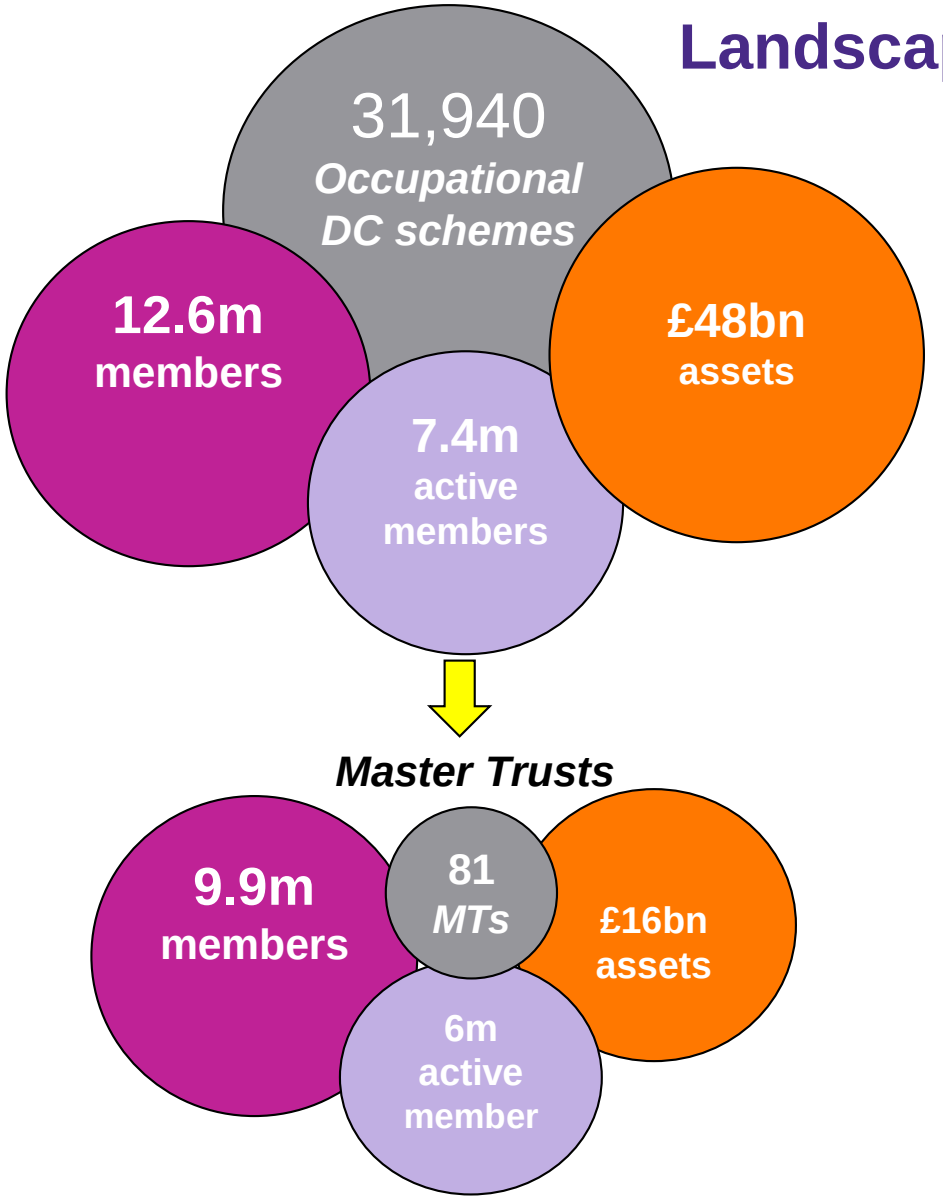
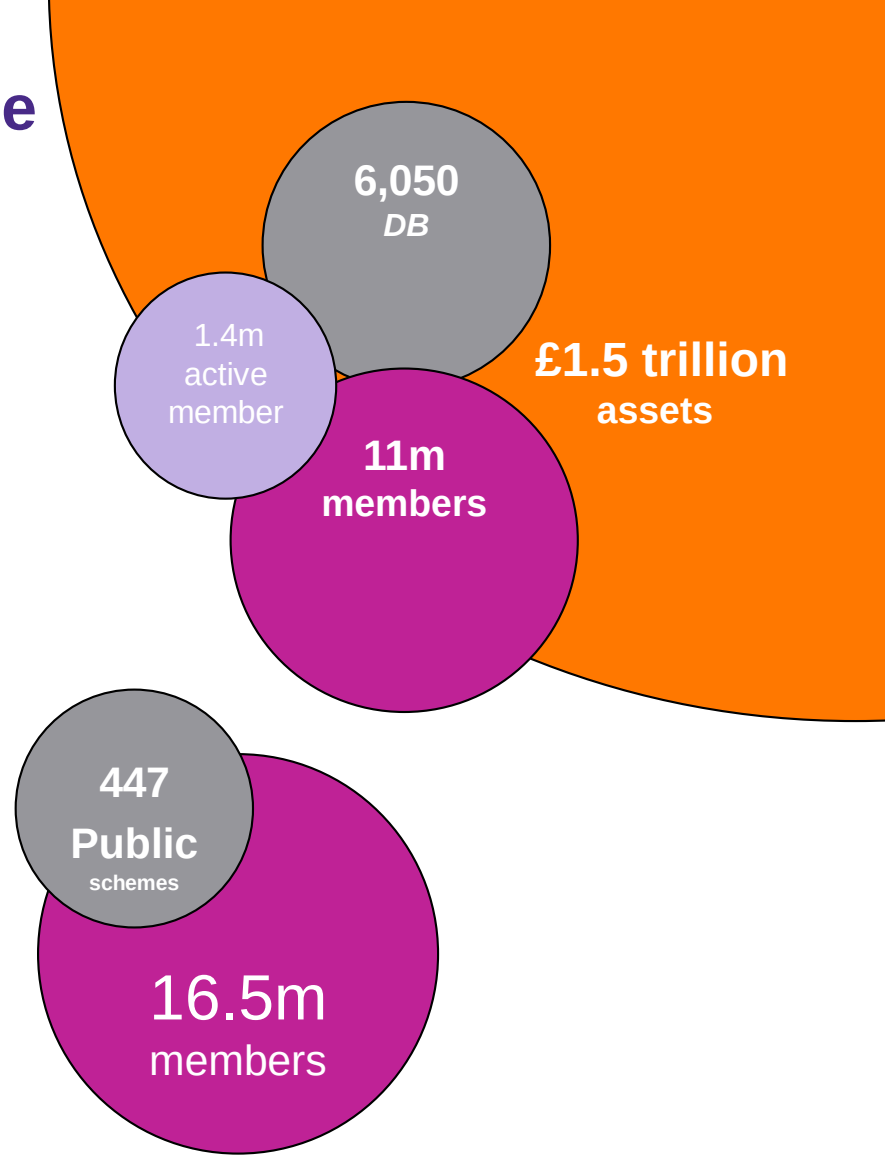
Landscape





Source: Corporate Plan 2018 - 2021 www.tpr.gov.uk/doc-library/corporate-plans.aspx

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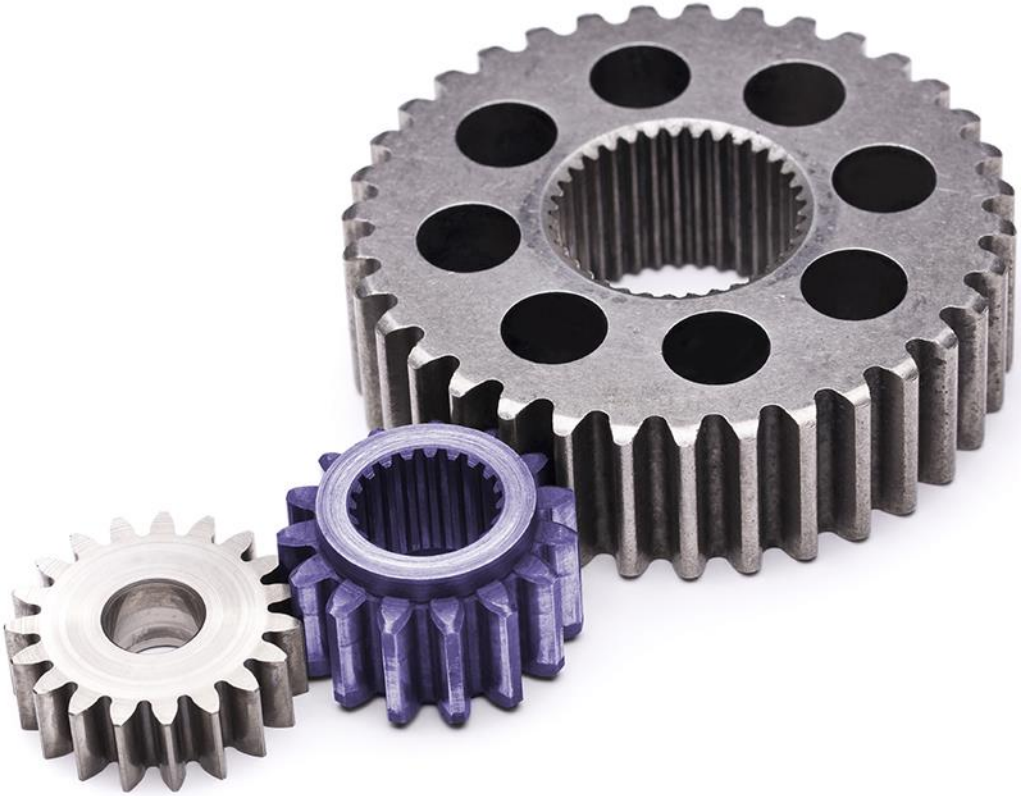
Opportunities for innovation



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Ask the audience

- Do you know:
  - how much you pay in?
  - how much your employer pays in?
  - what tax benefits you get?
  - who your pension provider or providers are?
  - if all your pension providers know where you live?
  - how much you’ve got saved already?
  - where it’s invested?
  - when you last read your annual benefits statement, if ever?
  - when you can take any money?
  - what options you will have when you take the money out?

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What are some of the challenges?

Aim: more financial security in later life

Making it easier to understand

Engagement

- Overcoming inertia
- Why should they be interested?
- Are they saving now?
- What have they saved so far?

Better decisions

- Better informed
- At the right time
- Advice and guidance
- Tools

Avoiding scams

- Scam awareness
- Cyber security
- Detecting a scam on transfer
- Closing down scams

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Challenge - getting people interested in their pensions

- Engagement - inertia was used to get people to start saving into a pension,
  - but how do we overcome inertia to get people interested in their pension, so they can make informed choices at the right time?
  - research shows people become more interested over time and as their pension pot grows (eg when it is as much as their annual salary or enough to buy a new car)
- Can ethical / socially responsible investing be used as a lever?
- What role can technology play (eg mobile phone Apps)?
- What about the self-employed (who are currently excluded from automatic enrolment)?
- What could government, pension providers, the regulator and industry do to help?

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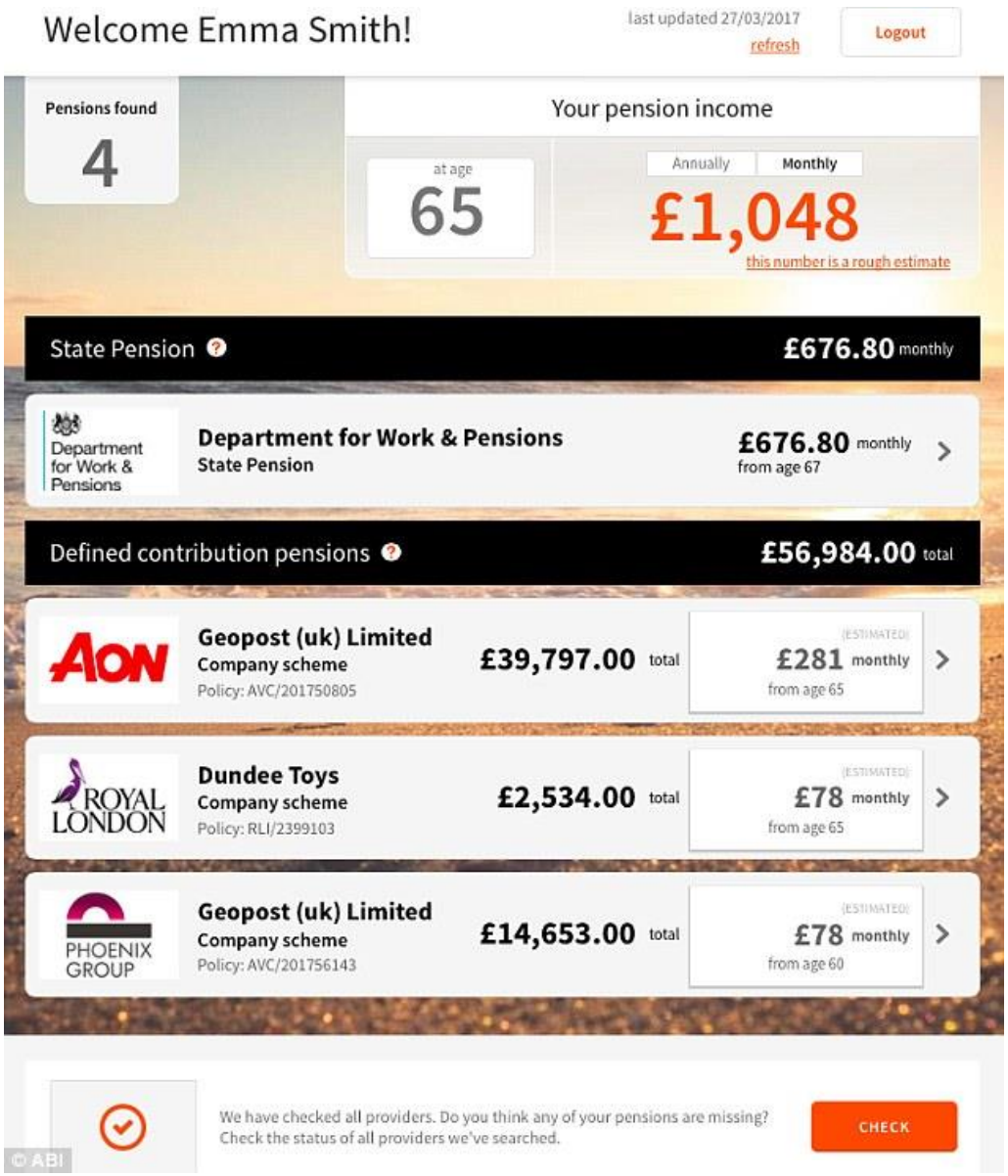
Pensions dashboard

- Put forward in Budget 2016
- Prototype dashboard delivered by the Association of British Insurers
- Department for Work and Pensions now leading on feasibility study
- Currently pensioner income is 50% state and 50% private pension (source Pensions Policy Institute)



Challenge - better decisions over time

- **Early years** – possibly increase savings rate?
  - plan ahead to have enough savings for 20-30 years in retirement
  - manage other demands on income – eg student debt, buying a house
  - decide which type of fund / investment risk
- **Later years** pre-retirement – last chance to save more?
  - most people's only retirement income will be the State Pension
  - buy an 'income for life' and/or keep some money as a drawdown pot
- **Early years in retirement** – take drawdown / receive pension income
  - spending may be higher on travel, hobbies or looking after elderly parents
  - may still work part time (or even full time)
- **Middle retirement years**
  - spending reduces as mobility / travel reduces and people stay at home
- **Final years in retirement** – how to avoid running out of money?
  - even those with good health often experience higher healthcare costs
  - medical expenses and care costs can be very high
  - this phase is often the most expensive

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Challenge - protecting people from scams

- Elderly people are often more vulnerable to scams
- Billions £s of savers' money has been lost to pension scams
- Pension schemes hold large amounts of personal information - very valuable to fraudsters, if they get hold of it
- Most cyber attacks exploit basic weaknesses in software and IT systems
- Government estimates that 80% of cyber breaches could be prevented by following ten steps from the National Cyber Security Centre
- How can people be better protected from scams?

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5 tips about avoiding scams

1. If you think you've been scammed – act immediately
2. Cold called about your pension? Hang up!
3. Beware of exotic sounding investments and offers of unusually high returns. If it sounds to good to be true, then it is.
4. Use advisers registered with the FCA.
5. Don't take tips from friends, check everything yourself.

- Scam transfer checklist - www.tpr.gov.uk/docs/pension-scams-action-pack.pdf
- Member booklet - www.tpr.gov.uk/docs/pension-scams-booklet-members.pdf

automatic enrolment

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Innovation in pensions

- Allow those people who *are* engaged to make informed decisions and understand implications
- Make it simple
- Make it automated
- Make it accessible
- Protect the vulnerable
- Technology can help:
  - robo advice
  - bots
  - auto budgets
  - spend / investment growth / inflation forecast modelling

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Any questions?

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Additional slides

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National Cyber Security Centre

What you can do to combat cyber attacks

Reducing The Impact

Most cyber attacks are composed of four stages: **Survey, Delivery, Breach and Affect.** The following **security controls,** applied at each stage of an attack, can reduce your organisation's exposure to a successful cyber attack.

Survey

User Education

Train all users to consider what they include in publicly available documents and web content. Users should also be aware of the risks from discussing work-related topics on social media, and the potential of being targeted by phishing attacks.

Who might be attacking you?

Cyber Criminals interested in making money through fraud or from the sale of valuable information.

Industrial competitors and foreign intelligence services interested in gaining an economic advantage for their companies or countries.

Hackers who find interfering with computer systems an enjoyable challenge.

Hacktivists who wish to attack companies for political or ideological motives.

Employees, or those who have legitimate access, either by accidental or deliberate misuse.

Delivery

Network Perimeter Defences

Can block insecure or unnecessary services, or only allow permitted websites to be accessed.

Malware Protection

Can block malicious emails and prevent mailware being downloaded from websites.

Password Policy

Can prevent users from selecting easily guessed passwords and locks accounts after a low number of failed attempts.

Secure Configuration

Restrict system functionality to the minimum needed for business operation, systematically apply to every device that is used to conduct business.

£600K-£1.15m

Average cost of security breach

Breach

Patch Management

Apply patches at the earliest possibility to limit exposure to known software vulnerabilities.

Monitoring

Monitor and analyse all network activity to identify any malicious or unusual activity.

Malware Protection

Malware protection within the internet gateway can detect malicious code in an important item.

Secure Configuration

Remove unnecessary software and default user accounts. Ensure default passwords are changed, and that automatic features that could activate malware are turned off.

User Access

Well maintained user access controls can restrict the applications, privileges and data that users can access.

User Training

User training is extremely valuable in reducing the likelihood of successful social engineering attacks.

Device Controls

Devices within the internal gateway should be used to prevent unauthorised access to critical services or inherently insecure services that may still be required internally.

Affect

Controls For The Affect Stage

Once an attacker has achieved full access, it's much harder to detect their actions and eradicate their presence. This is where a more in-depth, holistic approach to cyber security can help.

10 Steps To Cyber Security outlines many of the features of a complete cyber risk management regime.

81%

of large companies reporting breach

National Cyber Security Centre

10 Steps to Cyber Security

Defining and communicating your Board's Information Risk Regime is central to your organisation's overall cyber security strategy. The National Cyber Security Centre recommends you review this regime – together with the nine associated security areas described below, in order to protect your business against the majority of cyber attacks.

Network Security

Protect your networks from attack. Defend the network perimeter, filter out unauthorised access and malicious content. Monitor and test security controls.

User education and awareness

Produce user security policies covering acceptable and secure use of your systems. Include in staff training. Maintain awareness of cyber risks.

Malware prevention

Produce relevant policies and establish anti-malware defences across your organisation.

Removable media controls

Produce a policy to control all access to removable media. Limit media types and use. Scan all media for malware before importing onto the corporate system.

Secure configuration

Apply security patches and ensure the secure configuration of all systems is maintained. Create a system inventory and define a baseline build for all devices.

Set up your Risk Management Regime

Assess the risks to your organisation's information and systems with the same vigour you would for legal, regulatory, financial or operational risks. To achieve this, embed a Risk Management Regime across your organisation, supported by the Board and senior managers.

Managing user privileges

Establish effective management processes and limit the number of privileged accounts. Limit user privileges and monitor user activity. Control access to activity and audit logs.

Incident management

Establish an incident response and disaster recovery capability. Test your incident management plans. Provide specialist training. Report criminal incidents to law enforcement.

Monitoring

Establish a monitoring strategy and produce supporting policies. Continuously monitor all systems and networks. Analyse logs for unusual activity that could indicate an attack.

Home and mobile working

Develop a mobile working policy and train staff to adhere to it. Apply the secure baseline and build to all devices. Protect data both in transit and at rest.

For more information go to **www.ncsc.gov.uk** **@ncsc**