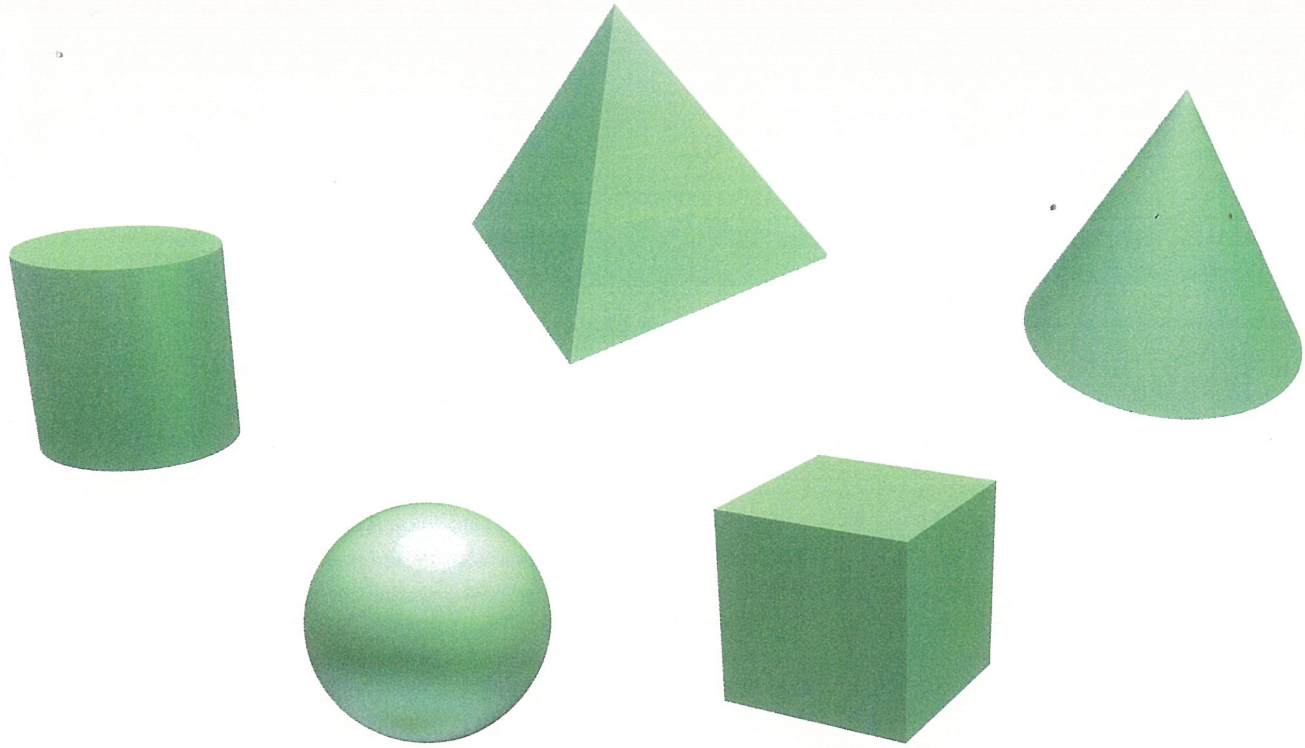

# The changing shape of the UK pensions industry

**The last 30 years has seen major change in pension provision. Here, three experts give us their view on the impact this change has had on the shape of the UK pensions industry.**

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## What happened?

In 1987 the law was changed to abolish the previously common practice of compelling employees to join an employer's pension scheme (at the time they were overwhelmingly defined benefit [DB] schemes). A few months after this, another change in the law created personal pension plans. For the first time these were to be accessible to employed people.

No one could have predicted quite how seismic these changes would be to pension provision in the UK or to the shape of the pensions industry.

At first, the pace of change was relatively slow, but during the 1990s and then the 'noughties' DB closures and the creation of replacement group personal pension plans (GPPs ) accelerated. Now the remaining DB schemes are looked on as anomalies.

The shape of our industry is only just starting to catch up with this change. The old skill sets are in less demand while the skill sets of the modern age are in greater demand.

There is a degree of polarisation in the industry. There are those whose skills are necessary:

- to manage out the legacy and remaining DB schemes: scheme actuaries, risk managers and independent trustees
- to improve member outcomes in the new defined contribution (DC) world: communicators, governors and low cost providers

There is also a demand for creative intelligence: those who can help develop solutions for the DB legacy and those who can look to various futures for the industry and help to fashion new ideas, concepts, solutions and products.

## Conclusion

The pensions industry has had a tumultuous 30 years. What has emerged is an industry that is far more innovative and exciting. Those that will prosper in this new world are those who encourage thought and creativity.

To me, 'pensions industry' has a very precise meaning. It refers to those who provide services to employers, trustees and members. It does not include those employers who have voluntarily chosen to include a pension as part of their remuneration package. These employers are engaged in many industries but pensions are not normally their stock-in-trade.

While my definition remains the same, everything else is going to change. Auto-enrolment is nothing new for many employees as a pension may have been a condition of employment for decades. The Government-sponsored changes mean that during the next few years we will be auto-enrolling employers, many of whom do not really want to play this game or be engaged beyond the minimum level that the law commands. Employers who are both disengaged and disenchanted are not going to punch their weight wholeheartedly in making sure that the 8% of the wealth that they and their employees, create is put to best use by those who manage their pension arrangements.

At the same time as we are sucking in reluctant employers, long-standing and engaged employers are facing a pensions industry in a state of flux. As the pensions world becomes increasingly defined contribution in nature, many traditional providers may withdraw or be the subject of consolidation. New players with an unproven pedigree may try to profit from a rapidly broadening marketplace.

The pensions industry will not just witness some changes in name, it will see a rapid evolution of roles. Product providers are offering advice while traditional independent advisers and consultants are selling solutions or products.

In this rapidly changing world, employers and trustees will need to be on their guard. When will it be safe for them to buy products without advice? Will a consultant who is seeking to sell products still be trusted as a source of independent advice? We are all playing for extremely high stakes as we are responsible for the financial security of millions of hard-working men and women.

Alan Pickering
Chairman of
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Some people have recently suggested that pensions consultancies are a dying breed, their work drying up, forced to huddle together in ever larger groups to combat the chill winds of occupational scheme terminal decline. Nothing could be further from the truth.

Recent industry consolidations are a response to changes in the shape of pension provision. Drivers include:

- increased complexity in the pensions area
- cost pressures from clients less willing to bear pensions costs, as they rein back from previous high levels of pension commitment (mostly under legacy final salary schemes)
- a need to realign business focus, in the light of significant changes to the pensions landscape; the current popular trend is to break down old barriers between pensions and other types of wealth

These drivers – and the last one in particular – illustrate a wider issue. We are in the process of a major change in the nature of pension provision.

The desire by employers to reduce their exposure to risk has provoked a strong move towards defined contribution arrangements, leading some to conclude that dedicated pension provision is no longer required, and the future lies in simple savings vehicles, with instant access.

However, more than ever before there is a need for arrangements to pre-fund retirement income – particularly in a world without a default retirement age. Average life expectancy is growing rapidly, but retirement ages lag behind; while general appreciation of the resultant cost increases also fails to keep pace, private pension provision becomes more necessary - the state will not fill the gap.

The introduction of auto-enrolment is a clear reinforcement of the continued importance of pensions. The new landscape certainly requires new and innovative financial solutions. Consultancies have a long history of developing solutions in changing times; in this respect the future will be Business as Usual.

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