A new era? The return of the Pensions Commission

Tasked with addressing pension adequacy, and how people can save more for retirement, the revived Pensions Commission structure has already got the industry talking about just how much it could achieve

Summary
• The Pensions Commission revival has been welcomed by the industry, but many question the timeframe it is working to (with recommendations not due until 2027).
• Much of the previous commission's success has been based on auto-enrolment but there are several political and economic changes between now and then to consider.
• There are no quick fixes for the current commission, but better understanding of pension adequacy, and what this looks like across society, could help, alongside lowering the AE age.
• All agree that the government's hands are tied to an extent given it has already ruled out raising employer contributions this parliament.

In July, the government 'revived' the Pensions Commission with a new goal of improving pension adequacy for UK savers. The press release, which came with plenty of dire statistics around the state of retirement savings in the UK, announced that the commission will be led by Baroness Jeannie Drake, Sir Ian Cheshire and Professor Nick Pearce. Overall this has been welcomed, largely due to the previous commission's work, which led to the introduction of auto-enrolment (AE), but many are now urging haste given the growing retirement gap.

"I have mixed feelings – optimism that the commission can bring lasting positive change but also regret that, inevitably, the process of the commission will delay the implementation of any change by two years or more," admits Aon partner and head of UK retirement policy, Matthew Arends, who applauds

the makeup of the commission but wanted to see more pension expertise.

"The missing piece, however, is a pensions-insider who would understand intimately the challenges faced but also have direct insight into the practical difficulties of implementing solutions," he adds.

Also concerned about the timeline ahead of the commission is Barnett Waddingham partner and head of DC pensions, Mark Futcher. He applauds the work of the previous commission, which directed more people to save, but highlights such work only goes for in such a long-term problem.

"It's been over 20 years since the last *[commission]*, and while AE transformed the number of people saving, it hasn't solved the problem of how much they're saving," says Futcher. "But with the commission not due to report until 2027, and its recommendations unlikely to be implemented for years after, we risk several more years of inaction when the adequacy gap is already widening."

The challenge ahead

The previous commission's success has been evident in the subsequent years, with data from the Department for Work and Pensions revealing that in 2023 there were 22 million more people saving into a workplace pension than in 2012. The 'revived' commission may be getting to grips with the major issue of pension adequacy, but some have been quick to point out the differences from 2004.

Looking back, AJ Bell director of public policy, Tom Selby, points to the cross-party consensus that was achieved to make AE a success. Securing the same bipartisan support could be more difficult now he argues, in addition to the fact the government has already ruled out increasing employers' minimum contributions this parliament.

"Furthermore, while the commission has rightly been asked to look across the landscape, including state pensions, the triple-lock remains out of bounds this side of the general election," adds Selby. "Those are significant restrictions to its remit and leave the commissioners essentially operating with one hand tied behind their back.

"In short: The commission faces a huge challenge in delivering game-changing reforms that are agreed across the House of Commons."

The political environment can also not be ignored. Twenty-four hours is a long time in politics, and with the commission not due to report until 2027, Zedra client director, Alastair Meeks, questions who will be around to implement any proposals made.

"At present we have a Pensions Minister who is highly engaged with the subject and widely tipped for higher things, so there is a substantial chance he will have moved on by then," says Meeks. "And what of the Chancellor? When the *[last]* commission reported, Gordon Brown reined in some of its proposals on cost grounds. We live in still more straitened circumstances now. Will Rachel Reeves – or her successor – have the vision required when the crunch comes?"

Priorities for the commission

The new commission faces a mammoth task with four in 10, or nearly 15 million people, under saving for retirement. Experts agree there are no easy fixes, but Futcher sees some "clear areas" for action.

"For one, reducing regulatory red-tape could allow for more flexibility and product innovation amongst providers, expanding product options for people beyond the current investment- and insurance-based models," he says. "While annuities are still a viable option, there's still very few products that blend investment and insurance, which could give savers more options later in life."

There is also an argument for taking steps to ensure pension policy better reflects realistic needs of the UK population. Here, Meeks highlights the difficulty of defining 'pension adequacy' given people's individual circumstances.

"For example, for the lower paid, the current state pension will provide a reasonable replacement ratio on retirement for many, whereas that isn't the case for many in middle incomes," says Meeks. "Consequently, there are unlikely to be any simple answers."

However, he does see a case for one relatively easy fix – widening AE to younger savers: "Having said that, extending the scope AE down to age 18 would seem to be a 'quick win' and one that was close to being introduced under the last parliament."

Whatever the commission proposes, it needs to be feasible and workable for government. Here, LCP partner and former Pensions Minister, Steve Webb, sees the need for a timetable to be provided alongside any recommendations.

"When I inherited the basic idea of

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at that point?"

For this reason, the topic of financial literacy often comes up whenever pension adequacy is discussed. An individual's ability to save for retirement is often heavily influenced by their wider finances, which is why Futcher wants to see the commission take such context into consideration.

"Improving retirement outcomes starts long before someone first joins a pension scheme," says Futcher. "At a minimum, financial literacy needs to be further cemented in curriculums to ensure sufficient knowledge of long-term savings, and the benefit of turning their money into an income for life. The commission also needs to consider how people's wider financial lives work in tandem with their pension savings."

However, the commission's reach is limited and Webb is wary about broadening its remit "too much". Although an advocate of financial literacy, from personal experience he says more significant changes need to be made.

"AE showed us that what works is doing things at scale by default," says Webb. "Financial literacy is important but evidence shows this is an incredibly painful, slow and ineffective way of achieving massive change – and that's what we need, massive change."

AE, one advantage we had was there was a timetable for rolling it out in different sized firms and for different bands of contributions," recalls Webb. "As this was all planned so far in advance everyone just got on with it. If we expect the political reality that the parliament can't ask employers to pay more, for obvious reasons, at the very least we present a sensible, phased timetable."

Affecting real change

There is no disputing the work required from the commission, and many in the pension industry are all too aware of the saving challenges people face. With such an urgent predicament, Arends wants to see this same effort and resources around the commission being used more – hence his key recommendation would be to form a pension commission every 10 years.

"It has taken almost 20 years from the Turner commission to this one and it was also recognised – even in 2005 – that it could only achieve so much, as its remit was tightly confined," says Arends. "As a country, we cannot afford to wait 20 years to address the complex challenges of UK pensions.

"The commission faces a huge challenge in delivering game-changing reforms that are agreed across the House of Commons"

"This is particularly true given how the environment will change, with diminishing DB savings by members, the advent of collective DC pensions and dashboards, as well as AI potentially affecting how members engage in pensions, and the inexorable ageing of the workforce. Just how affordable will the unfunded state pension be in 10 years' time to the working age population

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