The-Pensions-Net-Work (TPNW) 10th Anniversary Conference

"To 2026 – a Pensions Odyssey"

Early in October The-Pensions-Net-Work (TPNW) held its 10th Anniversary Conference in the heart of the City of London. The conference attracted nearly 100 of the great and the good of the pensions and long-term savings world, into the exuberant and imposing 1930s art deco Banking Hall, formerly Lloyds TSB's headquarters at 14 Cornhill.

The future-looking theme for the conference was laid out by the Chairman of TPNW, John Moret. He said that unlike the regular TPNW meetings this meeting not only had a specific theme but also was not help under Chatham House rules. He said that rather than look back at what had happened over the ten years since TPNW as founded by Malcolm Small he wanted to look forward at what lay ahead of the pensions and long term savings world. He had deliberately chosen a range of speakers who he felt sure would have some interesting and provocative views.

However, John did have time for a quick look back over the last 10 years, listing a number of the key events which had helped shape the discussions and debate in a total of 44 meetings which TPNW had hosted since it started in June 2006.These included the far reaching Turner Report (2005), A-Day/Pensions Simplification (2006), the launch of the PPF in 2007, the Hutton report on public sector pensions (2011), the Dilnot Report on the funding of care & support (2011), pensions tax changes, the introduction of Auto-Enrolment (2012) & the launch of 'Workie' (2015) and the new pension freedoms that came into effect from April 2015.

He also mentioned that over the lifetime of TPNW there had been seven pensions ministers – one, Steve Webb lasted 5 years –the longest tenure of any of the others was one year and four months – hardly a recipe for consistency in policy and planning.

John then went onto highlight what he saw as the favourite topics at TPNW meetings over the last ten years. He listed five:

- Issues with DB schemes – citing the recent developments on the BHS scheme as an example
- Investment issues & strategy particularly in the world of DC pensions
- The impact of Auto-enrolment and the role of NEST
- The changing world of advice
- Longevity issues including the impact of the ageing population. He thought this was the topic that had dominated meetings over the last few years.

Turning to the talks by the guest speakers:

1.Paul Johnson, Director, Institute of Fiscal Studies on 'Wealth of the Young & the Old'

Paul Johnson provided a detailed overview of one of the latest studies his team at IFS which concluded at the end of September. He focused on some of the key findings from the study entitled: *"The economic circumstances of different generations: the latest picture"*, supported by a blizzard of statistics and trend lines on the supporting slides. Paul's main conclusions were:

People born in and after the 1980s are going to find it much tougher to save enough to retire on, than the current generation of Baby Boomers who are retiring over the next 10 years (if they haven't done so already). The reasons for this are several, as Paul highlighted:

1. Real family incomes are stagnating, only rising on average from £22,000 (2010) to £27,000 (2022), with the bottom 10 per cent actually standing still over that period at around £15,000. So average household income which has been rising by at least 2% year on year almost forever has, for the first time, ground to a halt (except in the top 10%).
2. Many more young people are renting than owning their own home - so less are benefitting from property price inflation. Of those born in the 1980s, some 40% are home owners, whereas 55% of the previous generation (Generation X) were home owners by their early 30s.
3. Renting has got a great deal more expensive relative to borrowing to own your own home. Those born in the 1980s are spending 30% of their net income on housing costs, compared to 15% for homeowners. Whereas people born in the 1960s, when they were at the same age some 20 years ago, would have been paying 20% of their overall income on housing costs regardless of whether they were renting or owning the roof over their head.
4. Far less have access to DB pension schemes: less than 10% of people in their 30s working in the private sector today are active members of DB schemes, compared to 40% of those born in the 1960s.
5. Auto-Enrolment has brought more than 6.5m people into an employer pension scheme for the first time. But current provision is something like 1/20th of DB equivalent contributions.

The conclusions for the retirement market were that over the next 10 years we would not see significant change as largely well-stocked pensions head into decumulation in the majority of cases. But after 2026, Paul foresaw potential for significant change and a real risk of worrying levels of poverty for retirement aged individuals in future generations.

2. Daniel Ryan, Head of Digital Analytics Catalysts, Swiss Re

Next up was Daniel Ryan for a deep dive into '*Longevity Prospects beyond 2026'.* Daniel started with listing a number of major factors contributing to rising longevity.

He loosely categorised areas of progress which are contributing to significant strides in longevity into the following headings:

1. Genetics
2. Environmental
3. Healthcare
4. Interactions
5. Behaviour

Much of the focus of Daniel's talk was on the impact of sequencing of the human genome giving the ability to begin to identify, isolate and remove defective genes and get higher level of host acceptance for implants, replacement organs etc. He mentioned CRISPR Cas9 genome modification as a key breakthrough which offers quicker, cheaper and more reliable genomic modifications.

He went on to indicate that medical advances are now way ahead of traditional healthcare provision and much of the pharmaceutical world. The former spends most of its resources on treating people after they are already very sick. So for example 80% of a cancer's lifecycle is reached before most cancers are even discovered and treated. For many, detection comes far too late.

He felt that we need to embrace preventative and then regenerative medicine over the next 10 years. He commented that we need to do this anyway as the NHS is already struggling to cope with the volumes of patients it is dealing with and the big pharmaceutical companies are finding it too expensive to bring drugs to market with high enough efficacy to be approved for widespread use, at the right price to justify the excessive R&D spend required.

He talked about the ability in the near future to bioengineer/grow our own body parts to replace failing or defective ones. It's possible to do this by taking any cell and identifying the stem cell at its origin. There is a potential to even print organs in the future.

He also talked about empowerment of patients so that most us within the next 10 years or so will know the procedure they need, when they need it by and the price it should be. We will be shopping around online for a provider - based on quality, proximity and performance ratings. It will become a consumer-driven market in which the patient is finally in the driving seat.

How will this be achieved? Firstly, there will be an ability for accurate and reliable self- diagnosis. Wearable sensors will monitor vital signs and organ performance. Sensors in the eye or 'Smart Lenses' will be able to monitor for symptoms of diabetes. 'Smart Pills' will be able to report back when they have been consumed so remote carers can monitor drug regimens of the elderly.

The only question then is what we choose to do with all this personal health data. We might give permission for life assurers, private medical insurers, even our local GP surgery, to have access to a live heath data feed in return for much lower premiums or better healthcare treatment perhaps. The risk and incidence of personal health information breaches will inevitably rise.

The only other question is can all this information drive better health choices? It may lead to a move away from the current palliative approach to a more "preventative" approach as mentioned above. It's possible we will need to 'gamify' health to stimulate people, armed with all this scary information, to make lifestyle adjustments through nudges similar to those advocated by behavioural economists.

The impact of all this change may be seen in an extension to 'healthy' longevity rather than step change improvements in longevity itself.

3. Rohit Talwar, CEO, Fast Future

As a futurologist Rohit Talwar then led us into a potentially very different and challenging future with his talk entitled: *"Survival 2026 – Pensions or Mentions".*

The author of the books 'The Future of Business' and 'A Very Human Future', Rohit described in some detail the impact of an Artificial Intelligence-led future in which we will see the end of full-time 9AM-5PM jobs for all but a few.

His advice for businesses that want to be fit for this new world is to compartmentalise business planning as follows:

- 1-12 months should focus on fine-tuning operations with a view to achieving operational excellence
- 1-3 years should focus on a search for growth
- 4-10 years should be about understanding and preparing for future drivers

Armed with these 3 different time horizons, streams of planning work can be identified which together ensure businesses retain profitability and efficiency today; while making ready for potentially seismic AI-led changes which will affect every market over time.

So for Rohit it's about changing mindset, culture and skill-bases. It is important for the longer term planning not necessarily to know which way things are heading but to recognise that change is accelerating and standing still is not an option.

He talked about the fact that computing power will multiply 128 times in just the next 10 years. If you look across to the west coast of the US, the future is already taking shape. Elon Musk of PayPal and Tesla fame is planning the colonisation of Mars! A 700 mph rail service, called the HyperLoop, which will be able to take you from LA to San Francisco in 35 minutes, is likely to be ready for deployment before the end of 2018. In China, a 57-storey building has been built in just 19 days using a pre-fabrication system where the actual building is more akin to assembly of existing pieces. 'Robo-building' is taking shape with a robot system called Hadrian X which can be driven onto site by a truck and can then lay down 1,000 bricks an hour around the clock using a 30m boom, allowing it to stay in a single position while it builds.

Then there is Uber which is already taking away the livelihoods of hundreds of thousands of licensed taxi drivers around the world. It is going to get worse as last month Uber went live with its first driverless taxi service in Pittsburgh. Humans are simply being taken out of whole markets and it's happening frighteningly fast.

So if robots are set to sweep away millions of jobs in the coming years, how we will all make a living? Well we will be putting our assets to work apparently. Again it's already happening. We are renting out our drives for commuters to park on, and our spare rooms via Airbnb. In the future we could be proffering our Autonomous Car or 3D printers? It is already possible to print an electric car. Local Motors in Philadelphia printed a Strati 2-seater electric car back in 2014. Honda has now done the same.

It's also possible that we will be auctioning off our health data to healthcare providers and pharmaceutical firms who can use ever larger data sets to develop solutions to help us to live for longer. There will be immense competition to develop high quality algorithms capable of doing more and more complex tasks based on multiple inputs. Data crunching algorithms that can gather and analyse new data sets fast; and use this intelligence to identify and target the customers most likely to buy your new product rapidly, will be gold-dust. 'Monetising' personal data is likely to become a key driver of change.

In SwedBank, they've worked out that chat bots they've developed to help customers get answers to their queries are already preferred to normal human web chat sessions by more than 80% of users. eBay handles 25m legal disputes per year through compilation of legal precedent information and automatic amalgamation of relevant information, all with no involvement of paid lawyers at all.

All this means over 1 billion jobs could be automated by 2030. It means the future could mean uncertain income so establishing multiple sources of income will be one way through. Firms will need to focus on increasing the resilience of their workforce as well as making their businesses disruption-ready.

What will this mean for the long-term savings world? It will naturally mean that we will rely increasingly on machines to prompt us to save intelligently. We may well hand it all over to an

algorithm to move our money between pots to optimise its growth on a minute-by-minute basis. 'Digital money' will flow constantly like water.

There are new ways of getting new products to market. For example, Quirky offers an invention platform to enable people to pitch their ideas and collaborate with a range of specialists to bring it to life – open source product invention and development if you like.

However, it's good news for medical advancement. It will be possible to literally upgrade our bodies with the aid of AI and other technology so we will be kept in tip top condition partly because bits of us will be 'smart', self-learning and self-maintaining hardware.

AI is advancing so quickly that this year for the first time the Go champion was defeated by Google's Deep Mind – an AI computer that is constantly learning and producing new ideas to the point where it has more stamina and more creativity than the best human. They are already trying to apply the AI power of AlphaGo to improve clinical outcomes in the NHS for example.

So where does this all lead us in the pensions and retirement planning market? It is hard to tell except to say that disruptive change is coming over time to all markets, says Rohit. So if it's not already affecting the financial services market it will almost certainly have an impact on product and advice offerings and charging structures and change could be felt even before 2026. It's time to build that long-term plan alongside the shorter timeline plans that most businesses are already quite good at developing.

4. Shaun Crawford, Global Insurance Leader, EY

Shaun Crawford then posed the question: "*Where will the Financial Services Industry be in 2026?"*

Shaun continued along the same future-gazing route as previous speakers, albeit with a more evolutionary than revolutionary approach. His argument was that increasingly intelligent and multi-faceted platforms offer an opportunity for consultants and advisory firms to get out more face-to-face with customers and, by extension, listed businesses to have much fuller, franker and more transparent dialogue with investors.

Machine learning will get us to the point where IT systems will self-diagnose and self-fix which will enable us to cut time to make changes and improve system resilience.

For financial advisers, social (media-based) prospecting and social selling will become more common place. The quest to full engagement with customers will continue – extending to capturing all digital interactions with platforms and providers and extrapolating intent from these. All this will be overlaid with gamification techniques for training and educating customers, thereby stimulating loyalty, repeat purchase and appropriate investment for eventual retirement.

In this process, brands will be strengthened and customer behaviour affected. The key to success going forward will be collaboration in Shaun's view. In the UK we have great strength in building and enforcing regulation and ensuring financial advice is sound. These elements make it possible for the UK to be a world leader in financial services. The business environment is stable and enforces market discipline for the good of all. However, there are areas where we may need to collaborate with other providers to close up gaps in our offerings. Digital customer engagement is one of those areas where right now we have a lot to learn.

Shaun finished by encouraging business leaders to get out from under 'business as usual' and micro-managing efficiency programs and see what innovation is going on around the world. He recently travelled to India to get an understanding of a relatively new financial services provider called

Paytm. This Indian digital marketplace is now offering an expanding range of financial services products such as health insurance and savings and has built a customer-base of more than 400,000 for these products in a few short months; having already established a market place for buying many other products from a new kettle right through to a new electricity provider for your home.

For Paytm, the route to growth flows from knowing a great deal about the buying habits, disposable income and digital behaviour of their customers and then leveraging this knowledge to reach out to them with new offerings. There may be opportunities for UK Financial Services providers to joint venture with these sorts of businesses which command growing and loyal customer-bases and use deep analytics to engage with them and deliver a powerful digital platform.

5.Belden Menkus, Founder & Managing Director, Menkus Associates

Belden Menkus in his talk entitled *"Coping with Change – Lessons from the Past"*, started by talking the audience through the various stages of our economic development since the 1920s. We started in a largely domestic market. Although there were early market crashes like the Wall Street Crash in the 1930s, by in large this was a period of stability which was manufacturing-led. Then from 1960s to 1980s the computer age arrived and from the mid-1960s the Japanese were innovating very rapidly. An average business plan took to two years to develop and 3 years to roll out. So it was 'Unfreeze, change, refreeze' and so on.

Then from the mid-1980s things started to accelerate. The PC arrived on the desktop and technology started to change business models. First Direct was set up as a telephone-only bank. The issue of customer service began to travel up the corporate agenda. Then from 2000 the Internet Age was born. End to end business systems from ERP to CRM systems began to grow like topsy and all computer users were being deluged with emails.

Now we have moved into a period which Belden calls 'Jolt' – digitisation is meaning that change is now becoming a constant. The digital mantra became anything, anywhere, anytime as the smart mobile device went centre stage. The cost of building businesses and capturing market shares fell dramatically and certainly disrupter businesses – employing just a few thousand employees globally - were generating billions of dollars of profits for their owners and stakeholders.

Belden explained the disruptive effect of some of these changes on specific markets. He talked about how Apple's iPod, combined with Apple iTunes and now Apple Music have flipped the music industry on its head. So, from a situation where the big music producers were dictating to the artists, making their money from album sales which they were mandating of the artists and royalties from radio plays of the music - to one where the big money is now made through touring artists' ticket sales and merchandising. The winners have been the digital music playing platforms like Spotify, Apple, Google Play and hard-working and savvy artists who could now build strong fan-bases via concerts and direct connections with fans through social media channels.

So many businesses will make little or no money from what they would have regarded as their core business just a few years ago. Belden warns that the pace of change is rising faster than our ability to adapt, organization's response is simply not keeping pace and a 'Darwinian Gap' is opening up for many larger firms.

What is the solution for keeping this gap in check? For Belden it is about focusing on meaning – i.e. identifying what the business stands for and taking that message to your customers. If you can get this right, then the money should follow. He uses John Lewis Partnership as a good example of a business that has a real, fully articulated purpose that goes beyond the profit motive. They want to

provide satisfying employment for their partners (all employees have a share in the business) in a successful business.

It may mean new skill-sets are required and you may need to change the labels on the backs of the executives' chairs. You may need people specifically there to peer deep into the future and come up with potential new offerings to address. You need to find ways of getting young middle managers accelerated through the organization, giving them the tools and backing to unleash their potential.

So in summary in Belden's view it's all about **Understanding the Situation + Establishing your Identity = Taking Action,** all based on output from the first two stages.

6. Panel Discussion

Adrian Boulding a member of TPNW's management board then chaired a panel session which reflected on the earlier presentations. On the illustrious panel of pensions experts were Chris Curry, Director of the Pensions Policy Institute, Joanne Segars, CEO of the Pensions and Lifetime Savings Association and Baroness Jeannie Drake, the Labour peer and ex-member of the Pensions Commission headed by Lord Turner. They were joined by Richard Clark, head of commercial marketing at Origo, the event sponsor.

Most of the panel seemed somewhat shell-shocked by what they had heard from some of the earlier speakers, expressing a disconnect between the current world of pensions and long-term savings - and the drivers of rapid change that had been outlined in earlier presentations. An example was the potential impact of 'blockchain' technology.

There was a good discussion about the role of the pensions dashboard in improving customer engagement –with varying degrees of enthusiasm amongst the panel members and very different views on the prospect of a useful and positive outcome. The success of auto-enrolment was acknowledged albeit that there were concerns about the current low real levels of contribution and the dangers of delusion particularly amongst younger savers. There was a brief discussion about the potential role of housing as an investment for larger pension schemes as a means of addressing the current shortage of residential housing stock.

Baroness Drake in particular mounted a spirited defence of good employer-led pension provision and said that Pensions Freedom and Choice must not mean that the whole burden of retirement planning, and the bulk of provision, falls on the individual alone. She added: "We need to look at what the consequences of individualism look like and ask ourselves if it is an efficient long-term savings policy. There is scope for more efficient risk-sharing and I do think this will come but we are not there yet." The debate around the merits of pensions collectivism looks set to continue.

7.Steve Webb, Director of Policy, Royal London

Finally, after the panel discussion, Steve Webb the former Pensions Minister gave his own personal *"Views of the pensions landscape in 2026".* He firmly believed that many of the seeds sown over the last few years, with the arrival of Auto-enrolment and Pensions Freedoms, will shape the market in the next 10 years.

Steve said that it was always his vision that Pensions Freedom & Choice should be extended from DC to DB policy holders as well as those already drawing an annuity. He observed that already transfers from DB to DC pensions have gone up dramatically as employers look to reduce risk of long-term liabilities from legacy occupational schemes.

After initial reluctance by many advisers to advise on DB to DC transfers, many are now going through the additional training needed so they can walk customers through the various transfer options. This migration may help unlock a significant part of the £1 trillion of assets currently held in DB schemes, moving these assets first into a DC environment and then on into drawdown plans. He felt that in 10 years' time there is a good chance that most DB funds will have been migrated.

He then turned his attention to the employment situation and the related issue of retirement. In the increasingly uncertain world in which we are living longer and with the growing impact of technology as described by earlier speakers, he believed more and more workers will be training for, and taking on, second careers. They may even go back to university or learn new skills –perhaps returning to work after a period of 'retirement'.

These changes will tend to make financial advice all-the-more valuable and today's straight-line concepts like 'retirement age' may simply disappear altogether. It also seems certain that many more workers will be self-employed rather than employed. Already many large firms have started to move down this route. Many new start-up businesses were designed from the ground up to minimise fixed overheads and with the aim of avoiding large employee numbers on salaried payrolls.

What is clear is that against a landscape where the pace of change is accelerating there will be plenty of new opportunities – but for many this may involve learning new skills.