House of Commons

Work and Pensions Committee

Improving governance and best practice in workplace pensions

Sixth Report of Session 2012–13

HC 768-I

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The Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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Committee staff

The current staff of the Committee are Carol Oxborough (Clerk), David Foster (Committee Media Adviser), James Clarke (Inquiry Manager), Daniela Silcock (Committee Specialist), Emma Sawyer (Senior Committee Assistant), Hannah Beattie (Committee Assistant).

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Summary

To address widespread under-saving for retirement, the Government has introduced automatic enrolment into workplace pensions. Beginning with the largest companies in October 2012, employers will be required to enrol their employees into a workplace pension scheme and to make contributions to that scheme if the employee does not opt-out. This requirement applies to employers on different dates, depending on the number of employees, but the process will be completed by 2017 for all existing employers.

Auto-enrolment will bring many millions of people into pension saving for the first time; however, the world of pensions is complex and confusing for many people. Most of the new pension savers will be enrolled into Defined Contribution (DC) schemes which place a burden on scheme members to make decisions which can affect their retirement income. However, many of these individuals will understandably not be equipped to do this. This means that high quality pension scheme governance, which protects members and focuses on maximising retirement income, will be essential in the future.

There are particular difficulties in the way that contract-based DC schemes are governed. Decisions made by contract-based scheme providers, and the employers who enrol their employees into them, may not always be made in the best interests of the scheme member. Trust-based schemes generally offer members greater protection, as scheme trustees have a fiduciary responsibility to act in the interests of scheme members. However, trust-based schemes are not without problems.

A confusing array of costs and charges is applied to pension pots by pension providers, especially in DC pension schemes, and these costs and charges can have a serious negative impact on an individual's retirement income. There is broad agreement that charges have reduced across DC pensions, particularly since the creation of the National Employment Savings Trust (NEST). However, consumer representatives have highlighted continuing concerns that some scheme members may still experience detriment from schemes with high costs and charges.

The charges which cause us particular concern are member-borne consultancy charging to auto-enrolled members, and charges in excess of those applied to current employee members which are applied to employees who stop contributing to their pension scheme (deferred members). If significant progress is not made in the very near future by the industry towards ending these charges, then the Government should ban them.

The communications between pension providers, employers and scheme members will play an important role in determining future outcomes from private pension saving. The current standard of communication is generally poor and often creates a barrier to employers and employees being able to understand the details of their pension scheme and to deal with pension companies on an equal footing.

It is essential that the Government, regulators and the pensions industry ensure that employers have the necessary information in order to make the best decisions about pension saving on behalf of their employees and that employees are properly equipped to make the decisions about pension saving which are required of them. Improving

communications will involve using simpler language and providing only the information which is relevant to employers and employees, rather than the current deluge of complicated documentation.

The main responsibility for bringing communications up to the required standard rests with pension providers but the Government, schools, employers, and advisory bodies all have a role to play in educating the public so that people will be in a better position to assess their own future retirement needs and make pension savings decisions that will help them to meet those needs.

There are several bodies with responsibility for regulating contract-based pension schemes and we are worried that the current regulatory system is resulting in inconsistent regulation for workplace pension schemes. Financial services regulation changed in April 2013; two new bodies were established to replace the Financial Services Authority (FSA). The Financial Conduct Authority (FCA) will now be responsible for regulating contract-based pension schemes. The Pensions Regulator and the FCA need to establish stronger joint working arrangements than those that existed with the FSA.

We are not convinced that the FCA is the appropriate body to regulate contract-based pension schemes. If it remains the responsible body, the FCA must adopt a pensions-specific and proactive regulatory strategy and set up a well-resourced team dedicated solely to regulating contract-based pension schemes.

We remain concerned about current regulatory gaps and the potential for further gaps to arise as a result of three regulators having a role to play in pension regulation. We believe that it is necessary for a single regulatory body to have sufficient powers to ensure that all members of workplace pension schemes are given adequate and consistent protection. We therefore recommend that the Government reassess the case for establishing one body with sole responsibility for regulating workplace pensions.

We welcome the Government's attempts to tackle the problem of small pension pots through its "pot follows member" approach. However there is potential for this system to result in consumer detriment for some individuals if their pots are transferred from a scheme with low charges and good governance into a scheme with high charges and poor governance. The Government must ensure that its pot follows member solution is accompanied by the necessary changes to ensure that all auto-enrolment schemes benefit from good governance and are free from high charges including deferred member charges in excess of those applied to current employee members, and member-borne consultancy charges.

Risk-sharing schemes can allow their members greater certainty over retirement benefits and can provide a more even balance of risk between employees and employers. We welcome the Government's intention to explore possibilities for Defined Ambition (DA) risk-sharing schemes as an alternative to Defined Benefit or Defined Contribution schemes. The Government should continue to encourage employers to consider DA schemes as an option. Legislative and regulatory barriers to DA schemes will also need to be removed by 2016, when contracting-out is due to end, if DA schemes are to offer a real alternative to Defined Benefit schemes. However, the Government's main priority should be ensuring that the millions of people being enrolled into DC schemes benefit from high standards of governance and reasonable and justifiable charge levels.

1 Introduction

Background to this inquiry

1. In order to address widespread under-saving for retirement, the Government introduced automatic enrolment into workplace pensions from October 2012. Workplace pensions are pensions to which an employer provides access. Automatic enrolment means that all employers will be required to enrol all employees, who satisfy certain basic criteria, into a workplace pension scheme. Employers will be required to enrol their eligible employees into a pension scheme over a timetable extending to 2017, with their precise enrolment date depending on the number of employees they have. The National Employment Savings Trust (NEST) has been established by the Government to provide a low-cost pension scheme which has a public service obligation to accept all employers and employees.

2. Auto-enrolment will be complemented by the introduction of a Single-tier State Pension, set at a level above the main means-tested benefit for pensioners, Pension Credit. The Government's proposals for the new State Pension system were set out in a White Paper and draft Pensions Bill published in January 2013. We were asked by the Government to carry out pre-legislative scrutiny of the legislative proposals for this reform. We published our findings in April 2013.[1]

3. These two policies together have the significant potential to increase incentives for private pension saving in the UK and to help address retirement income inadequacy, by giving individuals greater certainty about the level of income they can expect from the State in retirement, and by making retirement saving in the workplace the norm.

4. Our 2012 report on auto-enrolment welcomed its introduction.[2] However, we also identified some serious obstacles within the current private pension system to people's ability to achieve adequate incomes in retirement which had implications which went much wider than auto-enrolment. We therefore concluded that a separate and more wide-ranging inquiry into the way pensions are governed was necessary.

5. We had particular concerns about the way that Defined Contribution (DC) schemes are governed and run within the private sector. For example, problems with the way that pension scheme charges are communicated can make it difficult for employers to understand the impact that their choice of pension scheme and fund could have on their employees' retirement income. Further complexities arise because the current system of workplace pensions is highly fragmented. This fragmentation allows for discrepancies in the way that pension schemes are regulated and the level of protection offered to members of different types of schemes.

1 Work and Pensions Committee, Fifth Report of Session 2012-13, The Single-tier State Pension: *Part 1 of the draft Pensions Bill*, HC 1000.

2 Work and Pensions Committee, Eighth Report of Session 2010-12*, Automatic enrolment in workplace pensions and the National Employment Savings Trust*, HC 1494.

6. The DWP estimates that 6-9 million workers will "save into a pension for the first time, or save more into their existing scheme" as a result of auto-enrolment.[3] The majority of these new savers will save in private sector DC schemes, where the scheme member bears all the risk of poor investment returns, poor annuity rates and, in some cases, inflation risks. Many of these new savers are likely to have low incomes and to save in smaller amounts than the current average pension saver.[4] These individuals will not necessarily be equipped to deal with the complex and confusing world of pension saving or to make the major decisions affecting their retirement income that the DC pension system might require of them. This reinforces the importance of reassessing how private pensions are governed.

7. The key issues which we identified that needed to be explored in this inquiry therefore included:

- how small pension pots are managed;
- how to ensure pension scheme charges are appropriate and do not lead to consumer detriment;
- how transparent and clear communication can be used to promote the best outcomes for members;
- how well the risks and benefits involved in pension saving are understood by members; and,
- how best to regulate pension schemes to ensure that scheme managers and trustees are putting members' interests first.

About this inquiry

8. During this inquiry we have looked at what more the Government could do to make saving in workplace pensions as straightforward as possible for employees, and how the Government, regulators, the pensions industry, and employers can tackle the barriers to pension scheme members participating as equal partners in pension saving. Our report considers how good governance can be used to protect and achieve the best pension outcomes for employees.

9. We received 48 submissions from a range of organisations and individuals. We also took oral evidence from: experts in workplace pensions; representatives of employers, employees, the pensions industry and pension advisers; regulators; and Steve Webb MP, Minister of State for Pensions. A full list of witnesses is set out at the end of the report. We also visited NEST's offices in December 2012. We are grateful to all those who contributed to our inquiry.

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3 DWP, *Supporting automatic enrolment: A call for evidence on the impact of the annual contribution limit and the restrictions on transfers on the National Employment Savings Trust*, November 2012, Executive Summary, para 1.

4 Department for Work and Pensions, *Personal accounts: a new way to save*, June 2007, p 22, para 21.

10. Our specialist adviser for this inquiry was David Yeandle OBE.[5] We very much appreciate the advice and support he has provided.

Structure of this report

11. Chapter 2 considers the risks involved in saving in different types of pension schemes and how the Government and the regulators can ensure that employees are not disadvantaged by the scheme into which their employer auto-enrols them. Chapter 3 sets out the ways in which costs and charges can impact on employees' retirement income and assesses whether the Government needs to do more to protect employees from high costs and charges in pension schemes. Chapter 4 explores the role that communications, transparency and self-regulation by industry can play in assisting employers to understand the potential impact that their choice of pension schemes and funds could have on their employees' retirement income. Chapter 5 considers how communication and education can help members engage more effectively with pension saving. Chapter 6 questions whether the current regulatory system is able to provide sufficient protection to all members of workplace pension schemes. Chapter 7 assesses how the Government's plans to deal with small pension pots can be implemented in a way which minimises the potential for consumer detriment. Chapter 8 explores the Government's ideas for a new system of risk-sharing in pensions through what it calls "Defined Ambition" schemes.

12. In this report, our conclusions are set out in **bold type** and our recommendations, to which the Government is required to respond, are set out in ***bold italic type***.

5 Relevant interests of the specialist adviser were made known to the Committee. The Committee formally noted that David Yeandle declared the following interests: member of NEST Corporation's Employers' Panel; Governor and member of the Council of the Pensions Policy Institute.

2 Scheme governance

13. This Chapter considers the risks involved in saving in different types of pension schemes and how the Government and the regulators can ensure that employees are not disadvantaged by the scheme their employer auto-enrols them into.

The current system of workplace pensions

14. ”Workplace pension” refers to any pension to which an employer provides access. However, the structure of workplace pension schemes varies widely. The two main categories of workplace pension schemes are trust-based and contract-based schemes.

- **Trust-based schemes** are generally run and managed by an employer through a board of trustees. In trust-based schemes, trustees have a “fiduciary duty” to scheme members, meaning they are under a strict, legal obligation to act solely in the interest of their scheme members.

- **Contract-based schemes** are managed by a third party, such as an insurance provider, and operate on the basis of a contract between the scheme member and the provider. In contract-based schemes the provider does not owe a fiduciary duty to the member.

15. The majority of private sector workplace pension schemes are **Defined Contribution (DC)** pensions, in which the employee and/or the employer pay an agreed amount into the pension fund, but the income received by the employee in retirement is dependent on several unknown factors such as: investment returns, scheme charges, and the annuity rates available at the point of converting the pension fund into a retirement income. DC schemes can be trust-based or contract-based.

16. **Defined Benefit (DB)** pensions, which are becoming far less common in the private sector but still predominate in the public sector, provide an income in retirement that is based on a pre-agreed proportion of the salary received during the working life of the member. DB schemes are almost always trust-based.

17. While employers who offer DB schemes bear the majority of the pension investment risk themselves, members of DC schemes bear all the risks of poor investment returns, low annuity rates at the point of retirement and higher than expected longevity. Unlike members of contract-based schemes, members of trust-based DC schemes benefit from having a board of trustees acting in their interest and overseeing investment activities and charging structures; nevertheless, members of trust-based DC schemes still bear the risk of poor market returns, low annuity rates at retirement, and higher than expected longevity, depending on how their scheme is structured.

18. The majority of the 6-9 million new savers brought in by auto-enrolment will be enrolled into private sector DC schemes in which scheme members bear the risk of pension saving.[6] These new savers are expected to have lower incomes and to save in smaller amounts than the current average pension saver, and may therefore be more vulnerable to market shocks or pension fund charges which affect the size of their pension fund.[7]

19. **We welcome auto-enrolment as an important step towards helping more people in the UK save for their retirement. However, an increase in the number of employees, especially those with low incomes, saving into DC schemes and bearing most of the risk of pension savings themselves, reinforces the importance of ensuring that all private sector pension schemes are well-governed and protect their members while also assisting them to achieve positive outcomes for their retirement income.**

Governance in trust-based and contract-based schemes

20. While the employee is the ultimate consumer of workplace pensions, it is employers who decide into which pension scheme they will enrol their employees and which fund to use. This arrangement means employers must decide what is an acceptable level of pension scheme charges and how much they will contribute.

21. Several witnesses made the case that employers in contract-based schemes are not able to provide the same level of protection to scheme members as employers in trust-based schemes.[8] The role of the fiduciaries (trustees) in trust-based schemes includes protecting members from high charges, hidden costs and poor investment decisions and taking responsibility for ensuring that employees have access to good quality information and advice. The TUC argues that contract-based schemes, on the other hand, require a high level of individual decision-making from scheme members, and that this arrangement is inherently flawed because "individual savers cannot be expected to acquire sufficient expertise [...] to make the right decisions or even understand the decisions they are asked to make."[9]

22. However, other witnesses expressed concerns that categorising trust-based schemes as "good" and contract-based schemes as "bad" is unhelpful because contract-based schemes are likely to continue to predominate in the private sector. The National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI) both argued that the focus of the debate should be on promoting good scheme governance in all schemes, rather than on whether trust-based or contract-based schemes are better for members.[10] Michael Johnson of the Centre for Policy Studies pointed out that the arguments for or against

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6 *Supporting automatic enrolment: A call for evidence on the impact of the annual contribution limit and the restrictions on transfers on the National Employment Savings Trust*, November 2012, Executive Summary, para 1, and Ev 134. In this report, Ev xx is used for references to written evidence submitted by oral witnesses and printed in Volume II of this report; Ev wxx is used for references to written evidence published in the volume of additional written evidence on the Committee's website at www.parliament.uk/workpencom.

7 DWP, *Personal accounts: a new way to save,* June 2007, p 22, para 21.

8 Q 3 [Michael Johnson], Q 224 [Mercer], Q 230 [Which?], Q 233 [TUC]

9 Ev 236

10 Q 70

trust-based and contract-based schemes distract from the issue which ought to be the main focus of policy-makers, that of promoting good outcomes for scheme members:

> We can get sidetracked [...] on the debate between trust- and contract-based governance, but fundamentally what really matters is maximising the pensions pots. I think that is what the regulator should be thinking about: how do I maximise the scale of someone's pension pot at retirement by putting in governance?[11]

23. The Minister for Pensions also expressed concerns about the assumptions underlying the trust versus contract debate. He warned that the polarity of arguments often overlooked the governance deficits suffered by some trust-based schemes: "I would want to avoid the trust good/contract bad split, because there are huge numbers of trust-based schemes, many of them very small, and the Regulator is very concerned about the standard of governance in those." The Minister went on to argue that, with proper regulation, contract-based schemes could deliver good governance to their members if this included robust solvency requirements, professional investment strategies and appropriately designed default funds.

24. The Minister also pointed out that it is easier to regulate a few large providers of contract-based schemes in the market, because of their size and number, than "tens of thousands of small DC trust or DB trust schemes."[12] Research by The Pensions Regulator (TPR, often just referred to as "the Regulator") shows that small trust-based DC schemes are less likely to have many of the key features which it considers necessary for good DC schemes than larger trust-based DC and DB schemes.[13]

Governance committees in contract-based schemes

25. Some contract-based schemes have internal governance committees. These are generally made up of senior staff members and external representatives who can act in members' interests by ensuring charges and investment decisions are appropriate and engaging with members about retirement income goals and contribution levels. The Minister suggested that these committees could offer contract-based schemes a way of achieving better governance and ensuring more member involvement. However, he acknowledged that governance committees are not "the same as" boards of trustees, who have a fiduciary responsibility to their members.[14]

26. The Confederation of British Industry (CBI) pointed out that, while larger employers offering contract-based pension schemes might be able to put governance committees in place, smaller employers may not be in a position to do so.[15] EEF (the manufacturers' organisation) explained that fear of legal action, lack of understanding about pensions, and potential cost implications hold some smaller employers back from setting up governance committees. It suggested ways of making it easier for them to do this:

11 Q 3

12 Q 328

13 The Pensions Regulator, *Trust-based pension scheme features research. A summary research report on the draft defined contribution (DC) features*, January 2013, p 4.

14 Q 328

15 Ev 130-131

> What we could look at in terms of governance schemes, particularly for SMEs [small and medium-sized enterprises], is to graft or craft governance schemes on to existing employment and staff engagement methods that SME employers will be familiar with. They will be familiar with staff engagement committees that deal with a whole host of workplace issues. It may be that, if we do it in a softer way in that sort of guise, SMEs will be more inclined to take on pension governance as part of workforce engagement.[16]

27. **We are concerned about the potential for some people to be auto-enrolled into schemes with poor governance. Governance is a particular challenge for DC schemes, and it is this type of scheme that the vast majority of employees will be auto-enrolled into. We accept that not all trust-based schemes are well-run and that some contract-based schemes are already well-governed. However, there are inherent weaknesses in the mechanisms for governing contract-based schemes which the Government and the regulators must address, to ensure that members of contract-based schemes are offered the same level of protection from detriment as members of trust-based schemes.**

28. ***We believe that establishing governance committees to oversee the running of pension schemes could go some way to increasing the effectiveness of governance in contract-based schemes, although we appreciate that setting up such committees may present a challenge for small and medium sized employers. We recommend that the Government and the regulators investigate ways of assisting all employers who offer contract-based schemes to set up governance committees to oversee their pension scheme and that particular attention should be given to supporting small and medium enterprises to do so.***

Scheme size

29. As both the Minister and EEF highlighted above, the size of both a pension scheme and of the employer using it can often affect the quality of scheme governance. Some witnesses argued that small schemes simply could not provide the same levels of governance that larger schemes could. The NAPF believed that "smaller schemes tend to have weaker governance arrangements, and also tend to offer less value for money," and urged the creation of "large, multi-employer, trust-based occupational pension schemes," or Super Trusts. It believed that these would bring greater efficiencies of scale and help ensure that scheme members' interests are promoted by producing "low-cost, good-value-for-money schemes that give and generate better member outcomes."[17] The National Employment Savings Trust (NEST), an independent scheme set up with funding from the Government to support auto-enrolment, is an example of a Super Trust scheme with low charges, currently 0.5% in total.[18] NOW: Pensions and the People's Pension have also been set up as Super Trusts since auto-enrolment began.

30. The Minister agreed that larger schemes could, "all things being equal", offer better service to members through "better investment advice", and "administrative economies of

16 Q 145

17 Q 63

18 0.3% AMC and 1.8% charge on contributions, 0.5% charge is the average after a set number of years of contributing

scale."[19] He reiterated the Government's intention to look further into how to encourage the creation of large schemes, reflecting the Government's previously stated intention to:

> [...] examine, with the pensions industry, whether a pensions market with a smaller number of larger-scale, multi-employer pension schemes might be able to provide greater value for money for employers and employees by using economies of scale and greater buying power to offer diverse investment options, reduced administrative costs and lower charges.[20]

31. However, the ABI warned against automatically equating large, trust-based schemes with lower charges, and supported its evidence by pointing out that its members, who represent "the large players" in the DC world, offer contract-based schemes with lower charges than those offered by Super Trusts overseas.[21]

32. EEF also cautioned against placing too much reliance on Super Trusts; although it welcomed the introduction of NEST and similar schemes, it believed that setting up small schemes might still be appropriate for some employers:

> [...] there will be businesses, even quite small businesses, that will want to set up a pension scheme that is particular to the needs of their workforce, for instance if they are going to use a wrapper product that puts together long term saving plans, corporate ISAs, with pensions. Anything that forces smaller schemes to move into larger schemes would be a problem for a proportion of the small employer community.[22]

33. The Government also recognised the potential for smaller schemes to service parts of the market effectively:

> [...] there will be scenarios where smaller schemes might still offer good value and perhaps better reflect the needs of a particular membership. Equally, large scale schemes do not guarantee good outcomes and we need to ensure the regulatory regime for multi-employer schemes is appropriate with good governance mechanisms in place.[23]

34. **We welcome the emergence of Super Trust schemes such as NEST, which can provide more protection to members than contract-based DC schemes and can also provide benefits of scale. We support the Government's intention to look at ways of promoting the further development of large multi-employer schemes, including Super Trusts. However, it is likely that many smaller employers will continue to want to operate their own small schemes which meet the particular needs of their workforce. We believe that the Government and the regulators should remain focussed on ensuring that members of smaller schemes have the same access to good governance arrangements as those in well-run large schemes and Super Trusts.**

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19 Q 336

20 Department for Work and Pensions, *Reinvigorating Workplace Pensions*, November 2012, p 24.

21 Q 74

22 Q 147

23 Department for Work and Pensions, *Reinvigorating Workplace Pensions*, November 2012, p 24.

3 Costs and charges in DC schemes

35. This chapter sets out the ways in which costs and charges can impact on employees' retirement income and assesses whether the Government needs to do more to protect employees from high costs and charges in pension schemes.

The impact of costs and charges on pension income

36. Members of workplace pension schemes generally pay their scheme provider for a variety of services over and above the Annual Management Charge (AMC)—the charge levied by a company for managing an individual's pension fund. Towers Watson, (a firm of employee benefit consultants who advise employers on pensions as well as other benefits) helpfully sets out the broad categories of pension costs and charges:

- fund management services;
- the provider's services, including the costs of administering member accounts (which, in turn, includes the costs of providing information at regular intervals for members— "disclosure");
- additional costs incurred by the provider (including disclosures to supervisors and compliance with HM Revenue & Customs reporting requirements);
- implementation costs associated with changing asset allocation, such as stamp duty on share transactions or brokers' fees; and
- costs that are ultimately recouped from the member but which relate to advice provided to the employer and/or to the provider's distribution costs. [24]

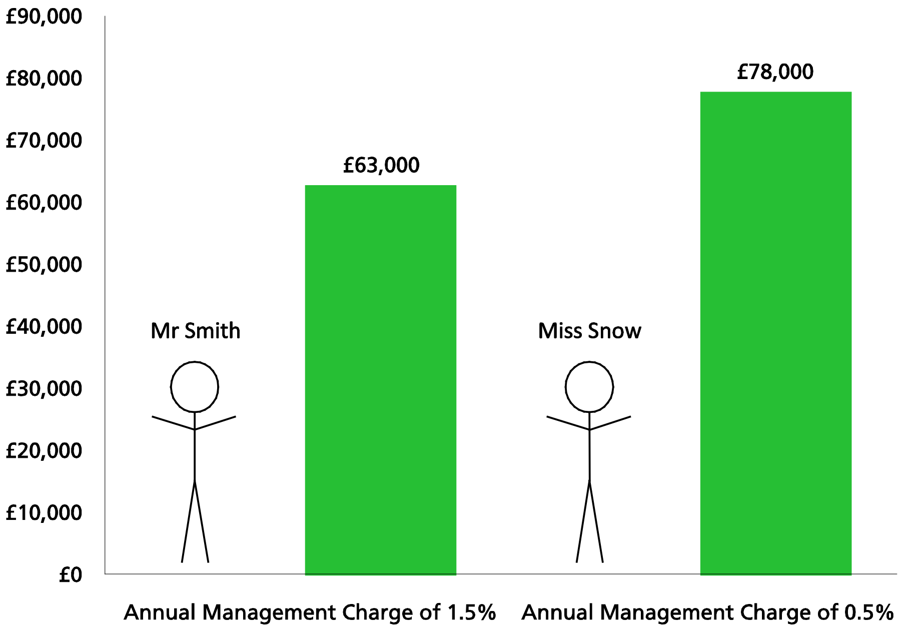
37. Many witnesses expressed concerns about the way that costs and charges can impact on scheme members' pension pots, particularly about those associated with older "legacy" schemes and practices such as passing the cost of advice on to employees and charging deferred members more (see below). Witnesses believed that high costs and charges could seriously reduce members' pension pot sizes and, by corollary, their retirement income; this potential problem was exacerbated by a widespread lack of transparency about charges which meant that employers and employees did not understand the potential impact of costs and charges and were therefore hindered from making informed decisions about pension saving.

38. Which?'s written evidence illustrated the impact that different charge levels can have on the size of a member's pension pot, showing that a rise in charges of 1% could reduce the size of a pension pot by up to a quarter. The chart below illustrates the impact which different charging levels can have.

24 Ev 227

Chart 1: The impact of pension scheme charges[25]

Mr Smith and Miss Snow's pension pots after contributing equal amounts in to a pension fund for 43 years under different scenarios of charges



39. However, several witnesses made the point that charges were not the only factor which impacted on retirement income.[26] Hargreaves Landsdown argued that "A disproportionate amount of attention has been devoted to the question of charges, without giving adequate consideration to other factors which will have a far greater impact on pension payouts." It highlighted that contribution rates, duration of contributions, investment performance, and level of annuity or income drawdown rates also played a significant role in outcomes from private pension saving.[27] The Pensions Policy Institute (PPI) made a similar point. While it recognised that charges have an impact on pension fund size, it pointed out that higher charges may also be accompanied by better quality advice or more active management of pension funds and that, if these factors lead to more saving or higher investment returns, they may result in a higher return for members. However, the PPI also stressed that higher returns would not necessarily result from higher charges.[28]

Capping charges in auto-enrolment qualifying schemes

40. When the legislation for auto-enrolment was drawn up, the Government gave itself reserve powers to set a cap on charges in automatic enrolment qualifying schemes.[29] The Pensions Minister made clear before auto-enrolment began that he was prepared to use these powers if he believed that charges remained too high.[30]

25 Ev 241, underlying assumptions supplied by Which?, original source: DWP

26 Q 52, Ev 132, Ev w20

27 Ev w16

28 Ev 184 - 185

29 Pensions Act 2008.

30 HC Deb, 10 September 2012, col 8

41. Witnesses were split between opposition and support for a cap on charges. While one employer representative, EEF, could see the rationale for imposing a cap,[31] the CBI strongly opposed one. Neil Carberry, the CBI's Director for Employment and Skills, argued that:

> [...] there may come a time when a cap on charges for auto-enrolment schemes is necessary, but we should not hide from what are good news stories. If we were sitting around this table at the time of the Turner Commission, we would be talking about charges of 0.7% being fantasy land in terms of contract-based schemes. In fact, the average charge is now down to just over 0.5%, and that is largely driven by the effect that the existence of NEST has had on the market and the economies of scale that auto-enrolment will deliver. Most new schemes are actually delivering at very effective charges.[32]

42. Witnesses representing advisers and employee benefit consultants opposed a cap. Will Aitken of Towers Watson argued that a low cap (below 1.5%) could prevent schemes "using innovative investment approaches, stop them funding communication and [be a barrier to] what can be achieved within a scheme."[33] Aon Hewitt's Kevin Wesbroom argued that charges do not prevent people investing in a pension, and that the main pension schemes currently being used for auto-enrolment delivered a good deal in terms of charges to consumers.[34] Hymans Robertson and Hargreaves Landsdown agreed that, on average, charges were relatively low throughout the DC industry.[35]

43. However, Age UK, which represents older people in the UK, was concerned about some scheme members, albeit a minority, who were still affected by high charges and believed a cap was needed. Jane Vass, Age UK's Head of Public Policy, pointed out that while charges may have come down for some schemes, "it is not good enough just to have a good average." She believed that there was a need "to act to deal with the outliers, particularly those schemes that have unreasonably high charges."[36] Which? agreed that a cap was necessary, and argued that waiting to impose a cap until high charges had already led to consumer detriment could "damage confidence in pensions and damage confidence in automatic enrolment."[37] The TUC agreed that it was too soon to say whether the current downward trend in charges would be sufficient to negate the need for a cap. It advocated a deeper investigation into the potential implications of a cap and suggested that capping particular kinds of charges might be a more sensible option.[38]

44. The Minister told us that the Government was reluctant to intervene in the market by imposing a cap at this time when it appeared that the market was operating in a naturally competitive way and delivering value for customers. He warned that imposing a cap might cause schemes to "level up" by offering charges at or just under the cap level, when they

31 Q 149

32 Q 149

33 Q 212

34 Q 212

35 Ev w29, Ev w20

36 Q 237

37 Q 237

38 Q 237

might have offered lower charges without the imposition of a cap.[39] The Minister gave the example of the 1.5% cap imposed on charges for stakeholder pensions; this had seemed "reasonable" at the time, but would now be considered a "ridiculous" level, given the current downward trajectory of charges.[40] However, he acknowledged that there was a risk that providers who were currently offering low charges to employers auto-enrolling their employees might raise their charges at a later date.[41] The Minister reiterated that the Government was: "absolutely prepared to use the cap if we need to, but it would have to be based on evidence that people were signing up for schemes that were not good value—and we have not got that yet."[42]

45. ***We welcome the trend towards providers offering lower charges to pension scheme members. We note the Government's position that it is prepared to wait before deciding whether to impose a charge cap for auto-enrolment qualifying schemes because it believes the market is currently operating well and it does not want to prevent natural competition or cause "levelling up" of charges. However we are very concerned by the potential for pension scheme members to suffer detriment where schemes persist in retaining high charges, with the accompanying potential to reduce the amount of income people receive in retirement. In the short term, we recommend that the Regulator carries out an urgent review of the "outliers" with high charges, with a view to taking action if it considers this necessary. We further recommend that the Government carefully monitors the level of pension scheme charges more generally and reviews its position on capping charges in auto-enrolment schemes frequently, at least bi-annually, commencing in 2014. It should act without hesitation if it becomes apparent that some pension scheme members are at risk of detriment from high charges.***

Active member discounts

46. The previous section focussed on the potential problems associated with the level of costs and charges for those actively saving in pension schemes. However, some schemes operate a policy whereby members who stop contributing to their pension pots (usually when they change jobs) but leave their fund in the scheme are charged at a higher rate than they were charged when they were active members. The industry calls this policy "active member discounts" though critics refer to them as "deferred member charges". Charges for deferred members can be much higher than those paid by active members. Which? research has found some providers charge Annual Management Charges (AMCs) of around 0.5-0.7% for active members but double these charges up to a maximum deferred member charge of 1.2%-1.5% AMC, when the person leaves. The likelihood of scheme members incurring deferred member charges are high because "around 60% of people who start contributing to Group Personal Pensions have stopped contributing after four years (mainly due to job changes)." Which? calculates that these increased charges for deferred members could potentially reduce pension income by around 25%.[43]

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39 Q 343

40 Q 350

41 Q 353

42 Q 343

43 Ev 247

47. Witnesses from the pensions industry came out strongly against the practice of higher charges for deferred members.[44] Richard Parkin of Fidelity said active member discounts could not be justified and should be abolished, and Steve Groves of Partnership argued that the regulators ought to prevent the practice of active member discounts in order to protect the "weaker and less able."[45] Scottish Life, while opposing active member discounts in their current form, argued that in some cases a small uplift for deferred members might be justifiable in order to keep provider costs level.[46]

48. However, Martin Wheatley, Managing Director, Conduct Business Unit of the Financial Services Authority (FSA) and Chief Executive Officer Designate of its successor body (for the purposes of pensions regulation), the Financial Conduct Authority (FCA), told us that the regulator did not currently have plans to ban active member discounts:

> [...] it is a fairly complex space. There are situations where they can be justified. They can be of benefit both to departing members and to existing members, and we would be very wary about coming out with a very strong statement, one way or the other, that they should be banned or should not be allowed.[47]

49. The Minister told us that, while he was not "a great fan of" active member discounts and would not rule out a ban in future, the Government had no plans to ban them at this time. He believed that his plan for automatic transfers of small pots ("pot follows member") in which employees' pension pots will follow them when they start a new job, should take care of the problem of active member discounts because there will be fewer deferred members. [48]

50. However, Scottish Life believed that if the Government allowed active member discounts to continue, companies who were determined to use them would simply find other ways to recoup the potential loss, possibly by passing the costs on to deferred members who did not transfer out.[49] It recommended that "the Government should act to remove the use of deferred member charges from the market rather than rely on the small pots initiative to resolve this issue."[50]

51. ***We are concerned that the use of active member discounts, which should more accurately be called deferred member charges, has the potential to reduce significantly the amount of money available to pension scheme members in retirement. We have not heard any convincing evidence for retaining these charges. Despite the Government's assertion that its "pot follows member" approach for dealing with small pension pot transfers will take care of the problem of active member discounts, we believe that people who do not have their pots automatically transferred also need to be protected from the impact that higher charges for deferred members could have on their retirement income. We***

44 Qq 118 - 124

45 Q 121, Q 124

46 Q 122

47 Q 292

48 Qq 344 - 345

49 Ev 198

50 Ev 197

recommend that the Government bans the use of active member discounts without delay, in order to prevent consumer detriment arising from this practice.

Consultancy charges

52. Some employers use financial advisers or employee benefit consultants (EBCs) to advise them on choosing and managing a pension scheme. The use of advisers and EBCs is likely to increase as employers seek assistance with complying with auto-enrolment requirements. Some employers, particularly smaller ones, may pass the cost of using advisers on to their employees in the form of additional charges on their pensions pots as "consultancy charges".[51] Consultancy charging is likely to increase as the previous alternative of commission-based advice ended with the implementation of the Retail Distribution Review in January 2013.

53. Consultancy charges can be extremely high, as could commissions. Which? gives some examples of adviser/consultant literature which demonstrate charges at the following high levels:

- An initial charge to each member of 15% of the member's first year contribution, plus an ongoing charge of 2% of each month's contributions
- An initial charge to each member of £600 payable over 12 months plus an ongoing charge of £60 per annum
- An initial charge to each member of £300, plus an ongoing charge of 0.2% for both regular and premium and transfer funds
- 2% of the transfer value of each member's fund.[52]

Commenting on these examples, Which? said:

> In each of these examples, significant amounts are being deducted from consumers' pensions. If such practices were applied each time an employee switched job and was enrolled into a new pension, it is likely that a large amount of returns from the investments would be lost to charges. These examples reveal a market that is still industry focussed and does not aim to genuinely help consumers to save for their retirement.[53]

54. Many witnesses expressed concern about the potential for people who are auto-enrolled to experience consumer detriment as a result of consultancy charges. Tim Thomas of EEF pointed out that: "There are some employees who might find the level of consultancy fees and charges are such that they outweigh the benefit of actually saving at all. Given that we want to encourage auto-enrolment and reduce the opt-out rate, it is a considerable issue."[54] The TUC was similarly concerned:

51 Ev 151

52 Ev 248

53 Ev 248

54 Q 152

> If an adviser is looking to recoup a typical cost of £250-£500 per member, they could apply a consultancy charge in the first few months of the scheme, or the first year, that could take a sizeable amount out of members' pots in the immediate wake of automatic enrolment.[55]

The regulation of consultancy charges

55. The provision of pensions advice to employers is currently an unregulated activity; and the FSA/FCA indicated in oral evidence that it had no plans for future regulation of it. Martin Wheatley of the FSA believed it would be sufficient, if problems develop, for the FSA to intervene to ask consultants and employers to prove that the charges being levied were reasonable. He stated that the regulator expects employers or advisers to demonstrate that there is a clear benefit received that justifies the charge, though he did not explain how this benefit could be demonstrated. He also told us that the FSA did not actively monitor the use of consultancy charges: "It is not as if we have an on-going supervisory role to say, 'Is that too much? Is it consistent with the benefit being delivered?' If there is cause, however, for us to investigate, then, under our general principles, we can investigate."[56]

56. Nor has the FSA made a clear statement to the pensions industry on what it would consider to be a reasonable level of consultancy charge. In 2010, the FSA stated that it would be comfortable with consultancy charges of between 10% and 35% of a member's first year contributions being deducted from their pension pot.[57] When we asked the FSA to explain why it had endorsed such an alarmingly high level of charges, Martin Wheatley told us that the FSA no longer stood by this policy statement; but he gave no indication of what level of consultancy charging the FSA would be comfortable with. An initial charge of £600, quoted above, might constitute far more than 35% of a low-income member's first year contributions.

A potential ban on consultancy charges

57. The Government is concerned about the potential impact of consultancy charges on members' pots. In a November 2012 discussion paper it said "the Government would expect that a charge should only be applied where advice on a scheme leads to a tangible benefit for its members."[58] The Pensions Minister then wrote to the Association of British Insurers (ABI) asking it to carry out research into the scale and prevalence of consultancy charges. He warned that he might decide to prohibit them in automatic enrolment schemes.[59]

58. The Minister explained to us that the Government's position was that "consultancy charges cannot be justified if they are not to the benefit of the scheme member". He believed that the level of consultancy charges had fallen from previous levels, but the Government was still investigating whether they were transparent enough and provided

55 Ev 231

56 Q 291

57 Financial Services Authority, *Policy Statement 10/10, Delivering the Retail Distribution Review*, June 2010, p12

58 Department for Work and Pensions, *Reinvigorating Workplace Pensions*, November 2012, p 21

59 "Govt to launch 'urgent review' of consultancy charging", MoneyMarketing, 27 November 2012

members with sufficient benefit. Bridget Micklem of DWP told us that, while the ABI had been helpful in providing information, this worrying lack of transparency in the structure of consultancy charges made it difficult, for example, to unpick charges for consultancy and advice from charges associated with assisting employers to automatically enrol their employees.[60]

59. Which? recommended that, rather than waiting to see whether consultancy charges became more of a problem, the Government should act now:

> [...] charges are already high in comparison to NEST and there are clear risks of excessive consultancy charges being deducted so we want to know precisely at what point Government will step in. The "wait and see" approach of the Government is a cause for concern as it means action will only be taken once consumers have suffered detriment.[61]

60. **Some pension scheme members are likely to end up paying consultancy charges for advice which provides little or no benefit to them. We are very concerned by the high level of such charges quoted in some advisers' literature and the potential for this to reduce significantly the size of scheme members' pension pots, and ultimately their income in retirement. The Government and the regulators have made it clear that there needs to be a clear benefit to employees arising from the use of consultancy services; however, no-one has explained how this benefit should be demonstrated. It seems to us that the lack of transparency in consultancy charge structures may make such a demonstration exceedingly difficult.**

61. ***Member-borne consultancy charging has the potential to cause serious consumer detriment and to damage confidence in pension saving and auto-enrolment. While we appreciate that the costs of complying with auto-enrolment can be a significant issue for some, especially small, employers, and therefore that it may be reasonable in some circumstances for some or all of the routine costs of a scheme to be borne by the members, we do not think it appropriate, given the existence of low-cost schemes, for members to suffer the detriment of consultancy charges. We therefore recommend that the Government bans the use of member-borne consultancy charging in auto-enrolment qualifying schemes without delay. Until the ban has been put in place, the Government and the regulators should issue clear guidance to the pensions industry as a matter of urgency, to clarify the level of consultancy charges that they assess as being acceptable.***

60 Q 357

61 Ev 240

4 Transparency and the effectiveness of self-regulation

62. This chapter explores the role that communications, transparency and self-regulation by the pensions industry can play in aiding employers to understand the potential impact that saving in particular pension schemes and funds could have on their employees' retirement income.

Transparency of costs and charges

63. Many witnesses believed that the problems associated with high costs and charges are exacerbated by the way in which providers communicate charges to members.[62] The form in which costs and charges are currently presented by providers is not sufficiently transparent to enable employers to understand the effects that charges can have on the size of their employees' pension funds. Trade bodies, Government and other stakeholders have been putting pressure on pension providers to reduce charges and provide more transparency about all of the costs and charges associated with their pension scheme.[63]

Engaging with employers

64. Employers' understanding of the level and range of charges levied on their employees by pension providers is currently low, although very large employers tend to have a better understanding than smaller employers. A survey of employers showed that 38% did not know the level of their company pension scheme's Annual Management Charges (AMCs). Among small employers (with 100 employees or less) the proportion was even higher, with around 50% unaware of the level of their scheme's AMC. This is particularly concerning because SMEs are likely to be charged higher AMCs by their pension scheme provider.[64] The NAPF said that awareness among micro, small and medium sized businesses was poor, particularly about active member discounts and flat rate charges. Indeed, some micro employers "assumed that the charges being discussed would actually be applied to the employers as opposed to the pension scheme members".[65]

65. EEF believed that charging regimes in pension schemes were currently a "major barrier to delivering good pension outcomes" and that the lack of knowledge and understanding among employers about charges and their effects explained why pension providers have been able to continue charging high amounts. EEF argued that employers are not equipped with the necessary tools to "solve the problem" of high charges because they often need to rely on advice when choosing schemes and many, especially SMEs, do not have "the resources, expertise or time, to verify the advice they have been given." It suggested that the Government should put "obligations on the pension industry to improve transparency"

62 Ev 146

63 Qq 2 [Mr Pitt-Watson], 149, 156, 237 [TPAS]

64 Ev 146

65 National Association of Pension Funds, B&CE, *Telling employers about DC pension charges: research,* September 2012, p 14.

and should give "The Pensions Regulator responsibility for maintaining a register of schemes that meet the current criteria for auto-enrolment and developing a tool to help employers/trustees make sense of charges/costs." [66]

Self-regulation and transparency of costs and charges

66. Industry bodies have recently made some progress towards encouraging their members to provide greater transparency of costs and charges.

- The **Investment Management Association** (IMA) published guidance on disclosing fund charges and transaction costs in September 2012. The guidance details the IMA's expectations of enhanced disclosure of costs and charges to investors (including pension scheme members). It expected its members to comply with the guidance by March 2013 at the latest.[67]
- The **National Association of Pension Funds** (NAPF) launched an industry code of conduct on transparency of charges in November 2012.This encourages anyone providing services or advice directly to employers in setting up or administering a pension to set out the charges levied on funds and the potential impact they might have over time on the final size of pension pots.[68] The NAPF intended the requirements of the code to be active from January 2013, and from April 2013 the information will be put on an online web-tool to allow employers to make comparisons between different providers.
- The **Association of British Insurers** (ABI) published an industry agreement on the disclosure of pension charges in January 2013, to be phased in between 2014 and 2015, in which all signatories will give an undertaking that their pension scheme costs and charges will be clearly presented to customers. The specific details of the disclosure requirements are currently being worked out between the industry and the ABI.[69]

67. There was broad approval for these codes and guidance and witnesses agreed that it was very important that comparison tools were available to enable employers and employees to see the potential impact of costs and charges on final retirement income.[70] However, some witnesses believed that the timetable for these improvements would mean that many employers would have already made the key decisions about their auto-enrolment pension scheme before the guidance comes into force, as employers are likely to start making decisions about which auto-enrolment scheme to use 12 to 18 months before their staging date.[71]

66 Ev 146

67 Investment Management Association, *Enhanced disclosure of fund charges and costs,* September 2012.

68 National Association of Pension Funds, *Pension Charges Made Clear: Joint Industry Code of Conduct. Telling employers about DC pension charges,* November 2012.

69 Association of British Insurers, *Agreement on the Disclosure of Pension Charges and Costs*, January 2013.

70 Q 206 [Mercer], Q 355, Ev 160

71 Q 256 [Which?], Q 318 [Pensions Minister]

68. Other witnesses were openly sceptical of the guidance and codes being produced by industry bodies. Michael Johnson argued that: "We need to be very clear that codes of conduct are essentially voluntary rather than mandatory, and therefore, in my mind, it raises the question as to whether the trade bodies are simply trying to buy time."[72] Joanne Segars of the NAPF denied that the code of conduct they had produced was a ploy to buy time. She called Mr Johnson's remarks "rather cynical".[73]

69. **We welcome the work done by pensions industry bodies to encourage greater transparency in communications about costs and charges and their potential impact on retirement income. However we are concerned about the lack of enforceability of these codes and the lengthy timeline for implementing some of them and for producing online comparison tools. We are particularly worried by the possibility that the facility for employers to compare scheme charges will not be available until after many have already made their decisions regarding auto-enrolment.**

70. ***We recommend that the Government review the levels of transparency across the pensions industry early in 2014. If it concludes that employers are still prevented by a lack of transparency from making informed choices about the potential impact on their employees of saving in different pension schemes, we recommend that it imposes a charge cap on auto-enrolment qualifying schemes or on the schemes which are not complying with the transparency codes and guidance issued by industry bodies. We further recommend that consideration is given to penalties and enforcement if the industry fails to self-regulate effectively within the next three years.***

Self-regulation and annuity purchases

71. After the age of 55, people have the option to convert their pension pot into a retirement income. One way of doing this is through purchasing an annuity (though it can be achieved through other means, such as income drawdown). Annuities are contracts between an individual and their annuity provider (often an insurance company) in which the provider agrees to pay an income to the individual for the rest of their lives. Annuities can consist of a (nominal) level income or can rise yearly by an agreed percentage or in line with an inflation index. Annuities can be paid solely to an individual, ceasing payment on that individual's death, or can pay out to an annuitant's dependant, although these joint annuities pay out at a lower rate.

72. Annuities do not have to be purchased from the same provider with whom an individual has saved into a pension scheme, but many people are unaware that they have the option to use other annuity providers.

73. Witnesses expressed concerns about the lack of transparency around annuity pricing and the lack of knowledge of the option to "shop around" at the point of retirement.[74] People who purchase an annuity from a provider other than their original fund-holder can

72 Q 16

73 Q 99

74 Qq 21, 125

receive a substantially higher annuity income; in some cases as much as 20% more.[75] People who suffer from ill-health (and are therefore eligible for enhanced or impaired-life annuities which pay out at higher rates in expectation of reduced longevity) could see an increase in annuity income of up to 40% from shopping around.[76] It is important to note, however, that in some cases the best annuity deal will be offered by an individual's original provider. Michael Johnson highlighted that a third of people over age 55 have never heard of the option of shopping around, and that 70% do not even fully understand what an annuity is.[77] The pensions industry has been working to improve communications with pension scheme members to raise awareness about the importance of shopping around for a better deal. As a result, the proportion of members purchasing an annuity from a provider other than their original fund-holder has increased from 35% of annuity purchases in 2008 to 46% in 2011.[78] However, this increase is not considered sufficiently significant as many people are still missing out on the most favourable annuity rates.

74. The industry is aware that a problem persists. The ABI published a Code of Conduct on Retirement Choices in March 2012, requiring all ABI members to "ensure that customers are equipped with the information they need to understand their options, shop around and make an informed decision about their income in retirement." The ABI intends to:

> [...] publish the annuity rates of all our members, regardless of whether they are competing for annuity business in the open market or not. This will allow customers to understand where their provider fits into the wider market, and allow commentators and the media to better understand how the annuity market and how rates are developing.[79]

The deadline for compliance with this Code was 1 March 2013.[80]

75. The FSA also announced in January 2013 that it would be conducting a thematic review "exploring the risk of detriment that consumers may face as a result of not shopping around when purchasing an annuity." This review will be taken forward by the Financial Conduct Authority (FCA) from April 2013 and will "involve a pricing survey of all annuity providers, and will compare the rates available to consumers through a range of distribution channels, including rates available through the Open Market Option and those only available to existing pension policyholders."[81] The FSA intends the review to take account of the implementation of the ABI's Code of Conduct on Retirement Income.

76. **We believe that the industry is failing pension scheme members when they convert their pension funds into annuities. Purchasing an annuity from a provider other than the one which holds an individual's fund could increase their retirement income by as much as 20% to 40%. However many people are unaware that they have the option to**

75 The Pensions Institute, National Association of Pension Funds, *Treating DC scheme members fairly in retirement?*, February 2012.

76 Ev 175

77 Q 21

78 Michael Johnson, Centre for Policy Studies, *Put the Saver First,* June 2012, p 184.

79 Ev 116

80 Association of British Insurers, *Code of Conduct on Retirement Choices*, March 2012.

81 Financial Services Authority, *Insurance conduct supervision newsletter,* January 2013, p 3.

shop around for an annuity. We recognise that the industry is working to improve take up of the option to shop around and we welcome the ABI's Code of Conduct on Retirement Income Choices and the FSA's thematic review of annuities.

77. ***Nonetheless, we recommend that the Government and regulators institute a mandatory system whereby, when consumers come to purchase an annuity, their pension provider is required automatically to supply them with a comprehensive breakdown of all the different annuity rates available to them from different providers, including options and rates for enhanced and impaired life annuities. We also recommend that, as a last resort, the Government considers taking steps to separate the function of providing pensions schemes from that of providing annuities.***

5 Communication with scheme members

78. This chapter considers how communication and education might help pension scheme members to engage more extensively and effectively with pension saving.

Communication and education for employees

79. Many witnesses agreed that communication with scheme members is likely to play an important role in promoting member engagement and good outcomes from auto-enrolment.[82] Engagement and communication with members can range from informing members about changes in their fund size and the impact of charges, to working actively with them on understanding the potential impact on their retirement income of different contribution levels and different investment strategies. Communication with members about these different aspects of pension saving can have a critical impact on the returns members receive. However, the quality of communication between providers and scheme members about pension saving varies between schemes.

80. In trust-based schemes, the trustees are responsible for providing information, guidance and education to scheme members. However, witnesses were not clear about who had this responsibility in contract-based schemes. Scheme members who do not receive good quality information or advice from their provider or employer do have the option of going to external bodies such as The Pensions Advisory Service (TPAS), the Money Advice Service or Citizens Advice. However many scheme members may be unaware of these services or that they might be able to help them make decisions about their pension saving.

81. According to the TUC:

> Effective communication to DC scheme members is paramount [...] Communication to members should [...] encompass information on the level of income pension scheme members can expect in retirement as a result of pensions saving. This should not just be a central and realistic projection but also communicate the range of likely outcomes, so that savers can understand the likelihood of achieving projected returns.[83]

Hargreaves Landsdown agreed, and argued that while "in the majority of cases [...] member engagement and good decision making is possible, [...] not enough is being done at present to bring about these outcomes."[84]

82. TPAS told us that, in its experience, communication from pension schemes was often confusing or misleading because of the use of jargon and the complexity and volume of material. TPAS concluded that "Often, poor communication is at the root of a complaint or dispute about a pension scheme, where the member has misunderstood information and taken action on the basis of flawed understanding."[85] It also highlighted that "a lot of

82 Ev w16

83 Ev 232-233

84 Ev w17

85 Ev 204

people do not read the information that they are given about pensions because there is too much."[86] Towers Watson agreed that excessive information from providers could lead to either inappropriate decision-making or, at times, no decision-making at all.[87]

83. However, industry witnesses argued that that it was hard to design communications which did not overwhelm and confuse consumers because the regulatory system required providers to set out such a vast array of information in their statements to members. Fidelity claimed that "the current disclosure regime can have the effect of disengaging members due to the complexity and prescribed nature of the requirements." It believes that "the balance is wrong in terms of the quantity of prescribed information and the ability to send targeted and relevant information that will engage scheme members at the appropriate time in order to support their decisions."[88]

84. Scottish Life agreed, arguing that current regulations force providers to issue "long and wordy documents". It urged the regulators to act together to ensure that combined regulations do not compel providers to provide more information, which customers are likely to find confusing and difficult to understand.[89] Similarly, Towers Watson emphasised that "increasing legislation or regulation on communications is unlikely to improve clarity". It suggested that "setting out a broad and consistent framework which defines 'good outcomes' may succeed better."[90]

Provision of information, advice and education

85. Which? suggested that, instead of information, consumers should be given advice and support to set retirement income goals which they can save towards. It recommended that the likelihood of reaching these goals should then be reflected in the annual pension statement which scheme members receive.[91] However, some witnesses argued that employers and providers would need greater safeguards from legal action if they were to be expected to provide this type of advice and guidance to employees. Will Aitken of Towers Watson elaborated:

> People are terrified of being seen to be giving people financial advice, because you have to be regulated. [...] If you could give people some safe harbour to say they are immune from prosecution over issues of financial advice, that would help people to take more effective governance.[92]

Kevin Wesbroom of Aon Hewitt agreed:

> A lot of employers would want to give help and guidance, but they are terrified of crossing this line into advice. [...] in the US, [...] if you do a certain number of

86 Q 24 [TPAS]

87 Ev 224

88 Ev 152

89 Ev 198

90 Ev 224

91 Ev 245

92 Qq 200-201

sensible things, like give people a reasonable choice, give them information and the ability to change their mind, you as an employer will not be subject to litigation.[93]

86. Other witnesses made the case that educating people about finances and the implications of pension saving was more helpful than providing information or advice. TPAS argued that educating people about the implications of increased longevity for retirement planning would be key in ensuring people engage more with pension saving in the future and in reducing opt-outs from auto-enrolment.[94] Age UK made the point that there was a role for Government now, with the reform of the State Pension, to launch a communications campaign which educated people about their State Pension entitlement and about private pension savings.[95] The CBI agreed, and pointed to the way in which education could play a key role in ensuring the success of auto-enrolment:

> With millions of new savers, many with little financial education, being auto-enrolled into workplace schemes, ensuring they better understand how their money is being spent is important for the credibility of the whole enterprise. More needs to be done to ensure people engage more effectively with their pension so they understand the advantages and disadvantages of different charging structures for their personal circumstances.[96]

87. Age UK also believed that bodies other than employers and providers must play a role in educating the public:

> Whilst employers can play a key role and the DWP has begun a significant communications programme for automatic enrolment more detailed help from services such as the Pensions Advisory Service and Money Advice Service is extremely important in supporting generic information. As well as improving the choices individuals make increasing the availability of pensions information and advice should in itself also encourage saving.[97]

TPAS argued that education about retirement planning must be lifelong, starting in schools, where it should be part of the financial education curriculum.[98] Mercer agreed that education on pensions was a long-term process and should start in schools.[99]

88. Many witnesses highlighted the role that NEST had played in developing and providing clear, easy to understand information for consumers, while also complying with regulation. TPAS emphasised that the "excellent communications produced by NEST could set a benchmark which other providers might wish to emulate."[100] Jane Vass of Age UK also endorsed NEST: "we can potentially learn a lot from people like NEST and the communications approach they have taken of making sure that the basic information is

93 Q 201

94 Ev 206-207

95 Q 251

96 Ev 132

97 Ev 107

98 Q 250

99 Ev 162

100 Ev 207

clear and simple."[101] Mercer's view was that most scheme members do not want to be educated, despite this being what is needed but that the language guides issued by NEST and the DWP had proved to be a good tool for reaching scheme members, and other schemes should be encouraged to use these.[102] NEST's language and communication guides have been created with the intention of communicating clearly and practically with people, in jargon-free language.[103]

89. **Advice and education can play an essential role in helping the public understand their options around retirement saving as well as the potential risks involved. We believe that the Government, schools, employers, providers and outside agencies, such as the Money Advice Service and The Pensions Advisory Service, will all need to play a greater role in future in helping inform and educate the public, in the context of auto-enrolment, the introduction of the new Single-tier State Pension, and the necessity of everyone taking personal responsibility for securing an adequate retirement income. We urge the Government to consider how it will involve all stakeholders in educating the public so that people will be in a position to assess their own future retirement needs and make pension savings decisions that will help them to meet those needs.**

90. **We are pleased to see the increased interest of the pensions industry and other stakeholders in improving communications with scheme members. However, we are concerned that some pension providers might be using the excuse of "over-regulation" to avoid having to simplify their pension communications. It is important to note that NEST has been able to produce simple, easy to understand information for their members while also complying with regulation.**

91. ***We recommend that the Government, the regulators and the industry work together to agree on a communications format, using a language and style similar to NEST's, that sets out the basic, essential pieces of information which pension schemes should supply to their members. This should include a clear indication for scheme members of the implications of their current levels of contributions and current scheme charges for their future income in retirement.***

92. ***A lack of knowledge, understanding and financial literacy currently prevents people from being able to assess their retirement income needs and make sound decisions on pension saving. The Government must ensure that people have the best chance of reaching adulthood with the necessary tools to make informed decisions regarding saving for their retirement. We recommend that the Government encourage schools to include retirement and pension saving as part of financial literacy education.***

101 Q 252

102 Ev 161

103 National Employment Savings Trust, *NEST's Golden Rules of communications*, May 2012.

6 The regulation of workplace pensions

93. This chapter questions whether the current regulatory system is able to provide sufficient protection to all members of workplace pension schemes.

The regulatory system for workplace pensions and changes from April 2013

94. There are several bodies involved with the regulation of workplace pension schemes:

- **The Pensions Regulator (TPR)** has responsibility for regulating the running and management of all workplace pension schemes. Among other duties, it monitors scheme administration, scheme funding, and employer compliance and investigates fraud.[104]

- **The Financial Services Authority (FSA)** is responsible for regulating advice to individuals on the sale of pension products and for regulating the sale and marketing of all contract-based pensions. It oversees the financial viability of organisations that manage pension investments, including contract-based, workplace pensions. The FSA has no responsibility for trust-based pension schemes.

- The **DWP, HM Treasury** and **HM Revenue & Customs** are responsible for policy and legislation involving workplace pensions.

- The **quadripartite group**, which consists of the two regulators, the DWP and HM Treasury, meet quarterly to discuss the regulation of pensions and the risks in the system.[105]

95. From April 2013, the FSA was replaced by two new regulatory bodies; the **Financial Conduct Authority** and the **Prudential Regulation Authority**:

- **The Financial Conduct Authority (FCA)** will be responsible for the regulation of conduct in retail and financial markets and the prudential regulation of firms that do not fall under the PRA's scope. The FCA is expected to take on the FSA's responsibilities in relation to regulating conduct in contract-based pension schemes.

- **The Prudential Regulation Authority (PRA)** will be a subsidiary of the Bank of England and will be responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks. The PRA will have responsibility for "prudentially regulating" large insurance firms (ensuring safety and capital liquidity) including providers who offer contract-based workplace pensions.[106]

104 TPR is also responsible for regulating employer compliance with auto-enrolment duties.

105 Q 300 [DWP]

106 www.bankofengland.co.uk/pra/Pages/default.aspx

Concerns about the regulatory system

96. Some witnesses expressed concerns regarding the ambiguities arising from having two separate regulators for contract-based pension schemes.[107] The ABI told us that that this created the potential for each regulator to apply different standards or duplicate work and argued that it is vital for them to work together in a more comprehensive way if the regulation system is to do its job properly. [108] Age UK was concerned about "the regulatory gap" that arises as a result of contract-based schemes being largely regulated by FSA and trust-based schemes being regulated by The Pensions Regulator. It argued that "there needs to be consistency in regulation to ensure fairness and greater clarity for consumers."[109] TPAS and the TUC agreed that there were discrepancies between the regulation of trust-based and contract-based schemes.[110]

97. Concerns about the regulatory system were also reflected in the 2012 report by the National Audit Office (NAO) which examined the effectiveness of the regulation of DC pension schemes. Among other concerns, the NAO report highlighted the following:

- There is no single public body leading on the regulation of defined contribution schemes and ultimately accountable for the delivery of regulatory objectives.
- The shared regulatory responsibilities require The Pensions Regulator to work together with the Financial Services Authority, but there are no overarching objectives and no common framework across the regulatory system for making evidence-based assessments of risks to members.
- Outcomes for defined contribution scheme members can vary considerably, even if factors outside the control of regulation are held constant, such as investment performance and contribution levels.
- Effective governance arrangements can help protect members, but they can vary considerably across different schemes. [111]

Concerns about the regulation of contract-based schemes

98. According to Which?, the regulatory gap has resulted in under-regulation for contract-based workplace pensions:

> No regulator or Government department appears to be taking responsibility for ensuring that workplace personal pension schemes provide value for money. There are no requirements for workplace pension schemes used for auto-enrolment to have low charges and deductions [...] The FSA insists that it is not a "price regulator" and has not acted on our concerns about charging structures and levels. There is too

107 For example, Q 3 [Mr Pitt-Watson], Q 127

108 Ev 118-119

109 Ev 107

110 Ev 202, Ev 233

111 National Audit Office, *The Pensions Regulator, Regulating defined contribution pension schemes,* July 2012, pp 8-9

> much reliance on "disclosure" of information, even though the majority of consumers will struggle to process and act on any information provided.[112]

The NAO report suggested that TPR may not have been given sufficient statutory powers to fulfil its objectives regarding contract-based schemes and questioned whether it has devoted enough resources to regulating DC schemes in general.[113]

99. Towers Watson also highlighted the lack of regulatory power that TPR has over contract-based DC pension schemes: TPR can issue guidance, but it has no power to enforce standards in contract-based schemes.[114] The responsibility for enforcing standards within contract-based workplace pension schemes has therefore fallen mainly on the FSA. However, Martin Wheatley told us that, while the FSA has a team that deals specifically with pensions policy, they do not have staff dedicated to regulating pension schemes or a specific pensions strategy.[115] He explained that they "have a team that look at the big insurers and, as part of the modules of things they look at when they inspect, they [...] look at the provision of pensions and the governance around those pensions at the same time."[116] On further questioning, it became clear that, in terms of pensions at least, though possibly across the financial services landscape, much of the FSA's work was reactive, in that it tended to investigate and take action once a problem has been identified:

> [...] at the moment, as you can imagine, we are spending a lot of time on banks—but will move to where we see where the biggest risks are at any given time. I would not, then, take the fact that we do not have a dedicated pensions team in terms of supervision as a reason to suggest that, when we need to have the resource, we do not have the resource available to it. Our approach is a risk-based approach and where we feel that the biggest risks are arising to consumers is where we put our resources.[117]

100. The FSA did not indicate how much of its resources it had allocated to regulating pension schemes to take account of the risks associated with auto-enrolling low-income individuals into pension schemes, some of which may have high charges including deferred member or consultancy charges. Moreover, the FSA's risk-based approach covers the risks of the whole financial services sector, rather than isolating specific risks which might apply to different elements of the sector. Pensions, which are long-term investment products that contain an element of insurance (and are subject to specialised tax rules and regulation), are unique products and carry different risks to other financial products. It was not apparent from Martin Wheatley's evidence that any change in approach could be expected when the FCA took over these responsibilities from the FSA in April 2013.

112 Ev 240

113 National Audit Office, *The Pensions Regulator, Regulating defined contribution pension schemes,* July 2012, p 9

114 Q 199 [Towers Watson]

115 Q 268

116 Q 270

117 Q 305

Treating Customers Fairly?

101. Providers of contract-based pension schemes, along with other companies regulated by the FSA, must abide by the FSA's "Treating Customers Fairly" initiative (TCF) which requires firms to focus on six outcomes for customers:

- Outcome 1— consumers can be confident that they are dealing with firms where TCF is central to the corporate culture.
- Outcome 2—products and services are designed to meet the needs of identified consumer groups and targeted accordingly.
- Outcome 3—consumers are provided with clear information and kept appropriately informed before, during and after the point of sale.
- Outcome 4—where consumers receive advice, it is suitable and takes account of their circumstances.
- Outcome 5—consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect.
- Outcome 6—there are no unreasonable post-sale barriers imposed by firms when consumers want to change product, switch provider, submit a claim or make a complaint.[118]

102. On the whole, witnesses felt positive about TCF. Otto Thoresen of the ABI highlighted that he had:

> [...] seen the changes that have happened as a result of Treating Customers Fairly coming in. The discussions at the board table now are as much about the customer experience, and the evidence that they can see in management information on how well that is working or what is going wrong, as they are about financial performance. I have seen that at work. That is a very strong and effective regime, but it works at an aggregate level.[119]

TPAS and the CBI were also positive about the contribution which TCF had made to the governance of contract-based schemes.[120]

103. **FSA's approach to regulating financial services and the pensions industry is based on requiring them to treat customers fairly—as set out in its "Treating Customers Fairly" initiative. We are surprised that this needs to be spelled out for them, rather than fair treatment being a matter of course for the pensions industry. We believe that fair treatment is a low baseline to aim for and would expect the pensions industry to aim for high standards of provision and outcomes for consumers.**

118 Financial Services Authority, *Treating customers fairly – towards fair outcomes for consumers,* July 2006, p 3.

119 Q 71

120 Q 230 [TPAS], Ev 131

104. ***The FSA's approach has been to focus resources wherever it perceives the biggest risks to be at any given time. It has therefore dedicated much of its recent resources to the banking sector, because it saw this as a high-risk area. We find this attitude alarming because it fails to take account of the importance of pensions regulation at a time when careful oversight is required. We are concerned that this risk-based approach to regulation means that the regulator will not start focussing its attention on workplace pensions unless or until something goes wrong. Auto-enrolment of low income people into pension saving coupled with a risk of high-charges (including deferred member and consultancy charges) makes workplace pension saving an area where consumers need the highest levels of protection and reassurance now. We are not convinced that the Financial Conduct Authority, the successor body to the FSA for this area of pensions regulation, is the appropriate body to regulate contract-based pension schemes. If it remains the responsible body, then we strongly urge it to adopt a pensions-specific regulatory strategy and to set up a well-resourced team dedicated solely to proactively regulating contract-based pension schemes.***

Six Principles for Good Workplace DC

105. There is also some discrepancy between the principles outlined in the FSA's TCF initiative and the principles introduced by TPR in its "Six Principles for Good Workplace DC". The six principles outline the key features that trust-based DC pension schemes need to exhibit in order to deliver good member outcomes at retirement:

- Principle 1: Schemes are designed to be durable, fair and deliver good outcomes for members.
- Principle 2: A comprehensive scheme governance framework is established at set-up, with clear accountabilities and responsibilities agreed and made transparent.
- Principle 3: Those who are accountable for scheme decisions and activity understand their duties and are fit and proper to carry them out.
- Principle 4: Schemes benefit from effective governance and monitoring through their full lifecycle.
- Principle 5: Schemes are well-administered with timely, accurate and comprehensive processes and records.
- Principle 6: Communication to members is designed and delivered to ensure members are able to make informed decisions about their retirement savings.[121]

106. TPR's principles are focussed solely on DC pension schemes, while the FSA's TCF initiative is designed to apply to the whole financial services sector. Therefore, TCF is necessarily more broad and less tailored to promoting good outcomes from pension saving.

121 The Pensions Regulator, *Six principles for good workplace DC: draft features,*

Better joint working between TPR and the FSA

107. Dominic Lindley of Which? pointed out that having two different sets of principles for DC schemes was less than ideal because of the potential for confusion and overlaps:

> There certainly needs to be much more co-ordination between the two regulators and, again, it is where the Government should be playing a role in getting the three people around the table—the DWP, The Pensions Regulator and the FSA—and all agreeing to set defined quality standards. That would probably be the best way of ensuring a good deal for consumers.[122]

108. TPR has no power to enforce the Six Principles for Good Workplace DC over contract-based schemes, and the FSA made it clear that it has no intention of enforcing or regulating the Six Principles in contract-based DC schemes.[123] Therefore, providers of DC schemes will be held to different standards depending on whether they are trust-based or contract-based, resulting in consumers in trust-based and contract-based schemes experiencing different standards of regulation.

109. We asked the FSA and TPR about their response to the concerns raised in the NAO report, specifically in regards to the lack of joint working. Martin Wheatley recognised that the NAO had raise some valid points:

> [...] the NAO raised some areas where they felt we were not as well joined-up as we should have been and we have made some changes as a result of that. I think their intervention was very helpful. I think they said we were doing some things very well. I think they have suggested other areas that we need to work harder at and we have made changes since then.[124]

110. Bill Galvin, Chief Executive of TPR, emphasised that TPR, the FSA and the DWP had done a lot of work together to address the points raised by the NAO report.[125] However, he confirmed that TPR and the FSA still do separate risk assessments, though he qualified this by explaining that afterwards they "sit down and explain them to each other and look at the analysis that underpins them."[126]

111. Martin Wheatley admitted there was still work to do on joint working, and recognised that this might be even more challenging once there were three regulators:

> It is fair to say that we have to work harder at it. That is the reality of it. We do have different structures, different sets of objectives and different ways of working; it just means we have to work harder. We put a lot of effort and resource into the liaison across the two organisations. I should say—and not to want to complicate things further— that, when the FSA does break up, we then split yet again, because the PRA will have the prudential oversight of the major insurers. We will have not two but

122 Q 255

123 Q 291

124 Q 278

125 Q 278

126 Q 276

three regulators then that have different aspects of oversight of the provision of contract-based pensions.[127]

112. Bill Galvin agreed with the NAO's conclusion that the DWP and HM Treasury should establish overarching objectives for the regulation of DC schemes.[128] However, he felt that the quadripartite group, which meets quarterly to discuss risks and pensions, fulfils this requirement by ensuring "that there is an overarching objective for the protection of members in schemes that will be used for automatic enrolment." [129] Neither regulator felt that there would be a benefit to having a single regulator for pension schemes.[130]

113. **We welcome the work that TPR and the FSA have done in response to the National Audit Office report on the regulation of Defined Contribution pension schemes. However, we are concerned that weaknesses in joint working between the two regulators persist. This includes lack of joint risk-assessment, and discrepancies between the regulation of trust- and contract-based pension schemes reflected in the two different sets of principles governing DC schemes. We are concerned that contract-based workplace pension schemes might therefore be regulated in a less co-ordinated and rigorous way than trust-based schemes, especially given that there are now three regulators for contract-based schemes.**

114. **We understand the Government's reluctance to change the regulatory system for pensions, given that the regulation of financial services more broadly has only just been through a major reorganisation and that both State and private pensions are in a sustained period of major reform. However, employees who are being auto-enrolled into workplace pension schemes must be adequately protected from poor governance.**

115. ***We remain concerned about current regulatory gaps and the potential for further gaps to arise as a result of three regulators having a role to play. We believe that it is necessary for a single regulatory body to have sufficient powers to ensure that all members of workplace pension schemes are given adequate and consistent protection. We therefore recommend that the Government reassess the case for establishing one body with sole responsibility for regulating workplace pensions.***

127 Q 272

128 Q 279, National Audit Office, *The Pensions Regulator, Regulating defined contribution pension schemes,* July 2012, p 11.

129 Q 279

130 Q 280

7 Small pots and "pot follows member"

116. This chapter assesses how the Government's plans to deal with small pension pots can be implemented in a way which minimises the potential for consumer detriment.

The small pension pots problem

117. The UK currently has a significant problem with the number of small pension pots accrued by employees in occupational schemes. An individual who changes jobs several times in their working life, as increasingly is the norm, and who joins a new scheme with each new job, can easily end up with many small pots. Employees can transfer small pension pots into a new employer's scheme when they take up a job, but this is often complicated and expensive.[131]

118. The Government has recognised that this is a problem that is likely to grow as auto-enrolment is implemented. It has estimated that, under the current arrangements, there would be around 50 million dormant workplace DC pension pots within the system by 2050, and that over 12 million of these would be under £2,000.[132] The Government consulted in 2012 on what to do regarding small pension pots and offered three options:

- Improve the current regulatory framework to make transfers easier and less expensive
- Introduce an aggregator system, whereby small pots are automatically transferred to an aggregator scheme when an employee moves to a new job.
- Introduce a system where pots follow employees from job to job, transferring automatically into each new scheme that the employee joins ("pot follows member").[133]

The Government's proposed solution to the small pots problem

119. In July 2012, the Government published its response to this consultation exercise which stated that it favoured the third option, pot follows member.[134] The DWP believed that its research showed that a pot follows member approach would be less expensive for members in the long run, easier to administer and would avoid the potential for market distortion that an aggregator pot might create. It explained that research showed that:

> Under automatic transfers to the new employer's scheme, providers would see a cost of processing in the early years after go live, but over time this will be outweighed by the savings they make from having to administer fewer and fewer dormant pots.

131 Eighth Report, HC (2010-12)1494, paras 161-166.

132 DWP, *Government response to the consultation on Improving transfers and dealing with small pension pots*, July 2012, Cm 8402, Executive Summary, p 10.

133 DWP, *Meeting future workplace pension challenges: improving transfers and dealing with small pension pots*, December 2011, Cm 8184.

134 Department for Work and Pensions, *Government response to the consultation, Improving transfers and dealing with small pension pots*, July 2012, p 11.

> Savings could start to materialise about six or seven years after the start of automatic transfers. A higher pot size limit will result in greater consolidation and larger long-run savings. [135]

The ABI consumer survey

120. In the Government's response to the consultation on small pots, it cites an ABI consumer survey in support of a claim that consumers prefer the pot follows member approach:

> [...] new consumer research from the Association of British Insurers with individuals showed that 58 per cent of respondents wanted their pot to move with them as they move employment, compared to just 10 per cent wanting their pot to automatically move to a central scheme, with a new pot started by the new employer.[136]

121. The survey asked respondents the following question: "Each time you switch jobs, your new employer may start contributing into a pension pot separate to your old one. Do you think that the old pot should…?"

- follow you automatically to the new job, without any input needed from you (58%)
- automatically move to a central scheme, and a new pot started with your new employer (10%)
- remain where it is, and it is completely up to you to move your pension pot(s) (15%)
- instead be visible with all your other pension pots at a central place online (17%)[137]

122. The TUC raised concerns about whether the survey results could be taken as a true representation of consumers' views as it did not provide respondents with any information regarding the risks and costs associated with each method. It said that it doubted whether:

> [...] individual pension consumers currently understand the nature of defined contribution provision in enough depth to offer a plausible account of their preferences in response to such surveys. "Pot follows member" clearly has a logical appeal—but we do not believe that most consumers would support this approach if its inherent risks were explained to them.[138]

The potential for consumer detriment

123. Stakeholders have raised concerns that the pot follows member approach might create the potential for consumer detriment. The NAPF made the following points:

135 Department for Work and Pensions, *Government response to the consultation: Improving transfers and dealing with small pension pots,* July 2012, p 13.

136 Department for Work and Pensions, *Government response to the consultation: Improving transfers and dealing with small pension pots*, July 2012, p 11.

137 Association of British Insurers, *ABI Quarterly Consumer Survey 2012 Q2*, July 2012, p 11.

138 Ev 235

> What concerns us, and we are not alone in this—the TUC, Which? and Age UK share our view—is that when somebody transfers from one scheme to another, or when they move their job, their new employer scheme may be a scheme that has a lower annual management charge than their previous employer scheme, but it may not. At the moment, that is a big lottery for the individual, and they have very little choice.[139]

The TUC also argued that pot follows member is not the right approach, pointing out that pension schemes deemed suitable for auto-enrolment, a policy designed for new pension savers, might not necessarily be suitable for automatic transfers which will affect those who already have some pension savings.[140] TPAS was especially concerned about automatic transfers applying to pots with built-in guarantees (of annuity rates or investment growth rates) which might be lost during an automatic transfer. It recommended that pots with built-in guarantees should be excluded if the Government institutes pot follows member.[141]

124. Age UK argued that if pot follows member was pursued, minimum standards in relation to charges, governance, default options and member communications must apply to all schemes which accepted automatic transfers. Age UK also believed it was important that minimum standards apply to "the processes and help available to people at the point of drawing the pension income" in those schemes.[142]

125. The Minister responded to these concerns by pledging to improve the overall quality of schemes:

> The consumer groups have raised a crucial issue and they are right: you cannot just have pot follows member into any old rubbish. The letter that the TUC and NAPF and Age UK and Which? sent said, "We are worried that you are going to auto-transfer somebody's pot from a 'good' scheme to a 'bad' scheme and there will be consumer detriment." I said to them, "What are we doing letting people be auto-enrolled into 'bad' schemes?" The problem is not £2,000 being moved from a good scheme to a bad scheme; it is an entire workforce in the new company in a bad pension scheme. We have to address that. Once we have addressed that, the objections to pot follows member not only disappear but, I think, actually becomes a very strong case.[143]

126. ***We welcome the Government's attempts to tackle the problem of small pension pots. However we remain concerned about the potential for this system to result in consumer detriment for some individuals. While we agree with the Government that people should not be auto-enrolled into poor quality schemes, it remains the case that people may be transferred from a scheme with low charges and good governance into a scheme with high charges and poor governance. If the introduction of "pot follows member" remains the Government's preference, it must ensure, through stringent regulation, that all auto-***

139 Q 101 [NAPF]

140 Ev 234

141 Ev 204

142 Q 259

143 Q 383

enrolment schemes benefit from good governance and are free from high charges, including deferred member charges and member-borne consultancy charges.

Automatic transfers and the NEST restrictions

127. As we have indicated, the National Employment Savings Trust (NEST) is a national pension saving scheme set up with a loan from the Government as part of the arrangements for the introduction of automatic enrolment. NEST has a public service obligation (PSO) to be available to all employers who wish to use the scheme to meet their auto-enrolment requirements and to accept all individuals automatically enrolled into it. In recognition of this, NEST was established with public money and continues to receive loans and grant funding from DWP.

128. In addition to the PSO, the Government has placed a number of restrictions on NEST's operations. These include a ban on transfers in and out of NEST. In our 2012 report on automatic enrolment and NEST, we recommended that this restriction (as well as one capping annual contributions to NEST) be lifted "as a matter of urgency". Our concern was that the ban on transfers would prevent individuals from consolidating their separate pension pots, either into their NEST scheme or another pension scheme.

129. The Government made clear in evidence to this inquiry that it intends to "fix" the issue of the ban on transfers in and out of NEST in order to implement its pot follows member solution.[144] It launched a consultation on the restrictions in November 2012. The consultation ended in January 2013.

130. We published a separate report on the NEST restrictions in February 2013.[145] Our very strong view, based on the original assessment in our 2012 report on automatic enrolment, and on the further clear evidence which has emerged as the implementation of automatic enrolment has begun, was that the ban on transfers (and the contributions cap) should be lifted now, and should not be delayed until 2017. We are awaiting the Government's response to its consultation exercise and to our report.

144 Q 385

145 Fourth Report of Session 2012-13, *Lifting the Restrictions on NEST,* HC 950.

8 Risk-sharing and Defined Ambition pension schemes

131. This chapter explores the Government's ideas for introducing a new form of pension schemes which takes a different approach to sharing risk, in what it terms "Defined Ambition" schemes.

Risks associated with pension saving

132. Government, pension providers, employees and employers all share the market and longevity risks involved in pension saving to some extent. However different types of schemes share risks between employers and employees to varying degrees. In DB schemes, employers bear the risk of low investment returns, and of scheme members living for longer than expected. Conversely, in most DC schemes, it is the scheme members who bear the risk of poor investment returns, low annuity rates at the point of retirement and longer than expected longevity, factors which could potentially result in a lower income in retirement.

133. The proportion of people saving in DC rather than DB pension schemes, in the private sector, has increased over recent years as employers have found it prohibitively costly to continue to offer final salary-related pension schemes. This growth in DC scheme membership will be accelerated by the large number of new savers who will be introduced to pension saving as a result of auto-enrolment. This means that, in future, many pension savers, especially in the private sector, could bear many of the risks of pension savings themselves.

Sharing risks between employer and employee

134. The decline of DB pension schemes in the private sector and the shifting of risk to employees has raised the question of whether new ways can be found to share risk more equally between employers and scheme members and has led to discussions about whether the greater use of the type of risk-sharing schemes which are more common in some other European countries is worth exploring in the UK. Some risk-sharing schemes "have elements of current DB schemes, but with greater sharing of risk; others may start from a DC standpoint, but with increased certainty for members."[146] For example, a "hybrid scheme" is a type of risk-sharing scheme in which employees accrue benefits in both a DC scheme and a DB scheme at the same time.

135. Collective Defined Contribution (CDC) schemes are a type of risk-sharing scheme which shares risks between members. They are in widespread use in the Netherlands. CDC schemes are Defined Contribution schemes in which:

- Members' contributions are pooled into a collective investment fund, rather than each individual owning a personal fund

146 Department for Work and Pensions, *Reinvigorating Workplace Pensions*, November 2012, p 4.

- members pool their risk and diversify their investments more widely
- members share risks with each other rather than with the employer
- members subsidise each other in the case of poor investment returns or increases in longevity
- in-built annuities can operate, which pay benefits to members from the fund or can give members lump sums at retirement with which to purchase an annuity.

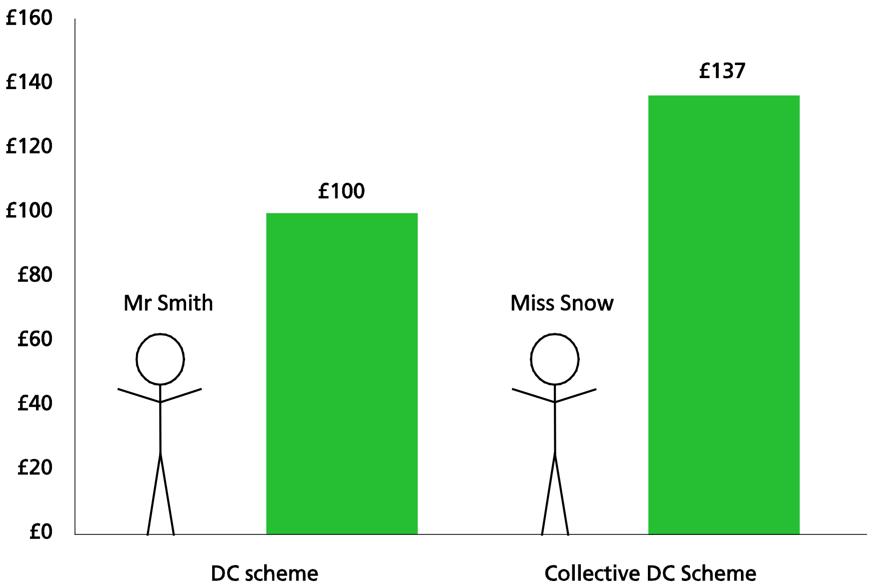
136. Saving in CDC schemes can result in higher incomes in retirement than saving in individual DC pension funds:

> [...] by enabling riskier investment strategies, self-annuitisation and cost efficiencies, collective DC schemes can deliver outcomes for individuals 37% above pure DC pensions (the government's own evaluation in 2009 estimated the average benefit would be 39% higher).[147]

This is illustrated in the chart below.

Chart 2: Defined Contribution vs. Collective Defined Contribution[148]

Example of the potential difference in Mr Smith and Miss Snow's weekly annuity income at point of retirement after contributing the same amount to a pension for 40 years



137. Some witnesses supported the idea of CDC and there was general agreement that CDC could produce higher retirement incomes for individuals and offer consumers greater protection without pushing an unreasonable burden of risk on to the employer.[149] However, other witnesses expressed concerns around potential legal barriers to introducing CDC schemes in the UK. It was suggested that CDC might not work in the UK unless membership was compulsory. The general view expressed was to question

147 Ev 238

148 Data supplied by David Pitt-Watson, assumes 40 years of contributions (at any level).

149 Q 29, Q 60 [PPI], Q 227 [Aon Hewitt], Ev 129

whether there was sufficient social appetite for the cross- and inter-generational risk-sharing and subsidisation underlying CDC schemes.[150]

Defined Ambition

138. In November 2012 the Government published a strategy paper, "Reinvigorating Workplace Pensions". Amongst its proposals, it outlined ideas for risk-sharing under the banner of "Defined Ambition" pensions. The paper discussed the potential benefits and limitations of the various current forms of risk-sharing pension schemes including CDC schemes. The Government stated that its objective was to "Enable industry innovation and development of new products including those which will give people more certainty about their pensions and encourage more risk-sharing." The Government concluded by promising to:

> [...]work closely with industry and consumer bodies to develop possible models and designs for DA pensions. [...]. Our planning assumption at this stage is that an early outcome of this work is likely to be a publication outlining a framework for DA pensions, possibly jointly with industry. Any proposals for legislative or regulatory change will be subject to a formal impact assessment and consultation. [151]

Employer appetite for risk-sharing

139. There was some support from witnesses for the Government's plans for risk-sharing and a recognition that risk-sharing schemes could be more beneficial to members than pure DC schemes.[152] However, some witnesses cautioned that employer appetite for offering these schemes may be low because of the greater risks involved in running DA schemes, rather than offering access to pure DC. There was a feeling expressed by some witnesses that the Government did not support employers enough in keeping their DB schemes open, and were in some ways instrumental in forcing their closure.[153] Towers Watson explained:

> If the Government wishes to encourage employers to sponsor risk-sharing pension arrangements, it will first need to convince them that aspirations and best endeavours will remain just that. Employers have had their fingers badly burned with defined benefit pension provision. This has proven far more costly than they anticipated, due in large part to UK Governments, over a period of many years, turning soft goals into legislative commitments.[154]

140. However, the Association of Consulting Actuaries (ACA) claims that they and others have conducted attitude surveys which they believe "show that there is indeed demand from employers for the freedom to offer new risk sharing pension options". But they warn that the Government is not doing enough to enable employers to introduce risk-sharing

150 Q 124 [Fidelity].

151 Department for Work and Pensions, *Reinvigorating Workplace Pensions*, November 2012, p 30

152 See for example Q 193 [EEF], Q 226 (Aon Hewitt, ACA, Mercer]

153 Ev w84, Q 226

154 Ev 226

schemes and could do more in terms of making the legal and regulatory environment more open for risk-sharing schemes.[155] This may become particularly relevant in 2016 when the Single-tier State Pension is likely to be introduced and people will no longer be able to contract-out of the State Second Pension, reducing scheme income. DA schemes may offer an alternative to employers who are considering moving away from DB, as a result of the ending of contracting-out.[156]

Response from stakeholders to the DA proposals

141. EEF suggested that the Government should encourage greater use of risk-sharing through non-legislative means such as providing forums for sharing examples and strategies and stimulating the commercial sector to develop new products.[157] Age UK, while welcoming the Government's plan to investigate DA further, made the point that this should not distract the Government from ensuring that DC schemes are held to high standards:

> Whilst we look forward to seeing these deliberations we are keen that this debate does not detract from what we see as the immediate priority—ensuring that DC schemes, be they contract or trust based, offer good value for money for consumers. [...] DC schemes are still likely to predominate pension provision for the foreseeable future, so the focus should be on ensuring that competition in the DC market acts in the interests of consumers in delivering better quality products.[158]

The TUC also emphasised the need to focus on DC scheme delivery and believed the Government should "consider how a greater degree of certainty in retirement outcomes can be achieved within a pure DC model given the numbers of people that will be automatically enrolled into pure DC schemes over the next few years."[159]

142. **Risk-sharing schemes can give their members greater certainty over retirement benefits and can help rebalance risk between the employee and the employer. We welcome the Government's intention to develop plans for Defined Ambition (DA) risk-sharing schemes. The Government should continue to explore ways to encourage employer appetite for DA schemes and to take the necessary steps to remove legislative and regulatory barriers to DA schemes by the time the Single-tier State Pension is introduced and contracting-out ends in 2016. This may provide employers with an attractive alternative to DC that could potentially offer employees better outcomes in retirement.**

143. However, we also recognise that many millions of people will be auto-enrolled into DC schemes in the future and that joining a DA scheme may be an option for only a small minority of employees. We therefore recommend that, while it investigates options for DA, the Government remains focussed on ensuring that people are being enrolled into DC

155 Ev 128

156 See Fifth Report, *The Single-tier State Pension: Part 1 of the draft Pensions Bill, HC 1000, paras 90-98.*

157 Ev 149

158 Ev 106

159 Ev 237

schemes which offer high standards of governance and reasonable and justifiable charge levels.

9 Conclusion

144. Auto-enrolment will bring many millions of people into pensions saving for the first time. These individuals will not necessarily be equipped to deal with the complex and confusing world of pension saving or to make the major decisions affecting their retirement income that the DC pension saving system might require of them. High quality pension scheme governance, which protects individuals and focuses on maximising retirement income, will therefore be essential over the next few years as people are brought into pension saving for the first time.

145. The Government, regulators and the pensions industry will need to work hard to provide the protection that scheme members need. This should include ensuring that contract-based schemes operate with the same level of governance as trust-based schemes and that employees are not disadvantaged by being enrolled into small contract-based or trust-based DC schemes which lack the benefits of scale.

146. Smaller employers, in particular, will need support and guidance as auto-enrolment is rolled out to ensure that they offer schemes with the necessary levels of governance to protect the interests of scheme members.

147. Scheme members are very vulnerable to high scheme charges which can affect their final level of retirement income. The Government must act now to ensure that people who are auto-enrolled into pension saving are protected from high charges, including deferred member charges and consultancy charges.

148. The Government has taken important steps to promote retirement saving through introducing auto-enrolment and simplifying the State Pension in order to increase incentives to save. Good governance in pension schemes will be critical to the success of auto-enrolment and to building consumer confidence in private pension saving. We urge the Government and regulators to prioritise measures which ensure that everyone who is auto-enrolled has a guarantee that they will be saving into a good quality, well-governed pension scheme and that they will be assisted in maximising their retirement income.

List of Conclusions and recommendations

In this List, conclusions are set out in plain type and recommendations, to which the Government is required to respond, are set out in *italic type*.

Scheme governance

1. We welcome auto-enrolment as an important step towards helping more people in the UK save for their retirement. However, an increase in the number of employees, especially those with low incomes, saving into DC schemes and bearing most of the risk of pension savings themselves, reinforces the importance of ensuring that all private sector pension schemes are well-governed and protect their members while also assisting them to achieve positive outcomes for their retirement income. (Paragraph 19)

2. We are concerned about the potential for some people to be auto-enrolled into schemes with poor governance. Governance is a particular challenge for DC schemes, and it is this type of scheme that the vast majority of employees will be auto-enrolled into. We accept that not all trust-based schemes are well-run and that some contract-based schemes are already well-governed. However, there are inherent weaknesses in the mechanisms for governing contract-based schemes which the Government and the regulators must address, to ensure that members of contract-based schemes are offered the same level of protection from detriment as members of trust-based schemes. (Paragraph 27)

3. *We believe that establishing governance committees to oversee the running of pension schemes could go some way to increasing the effectiveness of governance in contract-based schemes, although we appreciate that setting up such committees may present a challenge for small and medium sized employers. We recommend that the Government and the regulators investigate ways of assisting all employers who offer contract-based schemes to set up governance committees to oversee their pension scheme and that particular attention should be given to supporting small and medium enterprises to do so. (Paragraph 28)*

4. We welcome the emergence of Super Trust schemes such as NEST, which can provide more protection to members than contract-based DC schemes and can also provide benefits of scale. We support the Government's intention to look at ways of promoting the further development of large multi-employer schemes, including Super Trusts. However, it is likely that many smaller employers will continue to want to operate their own small schemes which meet the particular needs of their workforce. We believe that the Government and the regulators should remain focussed on ensuring that members of smaller schemes have the same access to good governance arrangements as those in well-run large schemes and Super Trusts. (Paragraph 34)

Costs and charges in DC schemes

Capping charges in auto-enrolment qualifying schemes

5. *We welcome the trend towards providers offering lower charges to pension scheme members. We note the Government's position that it is prepared to wait before deciding whether to impose a charge cap for auto-enrolment qualifying schemes because it believes the market is currently operating well and it does not want to prevent natural competition or cause "levelling up" of charges. However we are very concerned by the potential for pension scheme members to suffer detriment where schemes persist in retaining high charges, with the accompanying potential to reduce the amount of income people receive in retirement. In the short term, we recommend that the Regulator carries out an urgent review of the "outliers" with high charges, with a view to taking action if it considers this necessary. We further recommend that the Government carefully monitors the level of pension scheme charges more generally and reviews its position on capping charges in auto-enrolment schemes frequently, at least bi-annually, commencing in 2014. It should act without hesitation if it becomes apparent that some pension scheme members are at risk of detriment from high charges. (Paragraph 45)*

Active member discounts

6. *We are concerned that the use of active member discounts, which should more accurately be called deferred member charges, has the potential to reduce significantly the amount of money available to pension scheme members in retirement. We have not heard any convincing evidence for retaining these charges. Despite the Government's assertion that its "pot follows member" approach for dealing with small pension pot transfers will take care of the problem of active member discounts, we believe that people who do not have their pots automatically transferred also need to be protected from the impact that higher charges for deferred members could have on their retirement income. We recommend that the Government bans the use of active member discounts without delay, in order to prevent consumer detriment arising from this practice. (Paragraph 51)*

Consultancy charges

7. Some pension scheme members are likely to end up paying consultancy charges for advice which provides little or no benefit to them. We are very concerned by the high level of such charges quoted in some advisers' literature and the potential for this to reduce significantly the size of scheme members' pension pots, and ultimately their income in retirement. The Government and the regulators have made it clear that there needs to be a clear benefit to employees arising from the use of consultancy services; however, no-one has explained how this benefit should be demonstrated. It seems to us that the lack of transparency in consultancy charge structures may make such a demonstration exceedingly difficult. (Paragraph 60)

8. *Member-borne consultancy charging has the potential to cause serious consumer detriment and to damage confidence in pension saving and auto-enrolment. While we* *appreciate that the costs of complying with auto-enrolment can be a significant issue for some, especially small, employers, and therefore that it may be reasonable in some circumstances for some or all of the routine costs of a scheme to be borne by the members, we do not think it appropriate, given the existence of low-cost schemes, for members to suffer the detriment of consultancy charges. We therefore recommend that the Government bans the use of member-borne consultancy charging in auto-enrolment qualifying schemes without delay. Until the ban has been put in place, the Government and the regulators should issue clear guidance to the pensions industry as a matter of urgency, to clarify the level of consultancy charges that they assess as being acceptable. (Paragraph 61)*

Transparency and the effectiveness of self-regulation

9. We welcome the work done by pensions industry bodies to encourage greater transparency in communications about costs and charges and their potential impact on retirement income. However we are concerned about the lack of enforceability of these codes and the lengthy timeline for implementing some of them and for producing online comparison tools. We are particularly worried by the possibility that the facility for employers to compare scheme charges will not be available until after many have already made their decisions regarding auto-enrolment. (Paragraph 69)

10. *We recommend that the Government review the levels of transparency across the pensions industry early in 2014. If it concludes that employers are still prevented by a lack of transparency from making informed choices about the potential impact on their employees of saving in different pension schemes, we recommend that it imposes a charge cap on auto-enrolment qualifying schemes or on the schemes which are not complying with the transparency codes and guidance issued by industry bodies. We further recommend that consideration is given to penalties and enforcement if the industry fails to self-regulate effectively within the next three years. (Paragraph 70)*

Self-regulation and annuity purchases

11. We believe that the industry is failing pension scheme members when they convert their pension funds into annuities. Purchasing an annuity from a provider other than the one which holds an individual's fund could increase their retirement income by as much as 20% to 40%. However many people are unaware that they have the option to shop around for an annuity. We recognise that the industry is working to improve take up of the option to shop around and we welcome the ABI's Code of Conduct on Retirement Income Choices and the FSA's thematic review of annuities. (Paragraph 76)

12. *We recommend that the Government and regulators institute a mandatory system whereby, when consumers come to purchase an annuity, their pension provider is required automatically to supply them with a comprehensive breakdown of all the different annuity rates available to them from different providers, including options and rates for enhanced and impaired life annuities. We also recommend that, as a last* *resort, the Government considers taking steps to separate the function of providing pensions schemes from that of providing annuities. (Paragraph 77)*

Communication with scheme members

13. Advice and education can play an essential role in helping the public understand their options around retirement saving as well as the potential risks involved. We believe that the Government, schools, employers, providers and outside agencies, such as the Money Advice Service and The Pensions Advisory Service, will all need to play a greater role in future in helping inform and educate the public, in the context of auto-enrolment, the introduction of the new Single-tier State Pension, and the necessity of everyone taking personal responsibility for securing an adequate retirement income. We urge the Government to consider how it will involve all stakeholders in educating the public so that people will be in a position to assess their own future retirement needs and make pension savings decisions that will help them to meet those needs. (Paragraph 89)

14. We are pleased to see the increased interest of the pensions industry and other stakeholders in improving communications with scheme members. However, we are concerned that some pension providers might be using the excuse of "over-regulation" to avoid having to simplify their pension communications. It is important to note that NEST has been able to produce simple, easy to understand information for their members while also complying with regulation. (Paragraph 90)

15. *We recommend that the Government, the regulators and the industry work together to agree on a communications format, using a language and style similar to NEST's, that sets out the basic, essential pieces of information which pension schemes should supply to their members. This should include a clear indication for scheme members of the implications of their current levels of contributions and current scheme charges for their future income in retirement. (Paragraph 91)*

16. *A lack of knowledge, understanding and financial literacy currently prevents people from being able to assess their retirement income needs and make sound decisions on pension saving. The Government must ensure that people have the best chance of reaching adulthood with the necessary tools to make informed decisions regarding saving for their retirement. We recommend that the Government encourage schools to include retirement and pension saving as part of financial literacy education. (Paragraph 92)*

The regulation of workplace pensions

Contract-based schemes

17. FSA's approach to regulating financial services and the pensions industry is based on requiring them to treat customers fairly—as set out in its "Treating Customers Fairly" initiative. We are surprised that this needs to be spelled out for them, rather than fair treatment being a matter of course for the pensions industry. We believe that fair treatment is a low baseline to aim for and would expect the pensions industry to aim for high standards of provision and outcomes for consumers. (Paragraph 103)

18. *The FSA's approach has been to focus resources wherever it perceives the biggest risks to be at any given time. It has therefore dedicated much of its recent resources to the banking sector, because it saw this as a high-risk area. We find this attitude alarming because it fails to take account of the importance of pensions regulation at a time when careful oversight is required. We are concerned that this risk-based approach to regulation means that the regulator will not start focussing its attention on workplace pensions unless or until something goes wrong. Auto-enrolment of low income people into pension saving coupled with a risk of high-charges (including deferred member and consultancy charges) makes workplace pension saving an area where consumers need the highest levels of protection and reassurance now. We are not convinced that the Financial Conduct Authority, the successor body to the FSA for this area of pensions regulation, is the appropriate body to regulate contract-based pension schemes. If it remains the responsible body, then we strongly urge it to adopt a pensions-specific regulatory strategy and to set up a well-resourced team dedicated solely to proactively regulating contract-based pension schemes. (Paragraph 104)*

Better joint working between TPR and the FSA

19. We welcome the work that TPR and the FSA have done in response to the National Audit Office report on the regulation of Defined Contribution pension schemes. However, we are concerned that weaknesses in joint working between the two regulators persist. This includes lack of joint risk-assessment, and discrepancies between the regulation of trust- and contract-based pension schemes reflected in the two different sets of principles governing DC schemes. We are concerned that contract-based workplace pension schemes might therefore be regulated in a less co-ordinated and rigorous way than trust-based schemes, especially given that there are now three regulators for contract-based schemes. (Paragraph 113)

20. We understand the Government's reluctance to change the regulatory system for pensions, given that the regulation of financial services more broadly has only just been through a major reorganisation and that both State and private pensions are in a sustained period of major reform. However, employees who are being auto-enrolled into workplace pension schemes must be adequately protected from poor governance. (Paragraph 114)

21. *We remain concerned about current regulatory gaps and the potential for further gaps to arise as a result of three regulators having a role to play. We believe that it is necessary for a single regulatory body to have sufficient powers to ensure that all members of workplace pension schemes are given adequate and consistent protection. We therefore recommend that the Government reassess the case for establishing one body with sole responsibility for regulating workplace pensions. (Paragraph 115)*

Small pots and "pot follows member"

22. *We welcome the Government's attempts to tackle the problem of small pension pots. However we remain concerned about the potential for this system to result in consumer* *detriment for some individuals. While we agree with the Government that people should not be auto-enrolled into poor quality schemes, it remains the case that people may be transferred from a scheme with low charges and good governance into a scheme with high charges and poor governance. If the introduction of "pot follows member" remains the Government's preference, it must ensure, through stringent regulation, that all auto-enrolment schemes benefit from good governance and are free from high charges, including deferred member charges and member-borne consultancy charges. (Paragraph 126)*

Risk-sharing and Defined Ambition pension schemes

23. Risk-sharing schemes can give their members greater certainty over retirement benefits and can help rebalance risk between the employee and the employer. We welcome the Government's intention to develop plans for Defined Ambition (DA) risk-sharing schemes. The Government should continue to explore ways to encourage employer appetite for DA schemes and to take the necessary steps to remove legislative and regulatory barriers to DA schemes by the time the Single-tier State Pension is introduced and contracting-out ends in 2016. This may provide employers with an attractive alternative to DC that could potentially offer employees better outcomes in retirement. (Paragraph 142)

24. *We recognise that many millions of people will be auto-enrolled into DC schemes in the future and that joining a DA scheme may be an option for only a small minority of employees. We therefore recommend that, while it investigates options for DA, the Government remains focussed on ensuring that people are being enrolled into DC schemes which offer high standards of governance and reasonable and justifiable charge levels. (Paragraph 143)*

Formal Minutes

Wednesday 17 April 2013

Members present:

Dame Anne Begg, in the Chair

Debbie Abrahams
Jane Ellison
Graham Evans
Sheila Gilmore
Glenda Jackson
Stephen Lloyd
Nigel Mills
Anne Marie Morris
Teresa Pearce

Draft Report (*Improving governance and best practice in workplace pensions*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 148 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Sixth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 24 April at 9.15 am.

Witnesses

List of printed written evidence

List of additional written evidence

(published in Volume III on the Committee's website www.parliament.uk/workpencom)

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Youth Unemployment and the Future Jobs Fund	HC 472 *(HC 844)*
Second Report	Changes to Housing Benefit announced in the June 2010 Budget	HC 469 *(HC 845)*
Third Report	Appointment of the Chair of the Social Security Advisory Committee	HC 904
Fourth Report	Work Programme: providers and contracting arrangements	HC 718 *(HC 1438)*
Fifth Report	The Government's proposed child maintenance reforms	HC 1047 *(HC 1727)*
Sixth Report	The role of incapacity benefit reassessment in helping claimants into employment	HC 1015 *(HC 1641)*
Seventh Report	Government support towards the additional living cost of working-age disabled people	HC 1493 *(HC (12– 13)105)*
Eighth Report	Automatic enrolment in workplace pensions and the National Employment Savings Trust	HC 1494 *(HC (12–13)154)*

Session 2012–13

First Report	Appointment of the Chair of the Social Security Advisory Committee	HC 297
Second Report	Youth Unemployment and the Youth Contract	HC 151 *(HC 844)*
Third Report	Universal Credit implementation: meeting the needs of vulnerable claimants	HC 576 *(Cm 8537)*
Fourth Report	Lifting the restrictions on NEST	HC 950
Fifth Report	The Single-tier State Pension: Part 1 of the draft Pensions Bill	HC 1000