Written evidence submitted by B&CE (SGCB 06)

Introduction – who are we

The People's Pension is a master trust serving the auto-enrolment market. Master trusts are crucial to the delivery of auto-enrolment:

- To date, 124,487 employers have auto-enrolled their employees. 6,642,000 individuals have been auto-enrolled with opt out rates remaining below 10%. Over the next 2 years 1.4m companies will have to auto-enrol their staff into a pension.
- The three largest auto-enrolment master trusts have a membership of over 6 million, which is the vast bulk of those auto-enrolled

The People's Pension is a master trust that provides pensions to any employer of any size and this mass market entry was not anticipated by previous governments. We provide low cost, high quality pensions to over 2.2 million low to moderate income earners.

The People's Pension is administered by B&CE, a not for profit organisation that has served the construction industry since 1942. It is an efficient third sector alternative to the government funded state intervention of NEST. It is not reliant on state subsidy of any kind. We are run under a trust in the interest of our members. We work with small employers, many of whom want to pay a modest fee for a tailor-made service so that they can concentrate on running their businesses.

Evidence to the Committee

Lifetime ISA

The Lifetime ISA could potentially be a useful complementary product for pension saving, however as currently designed it is likely instead to be a poor substitute for the following reasons:

(i) If it is used as a replacement for workplace pensions, it will lead to a significant reduction in retirement income because employees taking out this option will miss out on the employer contribution. This may serve as an incentive for some employers to encourage employees into a Lifetime ISA rather than a workplace pension.

(ii) Savers into a Lifetime ISA can potentially withdraw up to £450,000 for a first home. In other words, complete depletion of savings is feasible for almost every saver. It is therefore likely, in aggregate, that the LISA (in the absence of a major house building programme) will serve as a mechanism for transferring all future retirement income from younger generations to current house owners. We do see a potential "nudge" advantage in people being able to withdraw some funds from their retirement savings. However, we think that the proportion of the pot that can be withdrawn ought to be subject to a limit such as 25% of the accumulated savings.

(iii) The Lifetime ISA is not subject to the governance, transparency or charge cap consumer protections which the government is rightly requiring from pension providers in order to ensure value for money for consumers.

(iv) Most savers into ISAs place their savings in cash products which means that the power of cumulative interest in creating a pension pot is almost entirely curtailed.

(v) There is concern amongst many politicians that UK pension funds are insufficiently engaged in infrastructure investments. The latter are illiquid investments which ought to be attractive to scale pension providers which need long term and relatively predictable streams of income. The LISA militates against long term investment because the provider must maintain much higher levels of liquidity to meet far more unpredictable demands for withdrawal.

(vi) The consultation undertaken by the Treasury prior to the adoption of the LISA policy contained neither any assessment of the costs and benefits of a LISA nor its impact on the wider pension saving system. This is particularly astonishing given that the UK is currently only part of the way through a major public policy programme of auto-enrolment and the first round of which is not yet complete

(vii) As a consequence we have concerns that the major motivation behind the Lifetime ISA was simply to begin a process of moving towards the removal of up-front tax relief for pension saving. While this may have some short term appeal to the Treasury in terms of immediate tax take, the tax system would no longer be incentivising long term saving towards retirement which auto enrolment had begun to revive. A reduction in fiscal burden could be better achieved without undermining pensions by simply moving to a flat rate. Such a flat rate could be rebranded as the provision of "matching" funds by the government and would likely be much more popular than the less well understood tax relief.

Recommendations:

The Lifetime ISA should be designed to be complementary to auto-enrolment saving not used as a replacement.

Incentives for long term retirement savings should be maintained.

A pause in the roll out of the LISA ought to be adopted in order to undertake an assessment of its interaction with the rest of the UK pension system and how its design should be tailored to ensure the LISA supports pension saving.

October 2016