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Treasury Committee

Household finances: income, saving and debt: Government Response to the Committee's Nineteenth Report

Seventh Special Report of Session 2017–19

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The Treasury Committee

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Contacts

All correspondence should be addressed to the Clerk of the Treasury Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5769; the Committee's email address is treascom@parliament.uk

Seventh Special Report

On 26 July 2018 the Treasury Committee published its Nineteenth Report of Session 2017–19, *Household finances: income, saving and debt* (HC 565). The Government's response was received on 24 September 2018.

Government Response

Introduction

The government welcomes the Treasury Select Committee's report into household finances. As noted in the report, households' financial positions have greatly improved since the financial crisis, with debt to income significantly below pre-crisis levels. Furthermore, debt interest payments to income ratios are at a record low. Household financial net wealth as a proportion of income is close to its record high, while the unemployment rate, at 4.0%, is at its lowest in 43 years.

However the government recognises that the household saving ratio has been at a low level recently. As the Committee highlights, this series can be volatile. It is also worth noting that household saving tends to be lower when household wealth is high, credit is readily available, and unemployment low, as is currently the case in the UK. The government will continue to monitor risks to economic stability if the ratio remains at this low level. The Financial Policy Committee of the Bank of England (FPC), as the UK's macroprudential authority, will continue to monitor, assess and, where appropriate, take action to mitigate risks to UK financial stability from the household sector.

Real household disposable income per head, the most comprehensive measure of living standards, is currently above its pre-crisis peak in 2007. This year employment levels have also risen to record highs, with the lowest unemployment rate in 43 years. However, the government recognises that the UK's productivity challenge is a structural, long-standing problem, and that addressing this is key to increasing growth, wages, and therefore people's living standards over the long term. Doing so will require concerted commitment over many years, which is why the National Productivity Investment Fund has been expanded to over £31bn, including an extra £7bn for research and development (R&D) - the biggest increase for 40 years. Alongside this, we are currently reforming education, backing career progression and investing in the infrastructure of the future. The government is also ensuring that generational pressures are kept in check. The balanced approach to managing the public finances means that this year, debt is forecast to begin its first sustained fall in a generation, thus reducing the burden of debt interest that is placed on future generations.

The government agrees with the Committee's conclusion that household debt must be considered at both the aggregate and distributional level when assessing risks to household finances. At an aggregate level, the household debt-to-income ratio was 140% in Q1 2018, significantly below its pre-crisis high of 160% in Q1 2008. The OBR forecast that this will not rise back to pre-crisis peaks over the next 5 years. The debt servicing ratio (an indicator of how affordable household's debt instalments are) remains low, having steadily declined since the peak in 2008.

The improvement in household finances in recent years is principally a testament to the efforts of hard-working individuals and families, supported by a growing economy which underpins household incomes. In support of this, the government has taken action to support household finances across a wide range of areas, including:

- supporting those with problem-debt, through capping the cost of high-cost short-term credit;
- improving access to affordable credit, through measures such as the Rent Recognition Challenge;
- providing greater incentives and support for savers, through the Lifetime ISA and the recently launched Help to Save scheme;
- supporting saving for retirement, notably through Automatic Enrolment into pensions;
- helping working families keep more of their earnings by keeping taxes low;
- providing improved information and guidance for consumers through the new single financial guidance body.

The government continues to monitor household finances closely. The response below goes into further detail both on the actions that the government and other bodies are taking, the benefits of these actions for household finances, and our response to the recommendations made in the report.

Response to recommendations

Overall levels of household saving and debt

6. **The responsibility for improving overall levels of household net saving sits more appropriately with the Government and HM Treasury than the financial regulators, because they have a broader remit and a wider range of policy objectives and tools.** (Paragraph 33)

The government believes the current split of responsibilities between the Treasury and the regulators is appropriate and has given the FCA a strong mandate which puts consumers at the heart of the regulatory system. The FCA must act according to its statutory objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers. Where it is more appropriate, the government will intervene. The government has made significant changes over recent years, including introducing the Personal Savings Allowance of up to £1,000, which means that over 95% of people have no tax to pay on their savings income. The government remains committed to supporting savers of all income levels and at all stages of life.

8. **In the next Budget, the Treasury should report on the state of household finances and the level and rate of household savings, at a regional and national level, including its assessment of the implications for future living standards and wider economic stability. It should identify the most consequential risks to the financial resilience of households and set out its strategy for addressing them**. (Paragraph 35)

The Treasury monitors the state of household finances closely. The Treasury already publishes detailed distributional analysis at each fiscal event, showing recent trends in living standards, inequality, earnings, and employment, and the impact of tax, welfare and public service measures on household incomes. The Treasury also pays close attention to other publications across government, including the Households Below Average Income (HBAI) statistics released annually by the Department for Work and Pensions, which include changes in income, as well as poverty and material deprivation. The Bank of England, through the biannual Financial Stability Report, publish the Financial Policy Committee's assessment of the risks to financial stability from the household sector. This includes an assessment of the risks from households' financial positions and levels of indebtedness.

The government recently set out how it is managing risks from household financial deficits in Managing Fiscal Risks, the government's response to the Office for Budget Responsibility's Fiscal Risks Report. In this report, the government set out the steps taken to protect consumers and deliver a sustainable credit market, through giving the Financial Conduct Authority more robust regulatory powers and the Financial Policy Committee guarding against risks associated with mortgage debt build-up.

Helping over-indebted households

10. **The FCA's Financial Lives survey contains important information on the distribution and causes of over-indebtedness and financial vulnerability that should form the basis of evidence-led policy to tackle these problems. The Treasury and DWP should produce a joint response to Financial Lives, in which they set out how it has informed their co-ordinated efforts to identify the most financially vulnerable households, and which policies could be most targeted and effective in improving their situation**. (Paragraph 43)

The government agrees with the Committee's conclusion that problem debt or over-indebtedness can be defined in a number of ways, but that definition needs to reflect consumers' difficulties in keeping up with household bills and credit commitments. The government also recognises that levels of problem debt vary depending on consumers' characteristics; in particular age, home ownership and family status.

The government welcomes the Financial Conduct Authority's biennial Financial Lives Survey. The government takes the findings of this rigorous survey very seriously, and it forms a vital part of the government's evidence base to inform policy development. HM Treasury draws on a wide range of statistical sources to inform its policy making to tackle indebtedness, including from the private sector, debt charities, the Money Advice Service, the Bank of England, the Office for National Statistics as well as other official and internal government sources.

11. **Arrears to local authorities are growing. These debts are often pursued over-zealously, and with routine recourse to bailiffs. In addition to local government, the Committee has heard reports that central government can take an uncompromising approach to debt collection. The public sector should be leading by example in their treatment of the most financially vulnerable; but the current approach risks driving them further into difficulty.**

Both central and local government are taking steps to improve debt collection practices in support of the financially vulnerable.

The government has established a Fairness Group, which includes central and local government and members from the debt advice sector. This creates an open dialogue between government and the sector to look at the issue of fairness. In 2017 Fairness Principles were developed, aligned with established best practice.

The Ministry of Justice (MoJ) reformed bailiff law in 2014 to provide essential protection to debtors from the aggressive pursuit of their debt from enforcement agents. In particular, the key reforms provided safeguards to prevent the use of force against debtors. They also ensured vulnerable people were able to get assistance and advice, and that enforcement agents were trained to recognise them. The MoJ is planning to launch a call for evidence on the implementation of bailiff reforms. MoJ will seek views from all interested parties about how the reforms are working in practice.

The Department for Work and Pensions recognises the importance of supporting welfare claimants who have accrued problem debt. Universal Credit (UC) takes a co-ordinated approach to deductions in UC payments, helping claimants to manage their finances. Claimants who find themselves in financial difficulty because of the amount that is being taken can talk to their work coach to request a reduction and, in exceptional circumstances, a suspension of recovery. This helps to ensure that a sustainable repayment plan based on affordability is put in place.

Central government requires that local authorities put in place discount schemes to reduce the council tax paid by those who have the greatest need. The design of those schemes can reflect local circumstances.

Local authorities are responsible for the collection of council tax. 58 councils in England have signed up to the Council Tax Protocol developed by the Local Government Association and Citizens Advice. This offers practical steps to prevent people getting into debt. Central government has published guidance on enforcement action, which makes it clear that local authorities should be sympathetic to those in genuine hardship and proportionate in any enforcement action.

12. **The Committee welcomes the Economic Secretary's acknowledgement of this problem [collection of public sector debt], but it would like to see more evidence that the Government is tackling it as a priority. By bringing central government and local authority debt collection practices consistently into line with industry best practice, the Government has the power to make a significant difference to the burden of problem debt in a short space of time. In its response to this report, the Treasury should set out how it intends to do so**. (Paragraph 50)

Central government fully implemented the NAO recommendations set out in the 2014 report on managing debt owed to central government. This included adding debt management guidance to the Consolidated Budgeting Guidance.[1] The government encourages people in debt to engage early, so an affordable and sustainable repayment plan can be put in place.

Central government debt management activity is prioritised through the Cabinet Office Cross Government Debt Function, which led the development of a Debt Management Strategy. This strategy is consistent with best practice, and central government priorities, whilst being effective, efficient and fair in its delivery.

Through the delivery of the strategy, central government is developing a Debt Centre of Excellence to improve the quality outcomes for government debt management and collection activity. A Debt Standard and the Fairness Principles will be embedded across central government to help drive continuous improvement and improve capability.

Local authorities and central government departments have access to the Debt Market Integrator (DMI) a joint venture that manages debt collection agencies (DCAs) and enforcement and litigation agencies on behalf of public bodies. Central government and the DMI independently assure all DCAs. The DMI is regulated by the Financial Conduct Authority (FCA) and aligns with FCA guidelines.

14. **The Committee encourages the Financial Conduct Authority (FCA) now to move forward with its proposals on other forms of high-cost credit—including overdraft fees—as quickly as it can. When it comes to review the impact of these proposals after they are implemented, it should reconsider whether a wider cap on high-cost credit, and compulsory restrictions on unsolicited credit limit increases, are needed**. (Paragraph 59)

The government has given the FCA strong powers to protect consumers, including the power to cap the cost of credit. The government legislated in 2014 to require the FCA to cap the cost of high-cost short-term credit, more commonly known as payday loans, and the FCA's July 2017 review of the cap showed that it has been successful. Customers pay less, repay on time more often, and are less likely to need help from debt charities.

As an independent, evidence-based regulator, it is important that the FCA takes time to consider arguments for and against further intervention in the markets it regulates. The government welcomes the FCA's detailed review of the high-cost credit market, and its May 2018 publication which announced a range of tough new measures, including a proposal to cap the cost of rent-to-own credit. This is an example of the FCA using the powers it has been given by the government to deliver for customers. The government will continue to work closely with the FCA to ensure that all consumer credit customers are treated fairly.

16. **The breathing space scheme is an important initiative that should help relieve the burden on severely over-indebted households and give them a better chance of entering sustainable repayment plans. The Government should carefully consider the case for extending the period [of the breathing space scheme] to be covered beyond six weeks.** (Paragraph 65)

1 'Consolidated Budgeting Guidance: 2018-2019', HM Treasury, February 2018

The government recognises the importance of ensuring that people are well protected when they fall into problem debt. That is why the government is implementing a breathing space and statutory debt repayment plan, and the government are pleased that the Committee recognises the potential benefits the scheme could have.

The government is taking time to carefully design the scheme to ensure that it provides adequate protection for everyone who could benefit from it. We are clear that the scheme must be flexible to reflect the variety of ways individuals experience problem debt.

Following the government's response in June 2018 to a Call for Evidence on the scheme, the government has been taking forward a detailed policy development process in close conjunction with expert stakeholders. The government notes the Committee's suggestions here in respect of the scheme's length and the extent of its protections. We intend to publish a consultation on the scheme's design shortly, which will set out detailed proposals for how the scheme will operate.

18. **The current provision of free-to-client debt advice appears insufficient, despite the support from the MAS. In consultations over how its successor, the Single Financial Guidance Body (SFGB) will allocate its budget, the SFGB and the Government should consider how the resources available for this advice could be increased, based on an assessment of existing and projected demand for these services. The Government should consider the case for making more funds available by extending debt advice levies to non-credit arrears providers**. (Paragraph 69)

The government recognises the importance of ensuring there is a sufficient supply of debt advice. That is why the government makes funding available to the Money Advice Service (MAS) to spend on debt advice, funded by a levy on financial services firms. This levy is designed to be responsive to demand, and this year, the debt advice funding made available to MAS has increased to £56.3m, enough to provide support to over 530,000 people. Last year, MAS helped to deliver over 460,000 debt advice sessions, more than three times the number delivered five years ago. This levy funding will continue to be responsive to demand as MAS transitions to the new Single Financial Guidance Body.

Last year, MAS commissioned Peter Wyman to produce an independent review of debt advice funding, which aimed to assess ways to ensure the successful long-term funding of the sector. In his report, published in January 2018, Mr Wyman made a number of recommendations to improve the quality, quantity and efficiency of debt advice provided by the sector. The recommendations are now being taken forward by MAS' Debt Advice Steering Group, which is comprised of senior leaders from the debt advice sector and creditors. The report also assessed the option of extending the FCA Financial Service Levy to include other sectors, however recommended against this.

19. **The inclusion of rent and other non-credit regular payment commitments in credit rating assessments could improve access to low- and mid-cost credit. There is some concern that an across-the-board obligation could penalise some people, however. The Government says it has an alternative to the Creditworthiness Assessment Bill in the Rent Recognition Challenge: it should set out in its response to this Report how this programme will meet the aim of increasing access to credit more effectively than the Bill, and how soon its chosen alternative will be implemented**. (Paragraph 76)

The government shares the objective of the Creditworthiness Assessment Bill. The government believes that it is right that a history of paying rent should be able to be recorded and recognised in tenants' credit scores and in creditworthiness assessments. Ensuring that tenants can get their rent recognised will help to deliver financial inclusion, and will support 'thin-file' consumers without a significant credit history to get access to appropriate, affordable credit.

However, the approach set out in the Creditworthiness Assessment Bill could be counterproductive to this objective. Lenders currently lack access to rental data in the majority of cases, and credit reference agencies lack a systematic or comprehensive record of rental history. Industry has therefore indicated that, were lenders newly obliged to take rental payments into account when assessing each borrower, they may be unable to process applications, or would incur significant delays in doing so. This could prompt firms to retrench their lending to rental tenants; at a minimum, they may pass on the additional cost to consumers in the form of higher prices.

Furthermore, this approach would not align with the Financial Conduct Authority's proportionate, principles-based approach to creditworthiness assessments. The FCA requires lenders to carry out adequate checks of credit risk and affordability, but does not prescribe specific sets of data to be taken into account, which are ultimately commercial decisions for individual firms.

At Autumn Budget 2017, the government announced the *Rent Recognition Challenge*: a £2m competition challenging the UK's world-leading tech firms to develop innovative applications to enable tenants to record and share their rental payment data with lenders and credit reference agencies. These new applications will allow tenants to build their credit histories, and get their rent recognised when applying for mortgages or other loans. This approach will meet the aim of increasing access to credit more effectively than the Bill, because it avoids introducing regulatory burdens that would make it harder to lend to renters, and instead uses the ingenuity of the tech sector to deliver solutions that work for both consumers and businesses.

6 successful firms received grant funding to develop prototype applications in March, and 3 of these (Bud, Credit Ladder, and RentalStep) received additional grant funding in August to bring their products to market no later than November 2018.

20. **There may be potential for credit unions and community development financial institutions to take a greater role in providing mid-cost credit to households currently relying on high-cost credit. The Committee would like to see the Government take a more strategic approach in coordinating what currently seem like piecemeal efforts across Government, regulators and industry towards promoting the expansion of this sector. It should also set out what it expects a successful credit union sector to look like**. (Paragraph 81)

The government is committed to facilitating sustainable financial services that give all consumers greater choice in accessing affordable credit, and the government agrees with the Committee's recommendation that a strategic, joined-up approach is needed. That is why the government set up the Financial Inclusion Policy Forum, which met for the first time in March this year. Co-chaired by the Economic Secretary to the Treasury and the Minister for Pensions and Financial Inclusion, the Forum brings together key stakeholders including consumer groups, charities, regulators, and industry representatives. After the first Forum meeting, ministers asked UK Finance and Toynbee Hall to lead a sub-group on access to affordable credit, which will report to the next Forum meeting in the Autumn.

The government agrees with the Committee's suggestion that both community development finance institutions (CDFIs) and credit unions could play a greater role in providing affordable credit, particularly for vulnerable members of the community. CDFIs and credit unions provide a valuable service to financially-excluded consumers who are unable access mainstream credit products. However, the sector in the UK is relatively small. A core aim of the Financial Inclusion Policy Forum sub-group will be to consider how CDFIs, credit unions and other social lenders can scale up and serve more people, and the government is committed to working with the CDFI and credit union sector to achieve this aim. One significant barrier to growth for CDFIs and credit unions is access to capital. As announced in the Civil Society Strategy published on 9 August 2018, the government will direct funds for the establishment of a new Financial Inclusion organisation responsible for deploying £55 million of funding from dormant bank accounts, with the primary aim of improving access to affordable credit.

A successful credit union sector would be one where it is as easy to access credit union services as it is to go to a high-cost credit provider. This would require greater public awareness of credit unions and investment in their digital infrastructure. Progress on these two fronts would drive membership and make credit unions able to compete effectively with high-cost credit providers.

Saving for a rainy day

22. **The Treasury and HMRC should study the impact that recent increases in the opportunities for tax relief on savings has had on the scale and distribution of household saving. Any future changes should be justified in terms of the expected outcomes for the level and distribution of saving**. (Paragraph 93)

The government keeps all tax policy under review, and any views expressed to us are carefully considered as part of this process. When considering any changes to the current rules, the government will consider the impact any changes could have on savings income, the Exchequer and the wider savings system.

23. **The Help to Save scheme is a promising approach towards helping lower-income households build precautionary saving. However, at this stage its ambition is limited. The Treasury should make regular written reports to Parliament on the usage of the scheme and its efforts to increase take-up. It should give consideration to widening the eligibility criteria in future**. (Paragraph 94)

The government welcomes the Committee's support for Help to Save. Help to Save is designed and more targeted to better support those on lower incomes; we estimate that around 900,000 customers will open an account over the scheme's lifespan of five years. Help to Save is also about building up a savings habit over a period of time. The trials of Help to Save began in January with working tax credit customers, with the first Universal Credit customers opening accounts at the end of April. The target of 10,000 accounts being opened by the end of April was met, and customers have been very positive about the scheme. Help to Save accounts will be available to all those eligible by October 2018.

The government will continue to monitor and evaluate Help to Save over the life of the service, and has published research which has contributed to the development of the scheme.[2] The government intends to publish data on Help to Save every six months on the HMRC transparency data pages on GOV.UK, and we will ensure these are also provided to Parliament.

24. **The evidence on the merits of sidecar savings schemes is mixed. The Government should examine the results of NEST's trial of sidecar savings, and, if it is a success, assist with a wider trial and rollout, including any necessary legislative changes**. (Paragraph 98)

The government is supportive of initiatives that will enable individuals to better withstand life events that impact on an individual's financial wellbeing. The NEST Insight sidecar trial will last for two years and both the Treasury and the Department for Work and Pensions will examine the results when it concludes.

Saving for retirement

26. **The Committee is concerned by the evidence it has received that this savings gap is particularly large among women. The Treasury should assess what is driving this gap, and what the consequences could be for both individuals and households**. (Paragraph 108)

27. **Auto-enrolment has, to date, been enormously successful. The Government is right to focus on ensuring that existing plans for raising the default contribution rate go smoothly. However, looking beyond that, there is little evidence of a plan, or even an ambition, to reduce further the number of under-savers from its current level of 12 million. If the Government has reasons to think that current levels of under-saving are acceptable, then it should say so and explain why**. (Paragraph 109)

Automatic enrolment has transformed pension participation in the UK, particularly among those who were traditionally less likely to have access to workplace pensions. Many of those benefitting from automatic enrolment were once poorly served or excluded from workplace pensions – including women, low earners and younger people. Over 9.8 million employees have been automatically enrolled into a workplace pension, and more than 1.3 million employers have met their duties as at end of July 2018. The introduction of automatic enrolment has led to an additional 2 million individuals saving enough for their retirement. In addition, the depth of under saving among individuals has reduced as a result of automatic enrolment, with millions more workplace pension savers becoming closer to adequate saving.

Automatic enrolment has helped more women save into a pension, with participation rates broadly equal between men and women for the first time. In the private sector, 81% of eligible men and 80% of eligible women saved into a workplace pension in 2017. This is an increase from 2011 of 37 percentage points for men and 41 percentage points for women. In the public sector, pension participation is equal between the genders at 92%.

2 'Research supporting Help to Save communications', Ipsos Mori, July 2018

The 2017 automatic enrolment review sets out the government's ambition to build on the success of the workplace pension reforms to date. The core proposals are directed at continuing to make saving the norm for young people, by lowering the age for automatic enrolment from 22 to 18. This would bring an extra 900,000 people into automatic enrolment. The proposals also support those with low earnings and/or multiple jobs, many of whom are women, to save more for retirement by removing the lower earnings limit so that their contributions are calculated from the first pound of earnings.

The government's ambition is to implement these changes to the **automatic enrolment** framework in the mid-2020s, subject to finding ways to make the changes affordable, and evidence of the impact of increases in statutory minimum contribution rates in April 2018 and April 2019. The Review proposals centre on improving financial security in retirement for future generations and support the UK's longer term fiscal position – however there are also significant cost consequences which will have to be shared between individual savers; employers and government. In addition to understanding the effects of the increases in contributions, we will carry out further work on the adequacy of retirement incomes, alongside work being done in the private sector around this issue. This will allow consideration of the right overall level of saving and the balance between prompted and voluntary saving in due course. Our discussions with stakeholders during 2018/19 will allow us to build consensus on the direction of travel and develop more detailed plans, recognising all parties need time to plan for these changes, and mindful of the broader economic climate.

28. **There is widespread acknowledgement that tax relief is not an effective or well-targeted way of incentivising saving into pensions. Ultimately, the Government may want to return to the question of whether there should be fundamental reform. However, the existing state of affairs could be improved through further, incremental changes. In particular, the Government should give serious consideration to replacing the lifetime allowance with a lower annual allowance, introducing a flat rate of relief, and promoting understanding of tax relief as a bonus or additional contribution**. (Paragraph 117)

At summer Budget 2015, the government consulted on whether there was a case for reforming pension tax relief to strengthen incentives to save and offer greater simplicity and transparency, or whether it would be best to retain the current system. The four principles used to assess the options were:

- Simplicity and transparency – to encourage greater engagement with pension saving and strengthen the incentive for individuals to save into a pension
- Personal responsibility – so individuals are responsible for ensuring they have adequate savings for their retirement, to encourage them to save during their working lives to meet their retirement aspirations
- Build on automatic enrolment – so individuals are encouraged to save more
- Sustainability – and in addition it should be in line with the government's long-term fiscal strategy.

The consultation showed there was no clear consensus on reforming pensions tax relief in a way that met the four principles set out above. The government is also aware that any changes to the pensions tax relief regime could have significant impacts for pension schemes, employers and individuals. While the government keeps all taxes under review, no consensus for either incremental or more radical reform of pensions tax relief has emerged since the consultation in 2015.

However, the government has made important changes recently. From 6 April 2016 the government restricted the Annual Allowance on tax relieved pension savings for those with an income over £150,000. At the same time, the government reduced the Lifetime Allowance for tax relieved pension savings from £1.25 million to £1 million. In order that this benefit is not eroded over time, in April 2018 the Lifetime Allowance increased in line with CPI, as confirmed at Autumn Budget 2017. This means for 2018–19 the Lifetime Allowance increased to £1,030,000. These changes allow savers to continue to make significant pension savings tax-free, while ensuring sustainability of public funds, and that incentives to save are targeted across society.

29. **This inquiry has received strong criticism of the Lifetime ISA (LISA) over its complexity, its perverse incentives, its lack of complementarity with the pensions saving landscape and its apparent lack of popularity with the industry and pension savers. The Government should abolish it.** (Paragraph 122)

30. **In promoting the LISA to retail investors, the Government has not been clear enough that those withdrawing their money early lose not only the 25 per cent bonus, but also a fraction of their capital. In this respect, the standards of disclosure on the gov.uk website fall far below those expected of regulated firms. The Committee welcomes the Minister's commitment to clarifying the website, but it is deeply disappointed that it has not yet been done, two months after the Minister promised to do so**. (Paragraph 123)

A Lifetime ISA encourages the next generation to get into the habit of saving and helps them to save simultaneously for a first house and for later life, without having to choose one over the other. The government acknowledges the Committee's view, but notes that no evidence was taken from any providers of the Lifetime ISA. Currently 19 providers offer the Lifetime ISA and there are over 190,000 open accounts, on which over £170m has been paid out to date in bonuses. These numbers - which are likely to increase - demonstrate that people welcome the flexibility of the Lifetime ISA to save. This is in keeping with the government's desire to offer people greater choice and freedom in how they save.

The government remains committed to supporting savers of all income levels and at all stages of life for a range of aims, such as saving towards the purchase of a first home, for a rainy day, or for retirement. The Lifetime ISA forms a key part of this support and the government is encouraged that many savers are participating and benefitting from the bonus which the government pays out to support the next generation in the habit of saving.

The government has worked closely with the FCA and Lifetime ISA providers to ensure that their customers are aware of the implications in financial terms of making a chargeable withdrawal.

The government has published factual information about the Lifetime ISA on GOV.UK, and has worked with the Money Advice Service to ensure appropriate and impartial information is available, including on how the withdrawal charge is applied. Following his appearance before the Committee, the Economic Secretary to the Treasury wrote to the Committee outlining amendments to the withdrawal charge explanation which would be undertaken. Amendments have now been made to the Lifetime ISA campaign website (https://lifetimeisa.campaign.gov.uk) and to the GOV.UK website.

31. **While maintaining its focus on keeping opt-outs from automatic enrolment low during the rise in the contribution rate to 8 per cent, the Government should start considering the options for raising contribution rates for at least some people beyond that point, potentially by automatically escalating individual contribution rates in line with pay rises. This option and any alternatives should be analysed at the next automatic enrolment review**. (Paragraph 126)

32. **There is an urgent need to bring the self-employed into the automatic enrolment system, but it is not clear that the Government has a clear strategy or timetable for doing so. According to the evidence received by this inquiry, the most straightforward solution would make use of self-assessment and national insurance contributions. The Treasury should keep an open mind towards doing so, and the possibility should be analysed as part of the next automatic enrolment review**. (Paragraph 131)

33. **The Government has committed to maintaining the triple lock on the state pension to the end of this Parliament. If it is maintained in the longer term, the state pension will rise relative to earnings indefinitely. This is clearly unsustainable. However, according to the Government's analysis, replacing it with earnings-uprating could result in a large rise in the number of under-savers. The next auto-enrolment review should explore the options for making up with private savings the shortfall that could result if the triple lock were abandoned in future**. (Paragraph 136)

The government is closely monitoring the impact of the phased increases in statutory minimum contributions and will carry out further work on the adequacy of retirement incomes. Our approach is to use this evidence to look again at the level of contributions into workplace pensions and the balance between prompted and voluntary saving, though we recognise that there is no consensus about future contribution rates, and whether, when and to what level they could increase.

The 2017 automatic enrolment Review considered the scope for behavioural tools, including auto-escalation and 'Save More Tomorrow'. There is evidence that these techniques can be effective where implementation has involved bespoke intensive employer engagement, and in the context of an overall employee benefits package. There are, however, significant delivery challenges with implementing such techniques at scale, and the current evidence-base for these interventions remains limited. The government's view is that while these behavioural tools would not be appropriate at this stage of automatic enrolment, they remain potential options for the future. It is important that we understand the effect of the current contribution rate increases before committing to any further burdens on individuals or employers. We will continue to consider new evidence and will keep this area under review over the longer term.

The December 2017 automatic enrolment Review highlighted the diversity of the 4.8 million people who classify themselves as self-employed. It also concluded that there is no single or simple and straightforward mechanism to bring them into workplace pension saving, and that not all self-employed people need help to save for retirement.

The government has committed to work towards its manifesto commitment by using the insights and learnings from automatic enrolment to find an effective alternative approach or approaches for self-employed people. We are looking at a range of approaches and will provide more information about the trial areas later this year, following our current feasibility work. We will also start testing targeted approaches from 2018 to help the self-employed save for retirement with the aim of establishing what works to facilitate pension saving for the self-employed. We will then use the evidence from these to inform implementation options, including consulting on specific proposals arising from proof of concept/trial evidence prior to any changes to legislation.

Triple Lock uprating of the State Pension requires that State Pensions are increased each year by the highest of the growth in earnings, prices or 2.5%. This has lifted the incomes of millions of older people and played a part in reducing pensioner poverty to historically low levels. Since the introduction of the Triple Lock in 2011–12, the average pensioner household has seen their income after housing costs increase by 8.7% above the rate of inflation. Pensioner incomes are at record levels at £307 per week. The government has committed to keep the Triple Lock in place for the rest of this Parliament.

The government recognises the risk of people undersaving. That is why the government is committed to enabling more people to save, so that they can enjoy greater security and independence when they retire. Workplace pension saving is now becoming the norm for a generation of workers, though others find alternative products, like the Lifetime ISA, also helpful in saving for their later life.

Planning for retirement after pension freedoms

34. **The present level of many people's engagement with and understanding of the choices available to them as a result of pension freedoms is inadequate. One approach to improving this situation is to encourage more people to take up the advice or, at a minimum, free guidance options available to them**. (Paragraph 144)

35. **In consultations over how it will allocate its budget and priorities, the Single Financial Guidance Body (SFGB), together with the Government, should consider how a mid-life MOT could be introduced, and develop proposals for increased outreach work to engage people with pensions planning. The FCA should consider the case for introducing a strong form of default guidance before people are allowed to access their pension pots. Finally, the Government should make a cross-departmental effort to identify opportunities to "nudge" people towards pension guidance at life events where they interact with the public sector**. (Paragraph 145)

36. **The Committee remains to be convinced that the SFGB should not be under Treasury lead sponsorship in future, particularly given the continuing shift from defined benefit to defined contribution pensions. The Government should keep the SFGB's sponsorship under review. In the meantime, the Committee intends to take a close interest in the SFGB and scrutinise it in a similar way as it does Treasury-sponsored bodies**. (Paragraph 147)

The government recognises the importance of people being able to access affordable financial advice from private sector providers. The Financial Advice Market Review (FAMR) was launched in 2015 to explore how the financial advice market could work better for consumers, including the market for pensions advice. In March 2016, FAMR announced a package of 28 recommendations, including the creation of a new set of rules of thumb and principles for nudges that can prompt people to take action to improve their financial well-being which is being taken forward by the Money Advice Service. Both the government and the FCA have now implemented all the recommendations made to them, barring the review of outcomes due in 2019.

The Financial Guidance and Claims Act 2018 enables the creation of a new guidance body which will bring together the services provided by the Money Advice Service, the Pensions Advisory Service and Pension Wise, to simplify the existing public financial guidance landscape and provide a more joined-up offering for consumers. The new single financial guidance body (SFGB) will make it easier for people to access information and guidance and help them make effective financial decisions, including about their pensions.

The government agrees with the Committee that enabling individuals to undertake a holistic stocktake, assess their health and wellbeing, skills and finances, and plan for a financially secure future in combination is essential. The government is already working with employers like Aviva, who are trialling a mid-life MOT, as well as with other stakeholders, to build an evidence base.

The government welcomes the Committee's commitment to take an active and continued interest in the SFGB once it is formally launched. DWP and Treasury ministers agreed that a single government department needed to be named as the sponsor for the SFGB to ensure clear and transparent accountability, and subsequently decided that DWP was best placed to take on this this role. This decision was informed by a number of considerations and stakeholders, including responses to the government consultation on the SFGB, the Farnish Review and the Treasury Select Committee. The decision on sponsorship does not change departmental policy responsibilities; the Treasury retains its existing policy responsibility for financial capability, financial inclusion and consumer debt, and DWP retains its policy responsibility for pensions. Both departments expect to work closely with the SFGB on these issues.

37. **The level and quality of consumer protection and default investment pathways associated with pension freedoms do not appear sufficient at present. There are associated concerns that scams are appearing and evolving faster than regulators and guidance bodies can adapt. The Government should be actively involved in working with the FCA and the guidance bodies to identify opportunities to enhance consumer protection and introducing default pathways to ensure that people do not make poor choices in retirement. It can start by responding to the FCA's suggestion that it consider allowing people to access their tax-free cash separately from the rest of their pensions**. (Paragraph 154)

38. **It is desirable for individuals to be able to insure against risks over which they have little control, including longevity risk. The introduction of pension freedoms—and the associated sharp decline in demand for annuities—may have reduced the extent and effectiveness of collective longevity risk pooling in the retirement market. It has been suggested that retirees will instead choose to purchase annuities at later points in their lives than they did before pension freedoms, which could offset some of the reduction in risk pooling. If this is correct, we can expect to see a partial recovery in annuity**

sales going forward. The Government should monitor this situation as it evolves, and may need to intervene in future if evidence of sufficient risk pooling does not emerge. (Paragraph 158)

The government wants to see a competitive, innovative retirement market which works well for consumers. We continue to work closely with the FCA, industry and consumer groups to ensure that customers are treated fairly and benefit from appropriate protections. On investment pathways, the government agrees with the FCA in its Retirement Outcomes Review that a single default investment pathway would not be appropriate; there is insufficient evidence at this time to suggest a common default pathway would be suitable for the majority of people. Offering consumers a selection of simple investment pathways could provide them with better support in making choices about their retirement planning. The FCA has been seeking further views on the design of investment pathways before the launch of a consultation in January 2019, and we look forward to seeing the feedback from that exercise.

On pension scams, in 2015 the government established Project Bloom, a cross-government taskforce that brings together law enforcement, government and industry to share intelligence, raise awareness of scams through communication campaigns, and take enforcement action where appropriate. This intelligence sharing has led to a number of successful criminal convictions. The government also created the power to make secondary legislation to ban pensions cold calling through the Financial Guidance and Claims Act 2018 and has recently launched a short technical consultation on a set of draft regulations which closed on 17 August. In July, the Economic Secretary to the Treasury confirmed that once the government has considered all responses to the consultation, it intends to lay regulations under the affirmative procedure in the autumn, subject to parliamentary approval, and bring the regulations into force as soon as possible thereafter.

Ensuring people are able to make informed decisions about their pension savings should also help protect them from scams. We introduced requirements in the Financial Guidance and Claims Act 2018 to ensure that when someone seeks to access their defined contribution pension pot, they are referred to guidance provided by the SFGB and told what the nature and purpose of that guidance is. Before proceeding with an application, schemes must ensure that the person has either received guidance from the SFGB or has explicitly opted-out of receiving the guidance. FCA rules and government regulations will specify how, and to whom, the member must confirm that they are opting out. This allows for the opt-out process to be separated from schemes. Rules and regulations will set out the detail of the opt-out process based on the evidence of what helps people take up guidance. These measures help ensure that savers considering their options under the pension flexibilities can access the information and guidance they need to help them make effective decisions and avoid falling victim to pension scams.

The FCA's Retirement Outcomes Review said that the government should consider the merits of 'decoupling' the decision to take a tax-free lump sum from the need to transfer out of an accumulation product and buy a product with a drawdown feature. However, the FCA also recognised that this type of change to the pensions tax system could create significant practical challenges and complexity. Recent changes to pensions taxation have allowed people more choice over how they access their defined contribution pension savings. All aspects of the tax system are kept under review via the annual Budget process.

The pension freedoms were designed to give people more choice, to provide them with greater flexibility in later life and to enable a more competitive, innovative retirement market. It is therefore right that consumers are able to take their own decisions about their income in retirement, including deciding whether to purchase an annuity. As the committee highlights, people may choose to utilise the pension freedoms to purchase annuities at a later stage than previously and it may be that a blended solution, offering a combination of an annuity and drawdown, is appropriate for those consumers. Working with the FCA and industry, we will continue to monitor developments in the annuity market, including the impact on collective longevity risk pooling.