



House of Commons
Work and Pensions Committee

Pension freedoms: Government response to Committee's Ninth Report

**Tenth Special Report of Session
2017–19**

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Work and Pensions Committee

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Tenth Special Report

The Work and Pensions Committee published its Ninth Report of Session 2017–19, [Pension freedoms](#) (HC 917) on 5 April 2018. The Government response was received on 11 June 2018 and is appended to this report.

Appendix: Government Response

Introduction

The Government welcomes the Work and Pensions Select Committee's ninth report of Session 2017–19, which the Committee produced following its inquiry into whether pension reforms are achieving their objectives. In its report, the Committee recommended a range of measures relating to pensions freedoms. This document sets out the Government's response to the recommendations made by the Committee, which are addressed in turn.

Recommendation 1 – Objectives of the freedoms

If the Government does not know the intended effects of its policy, it cannot make informed adjustments to improve its operation. We recommend that the Government sets out in response to this report (a) what the long-term objectives of pension freedoms are and (b) how it will monitor and report on performance outcomes against those objectives.

When the Government consulted on the proposed pensions freedom and choice reforms in 2014, it set out its rationale and high-level objectives for the reforms.¹ The introduction of pensions freedoms was a response to the changing shape and nature of retirement. Individuals are living longer and many are choosing to remain in the workplace past 65, meaning their income needs are no longer as consistent throughout retirement. Pensions freedom and choice gave people much more choice about how and when they access their defined contribution pension savings so they can manage their finances to suit their individual circumstances.

In line with the objectives set out during the consultation on and introduction of the pensions freedom reforms, the Government sees the key priorities for pensions freedoms as:

1. Giving people more choice to provide them with greater flexibility in later life;
2. Supporting consumers to make informed decisions about their retirement; and
3. Enabling a more competitive, innovative retirement market.

The achievement of these objectives will mean that individuals will be able to plan for and design a secure retirement that meets the needs they themselves have identified.

The pension freedoms took effect in April 2015. Although the reforms have proven popular so far, with over 3.7 million transactions in the first three years of the policy, it is clear that

¹ HM Treasury, Freedom and choice in pensions, March 2014: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/294795/freedom_and_choice_in_pensions_web_210314.pdf

the ways that both consumers are engaging and the market is developing will continue to evolve.² In particular, the Government recognises that innovation in the retirement market may take some time to develop as new trends emerge. The Government recognises that it will need to continue to assess changes in retirement trends, as more individuals have a higher proportion of their savings in defined contribution schemes.

The Government monitors the impact of Pension Wise in providing support to individuals making decisions about their retirement savings. Service usage data is published monthly on its performance platform.³ In addition, an independent service evaluation carried out by Ipsos Mori showed customer satisfaction with Pension Wise at 94%. This study also showed that 97% of customers either already had, or said they were likely to, recommend Pension Wise to others. Over nine in ten appointment customers (93%) felt informed of their pension options after their Pension Wise appointment and 94% also felt confident in their ability to avoid scams. Given the success of Pension Wise, the Government will be taking steps to encourage more take up, building on the requirements in the Financial Guidance and Claims Act.

The Government also monitors the retirement market using data from a number of sources. As stated in the Government response to the Work and Pensions Committee's first report of session 2015–16, a working group coordinates data collection following the pension freedoms. The group comprises regulators, arms-length bodies, industry and consumer representatives, and performs an advisory function to help government departments identify key indicators that need to be captured, to better understand how individuals are accessing their savings and industry is responding to the freedoms.⁴ The group will next meet in July to discuss the outputs from the FCA's Retirement Outcomes Review final report.

HMRC publishes a quarterly statistical release detailing the number of transactions using pension flexibility and the amount of money withdrawn. This allows the Government to assess the extent to which individuals are accessing their pensions flexibly.

Since the introduction of the pension freedoms the FCA has been collecting retirement income data from pension, annuity and income drawdown providers. This allows the FCA to track market trends and monitor the potential for consumer harm in the retirement income market. The FCA is currently also undertaking a review to assess how the market is evolving and to address any emerging issues.

Recommendation 2 – Default investment pathways

Pensions can seem distant and daunting. Faced with bewildering complexity, many people simply switch off. By harnessing that disengagement to default people into pension saving, automatic enrolment has been a tremendous success. Accumulation of a DC pension can be passive. Decumulation of that pension, however, is currently active: individuals must actively choose what to do with their savings. The Government

2 HM Revenue and Customs, Flexible payments from pensions: April 2018, April 2018: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/702624/Pensions_Flexibility_Apr_2018.pdf

3 Pension Wise performance dashboard: <https://www.gov.uk/performance/pension-wise>

4 HM Government, Pension freedom guidance and advice: government response to the Work and Pensions Committee's first report of session 2015–16, December 2015: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/486158/WPSC_response_final_web.pdf

hoped that a competitive and innovative market would meet consumer needs. There is little evidence of this: too many drawdown customers are not shopping around and do not understand their options for investing their savings. They are reliant instead on getting a good deal from their existing provider. The success of automatic enrolment in overcoming market failure in the accumulation phase offers a template for strengthening pension freedoms in the decumulation phase. People would still be free to choose to invest and spend their own money as they wished. But if they did not make an active choice, they would move into a suitable and regulated default product.

We recommend the Government takes forward FCA proposals to introduce default decumulation pathways. Any provider offering drawdown would be required by FCA rules to offer a default solution that is targeted at their core customer group. The same charge cap that applies to automatic enrolment schemes, 0.75%, should apply to default drawdown products. Similarly, the remit of Independent Governance Committees to scrutinise value for money in the accumulation phase should be extended to default drawdown products. These protections should be in place by April 2019.

Within the context of enabling freedom and choice, the Government is clear that it is important to support individuals in making decisions for their retirement. To help people make the decisions that are right for them, the Government set up Pension Wise alongside the freedom and choice reforms.

Pension Wise provides free and impartial guidance to people aged 50 years and over with a defined contribution (DC) pension, to help them understand their options. In an appointment, Pension Wise guidance specialists discuss what people can do with their pension pot(s), explain how to shop around and what to look out for with regard to tax, fees and scams. The Government is creating a new single financial guidance body via the Financial Guidance and Claims Act, which received Royal Assent on 10 May 2018. This will make it easier for people to access information and guidance about their pensions.

The Government will work with the FCA and the pensions industry to test new ways of delivering a stronger final nudge towards guidance. The evidence of what works will inform the rules and regulations that will be made by the FCA, the DWP and the DfC NI, in consultation with the new single financial guidance body that will stipulate how pension holders will be referred to guidance when they seek to access their pension savings. This evidence based approach is aimed at moving towards a position where taking pensions guidance becomes the default option for those who are accessing their pension savings.

The Committee recommends the Government take forward FCA proposals to introduce default decumulation pathways. The Government notes that the proposals explored by the FCA in its interim report of the Retirement Outcomes Review differed somewhat from the Committee's recommendation: the FCA's emphasis was on consumers actively choosing particular retirement outcomes and providers being encouraged to offer pathways to suit those choices.

The Government is, at this stage, not convinced of the merits of default decumulation pathways and is concerned that measures to require individuals to be placed into

particular products would be inconsistent with the freedom and choice reforms. The pension freedoms have deliberately moved away from the idea of defaulting individuals into a single product, namely annuities.

There is insufficient evidence to suggest a common default pathway would be suitable for the majority of people at this time, particularly given that most people reaching retirement with DC savings now and in the coming years will also have other retirement provision to take into account in their planning. Pension providers necessarily have a limited view of their customers' financial position. The FCA noted in their response to the Committee that "consumers' needs and circumstances differ significantly in decumulation, so a default pathway may not be appropriate for all of them."⁵

There is, however, a need to ensure that when consumers do exercise a choice to access part of their savings, what happens to their remaining savings is both understood and treated appropriately. We await the publication of the FCA's final Retirement Outcomes Review in summer 2018 in order to consider fully its proposals on decumulation pathways, a charge cap on decumulation products and extending the role of Independent Governance Committees.

Ensuring that consumers have freedom and choice about how to use their retirement savings is a key priority for the Government, so that consumers are able to make the decisions that are right for them and are empowered to manage their income in retirement. The Government will continue to engage with the FCA, industry and consumer groups, to ensure that customers are treated fairly and benefit from appropriate protections.

Recommendation 3 – NEST decumulation products

We recommend that the Government allows NEST to provide decumulation products from April 2019, provided it remains assured of NEST's ability repay its start up loan. This should include establishing a default drawdown pathway, in line with our wider recommendation. In keeping with the spirit of pension freedoms, savers would remain entitled to move their money wherever they wished.

The Government agrees that NEST members should have the same choices and simple access to pension freedoms as members in other workplace pension schemes, consistent with its broader objectives concerning pension freedom and choice.

As of 31 March 2018, NEST over 6.4 million members, the scheme is used by over 600,000 employers, and it had £2.7bn in assets under management. As the Committee notes, the government provides NEST with a loan facility. On the current projection, NEST is expected to break even in 2027 and to have repaid the loan in 2039.

NEST can already offer a range of decumulation services, consistent with the opportunities offered to members of other schemes. For example, if retiring today, their members can take their full pot as cash; take a portion (or several lump sums, over time) of their pot as

5 Financial Conduct Authority, *Letter from the Financial Conduct Authority to the Chair in response to the Committee's reports on Pensions Freedoms and British Steel Pensions Schemes*, May 2018: <https://www.parliament.uk/documents/commons-committees/workand-pensions/Correspondence/180504-Letter-from-FCA-responding-to-Pension-Freedoms-and-British-Steel-Pension-Scheme-reports.pdf>, p.3

cash, keeping their accumulation pot open and continuing to save; they can also transfer the cash equivalent of their pot to another pension scheme, subject to certain conditions; or they can purchase an annuity on the open market.

Today, NEST members typically have relatively low balances, as do the majority of members of other automatic enrolment pension schemes. As such, most NEST members remain likely to choose to access their pots as cash at retirement. This is also consistent with their peers with similar-sized pots in other automatic enrolment schemes. However, as contribution levels rise across schemes those pots will reach a level at which members may wish to consider turning some or all of their savings into income – particularly where they choose to consolidate several savings pots into a single scheme, be that NEST or another scheme.

There have been interesting recent indications of supply-side developments among certain automatic enrolment pension providers, which have announced they expect to offer a fuller range of flexible decumulation services.

The Government's view is that NEST members should be able to access appropriate retirement solutions so that they can transition seamlessly from saving to decumulation. If the market does not provide suitable low-cost solutions aimed at small savers that NEST members are able to access easily and meets their needs, then there could be a case for NEST to provide such solutions directly. The Government will consider the findings of the FCA's Retirement Outcomes Review with interest in this respect.

As stated in the call for evidence response, were Government to reconsider NEST's role in providing a fuller range of decumulation services, it would first need to be satisfied that this decision was consistent with the principles set out in that call for evidence, which balance the needs of NEST employers and members and the sustainability of NEST itself with a concern to ensure that NEST continues to have an overall positive effect on the market.⁶ Any assessment would include supporting competition and promoting innovation, choice and value. The Government will continue to keep this under active review, and will act if necessary so that the needs of NEST members are met in line with the growth in demand.

Recommendation 4 – Requiring pension passports

Pension passport trials show that simplified, one-page communications can increase member engagement with their pension options. Such simple and easily achievable improvements can complement more ambitious digital measures. **We recommend that the FCA and The Pensions Regulator (TPR) require all pension providers to issue one-page pensions passports as part of their pre-retirement communications with members. The FCA and TPR should work together to produce a template best practice passport by June 2018.**

The Government fully endorses the Committee's intention to increase people's engagement with their pension options. The Government is keen to work with industry to ensure that member communications are provided in a clear and effective format and at the appropriate time to prompt and enable people to plan for retirement. However, any

6 Department for Work and Pensions, NEST: Evolving for the Future, March 2017: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/596995/government-response-nest-evolving-for-the-future.pdf

timetable for introducing a more simplified, clear and effective format must take account of industry's measures for improving member engagement, including those responding to the final recommendations of Financial Conduct Authority's Retirement Outcome Review, which is due to report later in 2018.

Like the Committee, the Government was encouraged by the results reported by the Behavioural Insight Team in October 2017, following its randomised controlled trial of pension passports. BIT found 'strong evidence pointing to the value of a passport-like simplification.' While BIT concluded that the Pension Passport trial showed particularly promising results, it noted that many design questions remain open, and proposed that further trials be run to resolve these.⁷

Work is already underway to consider how more consistent pension communications can be delivered. The Automatic Enrolment Review 2017 noted that the role of the annual benefit statement has been highlighted as a missed opportunity to communicate to people about their pension saving in a simple, regular way.⁸ Joint work with industry to devise a simple and accessible two-page annual benefit statement was undertaken in the course of the 2017 Review, and a draft template was published in the report at Annex 5. Further work to refine this and to drive uptake is being led as an industry-wide initiative by Ruston Smith, with an updated template expected to be available in the autumn. This work aims to drive greater consistency for members across providers and to help increase engagement with their pension savings over a longer timeframe. A simplified statement may also provide a useful input to the pension dashboard, on which DWP is carrying out a feasibility study for release shortly. The Government believes that that this is consistent with the Committee's recommendation and is a proportionate way forward.

The Government recognises that the FCA's Retirement Outcomes Review final report is also considering the question of passports and simplified member communication, and it has fed in to that work accordingly. We look forward to the Retirement Outcomes Review final report and will continue to work with FCA to ensure any changes to member communication can operate appropriately for both contract based and trust based schemes.

Mid-Life MOT

There is a clear consensus on the need to increase consumer engagement with pensions well before retirement. A mid-life MOT at age 50, giving someone time to reassess their approach to retirement saving, is a good idea. Where firms and providers are open to providing such an option, this is to be welcomed, and we would encourage individuals to make use of them. Experience suggests, however, that take up will be mediocre at best, and there is no obvious mechanism for nudging people towards them. The introduction of mid-life MOTs should not be mistaken for something likely to have a transformative effect on consumer behaviour.

The Government agrees with the Committee that enabling individuals to take stock and assess their health, skills and finances, and plan for a financially secure future, is crucial.

7 The Behavioural Insight Team, *Improving engagement with pension decisions: The results from three randomised controlled trials*, October 2017: <http://38r8om2xjhh125mw24492dir-wpengine.netdnassl.com/wp-content/uploads/2017/10/Pension-wise-trials.pdf>, p.32

8 Department for Work and Pensions, *Automatic Enrolment Review 2017: Maintaining the Momentum*, December 2017: https://assets.publishing.service.gov.uk/Government/uploads/system/uploads/attachment_data/file/668971/automatic-enrolment-review-2017-maintaining-the-momentum.PDF, p.81

The Government is already working with employers like Aviva, who are already trialling a mid-life MOT, as well as other stakeholders, to build an evidence base. These findings will be used to inform testing this year.

Recommendations 5 & 6 – Pensions dashboard

The case for a publicly-hosted pensions dashboard is clear cut. Consumers want simple, impartial, and trustworthy information. We recommend that the Government introduces a single pensions dashboard, hosted by the forthcoming new single financial guidance body, funded by the industry levy and in place by April 2019.

The Government shares the Committee's belief that the interests of consumers must be at the heart of a pensions dashboard. The importance of trust is a theme that runs throughout the user research surrounding dashboards. The Government's review of existing user research found that users were wary of being sold to or having their data misused, and expressed a preference for government involvement in a dashboard.

The existing research also found that the idea of multiple dashboards confuses users, and that it was unclear how their data could be kept secure in this scenario. The Government's own user research echoed these findings, but in addition found that some people might trust a dashboard service if it were offered by their own bank. The Government is considering how a dashboard service can meet the various needs of a range of consumers.

The Government will set out its conclusions on this as part of its feasibility report to be published in due course.

For a dashboard to succeed in its objectives, it needs to include the full range of pensions: state, DC and DB. While we acknowledge the challenges faced by some DB schemes in getting their systems in order, it is essential that they participate. We recommend the Government mandate all pension providers to provide necessary information to the pensions dashboard. To enable smaller legacy DB schemes sufficient time to comply, we recommend that Government consult with TPR on an implementation timetable. This should ensure that at least 80% of all DB pensions are visible on the dashboard by April 2019, with the remainder to follow.

The Government agrees with the Committee's view on phasing in scheme participation to enable, for example, smaller legacy DB schemes sufficient time to get their data in order. User research and international evidence present a strong case for comprehensive coverage and compulsion. The Government will consider coverage and legislation in the feasibility report.

Recommendation 7 – Review of automated advice

Financial advice will not be for everyone, particularly those with the smallest pots, but more people would benefit from accessing high quality, independent advice before deciding how to invest their life savings. There is a clear role for automated services in providing cheaper advice. Public scepticism as to whether it is reliable and trustworthy must first, however, be addressed. This is best done through empirical evidence. We recommend the FCA conduct and publish a review comparing consumer outcomes from face-to-face and automated advice.

The Government is committed to supporting a market for financial advice which is both affordable and accessible. That is why the Treasury and the FCA launched the Financial Advice Market Review (FAMR) in August 2015. One of FAMR's recommendations was that the FCA should establish an Advice Unit to help firms develop their automated advice models to serve a gap in the market for affordable financial advice. The FCA set up the Advice Unit in May 2016. Since the Unit was established, it has provided support to 22 firms looking to bring innovative new propositions to market.

The Government recognises the importance of ensuring that consumer outcomes from face-to-face and automated advice are of a high standard – and it's important that customers have reliable information available to help them choose the most appropriate service for their needs. The FCA are preparing for their next 'Assessing Suitability' Review which will assess the suitability of advice provided by firms over the course of 2018. The Review will be published in 2019 and is likely to include a review of the outcomes of automated advice services relative to face-to-face advice. The Government supports the FCA in its work to ensure high standards of consumer outcomes across all firms, and a market for financial advice which is affordable and accessible.