House of Commons

Work and Pensions Committee

Pension costs and transparency

Twenty-Ninth Report of Session 2017–19

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 24 July 2019

HC 1476
Published on 5 August 2019
by authority of the House of Commons

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.

Current membership

Frank Field MP (*Independent, Birkenhead*) (Chair)

Heidi Allen MP (*Independent, South Cambridgeshire*)

Jack Brereton MP (*Conservative, Stoke-on-Trent South*)

Neil Coyle MP (*Labour, Bermondsey and Old Southwark*)

Rosie Duffield MP (*Labour, Canterbury*)

Ruth George MP (*Labour, High Peak*)

Steve McCabe MP (*Labour, Birmingham, Selly Oak*)

Nigel Mills MP (*Conservative, Amber Valley*)

Anna Soubry MP (*The Independent Group for Change, Broxtowe*)

Chris Stephens MP (*Scottish National Party, Glasgow South West*)

Derek Thomas MP (*Conservative, St Ives*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the publications page of the Committee's website and in print by Order of the House.

Evidence relating to this report is published on the inquiry page of the Committee's website.

Committee staff

The current staff of the Committee are Anne-Marie Griffiths (Clerk), Stuart Ramsay (Second Clerk), Libby McEnhill and James Mirza Davies (Senior Committee Specialists), Kemi Duroshola (Committee Specialist), Esther Goosey (Senior Committee Assistant), Michelle Garratty (Committee Assistant) and Jessica Bridges Palmer (Senior Media and Policy Officer).

Contacts

All correspondence should be addressed to the Clerk of the Work and Pensions Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 8976; the Committee's email address is workpencom@parliament.uk

You can follow the Committee on Twitter using @CommonsWorkPen

Contents

Summary

Transparency has long been a cause of concern for the pensions industry, both for individual savers and for those managing pension schemes. The Government and regulators show welcome signs of being alert to these concerns and are making positive steps towards remedies. There should, however, be no cause for complacency.

Workplace pensions

Defined contribution pension schemes

The charge cap on default defined contribution pension schemes, introduced in 2015, does not appear to have had the negative impacts some had predicted. But not all charges are covered by the cap and the full extent of charges outside the cap is not known. This makes it impossible to know how well the cap is working in practice. Within the charge cap, pension savers can face wildly different outcomes—some with small dormant pension pots could see their savings completely wiped out through Government-permitted flat fee charging structures.

Defined benefit pension schemes

In most cases, members of defined benefit pension schemes should not be directly impacted by the costs or investment decisions of their scheme. But poor decisions on costs or investments may in some cases lead to an underfunded scheme, which can have negative consequences for scheme members. There is no reason for there to be a lower level of scrutiny by trustees of defined benefit schemes than there is for defined contribution schemes.

The role of Trustees and Independent Governance Committees

We have received worrying evidence that some trustees are making investment decisions without a clear understanding of how much those decisions cost. Proposals to address this through disclosure templates developed by the industry are welcome. However, we are not convinced that there are sufficient incentives to achieve a high take up through voluntary disclosure alone. Industry involvement is important to ensure that policies work in practice—but the overall drive and direction must come from the Government and regulators. The Government and regulators should not wait for the industry to fail to act voluntarily as they have so many times in the past.

We fully recognise that value for money is not solely about costs, but costs inevitably form an important part of the equation. Complexity and layers of intermediaries mean that many trustees do not have access to suitable information to make judgements about the costs of managing their schemes. Without an agreed definition of value for money it is not possible to make effective comparisons. Schemes should clearly communicate their interpretation of value for money, and how it will be achieved, to their members.

The Competition and Markets Authority's Investment Consultants Market Investigation final report, published during the course of this inquiry, has welcome proposals to address conflicts of interest and cosy relationships between schemes and asset managers and to ensure that trustees are actively seeking value for money.

Investment strategies

While we have not received compelling evidence that higher-cost providers provide better performance, there are justifiable reasons for some schemes using them. We are encouraged that the Minister for Pensions and Financial Inclusion is seeking solutions to better enable pension schemes to invest in infrastructure and other illiquid assets whilst not fundamentally undermining the charge cap.

Providing transparency to individuals

Pensions dashboard

A government-backed pensions dashboard will be a welcome, if overdue, additional tool to provide transparency to individuals and help them plan how they use their pension funds. The Government must now take a leading role in the delivery of the project to ensure consumers get the full benefits. We accept that for a pensions dashboard to be launched in a timely manner, it will necessarily be limited at the outset. This should not be at the expense of the launch excluding any key data on an individual's pension savings, including personal State Pension projections.

Advice and guidance

The pension freedoms had two important components: the right to choose and the guarantee of guidance to ensure that the choice is an informed one. Pension Wise has been successful in delivering guidance to its customers, but too few people are using the service. The new Money and Pensions Service will need to outline how it will increase the number of people using Pension Wise.

We welcome the FCA's proposals to introduce a set of investment pathways for decumulation products, in line with the recommendation we made in our 2018 report on pension freedoms. These investment pathways must not become a substitute for guidance, which is still required to help individuals determine which product is right for them.

In our Pensions Freedoms report we also recommended a 0.75% charge cap on these pathways. The FCA told us that it would prefer first to see if market-consistent tools work and then, only if those fail, to introduce a charge cap. This conversation is a near repeat of those our predecessor Committees had with the FCA about schemes used for automatic enrolment savings, which are now the subject of a charge cap. The FCA would send a simpler message to the industry if it just set a charge cap now for investment pathways, rather than issuing vague threats to the industry.

Many Independent Financial Advisers provide good value for money to their pension customers. However, the number of people paying for good value advice is low. People who are not able to access good advice need guidance and effective protection from pension scams, which can have life changing impacts. Scams not only harm individuals but also cause wider damage to the industry by discouraging potential savers. Scams are not a necessary consequence of the pension freedoms.

We and our predecessor have twice asked the Government to improve its monitoring and reporting on progress of the pension freedoms and default guidance, yet there remains an absence of a regular authoritative assessment of the policy. We hope for success at the third time of asking.

Net pay versus relief at source

In 2019/20, those with earnings below the personal allowance and contributing at statutory automatic enrolment rates will see a difference of around £65 per year between net pay and relief at source tax relief arrangements. Over a lifetime of pension saving this will be a significant amount to many people and a significant proportion of their pension savings built up through automatic enrolment. The Government says that it would cost too much to put this right. In doing so, it risks damaging faith in the system, by perpetuating arrangements which cause individuals to lose noticeable sums through decisions they did not make.

Introduction

1. Transparency about costs, investments and choices has long been a cause of concern for the pensions industry, both for individual savers and for those managing pension schemes. The Government and regulators show welcome signs of being alert to these concerns and are making positive steps towards remedies. Nevertheless, there remains some way to go.

2. For individuals, recent years have seen a rapid rise in enrolment in workplace pension schemes, creating millions of new retirement savers. The pension freedoms, introduced in April 2015, gave people aged 55 or over far greater freedom over how they access their defined contribution pension pots. These freedoms have spurred a sharp increase in demand for drawdown products, and there has also been a surge in transfers out of defined benefit schemes, with funds principally moving into self-invested personal pensions (SIPPs). Our report on the British Steel Pension scheme found that scheme members were 'shamelessly bamboozled' by advisers and the unregulated introducers who set up the appointments into signing up to ongoing adviser fees and unsuitable pension products and investments, characterised by high investment risk, high management charges and punitive exit fees.[1]

3. These developments have intensified concerns about the effect of investment management charges, transaction, advisory and other intermediation costs, in eroding the value of individuals' savings. These are part of broader concerns that low levels of customer engagement and understanding, coupled with costly and opaque intermediation, risk leading to poor outcomes for pensioners.

4. The governance arrangements for pension schemes vary across the industry. Many schemes are governed by trustees, who may be individuals or organisations. The experience of trustees ranges from professional trustees acting for many schemes to member or employer nominated trustees often acting for only the one. Trustees have a duty to act prudently, responsibly and honestly, as well as impartially in the best interest of the scheme's members.

5. Trustees and others managing pension schemes need transparency to understand the costs of managing the funds they are responsible for. It is important for those groups to demonstrate whether or not they are delivering value for money in a way which can be compared across the industry and is accessible to the scheme members. But our inquiry has found that some trustees simply don't know the true scale of the costs that they are incurring.

6. Against this backdrop, we asked the two Ministers responsible for these policy areas to give the pensions industry a mark out of ten for transparency. The Economic Secretary to the Treasury gave the industry a score of seven out of ten[2] and the Minister for Pensions and Financial Inclusion a score of eight.[3]

7. **There should be no cause for the complacency about the pensions industry's performance on transparency that was evident in the ratings the Ministers gave it. We are not convinced that any part of the industry scores above half marks on transparency.**

1 Work and Pensions Committee, Sixth Report of Session 2017–19, British Steel Pension Scheme, HC 828, February 2018, para 50

2 Q227

3 Q229

1 Workplace pensions

Defined Contribution Pension Schemes

8. In a defined contribution (DC) pension scheme, an individual builds up an investment pot through contributions made by them and their employer. The value of the investment pot will change depending on returns, losses and charges. The individual carries the "funding risk" of these changes in value and their employer will not cover any losses in the event that the value of the investment pot falls. At retirement, individuals can turn the value of their investment pot into an income through options such as annuities (insurance products guaranteeing an income) and drawdown (withdrawing a proportion of the investment pot as cash).

9. Membership of DC schemes, already increasing, has increased significantly since automatic enrolment started in 2012 for the largest employers. Since February 2018, it has been compulsory for all employers automatically to enrol all eligible workers into a workplace pension scheme. In January 2019, the number of eligible jobholders enrolled into an automatic enrolment pension scheme rose above 10 million for the first time.[4]

10. Pension providers are able to charge individuals for holding their investment pots. No cap on charges was set at the outset of automatic enrolment, but the Pensions Act 2008 allowed the Department for Work and Pensions (DWP) to set a charge cap, should these charges reach inappropriately high levels. In its 2012 report on automatic enrolment, our predecessor Committee recommended that the Government should consider using its powers to intervene from 2013 onwards. It recommended that:

> Whilst we accept the Government's current rationale for not applying a cap on scheme charges, this approach will only work if all providers act with transparency and offer genuine value for money in relation to charges. During 2012, the pensions industry has an opportunity to demonstrate that it can operate fairly and effectively without a cap on charges. From 2013 onwards, if it transpires that some auto-enrolment providers are applying hidden charges, or charges that represent poor value for money, the Government should use its powers to intervene.[5]

11. That Committee made a further recommendation on charges in its April 2013 report on improving governance and administration in workplace pension schemes, saying:

> 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.[6]

4 The Pensions Regulator, Automatic enrolment, declaration of compliance report, July 2012 - end April 2019, May 2019, p2

5 Work and Pensions Committee, Eight Report of Session 2010–12, Automatic enrolment in workplace pensions and the National Employment Savings Trust, HC 1494, March 2012, para 72

6 Work and Pensions Committee, Sixth Report of Session 2012–13, Improving governance and best practice in workplace pensions, HC 768-I, April 2013, para 45

12. The Government consulted on charge caps in October 2013 and announced in March 2014 that it would set an annual charge cap of 0.75% for DC schemes which are used for automatic enrolment from April 2015. The charge cap covers all member-borne charges and deductions, but excludes transaction costs.[7] There are three permitted charging structures under the charge cap:

a) a single percentage charge–capped at 0.75 per cent of funds under management annually;

b) a combination of a percentage charge for new funds when they are contributed to the pot plus an annual percentage charge for funds under management;

c) a combination of an annual flat fee plus an annual percentage of funds under management charge.[8]

13. Guy Opperman, the Minister for Pensions and Financial Inclusion, announced in November 2017 that the charge cap was broadly working as intended and that it was not the time to change the level or scope of the cap.[9] At the same time the Minister said that "In 2020 we intend to examine the level and scope of the charge cap, as well as permitted charging structures, to see whether a change is needed to protect members."

14. Our predecessor Committee was warned in 2011 by the then Minister for Pensions that a cap might become the standard level for charges.[10] Since the cap was introduced, however, providers do not seem to have increased their fees to the level of the cap. The DWP has found that charges in schemes qualifying for automatic enrolment are below the 0.75% charge cap, with members of trust-based schemes paying 0.38% on average and contract-based scheme members paying an average of 0.54%.[11]

15. Concerns have, however, been expressed about some charging structures permitted within the cap.[12] The different maximum permitted charging structures can lead to different sized investment pots under otherwise identical conditions. Table 1 shows an example of how this might affect those who make continuous contributions at both the minimum and maximum automatic enrolment levels.

7 DWP, Better workplace pensions: further measures for savers, Cm 8840, March 2014, p40
8 DWP, The charge cap: guidance for trustees and managers of occupational schemesv, March 2015, updated October 2016, pp 5–6
9 DWP, Pensions: Written Statement - HCWS249, 16 November 2017
10 Work and Pensions Committee, Eighth Report of Session 2010–12, Automatic enrolment in workplace pensions and the National Employment Savings Trust, HC 1494, March 2012, para 68
11 DWP, Pension Charges Survey 2016, October 2017
12 Written evidence from PensionBee (PCT0012)

Table 1

Size of investment pot under permitted charging structures, with continous contribution (£)

Funds under management charge (%)	0.75	0.60	0.50	0.40	0.60	0.50	0.40
Contribution charge (%)	0.00	1.00	2.00	2.50	0.00	0.00	0.00
Flat fee (£)	0.00	0.00	0.00	0.00	10.00	20.00	25.00
Salary of £10,000 per annum							
Years							
10	3,748	3,742	3,727	3,729	3,668	3,578	3,542
20	9,411	9,478	9,493	9,553	9,280	9,092	9,047
30	17,965	18,275	18,425	18,667	17,886	17,635	17,662
40	30,890	31,767	32,264	32,929	31,087	30,870	31,143
Salary of £50,000 per annum							
Years							
10	42,548	42,484	42,313	42,331	42,753	42,855	43,011
20	106,829	107,592	107,764	108,443	108,312	109,218	110,281
30	203,943	207,453	209,163	211,902	208,863	212,033	215,551
40	350,659	360,615	366,256	373,805	363,085	371,319	380,290

Assumptions
Annual return 5%
Zero wage growth
8% contributions above lower level of qualifying earnings £6,136 for period

16. There is a significantly different impact for dormant investment pots. As Table 2 shows, maximum charges under the different permitted charging structures give widely different results depending on the size of the pot. Smaller investment pots can be completely wiped out under the flat fee charging structure, even with a reliable annual return. With a reliable 5% annual return for 40 years, a dormant pot of £300 could be worth anything from £1,720 to £0 depending on the charging structure.

Table 2

Size of dormant investment pot under permitted charging structures (£)

Funds under management charge (%)	0.75	0.60	0.50	0.40	0.60	0.50	0.40
Contribution charge (%)	0.00	1.00	2.00	2.50	0.00	0.00	0.00
Flat fee (£)	0.00	0.00	0.00	0.00	10.00	20.00	25.00
£300 pot							
Years							
10	435	441	445	449	333	229	178
20	657	676	689	702	389	109	0
30	993	1,037	1,068	1,099	475	0	0
40	1,500	1,591	1,654	1,720	606	0	0
£1,000 pot							
Years							
10	1,450	1,470	1,483	1,496	1,362	1,267	1,225
20	2,190	2,254	2,297	2,342	1,967	1,718	1,609
30	3,309	3,457	3,559	3,664	2,895	2,415	2,210
40	4,999	5,302	5,514	5,735	4,318	3,497	3,150
£10,000 pot							
Years							
10	14,497	14,695	14,829	14,964	14,588	14,613	14,693
20	21,902	22,539	22,974	23,417	22,252	22,394	22,684
30	33,088	34,570	35,593	36,645	34,007	34,449	35,190
40	49,989	53,021	55,142	57,345	52,037	53,125	54,761
£50,000 pot							
Years							
10	72,485	73,477	74,145	74,818	73,370	73,929	74,547
20	109,508	112,696	114,870	117,083	112,409	114,290	116,351
30	165,442	172,848	177,963	183,223	172,286	176,819	181,769
40	249,944	265,107	275,710	286,726	264,123	273,693	284,142

Assumptions
Annual return 5%
No future contributions

17. PensionBee, an online pension manager, raised concerns with us about the flat fee charging structure used by the master trust NOW: Pensions, stating that:

> NOW: Pensions have 1.6 million savers, with average pots of c.£300. NOW: Pensions have a unique charging structure, in that they charge a £1.50 admin fee, per month, per member, on top of 0.3% annual management charge.[13]

A £300 pot under NOW: Pensions' charging structure would require an annual return of around 6.5% to maintain its nominal value.

18. NOW: Pensions told us:

> We do not believe that it is appropriate for all members to pay a blanket percentage charge determined by how much they have invested in their pension fund for two reasons. Firstly, it is impossible to identify how much of the charge is used to pay for investment management, and how much for scheme administration and communication. Secondly, the larger the

13 Written evidence from PensionBee (PCT0012)

> member's fund, the higher the charge. This leads to the cost of running the scheme for members with small funds being significantly subsidised by those with larger funds, who are typically closer to retirement.[14]

19. **The charge cap of 0.75% on defined contribution pension schemes used for automatic enrolment does not appear to have caused charges to rise to the level at which it was set, with average charges being between 0.38 and 0.54% depending on the scheme type. But not all charges are covered by the cap, and the full extent of charges outside the cap is not known. That makes it impossible to know how well the cap is working in practice.**

20. **We are concerned that permitting a combination of a flat fee plus a percentage of funds under management charge has the potential to completely erode small dormant investment pots. If this were to happen, many savers' confidence in automatic enrolment could be fatally undermined.**

21. ***We recommend that DWP review the level and scope of the charge cap, as well as permitted charging structures, in 2020. The review should consider preventing flat fee charging structures being applied to dormant pension pots and revisit measures to proactively consolidate smaller pots.***

Defined Benefit pension schemes

22. In a defined benefit (DB) pension scheme, an individual receives a specified regular pension income at retirement. Both the employer and employee contribute to a collective fund from which the income is drawn. The income will depend on factors including length of service and contributions. The employer sponsoring the scheme is responsible for funding any shortfall if the collective fund is insufficient to meet the specified pension incomes. Defined benefit schemes have largely been in decline, with the number of active memberships falling by 49% between 2010 and 2018.[15]

23. Provided that a defined benefit scheme remains well funded, then the associated costs of the scheme's investments do not have a direct impact on its members. Charlotte Clark, Strategy Director for Private Pensions at DWP, told us:

> While I do not want to be dismissive of it, there is no member detriment if they (DB schemes) get it wrong. There is if they get the investment wrong, but not the charges because ultimately those are borne by the employer.[16]

24. Many DB schemes in the UK are not well funded, with 63% in deficit.[17] A large number of these schemes have closed to new members and many members have seen changes to their benefits to make their schemes more affordable. If those schemes had been better funded, these decisions may have been avoided.

25. **In most cases, members of defined benefit pension schemes are not directly impacted by the costs or investment decisions of their scheme. However, in an environment in which many defined benefit schemes are in deficit, being closed to new**

14 Written evidence from Now: Pensions (PCT0029)
15 The Pensions Regulator, DB Pensions landscape, 2018, p3
16 Q236
17 Pension Protection Fund, The Purple Book, December 2018, p24

members or reducing member benefits, it is important that the same scrutiny to value for money is given by trustees as it is for defined contribution schemes. Better scrutiny of value for money in defined benefit schemes will either justify or avoid the need for the often difficult decisions being taken about the future of pension schemes.

The role of Trustees and Independent Governance Committees

26. Pension schemes can be either trust-based or contract-based. A trust-based scheme is governed by a trustee board with a fiduciary duty towards the scheme's members. Contract-based schemes are governed by a provider who has contracts with individual scheme members.

27. Trust-based schemes are regulated by the Pensions Regulator (TPR) and include DB schemes and some DC schemes. DC trust-based schemes include DC trust schemes run by a single employer and master trust schemes run by a single provider open to multiple employers.

28. Contract-based schemes are regulated by the Financial Conduct Authority (FCA) and include: workplace personal pension schemes (workplace DC schemes run by a provider for a group of employees from a single employer) and individual personal pension schemes (DC schemes run by a provider for individuals).

Independent Governance Committees

29. Since April 2015, providers of FCA-regulated workplace personal pension schemes have been required to appoint an Independent Governance Committee (IGC).[18] IGCs have a duty to scrutinise the value for money of the provider's workplace schemes, raising concerns and making recommendations to the provider's board as appropriate. IGCs must act solely in the interests of scheme members, and act independently of the provider. An IGC has a minimum of five members, the majority of whom must be independent of the employer, including an independent chair.

30. IGCs were introduced in the wake of a 2013 Office of Fair Trading (OFT) market study of workplace pension schemes in the context of automatic enrolment.[19] The study revealed competition problems in the pension investment market, including those managing the schemes offering a "very weak buyer side" in negotiations, complex products, and the potential for conflicts of interest. As part of its findings, the OFT estimated that £30bn of customers' money was exposed to risk of poor value.[20]

31. Pritheeva Rasaratnam, Head of Pensions and Funds Policy at the FCA, told us that the FCA and DWP assessed the effectiveness of IGCs in 2016. The 2016 assessment found that IGCs had "reduced charges on £20 billion of those assets to below 1%" and in December 2017 the FCA and DWP found that IGCs "had reduced charges below 1% on a further £4.9 billion of those assets".[21] The 2016 joint review by the FCA and DWP found that IGCs were "generally effective… by influencing, supporting and advancing the reduction in costs and charges that has been achieved so far." It noted, however, "specific

18 Financial Conduct Authority, Independent Governance Committee, first published 23 February 2016, updated 20 May 2019
19 Office of Fair Trading, Defined contribution workplace market study, September 2013
20 Ibid., para 1.19
21 Q170

instances" where IGCs "could have played a more proactive and rigorous role in driving providers to agree robust actions more quickly."[22] In the light of this broadly positive initial verdict, the FCA announced that it would postpone its plan to conduct a full review of the effectiveness of IGCs.[23]

32. In February 2018, a study by the investment transparency campaign group ShareAction examined the quality of the work done by IGCs for 16 of the largest UK pension providers. ShareAction concluded that IGC assessments of value for money were often "vague and offer only unsubstantiated claims that savers' interests are being protected […] In a number of cases, IGC reports provide insufficient information to enable savers to understand the value for money they are getting."[24]

33. Others were positive about the role IGCs have played. Royal London, a mutual life, pensions and investment company, told us that the measures are proving effective and that "IGCs have secured reductions and removal of charges from providers on workplace pension schemes including ourselves where we have capped some charges and removed others like some policy fees."[25]

34. **Independent Governance Committees are now established and fulfilling a necessary role. It is the right time for a comprehensive review to take place. We note that the FCA is now planning this review, having previously postponed doing so. In the light of the concerns which are being expressed about the work of some Independent Governance Committees, the FCA must not postpone this any further.**

Information provided to Trustees and Independent Governance Committees

35. Although trustees may delegate their day-to-day investment decisions to an authorised fund manager, they remain responsible for the investment strategy which the scheme's fund managers must follow. The Pensions Regulator states that trustees should set up appropriate procedures to review:

a) the fund manager's performance in accordance with the targets or mandate trustees have set them; and

b) the fees and management charges they are levying.[26]

The FCA similarly requires that IGCs assess the levels of charges, both direct and indirect, borne by relevant policyholders, including transaction costs.

36. The evidence we received questioned how effective these requirements have been in practice. Dr Anna Tilba, an Associate Professor in Strategy and Governance in Durham University Business School, told us:

22 DWP and Financial Conduct Authority, Remedying Poor Value Legacy Workplace Pension Schemes: Findings from the Joint Review of Industry Progress against the Independent Project Board Recommendations, December 2016, para 5.2

23 Financial Conduct Authority, Annual Report and Accounts 2016/17, 5 July 2017, p29

24 ShareAction, Who Watches the Watchers? Transparency and Accountability in Workplace Personal Pensions, February 2018

25 Royal London (PCT0046)

26 The Pensions Regulator, Trustee Guidance, issued December 2007

> … persistent inefficiencies in pension fund governance and lack of trustee understanding of operating costs of pension funds are eroding future retirement incomes. This is coupled with asset managers' unwillingness to disclose all the explicit and implicit costs attached to each investment.
>
> Yet, it is near impossible for investors to figure out how much their investments are costing them because additional costs are hidden and too high.[27]

37. Colin Meech, National Officer at UNISON, gave a worrying account of the difficulties schemes experienced in identifying costs. In the Netherlands, a template is used across the industry to identify pension scheme costs. When Mr Meech asked for the cost template used in the Netherlands to be completed by investment managers in the UK:

> Everyone was saying, "Why are you interested in costs because it is performance that matters"? … We had five managers. Three of them took 11 months to fill it out and two point-blank refused to fill it out.[28]

Mr Meech argued that there had to be a legal compulsion for fund managers to use an industry template because "otherwise people can avoid" providing the data.[29]

38. Mr Meech went on to note that many schemes are simply not aware of their costs. The West Midlands Local Authority scheme volunteered to run a template spreadsheet to collect data on costs. The scheme had a £12 billion fund and £10 million reported on asset management fees. Mr Meech told us that "After the exercise, they had to restate that, from £10 million to £92 million, and they got £10 million back" and said that "If you do not understand your real return, you cannot change strategy; you cannot work out whether you are getting the best value."[30]

39. The Institutional Disclosure Working Group (IDWG) was established by the FCA as a group of industry and investor representatives to address costs transparency under the independent chairmanship of Dr Chris Sier.[31] The IDWG was tasked with developing a set of standardised cost disclosure templates for asset management services to provide to institutional investors.

40. The IDWG began its work in September 2017 and made its final recommendations to the FCA in June 2018. Its recommendations included: the use of five templates at different levels of detail and covering all asset classes; that use of the templates should be voluntary but encouraged through other means; and that a new body or group should be created and convened by autumn 2018 to curate and update the framework.[32]

41. Witnesses had mixed views about whether the common template would be sufficient. Dr Chris Sier said that the proposed template would address transparency needs because it dealt with the root causes of the problem and created a set of data standards which would remove the risk of trustees not knowing what to ask for. In addition, he said that:

---

27 Dr Anna Tilba (PCT0027)
28 Q74
29 Q75
30 Q75
31 Financial Conduct Authority, Institutional disclosure working group, first published 8 September 2017, updated 9 November 2018
32 Institutional Disclosure Working Group (IDWG), Report to FCA, June 2018, p4

> The recommended framework is also supported by the FCA and carries that gravitas, but the most important reason why I think it will work is that the committee that I chaired was made up of senior representatives of the asset management industry, all of whom signed up to agree, on behalf of the industry, to adhere to this data collection standard, and this is very important… It will be very hard for an asset manager, when asked for this data, to say no.[33]

42. However, Dr Sier added that "the next problem we have to face is how we get trustees to ask for the data".[34] Andy Agathangelou, founding Chair of the Transparency Task Force, said that in his view, "we are a long, long way from solving the problem, and it would be a huge mistake to underestimate how much more work needs to be done"[35] and that it was "a high-risk strategy to not move towards a mandatory framework" for disclosure of costs.[36] Colin Meech, National Officer at UNISON, noted that "in the Netherlands it is a compulsory process" and added "That is what we need."[37]

43. The Investment Association (IA) told us that the investment management industry "fully supported" the work of the IDWG to develop a common template for cost disclosure to trustees and that, as a result of recent regulatory change, and the IDWG work, it was "confident that full transparency is being achieved and that pension fund trustees and IGCs will have the information they need to help inform their decision making in relation to investment". The IA added that cost transparency "is a foundation of trust, particularly in the post-2008 environment".[38]

44. In November 2018 the Cost Transparency Initiative (CTI) was launched with support from the Pensions and Lifetime Savings Association, IA and Local Government Pension Scheme Advisory Board. The CTI was given responsibility, by the FCA, for progressing the IDWG's work on the templates. The CTI is chaired by Mel Duffield, Pensions Strategy Executive at the Universities Superannuation Scheme. The CTI set out to:

> Provide a clear voice for the interests of asset owners as we improve cost transparency.
>
> Run a pilot phase to test the new cost transparency templates and supporting technical and communications materials until early 2019.
>
> Following the pilot, roll-out the templates to the asset management and pensions industries to encourage fully transparent and standardised cost and charge information for institutional investors.[39]

45. The CTI's standards were launched on 21 May, after we had concluded our evidence gathering. The standards include templates and guidance to report pension scheme costs and charges in a standardised format.[40] At the launch of the standards, Mel Duffield, Chair of the Cost Transparency Initiative, said:

33 Q4
34 Q7
35 Q19
36 Q20
37 Q69
38 The Investment Association (PCT0023)
39 Letter from the Cost Transparency Initiative to the Chair, 29 March 2019
40 Pensions and Lifetime Savings Association, Cost Transparency Initiative

> We will now push for wide-spread adoption of the templates and guidance over the next 12 months and promote the benefits both savers and pension fund trustees' can experience from their use. The Board will review the take-up of the templates and guidance after the end of the reporting period in April 2020 and will be working closely with Government, regulators, and industry to ensure high adoption levels in the interim.[41]

Guy Opperman, Minister for Pensions and Financial Inclusion, said:

> I'd strongly encourage trustees and investment managers to embrace the Cost Transparency Initiative and adopt the new templates. The Government will legislate robustly to make this happen if the industry does not resolve this on a voluntary basis at speed.[42]

46. **We have received worrying evidence that some trustees are making investment decisions without a clear understanding of how much those decisions cost. It does not appear that these are isolated cases. We welcome the proposals put forward by the Institutional Disclosure Working Group to address this through increased costs transparency. Now that the Institutional Disclosure Working Group's successor, the Cost Transparency Initiative, has published the disclosure templates, the measure of success will be how quickly and comprehensively they are adopted.**

47. **We recognise that there is not a perfect one-size-fits-all model for reporting costs and that developing templates is an ongoing process. The Minister for Pensions and Financial Inclusion warned the industry that, if they fail to embrace the Cost Transparency Initiative, the Government would respond by legislating. We are not convinced that this will provide sufficient incentive to achieve a high take up through voluntary disclosure.**

48. ***We recommend that the Government bring forward legislation to make the disclosure templates mandatory for both defined contribution and defined benefit schemes.***

49. ***We recommend that, to avoid poor quality and untimely data, the disclosure templates are supported by an independent verification process. Compliance should be overseen by the relevant regulators, who should be given any additional powers they might need to tackle non-compliance.***

50. ***We recommend that schemes should be supported to collect additional information if the template does not fully cover their individual scheme needs. This information should be available for scheme members as part of the wider information provided on value for money including information on exit charges and any other costs associated with transfer of their pot. The FCA should explore the creation of a public register of asset managers' compliance records with reasonable data requests.***

Value for money

51. We repeatedly heard in evidence that there is no clear definition of what good value for money means for pension schemes. Perceptions of value for money will vary depending

41 Ibid.
42 Ibid.

on the perspective being considered and attitudes to risk, return, costs and other factors. Several submissions stressed that costs are only one part of the value for money equation. Partners Group, a private equity firm, told us:

> The DC market in the UK has evolved in such a way that "cost" has been mistaken for "value for money". Trustees and other stakeholders are incentivised to choose the lowest cost product rather than the best performing (possibly more expensive) product, due to the impression that if something goes wrong they are then less likely to be held accountable.[43]

52. The DWP said that "The Government has not sought to be prescriptive about what trustees should consider value for members to be, or to impose a single common definition of value for money."[44] In a joint letter the Minister for Pensions and Inclusion and the Economic Secretary to the Treasury told us:

> There is a trade-off to be struck here. For a higher long-range return, members will need to take more risk. That will mean more volatility in the value of their pension pot on their pension journey–but memberships will have different attitudes to risk, and may be able to tolerate more or less volatility in the value of their pot.[45]

The Ministers also said that members may also value the quality of communication, online tools and the scheme's investment strategy. Other factors raised to us included: customer service, communication with members and environmental, social and governance (ESG) factors.

53. In its Investment Consultants Market Investigation, the Competition and Markets Authority (CMA) raised concerns about the information given to trustees, finding that:

- Investment performance is often reported on a gross of fees basis which does not reflect the real outcome for the pension scheme.
- Information on fees provided by fiduciary managers to current customers lacks sufficient clarity with fees for the fiduciary management service often bundled with the underlying asset management fees.
- It is difficult for prospective fiduciary management to compare across providers due to a variety of methods used to calculate investment performance.[46]

54. The CMA put forward proposals to address these problems, including:

- Trustees will need to run competitive tenders with at least three fiduciary managers if they delegate more than 20% of their investment decisions. Those who have already appointed a fiduciary manager must put the service out to tender within five years.

43 Partners Group (PCT0020)
44 DWP (PCT0044)
45 Letter from the Minister for Pensions and Financial Inclusion and the Economic Secretary to the Treasury to the Chair, 29 April 2019
46 Competition and Markets Authority, Investment Consultants Market Investigation, Final Report, 12 December 2018, paras 27–28

- Fiduciary management firms must provide potential clients with clear information on their fees using a standard approach to show performance.
- Investment consultancy firms offering fiduciary management services will be required to separate their marketing of fiduciary management from their provision of investment consultancy advice.
- Pension scheme trustees will be required to set strategic objectives for their investment consultant so that they are able to judge the quality of their service.[47]

Those recommendations came into effect in June 2019.[48]

55. The CMA further recommended that "the FCA should maintain oversight of the transparency of asset management fee reporting, in order that the progress made by the Institutional Disclosure Working Group is maintained", TPR should produce guidance to help trustees using these services and that legislation should enable TPR to oversee the new requirements on trustees.[49]

56. ShareAction, a charity promoting transparency and responsible investment practices by pension funds, told us in written evidence that "Greater transparency and more targeted, engaging communications will put consumers and consumer interest groups in a better position to judge whether they are getting value for money from their scheme."[50]

57. Trustees of trust-based DC schemes are required to produce an annual chair's statement. Since April 2018, these statements are required to include additional information on charges and transaction costs and to make this information available free of charge on a publicly-accessible website. Failure to produce a compliant statement results in an automatic mandatory fine of between £500 and £2,000 from the Pensions Regulator.

58. The Pensions Regulator has set out its expectations on charges and transaction costs:

> The charges and (where available) transaction costs borne by members in respect of each individual fund throughout the scheme year should be clearly set out, perhaps in a table so it is clear which relate to the default arrangement(s) and which relate to the non-default arrangement(s)
>
> We expect the trustees to confirm in the statement that they have taken account of statutory guidance when preparing this section of the statement and, if applicable, explain why they have deviated from the approach set out in that guidance.[51]

59. Trustees are also required to give an assessment of the value they have provided the scheme's members. The Pensions Regulator expects this to show either that:

> the trustees have concluded that the scheme is offering value for members and have explained how they reached this conclusion, or

47 Ibid., para 75
48 Competition and Markets Authority, Investment Consultants Market Investigation, The Investment Consultancy and Fiduciary Management Market Investigation Order 2019, June 2019
49 Competition and Markets Authority, Investment Consultants Market Investigation, Final Report, 12 December 2018, para 76
50 ShareAction (PCT0048)
51 The Pensions Regulator, A quick guide to the chair's statement, September 2018, p10

> the trustees have concluded that the scheme is not offering value for members, have set out why and what action they are taking to address this, eg improving value for members within the current scheme or exploring transition to an alternative arrangement.[52]

By November 2019, all relevant schemes will have to have met the new requirements for chair's statements.

60. **There is no agreed definition of what is meant by value for money in the pensions industry. Although individual schemes will need to vary their value for money goals, without agreed definitions it is not possible to make effective comparisons.**

61. **We fully recognise that value for money is not solely about costs, but costs inevitably form an important part of the equation. Complexity and layers of intermediaries mean that many trustees do not have access to suitable information to make judgements about the costs of managing their schemes. Schemes should clearly communicate their interpretation of value for money, and how it will be achieved, to their members**.

62. **The Competition and Markets Authority's Investment Consultants Market Investigation final report, published during the course of this inquiry, contains welcome proposals to address conflicts of interest and cosy relationships between schemes and asset managers, and to ensure that trustees are actively seeking value for money.**

63. **We note that the Government legislated in February 2018 to require occupational defined contribution schemes to publish their assessment of value for members and that all schemes will have published their assessment by November 2019.**

64. ***We recommend that the Government reviews the initial impact of requiring occupational defined contribution schemes to publish their assessment of value for members in 2020. The review should assess whether or not this requirement leads to better scheme focus on achieving value for money and better communication to scheme members about value for money.***

52 Ibid.

Chapter 2: Investment strategies

65. At the start of this inquiry our call for evidence asked "Do higher-cost providers deliver higher performance, or simply eat into clients' savings?". Much of the evidence received in response to this question pointed towards research by the FCA. The FCA's Asset Management Market Study found that "there is no clear relationship between charges and the gross performance of retail active funds in the UK" and that funds cluster within a narrow price range but often deliver very different levels of return.[53] The FCA's Retirement Outcomes Review also looked at investments made by non-advised drawdown customers, and their associated total charges (not just fund charges) and Sharpe ratios[54] to understand whether the difference in charges could be explained by consumers getting better investment returns. This found that higher charges were only weakly associated with higher performance.[55]

66. In a February 2019 speech at the Trade Union Congress,[56] the Minister for Pensions and Financial Inclusion announced a consultation on proposals to encourage defined contribution pension schemes to consider a wider range of investments—including infrastructure and housing investment.[57] These types of investment can have higher costs than those associated with the more traditional investments made by pension funds. The consultation included proposals:

> requiring large schemes to report their policy on these types of investment;
>
> requiring smaller schemes to assess, every 3 years, whether they should consolidate into a larger scheme;
>
> changing how schemes calculate charges.[58]

The consultation closed on 1 April 2019 and the Government response is yet to be published.

67. The All Party Parliamentary Group on Alternative Investment Management suggested in February 2019 that the Government:

> Improve pension scheme trustees' awareness of alternative investments, and their incentives to consider allocating to such investments;
>
> Explore ways in which DC schemes could better access investments that do not offer daily liquidity;
>
> Provide guidance on how to combine investments in order to meet the charge cap of 0.75% for DC default funds, and explore ways of accounting for performance fees in the cap.[59]

53 Financial Conduct Authority, Asset Management Market Study, Final Report, June 2017, para 1.12
54 The 'Sharpe ratio' is a measure of performance that takes into account volatility - unlike other measures- Financial Conduct Authority, Asset Management Market Study, Final Report: Annex 4 - Assessing the relationship between the price and performance of retail equity funds in the UK, June 2017
55 Financial Conduct Authority (PCT0054)
56 DWP, Speech: Investment innovation and future consolidation for occupational DC pension schemes, 8 February 2019
57 DWP, Consultation, Defined contribution pensions: investments and consolidation, 5 February 2019
58 Ibid.
59 APPG, Alternative Investment Management, UK Pension Schemes and Alternative Investment, February 2019

68. The Pensions and Lifetime Savings Association told us that "Some assets such as infrastructure or property are also intrinsically more expensive, often attracting higher charges and levels of transaction costs" and that "The illiquid nature of some of these asset classes is also particularly suited to a pension scheme's long-term time horizon and investment approach."[60]

69. The 'Implementation Taskforce for Growing a culture of social impact investing in the UK',[61] which was commissioned by the Prime Minister in March 2018, said that "Many investments with a social and / or environmental impact are into infrastructure, such as property (e.g. affordable housing) or renewable energy projects" but added that "infrastructure investments often involve higher charges and transaction costs because they are more intensive to structure."[62] It may therefore be more difficult to make investments with environmental, social and governance impacts within the current charge caps.

70. We asked the Minister for Pensions and Financial Inclusion whether or not these types of investment give better performance, given that they may have higher costs. The Minister disagreed with the view that these types of investment do not necessarily produce higher returns and told us:

> … if you want to get greater member engagement, invest in something that members are interested in. Secondly, if trustees wish to invest in something for the long-term future of this country and wish to make a positive investment, particularly if they could localise it to Devon and Cornwall or Wales or to the West Midlands or wherever, such that I am a member of that organisation and I know that my pension fund is invested in that social housing project built there on a 30 to 50-year basis, I personally think that is a good thing.[63]

71. When we asked about the difficulty of getting schemes to invest more widely in areas such as housing and green energy, the Minister said:

> No disrespect to the Work and Pensions Select Committee, there is an understandable timidity on the part of trustees to go outside the traditional approach, whether that is because they fear regulatory, or Government, or Select Committee criticism, or because everything has been based upon secure performance and steady return on behalf of members. I believe that there is a way ahead whereby you can still achieve secure performance and steady return for members, but you can diversify your portfolio.[64]

72. Several evidence submissions said that increasing transparency in pension funds' approaches to environmental, social and governance investments could help to engage savers, by communicating the real life relevance of investments. The Transparency Taskforce told us that this was an important driver of decisions for the younger generation,

60 Pensions and Lifetime Savings Association (PCT0042)
61 Social impact investing aims to enable individuals to support more easily the things they care about through their savings and investment choices.
62 Implementation Taskforce for Growing a culture of social impact investing in the UK (PCT0032)
63 Q291
64 Q298

citing research which shows "that 86% of millennials say they are interested in socially responsible investing, and 55% want their pension invested in organisations that reflect their social and environmental views."[65]

73. ShareAction similarly told us that many millennials will have started saving for a pension for the first time as part of the automatic enrolment rollout. It noted that:

> 68 per cent of 25–34 year olds say it is important that people use their money for the good of society and the wider world,[66] and millennial investors are nearly twice as likely as non-millennials to invest in companies or funds that target specific social or environmental outcomes[67] However there is little information available to inform savers on how their pension savings are invested.[68]

74. The Low Income Tax Reform Group stated that it is probable that the vast majority of savers "do not realise that their funds may be invested in companies that are involved in areas that conflict with the person's own values and ethics—for example are involved in tobacco or weapons, say, or that damage the environment or co-operate with countries with 'a bad human rights record'" and added that "Investment transparency therefore needs to be improved so that people fully understand where their funds are being invested and can make an informed decision as to whether they are content with that or wish to change for ethical reasons."[69]

75. In September 2018, the Government announced that from 1 October 2019 trust-based schemes will be required to:

a) set out how they take environmental factors (etc) into account;

b) publish a statement on members' views;

c) produce an implementation statement setting out how they have acted on the principles and views from the previous year.[70]

76. The FCA told us it was "considering changes to our rules to require IGCs to report on their firms' policies in relation to environmental, social and governance (ESG) factors, including climate change, how they take account of member concerns, and stewardship."[71] Since then the FCA has proposed a "new duty for IGCs to report on their firm's policies on ESG issues, consumer concerns and stewardship, for the products that IGCs oversee" in its consultation paper on Independent Governance Committees: extension of remit.[72]

77. **We have not received compelling evidence that higher-cost providers provide better performance. However, there are justifiable reasons, depending on value for money goals, for some schemes using higher-cost providers, including investment in infrastructure, diversifying portfolios and matching long-term investments to long-**

65 Implementation Taskforce for Growing a culture of social impact investing in the UK (PCT0032)
66 ShareAction, Pensions for the Next Generation: Communicating What Matters, March 2018, p13
67 Ibid.
68 ShareAction (PCT0048)
69 The Low Income Tax Reform Group (PCT0014)
70 DWP, Clarifying and strengthening trustees' investment duties, September 2018
71 Financial Conduct Authority (PCT0054)
72 Financial Conduct Authority, CP19/15, Independent Governance Committees: extension of remit, April 2019, para 2.27

term savings. We are encouraged that the Minister is seeking solutions better to enable investment by defined contribution schemes in infrastructure and other illiquid assets whilst not fundamentally undermining the charge cap.

78. ***We recommend that the FCA should introduce requirements for contract-based schemes, corresponding to those introduced for trust-based schemes, to report on environmental, social and governance factors as proposed in the FCA's consultation on Independent Governance Committees: extension of remit.***

Chapter 3: Transparency for individuals

Pensions dashboards

79. A pensions dashboard is a digital tool which allows an individual to see all their pension savings in one place. Pensions dashboards are already active in several countries, including Australia, Belgium, Denmark, Israel, the Netherlands and Sweden.[73]

80. The development of an industry designed and funded dashboard was announced in the 2016 Budget, with a 2019 launch date.[74] The DWP took over responsibility for the dashboard project from the Treasury in October 2017, with Guy Opperman, Minister for Pensions and Financial Inclusion, reaffirming the Government's commitment at the Pension and Lifetime Savings Association annual conference. The Minister has described the dashboard as "a fantastic way of giving people access to pension information in a clear and simple form" and an element in the Government's commitment to promote financial inclusion.[75] The 2017 DWP review of automatic enrolment highlighted the dashboard as a tool for making pensions visible to savers and increasing engagement.[76]

81. The DWP originally announced that its feasibility study and announcement on the direction of the policy would be published in March 2018. This was subsequently changed to "in due course" in the Government's response to our 2018 report on pension freedoms.[77]

82. In July 2018 reports began to circulate that the Government was considering withdrawing support for the dashboard.[78] Giving evidence to us in July 2018, the Minister declined to give any further commitments.[79] The Association of British Insurers, which has led industry efforts to develop and promote the dashboard, wrote to us in July 2018 expressing their concerns about any move to shelve the dashboard.[80] In October 2018, the Minister called on pension schemes and providers to ensure their data was ready for the pensions dashboard launch and said that DWP was "utterly committed to making the dashboard a reality".[81]

83. Witnesses from transparency organisations expressed their support for the dashboard. Dr Chris Sier, former Chair of the Institutional Disclosure Working Group, described it as an important first step in providing people with information about their savings.[82] Andy Agathangelou, Founding Chair of the Transparency Task Force, said that the dashboard "was an absolute prerequisite if what we want is a fair, open, honest, competitive marketplace", but that some "heavy lifting" from the pensions industry would be required to set up the portal because of "the lack of interoperability within the financial services sector".[83]

73 DWP, Pensions Dashboards, Working together for the consumer, December 2018
74 HM Treasury, Budget 2016, HC 901, March 2016, para 1.114
75 HC Deb, 21 May 2018, vol 641, col 554 [Private Pensions: Windsor]
76 HM Treasury, Budget 2016, HC 901, March 2016, para 1.114
77 DWP, Pension freedoms, Government response to the Committee's Ninth Report, Tenth Special Report of Session 2017–19, 20 June 2018, p7
78 The Times, Esther McVey 'wants to kill off' online pension tracker, 17 July 2018
79 Defined Benefit pensions white paper, Q210
80 Letter from Association of British Insurers to the Chair, 17 July 2018
81 New Model Adviser, Pensions minister tells 'laggards' to get ready for the dashboard, 19 October 2018
82 Q43
83 Q41

84. There had been doubts about whether state pension forecasts would be included on the dashboard and reports that the Government had failed to budget for delivering state pension valuations on a pensions dashboard.[84] In the 2018 Budget, however, the Treasury announced £5m additional funding for pensions dashboards and confirmed that these would enable individuals to see their State Pension and all other pension pots in one place.[85]

85. The Government ran a consultation on pensions dashboards from December 2018 to January 2019[86] and published its response in April 2019.[87] The Government will legislate to compel pension schemes to participate in pensions dashboards and it is committed to "work towards including State Pension data in dashboards at the earliest possible opportunity."[88] The Government also asked the Money and Pensions Service to begin work on its own non-commercial pensions dashboard.[89]

86. **A non-commercial pensions dashboard will be a welcome, if overdue, additional tool to provide transparency to individuals and help them plan how they use their pension funds. We welcome the Government's ongoing commitment to the project.** ***The Government should now take a leading role in ensuring that schemes adequately prepare their data ahead of launch and that the project delivers the full benefits to consumers.***

87. **We accept that for a pensions dashboard to be launched in a timely manner, it will necessarily be limited at the outset. This should not be at the expense of any of the key data on an individual's pension savings.**

88. **We welcome that the Government has committed to including State Pension data in pension dashboards.** ***We recommend that personal State Pension projections be included in the Pensions Dashboard at launch, as they form a key component of many individuals' pension incomes.***

89. ***We recommend that by the end of 2019 the Government publish a timetable for the rollout of a non-commercial pensions dashboard. This should include key milestones, such as the date for pension providers to include their data on the pensions dashboard, as well as target timescales for phases beyond the initial launch—for example, longer term plans to enable consumers to make value for money comparisons through the pensions dashboard. With consent, authorised providers of financial services should be able to include an individual's pensions dashboard data within their own applications.***

90. ***We recommend that the pensions dashboard should feature retirement income targets to ensure the information is meaningful to its users.***

---

84 FT Adviser, Government blunder dooms pension dashboard, 16 October 2018
85 HM Treasury, Budget 2018 HC 1629, 29 October 2018, P36
86 DWP, Pensions Dashboards: Working together for the consumer, December 2018
87 DWP, Pensions Dashboards: Government response to consultation, April 2019
88 Ibid.
89 Ibid.

Advice and guidance

The guidance guarantee

91. Individuals looking to make decisions about their pensions can seek both advice and guidance. Advice is a personalised recommendation and can only be provided by FCA regulated firms on the Financial Services Register. Guidance is a broader term including general information and signposting about pensions. Guidance does not include a recommendation but can be offered by any organisation. Guidance is available from public bodies to individuals through the Pensions Advisory Service, Pension Wise and Money Advice Service. All are to be part of the new Money and Pensions Service, which was temporarily called the Single Financial Guidance Body when it was set up in January 2019.

92. The 'pension freedoms', introduced in April 2015, gave people aged 55 or over far greater freedom over how they access their defined contribution pension pots. Previously the majority of people were required to purchase an annuity—most did so with their existing provider.[90] As well as purchasing annuities, individuals can now take their whole pot in cash, leave funds invested or withdraw a proportion of the funds as an income through drawdown.

93. The "guidance guarantee" was presented as a key pillar of the introduction of the pension freedoms to support the increased flexibility given to consumers accessing their DC pension savings. The guarantee entitled everyone with a DC pension fund to free, impartial guidance. The 2014 Budget stated that "The government recognises that under the new system it will be important that people are equipped to make decisions that best suit their personal circumstances."[91] The FCA's consultation on the guidance guarantee explained that the objective was to "empower consumers to make informed and confident decisions on how they use their pension savings in retirement".[92]

94. The Financial Guidance and Claims Act 2018 requires the FCA to ensure consumers have received appropriate pensions guidance or have opted out of guidance before accessing or transferring their pension savings.[93] Charlotte Clark, Strategy Director for Private Pensions, Department for Work and Pensions, told us that the Money and Pensions Service will be piloting ways of implementing the Financial Guidance and Claims Act's default guidance provision.[94]

95. The Act also contains provision for consumers to "opt out" of the guidance to which they are entitled. Just Group, a specialist financial service group focusing on the retirement income market, emphasised the importance of getting the process of opting out right. It provided us with the hypothetical example below of how incumbent providers might try to discourage individuals from accessing guidance:

> Mrs Jones calls her provider: "Hello. I'd like to take some cash from my pension please."

90 HM Treasury, Freedom and choice in pensions, CM 8835, March 2014, p12
91 HM Treasury, Budget 2014, para 1.160
92 FCA, Retirement reforms and the Guidance Guarantee, CP 14/11, July 2014
93 Financial Guidance and Claims Act 2018, Section 18
94 Q319

> Provider: "Certainly Mrs Jones. Though we have to recommend that you should consider taking guidance from Pension Wise before you take cash from your pension.
>
> "The current waiting time to get an appointment is around five weeks. You could take your guidance then come back to us. So, in around six weeks we could get you some cash. Alternatively you can opt-out of taking guidance. I can arrange that for you today and I can have your cash available before the end of the week."
>
> "How would you like to proceed?"[95]

This demonstrates that, even with the opt-out in place, workarounds may be easily found. Just Group suggested:

> The remaining policy that needs to be developed is the opt-out process and how this is set in regulation. We would urge the Committee to encourage the FCA to make this explicitly an active opt-out process that is administered by an impartial, independent entity such as the Single Finance Guidance Body and not an existing commercial organisation that cannot be independent nor impartial.[96]

96. Behaviour of this sort is evident even in reputable firms. In July 2019, the FCA fined Standard Life Assurance Limited (SLAL) £30.7m for failures in selling non-advised annuities. The FCA found that:

> SLAL failed to put in place adequate controls to monitor the quality of the calls between its call handlers and non-advised customers. At the same time, SLAL offered its front-line staff large financial incentives to sell annuities, which encouraged them to place their own financial interests ahead of their customers. This gave rise to a significant risk that SLAL's call handlers would fail to provide customers with the information they needed to choose an annuity appropriate to their circumstances.[97]

The FCA is proceeding to test potential approaches to ensure consumers have received appropriate guidance or opted-out of receiving guidance with the Government and the Money and Pensions Service.[98]

97. **The pension freedoms had two important components: the right to choose and the guarantee of guidance to ensure that choice is an informed one. We are concerned that firms might be able to "game" guidance opt-out requirements and nudge individuals into not receiving guidance which they were promised.**

98. **We welcome progress by the Financial Conduct Authority and Money and Pensions Service in testing approaches to ensure that consumers have received appropriate guidance or opted-out of receiving guidance.** ***We recommend that individuals should***

---

95 Just Group (PCT0030)

96 Just Group (PCT0030)

97 Financial Conduct Authority, FCA fines Standard Life Assurance Limited £30 million for non-advised pension sales failures, 23 July 2019

98 Financial Conduct Authority, Retirement Outcomes Review: feedback on CP18/17 and our final rules and guidance, Policy Statement S19/1, January 2019, para 2.59

only be able to opt-out of guidance through an active decision communicated to an impartial body, such as the Money and Pensions Service. This should not be a process which needs to be repeated for every pension pot an individual has.

99. ***We recommend that for any transaction to be deemed valid, the relevant upfront costs and any further charges should be detailed on the front page of the product and the investor should be required to specifically sign that they are aware of those charges and have agreed to them. This should be the case for exiting a scheme as well as for investment into a new or additional scheme. Investors should also be given a 14-day cooling-off period where transactions can be reversed without detriment to the investor.***

Pension Wise

100. In 2015 Pension Wise was unveiled as the new first port of call for people with a defined contribution pension approaching retirement.[99] Pension Wise provides the guidance guarantee through a free and impartial service offering appointments in person and over the phone. For those using the service Pension Wise has been a demonstratable success. DWP user evaluation data shows that:

a) 92% of appointment customers were satisfied with their overall experience.

b) Pension Wise users had a significantly better understanding of what they could do with their pension pots when compared to non-users.

c) Pension Wise users are more confident in their ability to avoid scams (92% vs 78% confident).[100]

101. However, concerns have been raised about how engaged users are with the guidance provided through by Pension Wise when they wish to access their pension pot. Charlotte Clark, Strategy Director for Private Pensions, Department for Work and Pensions, said:

> Too often, if you listen to the phone calls, somebody has decided what they want to do, and this is almost a tick-in-the-box exercise for them. How do we engage with them early? There are a number of pilots going on with different providers to think about how can we get people to think about their pensions a little bit earlier before it is just a question of, “I have decided what I want to do, and I just need the money”.[101]

102. The number of people with defined contribution schemes using Pension Wise remains low compared to those accessing their pension pots, although there have been increases. The Minister for Pensions and Financial Inclusion and the Economic Secretary to the Treasury said that “In the first full year of the Pension Wise service (2015/16) there were 60,939 appointments. In 2018/19, there were 167,654 appointments; a 180% increase.” The FCA provided us with the data below[102] showing the take up of advice and Pension Wise guidance by different decumulation products between October 2017 and March 2018:

99 HM Treasury, Pension Wise unveiled, 12 January 2015
100 DWP, Pension Wise service evaluation 2017 to 2018: customer experiences and outcomes, October 2018
101 Q313
102 Letter from the FCA to the Chair, 7 March 2019

Product	Annuity	Drawdown	UFPLS	Full withdrawal
Advised	28%	69%	30%	25%
Pension Wise	30%	11%	17%	15%

Source: Letter from the FCA to the Chair, 7 March 2019

103. **Pension Wise has been successful in delivering guidance to those who use it and enabling these pension savers to make well informed choices. The high level of satisfaction with Pension Wise demonstrates the value of a service which is yet not achieving its potential reach.**

104. ***We recommend that the new Money and Pensions Service should outline in its forthcoming strategy how it will increase usage of Pension Wise.***

Investment Pathways

105. There is currently a difference in philosophy between the Government's approach to pension accumulation (saving) and decumulation (withdrawing). Automatic enrolment requires that employers default their employees into pension savings. For most people, therefore, the accumulation phase of a private pension is passive—unless they choose otherwise. The opposite is true for decumulation: even when an individual with a DC pension receives advice or guidance, they are still required to make an active choice about what they do with their savings. This could be drawdown, purchasing an annuity or taking their whole pot as cash.

106. In our 2018 report on pension freedoms we called for a similar approach to automatic enrolment for drawdown products. In that report we recommended that:

> … 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. … These protections should be in place by April 2019.[103]

107. On 28 January 2019, a FCA consultation paper[104] proposed a more passive default for decumulation. All providers of drawdown will have to offer non-advised consumers four investment pathways each with a different objectives:

- Option 1: I have no plans to touch my money in the next 5 years
- Option 2: I plan to use my money to set up a guaranteed income (annuity) within the next 5 years
- Option 3: I plan to start taking my money as a long-term income within the next 5 years
- Option 4: I plan to take out all my money within the next 5 years.[105]

103 Work and Pensions Committee, Pensions freedoms, Ninth Report of the Session 2017–19, 28 March 2018, para 22
104 Financial Conduct Authority, Retirement Outcomes Review: Investment pathways and other proposed changes to our rules and guidance CP19/5, 28 January 2019
105 Ibis., p13

108. The FCA also proposed that consumers' pension investments should not be defaulted into cash savings unless they actively chose this option.[106] Chris Woolard, the FCA's Executive Director of Strategy and Competition said:

> There is a group of people who are going into draw-down at this moment in time. We know from the work we have done on research that the big question for people is how they get their 25% tax-free cash now. People concentrate on the decision around the 25% tax-free cash, but not on the decision around the other 75%. As Andrew was saying, many end up defaulting into holding that money as cash. Clearly, if you intend that to be your vehicle, that gives you an investment income over the next 30 years, that is not a good option. You should be in something that is investing that money for you, and from which you are drawing down.[107]

Mr Woolard added that he was not happy that well over 60% of people default to decumulating with the same provider they used for accumulation.[108]

109. In its 2018 consultation, the FCA had said that it was "not minded" to impose a charge cap on these products, as the market was evolving.[109] When asked about a charge cap being placed on default decumulation products, Andrew Bailey said that the FCA's general approach towards capping "is that we regard it as a tool in the box to be used when what I would call more market-consistent tools are clearly not working and the market is failing."[110]

110. **We welcome the FCA's proposals for the investment pathways. These are in line with the recommendation we made in our Pensions Freedoms report last year—namely, that any provider offering drawdown should be required by FCA rules to offer a default solution that is targeted at their core customer group.**

111. **The investment pathways must not be a substitute for guidance, which is still required to help individuals determine which product is right for them. For example, it is not clear to us how, under the proposed investment pathways, an individual who states that they plan to use their money to set up a guaranteed income is supported to do so. Many people who have passively built up retirement savings through automatic enrolment would likely need support through advice or guidance if they wanted to make an informed choice on purchasing a product which provides a guaranteed income.**

112. ***We recommended in our Pensions Freedoms report a 0.75% charge cap on default decumulation pathways. The FCA told us that it would prefer to see if market-consistent tools work and, if those fail, introduce a charge cap. This conversation is a near repeat of those our predecessor Committee had with the FCA about schemes used for automatic enrolment savings, which are now the subject of a charge cap. The FCA would send a simpler message to the industry by setting a charge cap now for investment pathways—rather than issuing vague threats to the industry.***

106 Ibid., p55
107 Q156
108 Q158
109 Financial Conduct Authority, Retirement Outcomes Review: Proposed changes to our rules and guidance CP18/17, June 2018, p30
110 Q186

113. ***We recommend that the FCA implement a robust monitoring programme for the effectiveness of the investment pathways, including value for money comparisons with other available products, in partnership with any other DWP monitoring work of the pension freedoms.***

114. ***We recommend that the FCA clearly set out how people who have passively built up saving through automatic enrolment will be supported to make and carry out an informed choice from the available decumulation products and not solely directed to drawdown products.***

115. ***We recommend that a 0.75% charge cap should be set on decumulation products available through FCA decumulation pathways from the outset.***

Independent Financial Advisors, mis-selling and scams

116. The evidence we received gave a mixed picture as to whether pension customers get value for money from financial advisers. Several submissions pointed to returns associated with financial advice. Quilter's, a wealth management business, said that their annual research of 50–75 year olds shows that those retirees who have seen an adviser even just once had, on average, £7,000 more per year in retirement.[111] Royal London, a mutual life, pensions and investment company, stated that "The research demonstrates that those who receive financial advice are on average £40,000 better off than their peers."[112]

117. Others, however, raised concerns about the availability and quality of advice. Unison said that "It is impossible for financial advisers to offer value for money because the whole pension and workplace saving system is riddled with conflicts of interest and opaque charging."[113] Low take up of advice remains a concern. The Association of British Insurers told us that "only 12% of consumers over the age of 40 use a Financial Adviser."[114] The Transparency Task Force said:

> Unconflicted good quality advice on finance is a benefit for anyone considering how to plan for and fund their retirement. For those who can afford to access it, there is a good argument that this facilitates their ability to navigate the market.
>
> However, good quality independent advice is unfortunately a scarce resource that often appears expensive and a mass pension system cannot be predicated on the basis that people will be able to access it. In addition, there are behavioural biases that mean many low and medium earners will not access either advice or guidance–even when it is made available at low cost or even free.[115]

118. Another evidence submission highlighted the British Steel Pension Scheme as evidence of the system not working.[116] A large number of former members of the British

111 Quilter plc (PCT0035)
112 Royal London (PCT0046)
113 UNISON (PCT0013)
114 Association of British Insurers (PCT0050)
115 Transparency Task Force (PCT0055)
116 Mr Daniel Elkington (PCT0008)

Steel Pension Scheme were victims of mis-selling and traded their defined benefit pensions for a cash lump sum. Our 2018 report into the British Steel Pension Scheme concluded that "another major misselling scandal is already erupting and requires urgent action."[117]

119. Self-invested personal pensions (SIPPs) are causing a similar level of concern. Several of our Members have seen cases in which ordinary investors have lost large amounts of money because FCA-regulated advisers have advised them to use SIPPs. Andrew Bailey, CEO of the FCA, wrote to SIPP operators in October 2018 about their ability to pay out for potential compensation schemes. He told us that "the message clearly got home, because we got some very clear responses, but the jury's out in terms of the practice."[118]

120. Initially the FCA told us that its pension scams team consisted of "approximately 10 people" out of about 3,700 FCA staff.[119] The FCA clarified that this was the dedicated team which worked with other staff across the organisation, and provided us with further information on how it addresses pension scams:

> A typical pension scam case may involve the pension scam supervisory team looking at the adviser firm advising consumers, a different supervisory team looking at SIPP Operators that are holding the investment that may be central to the scam, another different supervisory team looking at any Discretionary Fund Manager that is being used as a wrapper underlying the SIPP investment, another different supervisory team looking at the underlying funds, the Unauthorised Business Department (UBD) looking at the unregulated introducers sending the business to the adviser firm and an Enforcement team which will work with the supervisory teams on urgent interventions using Enforcement resource. Once the supervisory work is undertaken, the most serious cases are referred to Enforcement for formal investigation.[120]

The FCA publishes a list of unauthorised firms on its website, some of whom are knowingly running scams. Private lists are also held by HMRC and some pension providers.

121. **Many Independent Financial Advisers provide good value for money for pension customers. However, the number of people paying for good value advice is low. People who are not able to access good advice need guidance and effective protection from pension scams, which can have life changing impacts. Scams not only harm the individual but cause wider damage to the industry by discouraging potential savers. Scams are not a necessary consequence of the pension freedoms.**

122. **We were concerned to learn that the FCA's dedicated scams team only consisted of approximately 10 people out of 3,700 FCA staff.** ***We recommend that the FCA review whether it dedicates sufficient resource to combat active pension scams, prevent new pension scams and protect individuals.***

117 Work and Pensions Committee, British Steel Pension Scheme, Sixth Report of Session 2017–19, 15 February 2018, para 51

118 Q135

119 Q129 and Q130

120 Letter from the FCA to the Chair, 7 March 2019

123. ***We recommend that the Financial Conduct Authority's list of unauthorised firms be expanded into a widely publicised database. This database should be regularly updated by the range of governmental organisations involved in pension scams and act as a co-ordinated early warning system.***

Monitoring the Pension Freedoms

124. Aside from the FCA's retirement income market data and DWP Pension Wise user evaluations, there are no regular monitoring reports published to provide an aggregate analysis of the pension freedoms or guidance guarantee. The Committee has previously recommended that the Government publish regular monitoring reports on the pension freedoms. Our Pensions freedoms report concluded and recommended that:

> The FCA has undertaken important work in monitoring decisions made by people exercising their pension freedoms. There is little evidence that people are being reckless with their savings; if anything they are being overly conservative. We assume that the Government wants consumers to make well-informed decisions in keeping with their financial interests. It is difficult to square that with, for example, people withdrawing pension pots to leave them resting in low interest cash bank accounts.
>
> 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.[121]

125. Our predecessor Committee also said in its Pension freedom guidance and advice report that the lack of published statistics, six months after the pension freedom reforms, was unacceptable.[122] Since then the Government has continued to build on the pension freedom reforms with new policies and developments such as the midlife MOT, still without a holistic monitoring programme of the overall impact.[123]

126. **We and our predecessor have twice asked the Government to improve its monitoring and reporting on progress of the pension freedoms and default guidance, yet there remains an absence of a regular authoritative assessment of the policy. We hope for success at the third time of asking.**

127. ***We recommend that the Department for Work and Pensions publishes an annual report on pension freedoms and the guidance guarantee. It should make use of the existing annual release of Pension Wise user evaluations and existing data produced by the regulators, as well as data on competition in the industry's markets and the effectiveness of newer policies such as the midlife MOT. The annual report should also give a regular aggregate assessment of the policy and industry.***

---

121 Work and Pensions Committee, Pensions freedoms, Ninth Report of the Session 2017–19, 28 March 2018, pp 9–8

122 Work and Pensions Committee, Pensions freedom guidance and advice, First Report of Session 2015–16, 14 October 2015, para 16

123 DWP, Mid-life MOT: take control of your future

Net pay versus relief at source

128. There are two ways pension schemes can collect tax relief for savers: net pay and relief at source. A net pay arrangement is where the pension contributions are collected before income tax. This gives taxpayers automatic full tax relief at the highest rate and no income tax is paid on contributions.

129. In relief at source schemes, employers take 80% of an individual's pension contribution from take home pay, i.e. after income tax has been deducted. Tax relief is reclaimed from HMRC by the pension scheme who send back the basic rate of tax, 20%. This means that, in effect, employees who do not pay tax get a contribution from the Government to their pension scheme, equivalent to the contribution which would be made if they paid tax at 20%. Higher or additional rate taxpayers can claim back the rest of the tax relief from HMRC by either writing to them separately or through an annual self-assessment tax return.

130. In a net pay arrangement, employees who do not pay tax do not get tax relief, and therefore no Government contribution, on their pension contributions from the government. Andy Agathangelou, Founding Chair of the Transparency Task Force, said:

> … the net pay versus relief at source scandal. It is a scandal. It is likely to end up in the court sooner or later if the regulators and Government do not fix this. Very simply, there are low-paid earners who are missing out on tax relief they are entitled to because the employer has selected a pension scheme that prevents them from having that benefit. That is a major problem and it undermines value for money.[124]

131. The same point was also raised by Adrian Boulding, then Director of Policy, NOW: Pensions in oral evidence on automatic enrolment:

> The point where I am particularly concerned about low earners is that there are two forms of tax relief and roughly half of the auto-enrolment schemes follow the net pay system of tax relief. It is great for medium and high earners; it has a particular disadvantage for low earners, in that somebody who is not a taxpayer in a net pay scheme, so an individual earning below £12,500 does not get tax relief. At worst, for somebody at £12,500, that costs them £64 per year. The way that tax system works, that is £64 out of their take-home pay, an amount of money that might pay for a child's school uniform, for instance. It is just a quirk of the tax system that those in relief at source schemes get those, and those in net pay schemes are denied that. We have pushed the Treasury hard on this and we will continue to push hard on it.[125]

124 Q23
125 Pension auto-enrolment: update, Q2

132. The Minister for Pensions and Inclusion and the Economic Secretary to the Treasury told us that the Government had consulted on the net pay versus relief at source arrangements at the 2015 Summer Budget and found there was no clear consensus for reform. They said that in 2016/17 there were 1.33 million people with earnings below the personal allowance contributing into a pension scheme via net pay tax relief arrangements.[126]

133. The difference between the two types of contribution has increased from up to £35 per year in 2018/19 to up to £65 per year in 2019/20 for those with earnings below the personal allowance and contributing to statutory automatic enrolment rates.[127] The Economic Secretary to the Treasury told us that "The dilemma we have is that if you look at the total amount of money we are talking about here, which is about £100 million, it would cost about £10 million to administer that."[128]

134. **In 2019/20, those with earnings below the personal allowance and contributing at statutory automatic enrolment rates will see a difference of around £65 per year between net pay and relief at source tax relief arrangements. Over a lifetime of pension saving this will be a significant amount to many people and a significant proportion of their pension savings built up through automatic enrolment. The Government says that it would cost too much to put this right. In doing so, it risks damaging faith in the system, by perpetuating arrangements which cause individuals to lose significant sums through decisions they did not make.**

135. ***We recommend that the Government resolve the discrepancy between net pay and relief at source tax relief arrangements as a matter of urgency.***

126 Letter from the Minister for Pensions and Financial Inclusion and the Economic Secretary to the Treasury to the Chair, 29 April 2019
127 Ibid.
128 Q333

Conclusions and recommendations

Introduction

1. There should be no cause for the complacency about the pensions industry's performance on transparency that was evident in the ratings the Ministers gave it. We are not convinced that any part of the industry scores above half marks on transparency. (Paragraph 7)

Workplace pensions

2. The charge cap of 0.75% on defined contribution pension schemes used for automatic enrolment does not appear to have caused charges to rise to the level at which it was set, with average charges being between 0.38 and 0.54% depending on the scheme type. But not all charges are covered by the cap, and the full extent of charges outside the cap is not known. That makes it impossible to know how well the cap is working in practice. (Paragraph 19)

3. We are concerned that permitting a combination of a flat fee plus a percentage of funds under management charge has the potential to completely erode small dormant investment pots. If this were to happen, many savers' confidence in automatic enrolment could be fatally undermined. (Paragraph 20)

4. *We recommend that DWP review the level and scope of the charge cap, as well as permitted charging structures, in 2020. The review should consider preventing flat fee charging structures being applied to dormant pension pots and revisit measures to proactively consolidate smaller pots.* (Paragraph 21)

5. In most cases, members of defined benefit pension schemes are not directly impacted by the costs or investment decisions of their scheme. However, in an environment in which many defined benefit schemes are in deficit, being closed to new members or reducing member benefits, it is important that the same scrutiny to value for money is given by trustees as it is for defined contribution schemes. Better scrutiny of value for money in defined benefit schemes will either justify or avoid the need for the often difficult decisions being taken about the future of pension schemes. (Paragraph 25)

6. Independent Governance Committees are now established and fulfilling a necessary role. It is the right time for a comprehensive review to take place. We note that the FCA is now planning this review, having previously postponed doing so. In the light of the concerns which are being expressed about the work of some Independent Governance Committees, the FCA must not postpone this any further. (Paragraph 34)

7. We have received worrying evidence that some trustees are making investment decisions without a clear understanding of how much those decisions cost. It does not appear that these are isolated cases. We welcome the proposals put forward by the Institutional Disclosure Working Group to address this through increased costs

transparency. Now that the Institutional Disclosure Working Group's successor, the Cost Transparency Initiative, has published the disclosure templates, the measure of success will be how quickly and comprehensively they are adopted. (Paragraph 46)

8. We recognise that there is not a perfect one-size-fits-all model for reporting costs and that developing templates is an ongoing process. The Minister for Pensions and Financial Inclusion warned the industry that, if they fail to embrace the Cost Transparency Initiative, the Government would respond by legislating. We are not convinced that this will provide sufficient incentive to achieve a high take up through voluntary disclosure. (Paragraph 47)

9. *We recommend that the Government bring forward legislation to make the disclosure templates mandatory for both defined contribution and defined benefit schemes.* (Paragraph 48)

10. *We recommend that, to avoid poor quality and untimely data, the disclosure templates are supported by an independent verification process. Compliance should be overseen by the relevant regulators, who should be given any additional powers they might need to tackle non-compliance.* (Paragraph 49)

11. *We recommend that schemes should be supported to collect additional information if the template does not fully cover their individual scheme needs. This information should be available for scheme members as part of the wider information provided on value for money including information on exit charges and any other costs associated with transfer of their pot. The FCA should explore the creation of a public register of asset managers' compliance records with reasonable data requests.* (Paragraph 50)

12. There is no agreed definition of what is meant by value for money in the pensions industry. Although individual schemes will need to vary their value for money goals, without agreed definitions it is not possible to make effective comparisons. (Paragraph 60)

13. We fully recognise that value for money is not solely about costs, but costs inevitably form an important part of the equation. Complexity and layers of intermediaries mean that many trustees do not have access to suitable information to make judgements about the costs of managing their schemes. Schemes should clearly communicate their interpretation of value for money, and how it will be achieved, to their members (Paragraph 61)

14. The Competition and Markets Authority's Investment Consultants Market Investigation final report, published during the course of this inquiry, contains welcome proposals to address conflicts of interest and cosy relationships between schemes and asset managers, and to ensure that trustees are actively seeking value for money. (Paragraph 62)

15. We note that the Government legislated in February 2018 to require occupational defined contribution schemes to publish their assessment of value for members and that all schemes will have published their assessment by November 2019. (Paragraph 63)

16. *We recommend that the Government reviews the initial impact of requiring occupational defined contribution schemes to publish their assessment of value for members in 2020. The review should assess whether or not this requirement leads to better scheme focus on achieving value for money and better communication to scheme members about value for money.* (Paragraph 64)

Investment strategies

17. We have not received compelling evidence that higher-cost providers provide better performance. However, there are justifiable reasons, depending on value for money goals, for some schemes using higher-cost providers, including investment in infrastructure, diversifying portfolios and matching long-term investments to long-term savings. We are encouraged that the Minister is seeking solutions better to enable investment by defined contribution schemes in infrastructure and other illiquid assets whilst not fundamentally undermining the charge cap. (Paragraph 77)

18. *We recommend that the FCA should introduce requirements for contract-based schemes, corresponding to those introduced for trust-based schemes, to report on environmental, social and governance factors as proposed in the FCA's consultation on Independent Governance Committees: extension of remit.* (Paragraph 78)

Transparency for individuals

19. A non-commercial pensions dashboard will be a welcome, if overdue, additional tool to provide transparency to individuals and help them plan how they use their pension funds. We welcome the Government's ongoing commitment to the project. *The Government should now take a leading role in ensuring that schemes adequately prepare their data ahead of launch and that the project delivers the full benefits to consumers.* (Paragraph 86)

20. We accept that for a pensions dashboard to be launched in a timely manner, it will necessarily be limited at the outset. This should not be at the expense of any of the key data on an individual's pension savings. (Paragraph 87)

21. We welcome that the Government has committed to including State Pension data in pension dashboards. *We recommend that personal State Pension projections be included in the Pensions Dashboard at launch, as they form a key component of many individuals' pension incomes.* (Paragraph 88)

22. *We recommend that by the end of 2019 the Government publish a timetable for the rollout of a non-commercial pensions dashboard. This should include key milestones, such as the date for pension providers to include their data on the pensions dashboard, as well as target timescales for phases beyond the initial launch—for example, longer term plans to enable consumers to make value for money comparisons through the pensions dashboard. With consent, authorised providers of financial services should be able to include an individual's pensions dashboard data within their own applications.* (Paragraph 89)

23. *We recommend that the pensions dashboard should feature retirement income targets to ensure the information is meaningful to its users.* (Paragraph 90)

24. The pension freedoms had two important components: the right to choose and the guarantee of guidance to ensure that choice is an informed one. We are concerned that firms might be able to "game" guidance opt-out requirements and nudge individuals into not receiving guidance which they were promised. (Paragraph 97)

25. We welcome progress by the Financial Conduct Authority and Money and Pensions Service in testing approaches to ensure that consumers have received appropriate guidance or opted-out of receiving guidance. *We recommend that individuals should only be able to opt-out of guidance through an active decision communicated to an impartial body, such as the Money and Pensions Service. This should not be a process which needs to be repeated for every pension pot an individual has.* (Paragraph 98)

26. *We recommend that for any transaction to be deemed valid, the relevant upfront costs and any further charges should be detailed on the front page of the product and the investor should be required to specifically sign that they are aware of those charges and have agreed to them. This should be the case for exiting a scheme as well as for investment into a new or additional scheme. Investors should also be given a 14-day cooling-off period where transactions can be reversed without detriment to the investor.* (Paragraph 99)

27. Pension Wise has been successful in delivering guidance to those who use it and enabling these pension savers to make well informed choices. The high level of satisfaction with Pension Wise demonstrates the value of a service which is yet not achieving its potential reach. (Paragraph 103)

28. *We recommend that the new Money and Pensions Service should outline in its forthcoming strategy how it will increase usage of Pension Wise.* (Paragraph 104)

29. We welcome the FCA's proposals for the investment pathways. These are in line with the recommendation we made in our Pensions Freedoms report last year—namely, that any provider offering drawdown should be required by FCA rules to offer a default solution that is targeted at their core customer group. (Paragraph 110)

30. The investment pathways must not be a substitute for guidance, which is still required to help individuals determine which product is right for them. For example, it is not clear to us how, under the proposed investment pathways, an individual who states that they plan to use their money to set up a guaranteed income is supported to do so. Many people who have passively built up retirement savings through automatic enrolment would likely need support through advice or guidance if they wanted to make an informed choice on purchasing a product which provides a guaranteed income. (Paragraph 111)

31. *We recommended in our Pensions Freedoms report a 0.75% charge cap on default decumulation pathways. The FCA told us that it would prefer to see if market-consistent tools work and, if those fail, introduce a charge cap. This conversation is a near repeat of those our predecessor Committee had with the FCA about schemes used for automatic enrolment savings, which are now the subject of a charge cap. The FCA would send a simpler message to the industry by setting a charge cap now for investment pathways—rather than issuing vague threats to the industry.* (Paragraph 112)

32. *We recommend that the FCA implement a robust monitoring programme for the effectiveness of the investment pathways, including value for money comparisons with other available products, in partnership with any other DWP monitoring work of the pension freedoms.* (Paragraph 113)

33. *We recommend that the FCA clearly set out how people who have passively built up saving through automatic enrolment will be supported to make and carry out an informed choice from the available decumulation products and not solely directed to drawdown products.* (Paragraph 114)

34. *We recommend that a 0.75% charge cap should be set on decumulation products available through FCA decumulation pathways from the outset.* (Paragraph 115)

35. Many Independent Financial Advisers provide good value for money for pension customers. However, the number of people paying for good value advice is low. People who are not able to access good advice need guidance and effective protection from pension scams, which can have life changing impacts. Scams not only harm the individual but cause wider damage to the industry by discouraging potential savers. Scams are not a necessary consequence of the pension freedoms. (Paragraph 121)

36. We were concerned to learn that the FCA's dedicated scams team only consisted of approximately 10 people out of 3,700 FCA staff. *We recommend that the FCA review whether it dedicates sufficient resource to combat active pension scams, prevent new pension scams and protect individuals.* (Paragraph 122)

37. *We recommend that the Financial Conduct Authority's list of unauthorised firms be expanded into a widely publicised database. This database should be regularly updated by the range of governmental organisations involved in pension scams and act as a co-ordinated early warning system.* (Paragraph 123)

38. We and our predecessor have twice asked the Government to improve its monitoring and reporting on progress of the pension freedoms and default guidance, yet there remains an absence of a regular authoritative assessment of the policy. We hope for success at the third time of asking. (Paragraph 126)

39. *We recommend that the Department for Work and Pensions publishes an annual report on pension freedoms and the guidance guarantee. It should make use of the existing annual release of Pension Wise user evaluations and existing data produced by the regulators, as well as data on competition in the industry's markets and the effectiveness of newer policies such as the midlife MOT. The annual report should also give a regular aggregate assessment of the policy and industry.* (Paragraph 127)

40. In 2019/20, those with earnings below the personal allowance and contributing at statutory automatic enrolment rates will see a difference of around £65 per year between net pay and relief at source tax relief arrangements. Over a lifetime of pension saving this will be a significant amount to many people and a significant proportion of their pension savings built up through automatic enrolment. The Government says that it would cost too much to put this right. In doing so, it risks damaging faith in the system, by perpetuating arrangements which cause individuals to lose significant sums through decisions they did not make. (Paragraph 134)

41. *We recommend that the Government resolve the discrepancy between net pay and relief at source tax relief arrangements as a matter of urgency.* (Paragraph 135)

Formal minutes

Wednesday 24 July 2019

Members present:

Rt Hon Frank Field, in the Chair

Heidi Allen	Ruth George
Neil Coyle	Steve McCabe
Rosie Duffield	Nigel Mills
	Chris Stephens

Draft report (*Pensions costs and transparency*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 135 read and agreed to.

Resolved, That the Report be the Twenty-ninth 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 4 September at 9.15am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 5 September 2018

Dr Chris Sier, Former Chair, FCA Institutional Disclosure Working Group, **Andy Agathangelou**, Founding Chair, Transparency Task Force, **David Pitt-Watson**, Visiting Fellow, Cambridge Judge Business School — Q1–66

Wednesday 5 December 2018

Colin Meech, National Officer, UNISON, **Jonathan Lipkin**, Director of Policy, Strategy & Research, Investment Association — Q67–88

Dr Yvonne Braun, Director of Policy, Long-Term Savings and Protection, Association of British Insurers, **Nigel Peaple**, Director of Policy, Pensions and Lifetime Savings Association — Q89–118

Wednesday 6 February 2019

Andrew Bailey, Chief Executive, Financial Conduct Authority, **Christopher Woolard**, Executive Director of Strategy and Competition, Financial Conduct Authority, **Deborah Jones**, Director of Life Insurance and Financial Advice, Financial Conduct Authority, **Pritheeva Rasaratnam**, Head of Pensions and Funds Policy, Financial Conduct Authority — Q119–223

Wednesday 3 April 2019

Guy Opperman MP, Parliamentary Under Secretary of State, **Charlotte Clark**, Strategy Director for Private Pensions, Department for Work and Pensions, and **John Glen MP**, Economic Secretary, HM Treasury — Q224–337

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

PCT numbers are generated by the evidence processing system and so may not be complete.

1 38 degrees (PCT0051)

2 AgeWage (PCT0003)

3 Aon (PCT0038)

4 APFI (PCT0049)

5 Association of Consulting Actuaries (ACA) (PCT0041)

6 Associaton of British Insurers (PCT0050)

7 B&CE (PCT0036)

8 Bond, Andrew (PCT0015)

9 Curley, Mr David (PCT0001)

10 Department for Work and Pensions (PCT0044)

11 Elkington, Mr Daniel (PCT0008)

12 evestor (PCT0004)

13 FI Guy, Mr Young (PCT0007)

14 Financial Conduct Authority (PCT0054)

15 Financial Services Consumer Panel (PCT0026)

16 Hargreaves Lansdown (PCT0018)

17 Implementation Taskforce for Growing a culture of social impact investing in the UK (PCT0032)

18 Investment & Life Assurance Group (PCT0025)

19 The Investment Association (PCT0023)

20 IPSE (PCT0022)

21 Johnson, Marcus (PCT0010)

22 Just Group (PCT0030)

23 Just Group (PCT0056)

24 LEBC The Retirement Adviser (PCT0016)

25 Legal and General Group (PCT0033)

26 Liepins Hall, Mrs Janice (PCT0005)

27 The Low Income Tax Reform Group (PCT0014)

28 LV= (PCT0052)

29 NOW: Pensions (PCT0029)

30 Partners Group (PCT0020)

31 PensionBee (PCT0012)

32 The Pensions Regulator (PCT0043)

33 Personal Finance Society (PCT0034)

34 PIMFA (PCT0024)

35 PLSA (PCT0042)

36 Professional Pensions and Investments Ltd (PCT0009)

37 Quilter plc (PCT0035)

38 Royal London (PCT0046)

39 Scottish Widows (PCT0028)

40 Secure Pension Solutions (PCT0006)

41 ShareAction (PCT0048)

42 Sier, Chris (PCT0053)

43 Simplitium Ltd (PCT0017)

44 Smart Pension (PCT0031)

45 Smith, Mr Richard (PCT0019)

46 St. James's Place Wealth Management (PCT0039)

47 Supertrust UK Master Trust (PCT0047)

48 Tilba, Dr Anna (PCT0027)

49 Trades Union Congress (PCT0011)

50 Transparency Task Force (PCT0055)

51 UNISON (PCT0013)

52 Vanguard Asset Management Limited (PCT0040)

53 XPS Pensions Group (PCT0037)

54 Zurich Insurance (PCT0045)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2017–19

First Report	Universal Credit: the six week wait	HC 336
Second Report	A framework for modern employment	HC 352
Third Report	Protecting pensions against scams: priorities for the Financial Guidance and Claims Bill	HC 404
Fourth Report	PIP and ESA assessments: claimant experiences	HC 355
Fifth Report	Universal Credit Project Assessment Reviews	HC 740
Sixth Report	British Steel Pension Scheme	HC 828
Seventh Report	PIP and ESA assessments	HC 829
Eighth Report	European Social Fund	HC 848
Ninth Report	Pensions freedoms	HC 917
Tenth Report	Assistive technology	HC 673
Eleventh Report	Universal Credit: supporting self-employment	HC 997
Twelfth Report	Carillion	HC 769
Fourteenth Report	Appointment of Professor Sir Ian Diamond as Chair of the Social Security Advisory Committee	HC 971
Fifteenth Report	The Motability Scheme	HC 847
Sixteenth Report	Collective defined contribution pensions	HC 580
Seventeenth Report	Universal Credit and Domestic abuse	HC 1166
Eighteenth Report	Universal Support	HC 1667
Nineteenth Report	Benefit Sanctions	HC 955
Twentieth Report	Universal Credit: managed migration	HC 1762
Twenty First Report	Universal Credit: support for disabled people	HC 1770
Twenty-Second Report	Universal Credit: Childcare	HC 1771
Twenty-Third Report	Two-child limit	HC 1540
Twenty-Fourth Report	The benefit cap	HC 1477
Twenty-Fifth Report	Universal Credit: childcare: Government Response to the Committee's Twenty-Second Report	HC 2078
Twenty-Sixth Report	Universal Credit: tests for managed migration	HC 2091
Twenty-Seventh Report	Universal Credit: natural migration	HC 1884

Twenty-Eighth Report	Welfare safety net	HC 1539
Twenty-Ninth Report	Pension costs and transparency	HC 1476
First Special Report	Child Maintenance Service: Government's Response to the Committee's Fourteenth Report of Session 2016–17	HC 354
Second Special Report	Self-employment and the gig economy: Government Response to the Committee's Thirteenth Report of Session 2016–17	HC 644
Third Special Report	Disability employment gap: Government Response to the Committee's Seventh Report of Session 2016–17	HC 652
Fourth Special Report	Victims of modern slavery: Government Response to the Committee's Twelfth Report of Session 2016–17	HC 672
Fifth Special Report	Employment Opportunities for Young People: Government response to the Committee's Ninth Report of Session 2016–17	HC 872
Sixth Special Report	Protecting pensions against scams: priorities for the Financial Guidance and Claims Bill: Government Response to the Committee's Third Report	HC 858
Seventh Special Report	A framework for modern employment: Government response to the Second Report of the Work and Pensions Committee and First Report of the Business, Energy and Industrial Strategy Committee	HC 966
Eighth Special Report	PIP and ESA assessments: Government Response to the Committee's Seventh Report	HC 986
Ninth Special Report	British Steel Pension Scheme: The Pensions Regulator Response to the Committee's Sixth Report	HC 987
Tenth Special Report	Pension freedoms: Government response to the Committee's Ninth Report	HC 1231
Eleventh Special Report	Carillion: Responses from Interested Parties to the Committee's Twelfth Report	HC 1392
Twelfth Special Report	Universal Credit: supporting self employment: Government Response to the Committee's Eleventh Report	HC 1420
Thirteenth Special Report	Employment Support for Carers: Government Response to the Committee's Thirteenth Report	HC 1463
Fourteenth Special Report	Carillion: Government Response to the Committee's Twelfth Report	HC 1456
Fifteenth Special Report	Assistive technology: Government Response to the Committee's Tenth Report	HC 1538

Sixteenth Special Report	Universal credit and domestic abuse: Government response to the Committee’s Seventeenth Report	HC 1611
Seventeenth Special Report	Universal Support: Government Response to the Committee’s Eighteenth Report of Session 2017–19	HC 1862
Eighteenth Special Report	Universal Credit: managed migration: Government Response to the Committee’s Twentieth Report of Session 2017–19	HC 1901
Nineteenth Special Report	Benefit sanctions: Government Response to the Committee’s Nineteenth Report of Session 2017–19	HC 1949
Twentieth Special Report	Universal Credit: support for disabled people: Government Response to the Committee’s Twenty- First Report of Session 2017–19	HC 1998
Twenty-First Special Report	Two-child limit: Government Response to the Committee’s Twenty-Third Report	HC 2174
Twenty-Second Special Report	The benefit cap: Government Response to the Committee’s Twenty-Fourth Report	HC 2209
Twenty-Third Special Report	Universal Credit: childcare: Government Response to the Committee’s Twenty-Fifth Report	HC 2422
Twenty-Fourth Special Report	Universal Credit: tests for managed migration: Government Response to the Committee’s Twenty-Sixth Report	HC 2091