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Pension freedoms

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Work and Pensions Committee

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Summary

Pension freedoms have rightly given people the choice of what to do with their own savings. Individuals can choose a retirement income product that offers the right mix of access to cash, security and investment returns for them. Pensions can, however, seem distant and daunting. Faced with bewildering complexity, many people simply switch off.

Automatic enrolment has been a huge success in saving, bringing millions of people into workplace pensions for the first time. The same nudge techniques that lie behind that success could be applied at retirement to guide people towards suitable options, while retaining the full freedom to choose.

There is little evidence that savers are frivolously squandering their life savings. But that does not mean that people are making well-informed pension freedom decisions in their own interest. Too many people are withdrawing their pension pots in full to leave them resting in low interest cash bank accounts. We are also concerned by large numbers of people buying drawdown products—which carry investment risk and can run out—without fully understanding the consequences. Consumers who do not take financial advice on drawdown tend to take whatever they are offered by their incumbent pension provider.

This report aims to create a pension freedoms market that works better for consumers. We have taken a two-pronged approach. First, we have sought to protect savers who do not—or cannot—engage with their pension choices. Second, we have sought to empower more consumers to make active decisions.

Protecting savers

There is a philosophical difference between the Government's approach to the accumulation (saving) and decumulation (receiving) phases of a pension. Automatic enrolment has been a tremendous success by defaulting people into pension saving. Accumulation, as a result, is largely passive. In the decumulation phase, however, individuals must take an active choice of what to do with their savings. The Government hoped that a competitive and innovative market would meet consumer needs. There is little evidence of this: too many drawdown customers are not shopping around and do not understand their options. They are reliant instead on getting a good deal from their existing provider. The success of automatic enrolment in overcoming market failure in the accumulation phase offers a template for strengthening pension freedoms. We recommend every pension provider offering drawdown is required, by April 2019, to offer a default decumulation pathway suitable for their core customer group. These would be subject to oversight by existing Independent Governance Committees and subject to the same 0.75% charge cap already in place for accumulation in automatic enrolment. People would still be free to choose to invest and spend their own money as they wished. But if they did not make an active choice, they would move into a suitable and regulated default product.

NEST, the government-backed pension scheme set up to support automatic enrolment, is not yet able to offer decumulation products. Its five million members, which include

many on low incomes saving for the first time, should not be the only ones compelled to shop around for suitable retirement products. We recommend that the Government allows NEST to provide decumulation products, including a default drawdown pathway, from April 2019. Rather than impeding a market that is hardly functioning well, evidence from automatic enrolment suggests that NEST may drive better retirement outcomes by forcing other providers to offer greater value or risk savers switching over to NEST to get a better retirement deal.

Empowering savers to choose

In earlier reports, we recommended a free and impartial guidance appointment as default before people access their pension pots. People who have taken guidance are more likely to then take independent financial advice. This is a wise choice for many, but can be expensive for those with smaller pension pots. Technological innovation has a clear role in filling that gap. We recommend the Financial Conduct Authority report on outcomes from automated advice, with a view to reassuring potential customers that it can be a useful service.

Sent shortly before retirement, pension "wake-up" packs currently do nothing of the kind. This is no surprise: incumbent pension providers have little incentive to rouse members from slumber. Trials show that single page pension passports increase consumer engagement with pensions options. We recommend that pension providers are required to issue them.

By providing information on all pension entitlements in one place, the pensions dashboard, which Government has promised by 2019, will be a vital tool in informing and engaging customers and empowering them to exercise pension freedoms in their own interest. We recommend that all pension providers are mandated to provide necessary information to the pensions dashboard, with a staged timetable to enable smaller legacy defined benefit schemes time to comply.

The case for a publicly-hosted pensions dashboard is clear cut. Consumers want simple, impartial and trustworthy information. The case for multiple dashboards hosted by self-interested providers is far less convincing. This would add complexity to a problem crying out for simplicity. Competition over the presentation of the same information risks detracting, or even acting counter to, competition over the quality of pension products. Rather than regulating the dashboards into consistency, it is far simpler just to have one. We recommend that the Government introduces a single pensions dashboard, hosted by the forthcoming new single financial guidance body, funded by the industry levy and in place by April 2019.

A better pension freedoms market

Informed and confident savers are more likely to shop around and take sound financial decisions about their retirement. A system of default decumulation pathways will protect disengaged consumers. But the real prize is a properly functioning pension freedom market which offers suitable and good value pensions for more people. This can be driven by a virtuous cycle of better-informed customers switching providers and demanding cost-effective products. Default guidance, a more varied advice market and a pensions dashboard will be vital in ensuring that savers are equipped to exert that competitive pressure.

1 The effects of pension freedoms

Our work on pension freedoms

1. Pension freedoms were introduced in April 2015. Under this reform, people aged 55 or over were given far greater freedom over how to access their defined contribution (DC) pension pots. Previously, most people were required to purchase an annuity, with the majority of those opting to do so through their existing provider.[1] People can still purchase annuities, but are also now free to take their whole pot in cash, leave funds invested while withdrawing income through drawdown, or leave the whole pot untouched.

Box 1: Retirement product options:

- **Annuity** - an insurance product that offers the individual a guaranteed income, usually for the rest of their life.
- **Drawdown** - a product that enables the consumer to withdraw some income as cash while leaving the remainder invested in funds.
- **Cash out** - individuals have the right to cash-out their whole pension pot. They can take 25% tax-free and then will pay tax at their marginal rate on the rest.

2. Our predecessor Committee considered the early progress of pension freedoms in its first report following the 2015 general election. That report argued that pension freedoms had increased the potential for pension scams by giving people readier access to large sums of money, and recommended stronger protections. It also recommended improvements to guidance and advice services to ensure that savers could make informed choices about what to do with their pensions.[2] As soon as we were re-established following the 2017 general election, we launched a follow-up inquiry to consider how the policy had progressed. This is the third report we have published relating to this inquiry. The others were:

- *Protecting pensions against scams: priorities for the Financial Guidance and Claims Bill*, in which we recommended an urgent ban on pensions cold calling and a system of default guidance on exercising pension freedoms.[3] We are pleased that the Bill has been amended to largely adopt our proposals.
- *British Steel Pension Scheme*, in which we expressed concern about the misselling of transfers out of valuable and reliable defined benefit (DB) pension benefits, and recommended the banning of contingent charging for advice on such transfers.[4]

This report covers the remaining areas of our inquiry, though we expect to maintain a watching brief on pension freedoms.

1 HM Treasury, Freedom and choice in pensions, Cm 8835, March 2014. p12
2 Work and Pensions Committee, First Report of Session 2015–16, Pension freedom guidance and advice, HC 371, October 2015
3 Work and Pensions Committee, Third Report of Session 2017–19, Protecting pensions against scams: priorities for the Financial Guidance and Claims Bill, HC 404, December 2017
4 Work and Pensions Committee, Sixth Report of Session 2017–19, British Steel Pension Scheme, HC 828, February 2018

Use of pension freedoms

3. Early evidence suggests that pension freedoms have led to a dramatic shift in behaviour. Sales of annuities have slumped, partly driven by persistent low interest rates, with more consumers currently favouring drawdown products.[5] These may offer greater returns but are riskier and provide no guarantee of future income. Data compiled by the Financial Conduct Authority (FCA), which regulates contract-based pensions, shows that twice as many pension pots are being moved into drawdown than annuities.[6] Aviva, a pension provider, told us that, of their proactive customers, 53% have moved their pot into drawdown, with only 5% electing to buy an annuity.[7]

4. We heard concerns that that the shift from annuities to drawdown products has been, in many cases, poorly informed. The FCA found that drawdown decisions made without financial advice were often based upon a desire to access the tax-free portion of their pot, rather than a consideration of how to invest the remainder.[8] Consumers typically accepted a drawdown product from their pension provider without considering other options. Most such people, wrongly, "did not consider that they had made a choice about a retirement income product at that stage". Furthermore, the FCA found that many consumers were "not even aware what product they had, what the charges were or what they were invested in".[9] They were "particularly concerned that consumers end up with an investment strategy that may not be suitable given the consumers' risk tolerance and what they intend to do with their pots in the future".[10]

5. There was little evidence, however, that people are squandering their life savings on Lamborghinis.[11] While the FCA found that 53% of all pots accessed had been fully withdrawn, 90% of those pots were smaller than £30,000. Furthermore, 94% of consumers making full withdrawals had other sources of retirement income in addition to the state pension.[12] Michelle Cracknell, Chief Executive of the Pensions Advisory Service (TPAS), told us that following an initial "dash for cash", comprised primarily of people "just tidying up old small pots", people accessing their savings now were "thinking more fully about their retirement".[13]

6. Rather than being reckless in their use of withdrawn pension savings, there is instead evidence that many people are being misguidedly conservative. The FCA found that 32% of people who withdrew a pot in full chose to save the largest share of it in standard savings products like cash bank accounts and premium bonds.[14] These are likely to have lower rates of return than pension saving as well as potentially higher tax liabilities. We heard that these apparently irrational decisions were partly driven by a lack of trust in pensions and pensions policy.[15] Sir Steve Webb, Pensions Minister at the time pension freedoms were introduced and now Director of Policy at pension provider Royal London, said:

5 NAO, A short guide to the Department for Work and Pensions, p.35
6 FCA, Retirement Outcome Review: Interim Report, p3
7 Aviva, (PFC0052)
8 FCA, Retirement Outcomes Review Interim Report, p.11
9 Ibid.
10 FCA, Retirement Outcome Review: Interim Report, p15
11 Sir Steve Webb, the Pensions Minister when the freedoms were introduced, famously suggested he was "relaxed" about the prospect of people cashing out their pensions to purchase Lamborghinis; Minister fuels pension debate with Lamborghini comment, March 2014
12 FCA, Retirement Outcome Review: Interim Report, p. 3
13 Q14, (Michelle Cracknell)
14 FCA, Retirement Outcome Review: Interim Report, p. 9
15 FCA, Retirement Outcome Review: Interim Report, pp.49–50

> It is people who take their tax-free cash who think, "What shall I do with the rest? I don't trust the financial services industry. I will put it in my cash ISA. I am getting nought point not very much, minus inflation". That is the big worry.[16]

Monitoring outcomes

7. The FCA's initial research provides a helpful overview of how people are using pensions freedoms.[17] We heard concerns, however, about its limitations. Which?, a consumer organisation, told us that there needed to be "a greater focus on and improved monitoring of long-term consumer outcomes".[18] As a snapshot of behaviour at the point when funds are accessed the FCA research does not consider whether those decisions were likely to meet individuals' objectives in the short or long term.[19] Based on the information available to government and regulators, it is not possible to assess the effectiveness of support for people making very significant financial decisions. These concerns echoed those of our predecessor Committee in 2015, which concluded "freedom to choose is not enough; people must have freedom to make informed choices".[20] That Committee recommended the Government initiate "a rolling research programme to track the longer-term consequences of pension freedom decisions".[21] While the Government began publishing a wider variety of data about pension freedoms in response to that report, it has not yet acted on that recommendation.[22]

8. The importance of monitoring consumer outcomes from pension freedoms is only going to become more pressing over time. The decline of defined benefit occupational pensions means that younger cohorts will spend retirement dependent on their DC pension savings.[23] Otto Thorosen, Chair of the state-backed pension scheme NEST, told us that the current norm of people retiring with a wide range of income sources was a "false position" and that individuals will be increasingly reliant on judicious use of pension freedoms.[24] The Association of British Insurers (ABI), an industry body, told us that the Government had not stated a purpose of pension freedoms, or a "clear long-term strategy for long-term savings".[25] Not only are the outcomes of the pension freedom reforms not being adequately monitored, it is not clear what the Government wants those outcomes to be.

9. **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.**

16 Q46, (Sir Steve Webb)
17 FCA, Retirement Outcomes Review: Interim Report
18 Which?, (PFC0036)
19 PLSA (PFC0078), ABI (PFC0062)
20 Work and Pensions Committee, First Report of Session 2015–16, Pension freedom guidance and advice, HC 371, October 2015, p4
21 Work and Pensions Committee, First Report of Session 2015–16, Pension freedom guidance and advice, HC 371, October 2015, para 18
22 HM Treasury, Pension freedom guidance and advice: government response to the Work and Pensions Committee's first report of session 2015–16, Cm 9183, December 2015
23 Q161–2, (Charlotte Clark)
24 Q55 (Otto Thoresen)
25 ABI (PFC0062)

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.***

2 Protecting savers

A more consistent system

Automatic enrolment and pension freedoms

10. Automatic enrolment (AE) into pensions has been phased in since 2012, three years before pension freedoms. It was designed to increase both the number of people saving for retirement and the amount saved. The rationale behind the policy was to use the same lack of engagement with pension saving that had resulted in widespread under-saving to instead promote more saving.[26] Under AE, workers are defaulted into a workplace pension scheme. Individuals are free to choose to save elsewhere or not at all, but to do so they must actively opt out. Whereas previously the path of least resistance was *not to save* for retirement, under AE it is *to save*. AE has been hugely successful in achieving its objectives: nine million people are now enrolled in a workplace pension scheme and total savings into workplace pension schemes are forecast to increase by £20 billion in 2019/20.[27]

Box 2: Accumulation and decumulation phases:

- **Accumulation** - saving while working to build up a pension pot for retirement.
- **Decumulation** - converting the pension pot into a retirement income.

11. Pension freedoms takes a different approach: it demands people take personal responsibility for investing their pension savings. NOW: Pensions, a pensions master trust provider, argued that, combined, these two policies lack coherence:[28]

> While auto enrolment recognises the problem of consumer inertia in pension saving and overcomes this, freedom and choice requires consumers to exercise a decision and to be well informed at the point of decumulation. We therefore think that there is a philosophical difference in approach in relation to accumulation and decumulation policies.

NEST, the Government-sponsored workplace pension scheme, said there was "an obvious disconnect between the assumptions about consumer behaviour" underpinning the two policies:[29]

> One is a policy predicated on being fully engaged, whilst the other is currently enjoying enormous success by individuals doing nothing at all.

Many savers face the prospect of actively engaging with their pension for the first time at the point when they must decide what to do with a pot accumulated passively over a working life.

26 Making automatic enrolment work, A review for the Department for Work and Pensions, Cm 7954, October 2010
27 DWP, Automatic Enrolment Review 2017: Maintaining the Momentum, December 2017
28 NOW Pensions (PFC0054)
29 NEST (PFC0033)

Product innovation in the retirement market

12. In introducing pension freedoms for the decumulation phase, the Government argued that competitive pressures would stimulate innovation in the market, prompting the "development of new products that better suit people's changing needs."[30] Nearly three years on from the introduction of pension freedoms, we heard general acceptance that such innovation has been at best sluggish. The FCA told us "product innovation has been limited to date".[31] Peter Vicary-Smith, Chief Executive of Which?, described the performance of industry as "pretty lamentable so far".[32]

13. There were differing opinions as to why innovation has not taken off. Sir Steve Webb argued that there are significant "lead times" in introducing new financial products and consequently the "industry is in the process of innovating but it will take time".[33] Similarly, the FCA wrote that "innovation may pick up as DC pots grow in size and industry is given more time to develop propositions".[34] Prudential, a pensions provider, claimed that the "surprise nature of the announcement on freedoms, and the short implementation period" meant the industry did not have sufficient time to develop new products before freedoms came in.[35]

14. Others pointed to a lack of competition in the decumulation market. The Pensions and Lifetime Savings Association (PLSA), an industry body, told us that "in the absence of meaningful consumer pressure, the impetus to innovate in the consumer interest is diminished."[36] Otto Thoresen argued that product innovation would, regardless, not necessarily indicate a market working for consumers, as the sector was "crying out" for simplification.[37] A market could offer a simple range of products but function well if customers understood them and freely shopped around for the best deal.

15. One area of the market that might have been expected to lead the way in innovation was drawdown products. While sales of these products have increased, innovation has remained largely absent. Choosing the right drawdown product is complicated: it requires consideration of investment and withdrawal strategy and longevity risk.[38] For example, failure to assess longevity risk properly can have severe consequences for individuals if they then withdraw too much each year. We modelled the difference it could make if an individual with a pot of £50,000 opted to take-out £3,000, rather than £2,000, a year.[39] Taking out £3,000 a year, an individual would run out of money within 16 years, well below average life expectancy at age 65, receiving total income of £52,257. An individual withdrawing £2,000 a year would run out after 29 years, receiving total income of £67,543. These are illustrative modelling examples, but they show the complexity individuals face in trying to project how much they should drawdown as income.

30 HM Treasury, Freedom and choice in pensions, p15
31 FCA, Retirement Outcomes Review Interim report, p4;
32 Q26 (Peter Vicary-Smith)
33 Q52 (Sir Steve Webb)
34 FCA, Retirement Outcomes Review Interim Report, p4
35 Prudential (PFC0051)
36 PLSA, (PFC0078)
37 Q52 (Otto Thoresen)
38 FCA, Retirement Outcome Review Interim Report, p102
39 To model these scenarios, we used Which's online income drawdown calculator, assuming a moderate portfolio with middling growth assumptions, full use of the 25% tax-free lump sum, and with income rising at 2% p.a.

16. This complexity is exacerbated by charges that are "complex, opaque and not easily comparable across providers".[40] The FCA found that shopping around for drawdown products was limited: 94% of drawdown sales made without independent financial advice were to existing customers. The FCA concluded that there was "limited competitive pressure to offer good deals".[41]

17. Complexity of products and lack of consumer engagement were, in 2013, found to be key failings in the accumulation market by the Office of Fair Trading. They concluded that market was one of the weakest they had analysed.[42] AE has helped remedy that market by harnessing inertia and removing the complexity of decision-making by simply defaulting individuals into an appropriate workplace pension scheme. The drawdown market bears many of the hallmarks of the accumulation market prior to AE.

Default decumulation pathways

18. We considered the replication of the philosophy of AE for drawdown products, through default decumulation pathways. The People's Pension, a non-profit pension provider described such a system as a "necessary complement to mass automatic enrolment pension saving schemes".[43] Drawdown providers would offer a default product which matched the characteristics and needs of their target consumer group. Individuals who did not make an active choice to invest their funds elsewhere would be defaulted into that product. NEST told us that default decumulation pathways would offer "simple, straight-through routes from saving to taking an income".[44] The Trades Union Congress (TUC) called them the "best method to deal with a system that lacks a mechanism for guiding savers towards what would be the most appropriate options".[45]

19. Few providers currently have default pathways.[46] Christopher Woolard, FCA Director of Strategy and Competition, said that this was unsurprising given that FCA rules "do not really create the idea of a default".[47] The FCA confirmed that they are considering compelling default pathways as a means of improving outcomes for drawdown consumers.[48] Stephen Barclay MP, then Economic Secretary to the Treasury, told us that the Government was also actively considering this approach, which had "worked very well for auto-enrolment at the front end and so there are some lessons to draw from that".[49]

20. Mr Barclay cautioned that there was a "danger of defaulting individuals into unsuitable products".[50] This risk is both to providers, who may be held liable for default products that subsequently proved unsuitable, and to customers, whose inertia could be exploited by providers making their default option expensive.[51] The FCA is considering a charge cap to "help ensure that those consumers who do not engage with their investment

40 FCA, Retirement Outcome Review Interim Report, p12
41 FCA, Retirement Outcomes Review Interim report, p4
42 OFT, Defined contribution workplace pension market study, pp. 14–15
43 The People's Pension, (PFC0079)
44 NEST, (PFC0088)
45 TUC, (PFC0010)
46 FCA, Retirement Outcome Review Interim Report, p.101
47 Q80 (Christopher Woolard)
48 FCA, Retirement Outcomes Review Interim Report, pp105–106
49 Q168 (Stephen Barclay MP)
50 Q168 (Stephen Barclay MP)
51 TUC, (PFC0010)

decisions are not subject to excessive charges".[52] A charge cap on AE saving is already in place. Similarly, workplace personal pension schemes are required to have Independent Governance Committees which scrutinise their value for money.[53] The potential problems of default pathways in the decumulation phase have already arguably been addressed in the accumulation phase through the introduction of a charge cap and Independent Governance Committees.

21. **Pensions can seem distant and daunting. Faced with bewildering complexity, many people simply switch off. By harnessing that disengagement to default people into pension saving, automatic enrolment has been a tremendous success. Accumulation of a DC pension can be passive. Decumulation of that pension, however, is currently active: individuals must actively choose what to do with their savings. The Government hoped that a competitive and innovative market would meet consumer needs. There is little evidence of this: too many drawdown customers are not shopping around and do not understand their options for investing their savings. They are reliant instead on getting a good deal from their existing provider. The success of automatic enrolment in overcoming market failure in the accumulation phase offers a template for strengthening pension freedoms in the decumulation phase. People would still be free to choose to invest and spend their own money as they wished. But if they did not make an active choice, they would move into a suitable and regulated default product.**

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

NEST

NEST and pension freedoms

23. NEST is the government-backed DC pension scheme established in 2012 to support the introduction of AE. It has a public service obligation to accept any employer and has a target audience of low to moderate earners. It already has over five million members, of whom 30% are under 30 years old.[54]

24. NEST was set up before the introduction of pension freedoms. Accordingly, its primary focus for members at retirement was ensuring they could access appropriate annuity products on the open market.[55] Uniquely among pension providers, NEST cannot offer its own annuities or other decumulation products such as drawdown. To access the new norm of drawdown, NEST savers would have to transfer their pot to another scheme. NEST told us that 34% of its members—1.7 million people and growing—incorrectly believe that NEST will pay them a regular income when they retire.[56]

52 FCA, Retirement Outcomes Review Interim Report, pp105–106
53 FCA, Retirement Outcomes Review Interim Report, pp105–106
54 NEST Corporation Members Panel, (PFC0031)
55 Ibid.
56 NEST, (PFC0033)

25. Recognising the dramatic increase in the options facing savers with the advent of pension freedoms, the Government consulted in July 2016 on the future of NEST.[57] That included the question of whether NEST should "be able to offer a decumulation services for its members".[58] The consultation concluded that NEST should not be granted that right "at this time", but promised to consider the conclusions of the FCA's Retirement Outcomes Review and to revisit the decision "if it is clear that the market is not developing in line with the needs of NEST members".[59] As outlined above, the Interim Report of that review sets out a market devoid of switching, innovation and other indicators of competitive pressure.[60]

Barrier to competition or consumer benefit

26. We considered whether allowing NEST, a state-backed provider, to provide decumulation products would act as a further barrier to good consumer outcomes. NEST is backed by a loan from DWP to cover the upfront costs of establishing and administering the pension scheme. By 31 March 2017, the value of this loan had grown to £539 million.[61] Sir Steve Webb argued that given that debt, it was not the time for NEST to begin doing something "well beyond what it was originally created to do".[62] However, as NEST's asset base is growing exponentially, the DWP has increased confidence about the repayment schedule. In April 2017, citing "more stability in the forecast", it told the Public Accounts Committee that it projects the loan will be fully repaid by 2038.[63]

27. NEST argued that the experience of AE showed that it had led the way in developing "innovative and value-for-money approaches to accumulation".[64] The TUC agreed, noting that "NEST has led innovation in the accumulation phase that other providers have followed".[65] The Government's consultation recognised that "NEST has been influential in the automatic enrolment marketplace, helping to drive up standards and best practice".[66] Rather than being an obstacle to competition, NEST could revitalise the decumulation market by forcing other providers to offer better value products or risk large numbers of consumers transferring their pots into a trusted, low-cost public interest provider in NEST.

28. Sir Steve Webb suggested the current size of NEST members' pots means few would be interested in purchasing a drawdown product. He argued that NEST members currently have an average pot size of less than £500, and "you are not going to buy a drawdown product for £500".[67] DWP concurred that "it will be several years before there is meaningful demand from newly automatically enrolled members".[68] Similarly, Standard Life, a pension provider, said that while it did not object "in principle", there was "no immediate need".[69]

57 DWP, NEST: Evolving for the future, July 2016
58 DWP, NEST: Evolving for the future, p22
59 DWP, NEST: Evolving for the future government response, p. 23
60 FCA, Retirement Outcome Review Interim Report, p. 14
61 NEST, National Employment Savings Trust Corporation annual report and accounts 2016–17, p. 23
62 Q56 (Sir Steve Webb)
63 DWP, Correspondence from the Department for Work and Pensions, relating to the National Employment Savings Trust, April 2017
64 NEST Corporation Members Panel, (PFC0031)
65 TUC, (PFC0010)
66 DWP, NEST: Evolving for the future, p. 5
67 Q56 (Sir Steve Webb)
68 DWP, NEST: Evolving for the future government response, p. 23
69 Standard Life, NEST: Evolving for the future government response, p. 14

29. Otto Thoresen, Chairman of NEST, dismissed this short-termist perspective. He argued that a longer time-lag would enable NEST to engage with members while they saved about their eventual range of pension options.[70] NEST's members' panel concurred that NEST should be allowed to offer decumulation products.[71] They noted that NEST's membership was "among the least confident in making difficult financial decisions and are often unable or unwilling to access advice", yet they would be expected to make active and informed decisions at retirement after years of largely disengaged auto-enrolled saving.[72] Tom McPhail, of pension provider Hargreaves Lansdown, agreed the restrictions failed NEST members, writing that it would be "illogical and inappropriate to take them all the way to retirement and then abandon them without a decent range of retirement income options."[73]

30. **NEST is a growing success story. It has more than five million members, including many on low incomes, each embarking on private pension saving. Under the existing framework, all those members will be required to take active decisions about their life savings at retirement, many after a career of passive saving. NEST is currently highly restricted in the support in can offer those members at retirement as it cannot offer decumulation products. Concerns that allowing NEST to offer such products would hinder competition in the market would carry greater weight were there evidence of a functioning market currently. Indeed, the evidence from automatic enrolment suggests NEST may drive better retirement outcomes by forcing other providers to offer greater value or risk savers switching over to NEST to get a better retirement deal.**

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

70 Q57 (Otto Thoresen)
71 NEST Corporation Members Panel (PFC0031)
72 NEST (PFC0033)
73 Money Marketing, Bloated: is the Government's plans for NEST a step too far, July 2016

3 Empowering savers to choose

32. Default decumulation pathways and allowing NEST to offer decumulation products will go a long way to guiding the most disengaged savers towards suitable pensions. Such pathways should act as a backstop. Ideally, individuals should be engaged in saving and retirement planning, before shopping around for the pension income product best for them. In this chapter, we consider measures the Government could take to encourage greater engagement.

Supporting pension planning

Mid-life MOT

33. In our report on pension scams we argued that a default impartial guidance appointment immediately prior to accessing a pension pot would result in better consumer outcomes.[74] But greater engagement earlier in life is necessary to ensure people have pension pots worth seeking guidance on. Promoting this engagement remains a big challenge.[75] Which? research in 2016 found 47% of employed people aged over 50—those closest to retirement—with a personal pension were not confident they knew how much they had in their pension pot. 21% said they had never checked how much they have saved in total.[76] The pensions industry should bear some responsibility for this. Hargreaves Lansdown said the industry had "historically been very poor at engaging with customers".[77] Royal London said engagement often came too late, after consumers had decided what to do.[78]

34. Andrew Seagar, Head of Service Development at Citizens Advice, told us the key to increasing early engagement was "to get people talking about pensions as a social norm", regarding retirement as a "life event" to be planned for, "like having a baby or starting work".[79] He called for the introduction of a mid-life MOT, under which individuals would review their financial health at an age when it was still possible to take reparative action such as increasing pension contributions.[80] This idea has gained prominence since it was recommended by John Cridland's Independent Review of the State Pension Age.[81] Aviva and Age UK, a charity, agreed that an MOT at age 50 would be appropriate to trigger engagement with pensions.[82]

35. We did not hear convincing evidence, however, that engagement with mid-life MOTs themselves would be adequate. The experience of Pension Wise, the public guidance service set up to accompany pension freedoms, is that few people actively seek out free and impartial guidance, even at the point of retirement.[83] It seems unlikely that take-up would be any higher for a mid-life MOT when drawing a pension is a more distant

74 Work and Pensions Committee, Protecting pensions against scams: priorities for the Financial Guidance and Claims Bill, third Report of Session 2017–19
75 Pensions Policy Institute, (PFC0026)
76 Which?, (PFC0036)
77 Hargreaves Lansdown, (PFC0080)
78 Sir Steve Webb, Royal London, (PFC0027)
79 Q18, (Andrew Seagar)
80 Q18, (Andrew Seagar)
81 John Cridland, Independent Review of the State Pension Age, March 2017
82 Aviva, (PFC0052), Age UK, (PFC0040)
83 Our previous report on pension scams sets out the poor take-up of pension wise, Protecting pensions against scams: priorities for the Financial Guidance and Claims Bill, third Report of Session 2017–19

prospect. Under the default guidance system we recommended, a person would need to have a guidance appointment, or actively opt out, before being granted access to a pension pot. There is no obvious comparable mechanism for encouraging take-up of mid-life guidance. The people most likely to book a mid-life MOT would be those who are already engaged with their retirement planning.

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

Pension passports

37. Pension providers are required to issue "wake-up packs" to members between four and six months before their intended retirement date.[84] These communications are intended to inform members of the value of their pot and prompt them to engage with decumulation options before retirement, including through signposting to free, impartial guidance.[85] We heard, however, that they were rarely read in detail.[86] Baroness Altmann, a former Pensions Minister, told us this was hardly surprising: they could run to 40 or more pages long and were "guaranteed to send you to sleep".[87] Incumbent providers of course benefit from any customer inertia that results.

38. The Behavioural Insights Team, which seeks to apply behavioural science to policy, has, on behalf of Pension Wise, trialled single page "pension passport" summaries.[88] A personalised, single page pension passport used instead of a wake-up pack by Liverpool Victoria, a pension provider, led to a statistically-significant 10% increase in the number of people visiting the Pension Wise website and a statistically-significant 3.5% increase in calls to the Pension Wise booking line.[89] Retirement Advantage, a pension provider which had "championed the introduction of simpler retirement 'wake-up' packs for many years", said the trial results showed that one-page passports should be "adopted as the norm".[90] Baroness Altmann similarly called for "simple, standardised statements".[91]

39. **Pension wake-up packs currently do nothing of the kind. This is no surprise: incumbent pension providers have little incentive to rouse their members from slumber. Pension passport trials show that simplified, one-page communications can increase member engagement with their pension options. Such simple and easily achievable improvements can complement more ambitious digital measures. *We recommend that the FCA and The Pensions Regulator (TPR) require all pension providers to issue one-***

84 Wake-up packs are formally known as open market options statements. FCA Handbook: Conduct of Business Sourcebook COBS 19.4.5–8

85 FCA Handbook: Conduct of Business Sourcebook COBS 19.4.5–8

86 NOW: Pensions, (PFC0054)

87 Q19, (Baroness Altmann)

88 The Behavioural Insights Team, Improving engagement with pensions decisions: The results from three randomised controlled trials, October 2017

89 Ibid.

90 Retirement Advantage, (PFC0050)

91 Q25, (Baroness Altmann)

page pensions passports as part of their pre-retirement communications with members. The FCA and TPR should work together to produce a template best practice passport by June 2018.

Pensions dashboard

40. On average, a UK adult can now expect to have 11 jobs in their lifetime. With the advent of AE, they will have a similar number of pensions.[92] Currently, it is incumbent on the individual to monitor each of those pensions, as well as their state pension and DB pension entitlements, separately. A pensions dashboard would bring all that information together on one digital platform.

41. Countries including the Netherlands, Australia and Sweden already have pension dashboards.[93] The ABI told us that internationally "a common theme across all dashboards has been the increased level of engagement with pensions".[94] Royal London argued that, owing to the "fragmented pension system", the need for a UK dashboard is "arguably much stronger" than in those countries.[95]

Progress so far

42. The concept of pensions dashboards has broad support across industry and Government.[96] Progress towards their creation has, however, been pedestrian. Two previous reports by this Committee called for the introduction of a dashboard, with the latter, the October 2015 report on pension freedoms, stating it was "long overdue".[97] The Government response to that report said that any dashboard should be "industry led".[98] The ABI reported in October 2017 that a prototype project had confirmed there were no major barriers to the creation of pension dashboards in the UK.[99] The DWP is currently working on a "feasibility study to explore how best to approach pensions dashboards" and aim to report their findings in spring 2018.[100] These will seek to resolve outstanding questions of how UK dashboards will function. The Government remains committed to ensuring that the industry introduces dashboards by 2019.[101]

Mandating participation

43. There is broad agreement that the success of dashboards is dependent on them including information on the full range of pensions.[102] DC schemes necessarily know the size of any individual's pot. State pension forecasts are now available online and

92 DWP, Thousands more make contact with long lost funds, May 2014
93 Royal London, Pensions Dashboards around the World
94 ABI, (PFC0062)
95 Sir Steve Webb, Royal London, (PFC0027)
96 E.g. PLSA (PFC0078); Financial Services Consumer Panel, (PFC0059); Personal Investment Management & Financial Advice (PFC0035); DWP, (PFC0076)
97 Work and Pensions Committee, Fourth Report of Session 2014–15, Progress with automatic enrolment and pension Reforms, para 108; Work and Pensions Committee, First Report of Session 2015–16, Pension freedom guidance and advice, para 39
98 HM Treasury, Pension freedom guidance and advice: government response to the Work and Pensions Committee's first report of session 2015–16, para 2.23
99 ABI, Pensions Dashboard Project; Reconnecting people with their pensions, October 2017
100 DWP, (PFC0076)
101 Ibid.
102 E.g. Aviva, (PFC0052); PLSA, (PFC0078); Sir Steve Webb, Royal London, (PFC0027)

Guy Opperman MP, the Pensions Minister, said that the state pension would be a "key component of any dashboard".[103] There are concerns, however, that some DB schemes, especially small legacy schemes set up long ago, may struggle to provide the necessary information in a digital format.[104] Michelle Cracknell told us that there is a "huge fragmentation" and providing data for a dashboard would require a "colossal amount of tracing".[105] However, most DB pensions are held in larger schemes; out of around 5,700 private DB pension schemes, schemes with more than 1,000 members account for 91% of all members and schemes with more than 10,000 members account for 63%.[106]

44. The PLSA said it was "questionable" whether all schemes would participate in a dashboard voluntarily, and therefore the provision of information should be compulsory.[107] Royal London called for legislation to make supplying data mandatory.[108] Which? favoured legislation to mandate the provision of information, but conceded that an extension to the 2019 timetable may be required for some DB schemes.[109] Similarly, TPR argued that compulsion would be necessary but that a "'phased' approach" similar to the timetabling used for AE would be the best way of maximising compliance.[110] The Pensions Minister said in December 2017 that there was "growing evidence for some form of compulsion to bring about a complete dashboard in a reasonable timeframe".[111]

Who provides the dashboard

45. There is strong support for a public dashboard hosted by the new single financial guidance body (SFGB) that will come into force in October 2018.[112] Despite a preference for "industry led" dashboards, the Pensions Minister recently said "it is very possible" the SFGB will ultimately run a dashboard when it is fully operational.[113] Such a dashboard, free from commercial pressures, would provide individuals with a trusted source of information about their pensions. This would be in line with the examples of Australia, where a single dashboard is hosted by the Australian Tax Office, and Sweden, where the only dashboard is run by a public-private partnership.[114]

46. Aviva argued that pension providers would be best placed to deliver dashboards as they could signpost their members to them, making it "more likely that they will take appropriate action".[115] The ABI said that multiple dashboards would drive innovation and encourage third parties to offer additional tools, products and services, leading to greater consumer engagement.[116]

47. It is unclear, however, what innovations in dashboards would consist of and how they would be to consumer benefit. Dashboards should first and foremost provide consumers

103 Guy Opperman MP, Pensions Dashboard Development Day, December 2017
104 Q30 (Baroness Altmann); TPR, (PFC0053)
105 Q33 (Michelle Cracknell)
106 Based on schemes eligible for the Pension Protection Fund (PPF). See PPF Purple Book 2017, fig. 2.2.
107 PLSA, (PFC0078)
108 Sir Steve Webb, Royal London, (PFC0027)
109 Which?, (PFC0086)
110 TPR, (PFC0053)
111 Guy Opperman MP, Pension Dashboard Development Day speech, December 2017
112 Subject to the passing of the Financial Guidance and Claims Bill
113 HC Deb 01 February 2018 col 23 [Financial Guidance and Claims Bill Commons Committee Debate]
114 Royal London, Pensions Dashboards around the World
115 Aviva, (PFC0052)
116 ABI, Pensions Dashboard Project; Reconnecting people with their pensions, p.11

with accurate and impartial information about all their pensions in one place. In a multiple dashboard system, providers would have incentives to use their dashboards to promote their own products or otherwise discourage switching away.[117] There is also a danger that dashboard providers could use different underlying assumptions, producing rival income projections from the same raw data.[118] The pension dashboard was conceived as a means of empowering consumers to promote competition in the product market. There is a risk that, in a multiple dashboard system, providers could instead compete on the information provided.[119] Which? and the ABI argued that regulation would be necessary to ensure that dashboards were consistent.[120] There is a simpler solution.

48. **By providing information on all pension entitlements in one place, the pensions dashboard will be a vital tool in informing and engaging customers and empowering them to exercise pension freedoms in their own interest. The Government's commitment to introducing it by 2019 is welcome.**

49. **The case for a publicly-hosted pensions dashboard is clear cut. Consumers want simple, impartial, and trustworthy information. Armed with such information, they will be more empowered to exercise choice in the decumulation product market, driving competition and consumer benefit. The case for multiple dashboards hosted by self-interested providers is far less convincing. This would add complexity to a problem crying out for simplicity. Competition between pension providers over the presentation of the same information risks detracting from, or even acting counter to, competition over the quality of pension products. Rather than regulating the dashboards into consistency, it is far simpler just to have one dashboard.** ***We recommend that the Government introduces a single pensions dashboard, hosted by the forthcoming new single financial guidance body, funded by the industry levy and in place by April 2019.***

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

Advice

The value and take-up of advice

51. Most people are not required to receive regulated financial advice before exercising pension freedoms. Currently, advice is only mandatory if the individual wishes to give up safeguarded benefits, such as a DB pension, worth over £30,000. Our report on the British Steel Pension Scheme highlighted how receiving regulated financial advice on transfers

117 TPAS (PFC0075)
118 ABI, Pensions Dashboard Project; Reconnecting people with their pensions, pp.5–6
119 TPAS (PFC0075)
120 Which?, (PFC0086); ABI, Pensions Dashboard Project; Reconnecting people with their pensions, pp.5–6

out of DB schemes did not necessarily result in better outcomes for consumers.[121] More generally, however, there is evidence that consumers are better off seeking advice before accessing their pension. Research by the International Longevity Centre found that people who sought financial advice between 2001 and 2007 had, by 2012 to 2014, increased their wealth by £27,664 more on average than those who had not received financial advice.[122] Those who take advice seem to value it. Respondents to a December 2016 PLSA survey who had taken advice were unanimous in finding it "helpful".[123] LEBC The Retirement Adviser, an independent advice firm, said that only 2% of recipients acted contrary to the advice they received.[124]

52. Most people who have exercised pension freedoms have not, however, taken up financial advice. The PLSA found that 32% of individuals accessing their pots under pension freedoms paid for regulated financial advice.[125] The FCA found that the proportion of drawdown products bought without advice has risen from 5% before the introduction of pension freedoms to 30% afterwards.[126] 63% of all annuity sales in the year to September 2016 were made to non-advised customers.[127]

The advice gap

53. There is a significant correlation between an individual's pension pot size and the likelihood of them seeking financial advice. While 89% of people with pots worth over £500,000 sought advice, this was true of just 20% of individuals with a pension pot of less than £10,000.[128] Sir Steve Webb said that those figures showed "exactly what you would both want and expect, which is people with serious amounts of money are taking advice and people with very small amounts of money on the whole are not".[129] Whilst he accepted that "what we definitely need is more advice" he felt that "there is a risk that we understate the extent to which the system is broadly working".[130]

54. Others witness warned, however, that the "advice gap", whereby consumers are unable to get advice at a price they are willing to pay, needs to be tackled.[131] Advice is perceived as expensive,[132] though as the FCA found that 51% of people would not be prepared to pay for advice at any price, it is not the only barrier.[133] A widespread lack of trust in financial advisers,[134] and a lack of engagement with pensions contribute to this effect.[135] Advisers may also turn away potential clients if advising them is not likely to be profitable.[136]

121 Work and Pensions Committee, Sixth Report of Session 2017–19, British Steel Pension Scheme, HC 828, February 2018
122 ILC-UK, The value of financial advice, July 2017
123 PLSA (PFC0078)
124 LEBC The Retirement Adviser, (PFC0039)
125 PLSA, (PFC0078)
126 FCA, Retirement Outcomes Review Interim Report, p4
127 FCA, Retirement Outcomes Review Interim Report, p35
128 FCA, Retirement Outcomes Review Interim Report, p35
129 Q37 (Sir Steve Webb)
130 Q39 and Q37 (Sir Steve Webb)
131 E.g. Hargreaves Lansdown, (PFC0080); PLSA, (PFC0078); Aviva, (PFC0052); TPAS, (PFC0075)
132 Which?, (PFC0036). See also findings of the FCA's Financial Advice Market Review
133 FCA, Financial Advice and Guidance: Quantitative research to inform the Financial Advice Market Review, p.12
134 Which? research, TPAS, (PFC0075), (PFC0082)
135 Work and Pensions Committee, Protecting pensions against scams: priorities for the Financial Guidance and Claims Bill, third Report of Session 2017–19
136 FCA, Financial Advice Market Review Final Report, p. 8

Automated advice

55. Automated advice is provided through technology rather than face-to-face appointments. The 2016 Financial Advice Market Review (FAMR) found it could have "a key role to play in reducing the cost of advice and developing new ways to engage consumers."[137] The FCA subsequently created a dedicated unit to support the development of automated advice models.[138] Their evidence referenced a firm offering automated advice model for a fixed charge of £10, in comparison to their average face-to-face charge of £150 per hour.[139] Liverpool Victoria has also developed an online, fully regulated advice service for £199, a significantly cheaper option than most financial advisers.[140]

56. Which? supported the role that automated advice could play but said its success was dependent on consumer acceptance. Their research suggested 58% of people would not currently want to accept an advice recommendation from a computer.[141] Key to combating such concerns is assurance that a reduction in cost is not at the expense of quality. The FCA was unable to point to any explicit examples of comparisons they have done between automated and face-to-face advice, although they stressed that quality requirements remained the same, regardless of the advice channel.[142]

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

Informed customers and advice

58. Access to free, impartial guidance helps encourage people to seek out financial advice as a next step. DWP research found that 49% of Pension Wise customers spoke to a financial adviser, tax adviser or accountant in the three to four months following their appointment, compared to 20% who did not have a guidance appointment.[143] This reinforces the potential benefits of default guidance. A pensions dashboard, creating more confident and informed customers, might be expected to have the same effect. By offering a single source of accurate and comprehensive data, it may also drive down the cost of providing advice.[144]

59. **Informed and confident savers are more likely to take up financial advice. More generally, they are more likely to shop around and take sound financial decisions about their retirement. A system of default decumulation pathways will protect consumers who do not engage with their pension saving. But the real prize is a properly functioning pension freedom market which offers suitable and good value pensions for more people. This can be driven by a virtuous cycle of better-informed customers switching providers and demanding cost-effective products. Measures such as default guidance, a pensions dashboard and a more varied advice market could be vital in ensuring that savers are equipped to exert that competitive pressure.**

137 FCA, Financial Advice Market Review Final Report, p. 39
138 FCA, (PFC0083)
139 Letter from the FCA to the Chair regarding automated advice, 12 January 2018
140 LV, (PFC0023)
141 Which?, (PFC0036)
142 Letter from the FCA to the Chair regarding automated advice, 12 January 2018
143 DWP, Pension Wise service evaluation, p. 32
144 Sir Steve Webb, Royal London, (PFC0027)

Conclusions and recommendations

The effects of pension freedoms

1. 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.* (Paragraph 9)

Protecting savers

2. Pensions can seem distant and daunting. Faced with bewildering complexity, many people simply switch off. By harnessing that disengagement to default people into pension saving, automatic enrolment has been a tremendous success. Accumulation of a DC pension can be passive. Decumulation of that pension, however, is currently active: individuals must actively choose what to do with their savings. The Government hoped that a competitive and innovative market would meet consumer needs. There is little evidence of this: too many drawdown customers are not shopping around and do not understand their options for investing their savings. They are reliant instead on getting a good deal from their existing provider. The success of automatic enrolment in overcoming market failure in the accumulation phase offers a template for strengthening pension freedoms in the decumulation phase. People would still be free to choose to invest and spend their own money as they wished. But if they did not make an active choice, they would move into a suitable and regulated default product. (Paragraph 21)

3. *We recommend the Government takes forward FCA proposals to introduce default decumulation pathways. Any provider offering drawdown would be required by FCA rules to offer a default solution that is targeted at their core customer group. The same charge cap that applies to automatic enrolment schemes, 0.75%, should apply to default drawdown products. Similarly, the remit of Independent Governance Committees to scrutinise value for money in the accumulation phase should be extended to default decumulation products. These protections should be in place by April 2019.* (Paragraph 22)

4. NEST is a growing success story. It has more than five million members, including many on low incomes, each embarking on private pension saving. Under the existing framework, all those members will be required to take active decisions about their life savings at retirement, many after a career of passive saving. NEST is currently highly restricted in the support in can offer those members at retirement as it cannot offer decumulation products. Concerns that allowing NEST to offer such products

would hinder competition in the market would carry greater weight were there evidence of a functioning market currently. Indeed, the evidence from automatic enrolment suggests NEST may drive better retirement outcomes by forcing other providers to offer greater value or risk savers switching over to NEST to get a better retirement deal. (Paragraph 30)

5. *We recommend that the Government allows NEST to provide decumulation products from April 2019, provided it remains assured of NEST's ability repay its start-up loan. This should include establishing a default drawdown pathway, in line with our wider recommendation. In keeping with the spirit of pension freedoms, savers would remain entitled to move their money wherever they wished.* (Paragraph 31)

Empowering savers to choose

6. There is a clear consensus on the need to increase consumer engagement with pensions well before retirement. A mid-life MOT at age 50, giving someone time to reassess their approach to retirement saving, is a good idea. Where firms and providers are open to providing such an option, this is to be welcomed, and we would encourage individuals to make use of them. Experience suggests, however, that take-up will be mediocre at best, and there is no obvious mechanism for nudging people towards them. The introduction of mid-life MOTs should not be mistaken for something likely to have a transformative effect on consumer behaviour. (Paragraph 36)

7. Pension wake-up packs currently do nothing of the kind. This is no surprise: incumbent pension providers have little incentive to rouse their members from slumber. Pension passport trials show that simplified, one-page communications can increase member engagement with their pension options. Such simple and easily achievable improvements can complement more ambitious digital measures. *We recommend that the FCA and The Pensions Regulator (TPR) require all pension providers to issue one-page pensions passports as part of their pre-retirement communications with members. The FCA and TPR should work together to produce a template best practice passport by June 2018.* (Paragraph 39)

8. By providing information on all pension entitlements in one place, the pensions dashboard will be a vital tool in informing and engaging customers and empowering them to exercise pension freedoms in their own interest. The Government's commitment to introducing it by 2019 is welcome. (Paragraph 48)

9. The case for a publicly-hosted pensions dashboard is clear cut. Consumers want simple, impartial, and trustworthy information. Armed with such information, they will be more empowered to exercise choice in the decumulation product market, driving competition and consumer benefit. The case for multiple dashboards hosted by self-interested providers is far less convincing. This would add complexity to a problem crying out for simplicity. Competition between pension providers over the presentation of the same information risks detracting from, or even acting counter to, competition over the quality of pension products. Rather than regulating the dashboards into consistency, it is far simpler just to have one dashboard. *We recommend that the Government introduces a single pensions dashboard, hosted by the forthcoming new single financial guidance body, funded by the industry levy and in place by April 2019.* (Paragraph 49)

10. For a dashboard to succeed in its objectives, it needs to include the full range of pensions: state, DC and DB. While we acknowledge the challenges faced by some DB schemes in getting their systems in order, it is essential that they participate. *We recommend the Government mandate all pension providers to provide necessary information to the pensions dashboard. To enable smaller legacy DB schemes sufficient time to comply, we recommend that Government consult with TPR on an implementation timetable. This should ensure that at least 80% of all DB pensions are visible on the dashboard by April 2019, with the remainder to follow.* (Paragraph 50)

11. Financial advice will not be for everyone, particularly those with the smallest pots, but more people would benefit from accessing high quality, independent advice before deciding how to invest their life savings. There is a clear role for automated services in providing cheaper advice. Public scepticism as to whether it is reliable and trustworthy must first, however, be addressed. This is best done through empirical evidence. *We recommend the FCA conduct and publish a review comparing consumer outcomes from face-to-face and automated advice.* (Paragraph 57)

12. Informed and confident savers are more likely to take up financial advice. More generally, they are more likely to shop around and take sound financial decisions about their retirement. A system of default decumulation pathways will protect consumers who do not engage with their pension saving. But the real prize is a properly functioning pension freedom market which offers suitable and good value pensions for more people. This can be driven by a virtuous cycle of better-informed customers switching providers and demanding cost-effective products. Measures such as default guidance, a pensions dashboard and a more varied advice market could be vital in ensuring that savers are equipped to exert that competitive pressure. (Paragraph 59)

Formal minutes

Wednesday 28 March 2018

Members present:

Rt Hon Frank Field, in the Chair

Jack Brereton	Ruth George
Alex Burghart	Chris Stephens
Ruth George	

Draft report (*Pension Freedoms*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 59 read and agreed to.

Summary agreed to.

Annex agreed to.

Resolved, That the Report be the 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 18 April at 9.15am

Witnesses

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

Wednesday 1 November 2017

Question number

Baroness Ros Altmann, Former Pensions Minister, **Michelle Cracknell**, Chief Executive, The Pensions Advisory Service, **Andrew Seager**, Head of Service Development, Citizens Advice, and **Peter Vicary-Smith**, Chief Executive, Which? Q1–33

Gary Bottriell, Board Member, Personal Investment Management & Financial Advice Association, **Rob Yuille**, Head of Retirement Policy, Association of British Insurers, **Otto Thoresen**, Chairman, National Employment Savings Trust, and **Sir Steve Webb**, Director of Policy, Royal London Q34–68

Wednesday 15 November 2017

Nicola Parish, Executive Director of Frontline Regulation, The Pensions Regulator and **Christopher Woolard**, Director of Strategy and Competition, Financial Conduct Authority. Q69–106

Stephen Barclay MP, Economic Secretary to the Treasury, **Guy Opperman MP**, Parliamentary Under Secretary of State for Pensions and Financial Inclusion, Department for Work and Pensions, and **Charlotte Clark**, Director, Private Pensions and Arm's Length Bodies, Department for Work and Pensions Q107–177

Wednesday 13 December

Rich Caddy, Shift Operations Manager, British Steel (Teesside) BSPS Facebook group co-ordinator, **David Neilly**, Plant Process Operator, Tata Steel UK (Port Talbot), **Stefan Zaitschenko**, Former steelworker (Teesside) and BSPS Facebook group co-ordinator, and **Henry Tapper**, Director, Pension Playpen and First Actuarial Q178–226

Alasdair McDiarmid, Operations Director, Community trade union, **Allan Johnston**, Trustee Chairman, British Steel Pension Scheme, and **Derek Mulholland**, Director of Pensions, British Steel Pension Scheme Q227–265

Megan Butler, Director of Supervision (Investment, Wholesale and Specialist) Financial Conduct Authority Q266–298

Published written evidence

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

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

1 Aegon UK (PFC0022)

2 Age UK (PFC0040)

3 AJ Bell Limited (PFC0047)

4 Alastair Rush (PFC0094)

5 Alistair Cunningham (PFC0066)

6 Association of British Insurers (PFC0062)

7 Association of Consulting Actuaries (ACA) (PFC0060)

8 Aviva (PFC0052)

9 B&CE Ltd (PFC0079)

10 Baroness Ros Altmann (PFC0003)

11 Baroness Sharon Bowles (PFC0064)

12 British Steel Pension Members Group (PFC0096)

13 Cass Business School (PFC0018)

14 Chris Watkins (PFC0101)

15 Citizens Advice (PFC0061)

16 City of London Police (PFC0084)

17 David Neilly (PFC0099)

18 David Neilly (PFC0104)

19 David Penney (PFC0063)

20 Department for Work and Pensions (PFC0076)

21 DRB Pension Assistance Limited (PFC0045)

22 Equity Release Council (PFC0034)

23 Eugen Neagu (PFC0098)

24 Experian (PFC0019)

25 Fidelity International (PFC0041)

26 Financial Conduct Authority (PFC0083)

27 Financial Inclusion Centre (PFC0024)

28 Financial Services Consumer Panel (PFC0059)

29 Hargreaves Lansdown (PFC0080)

30 Henry Tapper (PFC0093)

31 Infosculpt Ltd (PFC0087)

32 Institute and Faculty of Actuaries (PFC0044)

33 Investment & Life Assurance Group (PFC0058)

34 JLT Employee Benefits (PFC0009)
35 Just Group plc (PFC0028)
36 KPMG (PFC0042)
37 Later Life Academy (PFC0025)
38 LEBC The Retirement Adviser (PFC0039)
39 Legal & General (PFC0032)
40 LV= (PFC0023)
41 Morgan Lloyd Trustees Ltd/Clifton Asset Management plc (PFC0013)
42 Mr Brian Todd (PFC0004)
43 Mr Chris Budd (PFC0055)
44 Mr Paul Stocks (PFC0012)
45 Mrs Edda Stentiford (PFC0015)
46 Name Withheld (PFC0001)
47 Name Withheld (PFC0002)
48 Name Withheld (PFC0005)
49 Name Withheld (PFC0006)
50 Name Withheld (PFC0007)
51 Name Withheld (PFC0008)
52 Name Withheld (PFC0014)
53 Name Withheld (PFC0016)
54 Name Withheld (PFC0021)
55 Name Withheld (PFC0046)
56 Name Withheld (PFC0068)
57 Name Withheld (PFC0071)
58 Name Withheld (PFC0072)
59 Name Withheld (PFC0073)
60 Name Withheld (PFC0082)
61 Name Withheld (PFC0103)
62 National Crime Agency (PFC0092)
63 NEST (PFC0088)
64 NEST Corporation (PFC0033)
65 NEST Corporation Members’ Panel (PFC0031)
66 Nick Paus (PFC0085)
67 NOW: Pensions (PFC0054)
68 Pension Protection Fund (PFC0097)
69 Pension Review Service (PFC0095)
70 Pensions Advisory Service (PFC0075)
71 Pensions and Lifetime Savings Association (PFC0078)

72 Pensions Policy Institute (PFC0026)
73 Personal Investment Management & Financial Advice Association (PIMFA) (PFC0035)
74 Peter Gray (PFC0091)
75 Prospect (PFC0057)
76 Prudential (PFC0051)
77 Retirement Advantage (PFC0050)
78 Retirement IQ (PFC0067)
79 Royal London (PFC0027)
80 Scottish Widows (PFC0056)
81 Squire Patton Boggs (UK) LLP (PFC0029)
82 Standard Life (PFC0037)
83 State Street Global Advisors (PFC0038)
84 The Investment Association (PFC0081)
85 The Low Incomes Tax Reform Group (PFC0011)
86 The Pensions Regulator (PFC0053)
87 The Pensions Regulator (PFC0100)
88 The Transparency Task Force (PFC0102)
89 Trades Union Congress (PFC0010)
90 UK Sustainable Investment and Finance Association (PFC0070)
91 W L Consulting Ltd (PFC0048)
92 Which? (PFC0036)
93 Which? (PFC0086)
94 You & Yours, BBC Radio 4 (PFC0020)
95 Zurich Insurance (PFC0049)

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

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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 (HC 858)
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
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
Ninth Special Report	Employment Opportunities for Young People: Government response to the Committee's Ninth Report of Session 2016–17	HC 827