House of Commons

Work and Pensions Committee

Pension costs and transparency: Government and Financial Conduct Authority Responses to the Committee's Twenty-Ninth Report of Session 2017–19

Second Special Report of Session 2019

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Work and Pensions Committee

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Second Special Report

The Work and Pensions Committee published its Twenty-Ninth Report of Session 2017–19, *Pension costs and transparency* (HC 1476), on 5 August 2019. The Government's response was received on 24 October 2019 and the Financial Conduct Authority's response was received on 13 September 2019. The responses are appended to this report.

Appendix 1: Government Response

Recommendations

RECOMMENDATION 1: 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)

Government accepts the recommendation.

In a written statement to Parliament in 2017 Government confirmed it would examine all three of these issues in 2020, and fully intends to meet that commitment. Government accepts the WPSC's analysis of the effect of flat fee charging structures on small pots, especially dormant pots, and as part of the review will give particular consideration to whether restrictions to the use of this charge structure in some circumstances is necessary to protect pension scheme members.

RECOMMENDATION 2: We recommend that the Government bring forward legislation to make the disclosure templates mandatory for both defined contribution and defined benefit schemes. (Paragraph 48)

Government welcomes this recommendation, and we are actively considering a consultation on legislation to encourage use of the templates.

Government and regulators have committed to transparency of all costs and charges borne by pension scheme members and we have met that commitment.

We recognise that trustees need more granular information on costs and charges. The more standardised and granular the information which pension schemes are able to obtain, the better equipped they will be to pinpoint where costs are being incurred and to make detailed comparisons. That will allow them to not only improve on the quality of their assessments of value for members but also to drive continuous improvements in the value they deliver.

Government therefore welcomes the work in this space of the FCA-sponsored Institutional Disclosure Working Group (IDWG), in which DWP took an active part, as it has with the Cost Transparency Initiative (CTI) sponsored by the Pensions and Lifetime Savings Association. Since the launch of the CTI templates in May 2019, we have seen wide take-up of the templates by both trustees and investment managers.

We want to promote further uptake of the templates across all trustees and across all investment managers. With that in mind, we are now actively considering bringing forward a consultation on secondary legislation, the effect of which would be to provide for the calculation of charges and transaction costs by DC pension scheme to be made using the CTI templates.

As the report acknowledges, Defined Benefit (DB) pension scheme members do not bear the costs of administration as their benefits are not dependent on investment returns. But we will also consult on whether such a measure should be extended to DB pension scheme trustees, and if so, how it might be achieved.

With our consultation proposals, we do not intend to penalise trustees who are unable to obtain the information in this format, but we expect asset managers to provide all the information that trustees need to make fully informed decisions.

RECOMMENDATION 3: 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)

As the relevant regulator Government understands that the FCA has responded directly to this recommendation.

RECOMMENDATION 4(a): We recommend that schemes should be supported to collect additional information if the template does not fully cover their individual scheme needs. (Paragraph 50)

Trustees are free to request additional and supporting information for example, additional granularity or detail in areas of interest, further contextual information or notes on interpretation. Such information may well be very helpful to assist trustees and other institutional investors with comparison and decision-making, and we would expect investment managers to provide it wherever it was possible and proportionate to do so.

However, we do not believe further direct Government action is currently necessary to ensure the template covers an individual scheme's assets. The CTI templates already offer granular cost information on the vast majority of asset classes which are typically held by pension schemes.

The CTI have identified further areas of work, including custody fees for segregated mandates (bespoke arrangements with an investment manager, as opposed to pooled funds, where the scheme co-invests alongside others), direct investment in physical assets (rather than via funds) and transition management fees for moving between investments. Plans are in place to address each of these in 2020.

If any areas are identified by institutional investors or others as benefiting from further granularity, our expectation is that the CTI will act swiftly to address them.

RECOMMENDATION 4 (b): 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. (Paragraph 50)

Government does not believe further action is necessary at this time.

Whilst we support the Committee's intention of extending access to cost and charge information by pension scheme members, we are unconvinced of the benefits of legally requiring that the CTI template be made available to members.

Government has already legislated to require DC schemes to publish charges and transaction costs as percentage figures (or as a pounds and pence figure for flat fees) for each individual fund offered by the scheme in which members can invest, alongside a cumulative illustration of the effect that those charges and costs have on their pension pot over time.

This form of presentation makes it straightforward for members to compare fees within the scheme and across other schemes. We see this form of transparency as absolutely fundamental to maintaining saver confidence, and assisting with member decision-making.

In contrast the information on the CTI templates is extremely detailed and members are unable to take action based on it. Trustees can use the templates to pinpoint where costs are incurred, ask their investment managers to account for them, and negotiate or switch as appropriate. Members, in contrast, are considerably less well-placed to analyse costs, they cannot negotiate with fund managers and they are unable to switch at an intra-fund level.

Whilst there is a legitimate argument that member confidence could potentially be enhanced by more granular detail, it is equally possible that lengthy disclosures full of complex and obscure terminology could drive suspicion and disengagement.

Government does however recognise the role recognised trade unions can play in seeking to drive best value for their members and others. Many unions have pensions officers or teams to oversee this aspect of employee remuneration, allowing them to act as a helpful additional layer of governance to supplement the role of trustees and employers. We are therefore currently minded to consult on giving such unions access to CTI templates on request. Whilst some data may be commercially sensitive, we do not think that this should act as a barrier on it being shared with engaged and empowered stakeholders.

The current intention is to consult on this proposal when we bring forward statutory guidance on the use of the template itself. Concurrently, we will also seek evidence on whether there are other ways that additional engaging, meaningful and actionable information can be shared with pension scheme members on request [please also see response to recommendation 12 (b)].

RECOMMENDATION 4 (c): The FCA should explore the creation of a public register of asset managers' compliance records with reasonable data requests. (Paragraph 50)

Government understands that the FCA has responded to this recommendation as part of their separate response to the committee.

RECOMMENDATION 5: 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)

Government accepts the intention behind the recommendation but believes the timing is not yet right. Government will continue to monitor the quality of published value for money statements, and commits to a review when the time appears to be most suitable.

Government seeks to evaluate and assess the success of all its policy measures. However, it aims to do so at the appropriate time, and reviewing the policy in 2020 will be premature. Pension schemes have had to publish their costs, charges and their assessment of the value these represent for members from April 2018, but publication has taken place via a phased approach, which means that some schemes will not have published an assessment until November 2019. A 2020 review would therefore capture only the first assessment of value by many schemes, and we noted when introducing the regulations that "communicating the information effectively is likely to be an iterative process where trustees learn from feedback and from their peers".[1]

We expect publication to improve the focus on achieving value for money, and the quality of subsequent statements produced by schemes.

We also expect the number of DC schemes to continue to fall sharply, and consequently the average governance levels of schemes to increase over time. This will take place not only through natural and ongoing consolidation (numbers have fallen by 50% in 8 years)[2] but also through both increased legislative nudges from DWP and closer supervision by The Pensions Regulator (TPR).

Finally, we anticipate increasing consistency in the definition of value for money adopted by pension schemes, as the FCA and TPR continue the work set out in their joint strategy[3] to develop common principles and standards for value for money.

In conclusion, we endorse the need to carry out a review of this policy at the appropriate time, and Government will update the Committee on timing in due course.

RECOMMENDATION 6: 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)

Government understands that the FCA has provided a separate response to the committee. However, Government notes the recommendation and will continue to work with the FCA to ensure a consistent approach across contract and trust based schemes.

The FCA recently consulted on introducing a new duty for the Independent Governance Committees (IGCs) of workplace contract-based schemes to report on their firm's policies on environmental, social and governance (ESG) issues, consumer concerns and stewardship for the products that IGCs oversees. The FCA additionally consulted on related guidance setting out how providers of pension products should consider factors such as ESG risks, when making investment decisions on behalf of consumers. The FCA indicated that it plans to respond to this consultation in the fourth quarter of this year.

1 Government response: Disclosure of costs, charges and investments in defined contribution occupational pensions - https://www.gov.uk/government/consultations/occupational-pensions-improving-disclosure-of-costs-charges-and-investments

2 DC trust: presentation of scheme return data 2018 – 2019 - https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-presentation-of-scheme-return-data-2018–2019

3 https://www.fca.org.uk/news/press-releases/fca-and-tpr-publish-joint-pensions-strategy

RECOMMENDATION 7: 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)

Government accepts the recommendation and to ensure the way ahead, asked the Money and Pensions Service to bring together the Industry Delivery Group.

Pensions dashboards have the potential to transform the way we all think about and plan for retirement. Government remains committed to ensuring pensions dashboards become a reality. As part of this:

- Government has brought forward legislation to compel pension providers to make members' data available to them via dashboards;
- the Money and Pensions Service (MaPS) is bringing together an Industry Delivery Group (IDG) headed by Principal Chris Curry to drive and maintain progress on the delivery of the technology that will enable dashboards to work; and
- MaPS will also develop and host its own dashboard.

We have said the majority of schemes will need to be ready to go live with their data within a three to four-year window. The details of that timetable will be informed by the IDG.

Alongside this, we were clear during engagement with industry and within our response to the consultation on pensions dashboards that schemes should start getting ready now (as of 2018), particularly in terms of making sure their data is up-to-date and complete. This has also been made clear in the various public speeches as part of the consultation, by the Minister for Pensions and Financial Inclusion. The IDG, working in partnership with government and regulators, will support schemes in preparing their data ahead of making it available to members via dashboards.

DWP made clear in its Dashboard consultation response that we expect that early dashboards will provide basic information, no more than is already available to people on statements issued annually (such as annual benefits statements) or on request. We expect that the type of information provided on dashboards will grow over time. Both the initial stages of information availability, and future enhancements to this, will be determined by the IDG and informed by a comprehensive understanding of the type of information people need to see, presented in a way that is meaningful.

RECOMMENDATION 8: 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)

Government notes this recommendation.

Government agrees that State Pension information should be made available via dashboards in order to give people a comprehensive view of their pensions. Its inclusion will allow individuals to view their State Pension information alongside their other pensions, helping to further increase awareness and promote engagement with pension saving.

DWP is working with HMRC to develop the necessary digital architecture that will enable the provision of State Pension data via dashboards. We will make this available at the earliest opportunity.

RECOMMENDATION 9: 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)

Government notes this recommendation and, in line with consumer organisations such as Which?, we too see non-commercial dashboards playing a key role.

We have always been clear that the pensions industry is best placed to develop and deliver dashboards. As has been requested by many in industry and the public, there is a role for government in facilitating industry's delivery of dashboards which work for consumers and put people in control of their data.

We have since specified that the Money and Pensions Service (MaPs) would bring together an industry delivery group, made up of stakeholders from across industry, consumer groups, regulators and government to drive and maintain progress on dashboards.

MaPS has two distinct roles in pensions dashboards. Firstly, to convene and oversee the IDG to design and build the digital architecture and associated services that will enable all dashboards to operate. Secondly, to develop its own non-commercial dashboard which will connect to the digital architecture.

MaPS has appointed a Principal and Implementation Director to lead the IDG and more recently announced full membership of the steering group. The current focus is on developing a delivery roadmap and more detailed plan and key milestones from this plan will be published in due course. Work is also underway to engage a range of industry representatives in the development of the digital architecture and associated services. In our consultation response, we proposed that for practical reasons, schemes providing data to consumers via dashboards will need to be brought on in stages. We have said that the majority of schemes will be ready to go live with their data within a three to four-year window which will be informed by the IDG. The IDG will work with government and regulators to determine the on-boarding approach that should be taken to best support schemes for the introduction of dashboards.

Another important approach to implementing dashboards is to take a phased approach both to the functions available on dashboards and the level of information provided. Government is clear that we want to see consumer-focused innovation and we understand that features which allow value for money comparison may be desirable. We have also been clear that in order to develop a digital service that is safe, useful and relevant to consumers, future enhancements to the functionality should not be decided before the initial offer has been tested with users and any behavioural effects are understood. The IDG will determine the nature and timing of future functionality.

We also set out in our consultation response that dashboard services may initially be provided by firms already authorised by the FCA to undertake a regulated activity, who also meet the required standards. Individuals using a dashboard may also wish to port their data into other digital services, such as planning tools. The individual has a right to data portability under the General Data Protection Regulation (GDPR) and Data Protection Act 2018. This includes the right to request that data is transmitted from one controller to another. The IDG will need to consider how dashboards might support this right and whether, or at what stage, this should be enabled through use of automated tools on the users chosen dashboard.

RECOMMENDATION 10: We recommend that the pensions dashboard should feature retirement income targets to ensure the information is meaningful to its users. (Paragraph 90)

Government notes this recommendation.

As detailed in our response to the previous recommendation, the level of information provided on dashboards will be phased and informed by user testing in order to ensure dashboards meet user needs and work in the best interest of consumers.

We understand that income targets could be beneficial in planning for retirement. Government will be interested to see the results of work that has been ongoing in industry on this matter, such as the Pensions and Lifetime Savings Association's work on Retirement Living Standards.

RECOMMENDATION 11: 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)

Government accepts the principle behind this recommendation.

We do not believe it is appropriate to specify the method for booking or opting out of guidance, without having tested the most effective way of doing this. We are committed to increasing the uptake of Pension Wise guidance, and MaPS are undertaking trials to understand how customers can be better 'nudged to take up guidance'. This was a commitment made during the passage of the Financial Guidance and Claims Act 2018. Once the most effective option is identified DWP will make regulations for workplace pensions and the FCA will consult on rules for private pensions.

An independent contractor (the Behavioural Insight Team) has been appointed to design, implement, and evaluate trials to test the most effective way to nudge people into taking guidance (as required by the Financial Guidance and Claims Act 2018). Two options are being tested with pension providers who have agreed to take part in the trial (to date Aviva and Hargreaves Lansdown):

1. Pension schemes will book an appointment with Pension Wise on their member's behalf; and

2. A warm handover will take place from the pension provider to MaPS, for consumers to book an appointment with MaPS directly.

Customers will be able to opt-out of booking a guidance session in both scenarios, and the opt-outs will be used to inform the evaluation.

The whole customer journey is being carefully considered as part of these MaPS led trials. Any option taken forward will be based on robust evidence of what works to drive the consumer outcome that the Act intended – to increase the uptake of pension guidance.

Increasing financial wellbeing, including ensuring people can make more informed decisions about their retirement choices, is at the core of the development of MaPS National Strategy that will be published later this year.

In addition to MaPS' work to continue to increase the take up of Pension Wise guidance, Government is pursuing a number of additional ways to encourage pension scheme members to take pensions guidance. Following its Retirement Outcomes Review, the FCA is introducing new rules for its registered pension scheme providers to send earlier, more regular, and clearer communications to members. Instead of members receiving open-market options statements, or 'wake-up' packs as they are commonly known, only 6 months prior to their retirement date, packs will be sent from age 50, and every 5 years after until consumers have fully crystallised their pension pots.

The new wake-up pack will have a single page summary document, for ease of comprehension, and they will have clear and prominent recommendation for members to use Pension Wise guidance, to encourage members to get to know their options. Schemes will not be able to include marketing materials with the wake-up packs, and additional retirement risk warnings will be sent alongside the pack.

RECOMMENDATION 12(a): 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. (Paragraph 99)

Government understands that the FCA has addressed this recommendation in relation to personal pensions in their response to the committee.

In relation to occupational pensions Government notes this recommendation.

We believe a different approach is appropriate on providing upfront costs and charges when joining an occupational pension scheme rather than a personal pension scheme, as it is the employer that chooses the scheme and not the member. With the introduction of automatic enrolment, more employees are able to enjoy a key benefit of occupational pensions, the additional employer contribution, thereby encouraging the member to remain in the scheme.

We do however recognise that members, particularly in DC schemes, should be aware that costs and charges will be paid throughout their membership and existing regulations do require that this information should be provided in their joining material, particularly that the value of their pension will depend on several factors, including that charges will apply.

In relation to ongoing charges incurred by members of occupational pension schemes, as noted in our response to [Recommendation 4 (b)], Government has already legislated to require occupational DC schemes to publish information on charges and transaction costs on a publicly-available website. Trustees are required to publish this information for each arrangement and fund in which members are invested, alongside other relevant information, such as illustrations of how those charges compound over time, the trustees' assessment of value for money, and details of the funds' default strategy. Signposting to these details must be included in a member's benefit statement every year. Members who access the link will typically be given both charges and transaction costs as a percentage of the funds under management. Where schemes have more complex structures, such as tiered charges or a combination charge, we also expect that to be explained.

We believe that this is useful for members who want to compare fees within the scheme and across other schemes and use it to inform decisions on consolidating pots and making additional contributions. This also importantly ensures contextual information is provided to help understand what they are paying for and why, helping to limit the risk of any disengagement.

We believe, at present, this is an appropriate approach, that strikes the right balance between the spread in the level of engagement of members and members' right to know. We are however keeping this under review as this new regime on publication of charges and transaction costs embeds and considering alongside other on-going initiatives, such as the adoption of a simplified benefit statement across the industry encouraging increased member engagement and also the FCA/TPR work on their joint review of the consumer pensions journey that will examine how member communications, guidance and advice combine to help consumers make well-informed decisions.

RECOMMENDATION 12(b): This should be the case for exiting a scheme as well as for investment into a new or additional scheme. (Paragraph 99)

Government understands that the FCA has addressed this recommendation in their independent response to the committee.

Government notes the recommendation for DC occupational schemes.

Research collected by TPR[4] suggests that the frequency of exit fees is extremely low in occupational pension schemes. In 2016 they found that only 3% of members aged over 55 were in a pension scheme which applied an exit charge. We have reason to believe that the proportion of members of all ages in schemes which apply substantive exit charges today is lower for 3 reasons:

- Government took action in 2017 to cap existing early exit fees for over 55s at 1% and to ban new exit fees altogether.
- Exit fees are less common amongst younger members of occupational schemes than over 55s as such structures become less and less common with more recently established schemes.
- In particular, for members of the default fund in schemes used for automatic enrolment, the way in which schemes validate compliance with the charge cap in practice makes the application of a transfer or an exit fee impossible in most instances and subject to the charge cap in all instances.

4 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/survey-exit-charges-dc-2016.ashx

RECOMMENDATION 12(c): Investors should also be given a 14-day cooling-off period where transactions can be reversed without detriment to the investor. (Paragraph 99)

The FCA has responded to this recommendation, in relation to their existing 30 day cooling off periods when consumers buy a new decumulation product, or vary an existing product to start accessing it.

Government recognises that consumers face an important choice about how to access their DC pension savings. That is why it set up Pension Wise, a free and impartial guidance service to help the over 50s make sense of their options, and to make the decisions that are right for them.

When the pension freedoms were introduced, the FCA considered how its rules on cancellation would apply. It considered whether, and to what extent, there is an absence of a right to cancel a decision to access their pension savings, and whether this creates a consumer protection gap. It concluded that the existing rights to cancel and other protections in place negated the need for any further regulatory requirements.

In addition, reversing the tax treatment of investors' original actions may require a fundamental revision of the tax system, with considerable additional complexity to ensure that the changes do not introduce opportunities for tax avoidance.

We believe there is sufficient flexibility in the existing occupational pension scheme framework for members to withdraw (opt-out) from their pension and receive a refund within the timescales recommended by the WPSC. Members of defined benefit pension schemes are entitled to a refund of their own contributions (where paid) if they leave with less than two years' qualifying service, subject to scheme rules. From 1st October 2015, members of occupational defined contribution pension schemes have up to 30 days of joining the scheme to opt-out if they choose and can be refunded their contributions paid within this period.

RECOMMENDATION 13: 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)

Government accepts the recommendation, the Money and Pension Service will publicly set out its plans for increasing usage of Pension Wise, and how it will continue to build on the ambitions it set out in its Business plan for 2019–20.

Since the service launched in 2015 a great deal of work has been undertaken to increase take-up of Pension Wise guidance, and under MaPS, work to achieve this ambition continues.

Demand is growing, with the number of appointments growing by more than a third between 2017/18 and 2018/19. In their business plan MaPS have committed to delivering a further 35,000 Pension Wise guidance sessions in 2019/20 with the ambition of achieving a total of 205,000 sessions in this business year. Further clarification on how they intend to deliver this increase will be included in their corporate plan which will be published in due course.

Pension Wise has been working to promote its services to the general public to increase awareness. It has run successful advertising campaigns across multiple channels, it has worked with employers to help engage employees with their pensions, and Pension Wise delivery partners have undertaken local promotional activities at events, agricultural shows, and local libraries.

The biggest source of referrals to Pension Wise, contributing more than half of people using the service, are from pension schemes themselves. MaPS are working with pension schemes and the DWP, to increase these numbers further.

RECOMMENDATION 14: 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)

Government understands that the FCA will address this recommendation in its separate response to the committee. DWP agrees with the principle of proper monitoring of investment pathways, and will consider its own monitoring requirements, once it has established an appropriate regulatory framework for occupational schemes.

In the Retirement Outcomes Review, the FCA set out that it plans to conduct a post-implementation review of investment pathways. It plans to begin this review one year after their implementation. The FCA has suggested that - amongst other things - the review will look at the charges providers are applying, how providers are offering investment pathways solutions, and how providers are complying with the relevant product governance requirements.

The FCA has recently consulted on extending the oversight of IGCs to provide independent oversight of the value for money of firm’s investment pathway solutions.

DWP along with HMT, the regulators and industry groups continue to work together to understand the way pensions freedoms are being used by savers.

Following the publication of the Retirement Outcomes Review, and the rules implementing its remedies, DWP is currently considering what requirements are appropriate for members in occupational schemes. Government routinely reviews its policies, any future policy measures introduced relating to occupational drawdown would be subject to this procedure.

RECOMMENDATION 15: 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)

The FCA has responded directly to the committee in response to this recommendation.

Government partially accepts this recommendation.

The FCA’s Retirement Outcomes Review featured a number of remedies to help support consumers to make better informed choices. The FCA has already introduced new measures to improve the information provided to consumers which will apply from November 2019. This includes requirements on firms to provide five-yearly ‘wake-up’ packs from age 50 (which include a single-page summary document, and risk warnings) and to consider whether consumers seeking annuity quotes are eligible for enhanced annuities. In addition, the FCA has introduced requirements that - from April 2020 - firms must provide clearer information on charges when consumers enter drawdown or take a first UFPLS payment, including a pounds and pence figure.

The Government welcomes the FCA's work in this area. By simplifying the information sent by providers and decisions consumers must make at retirement, the FCA is ensuring that the market supports choice and supports consumers in managing their retirement incomes.

DWP intends to consult in early 2020 on whether, and if so how, similar requirements should be applied for trust-based DC schemes.

RECOMMENDTION 16: We recommend that a 0.75% charge cap should be set on decumulation products available through FCA decumulation pathways from the outset. (Paragraph 115)

The FCA has responded separately to the committee on this recommendation. In respect of DC occupational schemes DWP notes the recommendation.

The FCA's proposals for investment pathways represent a potentially significant change to the pensions landscape. As firms develop their proposals for investment pathways, they should challenge themselves to deliver competitive charges for their customers. As part of the FCA's Retirement Outcomes Review remedies, firms will also be required to provide clearer information on charges, including a one-year single charge figure in pounds-and-pence when consumers enter drawdown or take their first Uncrystallised Funds Pension Lump Sum (UFPLS).

The existing charge cap was introduced for default funds for workplace personal pension schemes in accumulation to support automatic enrolment; the decision to both introduce a cap and to set the cap at 0.75% did not consider decumulation arrangements. Unlike when saving into a workplace pension, consumers have greater choice over their choice of both decumulation product and their provider, and may be able to get a better deal by shopping around.

The FCA has not ruled out introducing a charge cap for investment pathways if the evidence it gathers in its post-implementation review suggests there are problems. The Government stands ready to work with the FCA on the next steps for investment pathways, including, if necessary, a charge cap.

In comparison to the contract-based market, there are currently a relatively small number of members in occupational decumulation and the development of decumulation products in the DC trust-based space is still evolving. It is therefore unclear at this point if there is a need to introduce a cap. DWP and TPR will continue to monitor the position.

RECOMMENDATION 17: 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)

The FCA has responded separately to the committee on this recommendation. The resourcing of the FCA is a matter for the operationally independent regulator.

Government is committed to protecting people from pension scams, and pursuing those who perpetrate pension scams wherever possible. Tackling pension scams requires a collaborative approach between government, regulators, law enforcement agencies and industry. That is why the government established Project Bloom, of which the FCA is a key partner. Project Bloom is a cross-government taskforce to share intelligence, raise awareness of pension scams through communications campaigns, and take enforcement action where appropriate.

Since responding to the consultation on pension scams in 2017, the government has introduced two remedies to tackle pension scams: a ban on pensions cold-calling, and changes to the HMRC pension scheme registration process to make it harder for scammers to establish fraudulent schemes.

RECOMMENDATION 18: 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)

Government understands that the FCA has responded to this recommendation as part of their separate response to the committee.

RECOMMENDATION 19: 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)

Government believes that due to the level of activity already taking place in this space it is not necessary to proceed with this recommendation.

We continue to be alert to emerging evidence on the Pension Freedoms. Government is working with industry, regulators and consumer groups to monitor and research the choices being made. As stated in the Government response to the Work and Pensions Committee's inquiry into Pension Freedom and Choice, DWP chairs the Data Sharing and Monitoring Group (DSMG) to consider the emerging evidence on freedoms. The DSMG is a working group comprising of regulators, arms-length bodies, and representatives from consumer and industry bodies representatives that advises the government on its strategy for monitoring and understanding individual choices, and industry's response to the freedoms. This group coordinates data collection and use of existing data to understand the pension freedoms. This group last met in July 2019.

There are a number of difficulties with committing to combining these separate findings into an annual pension freedom report. The DSMG already uses existing data produced by regulators and MaPS, their evidence and insight into freedom activity and the guidance guarantee has, and will continue to be recorded and shared by the group. Furthermore, as these reports are commissioned and funded by separate agencies there are practical difficulties in ensuring their research timings correspond with each other. Developing evidence from comprehensive and informative studies, such as the FCA's Retirement Outcomes Review are not time limited to an annual date. Proposals to report findings to a pre-determined deadline would be impractical, costly and potentially misleading.

If the mid-life MOT is rolled out more widely evaluation will obviously be carried out. However, as outcomes of the MOT are largely long term measuring its effectiveness may prove difficult.

RECOMMENDATION 20: 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)

Government notes the recommendation.

The Government has previously recognised the different impacts of the two systems of paying pension tax relief on pension contributions for workers earning below the personal allowance. To date, it has not been possible to identify any straightforward or proportionate means to align the effects of the net pay and relief at source mechanisms more closely for this population. In particular, the Government would be keen to ensure that any changes to the current system did not create any new differential outcomes, such as differing personal allowance entitlements, nor introduce significant additional complexity into the tax system, either for individuals, their pension schemes, employers or HMRC.

The Government continues to look at the current differences arising from the two processes for paying pensions tax relief and to explore how to make the most of any new opportunities, balancing simplicity, fairness and practicality.

Appendix 2: Financial Conduct Authority Response

I am writing to you in response to the Committee's report on pension costs and transparency published on Monday 5 August. As you know, the pensions landscape has changed significantly over the past few years, as auto-enrolment means many more people are saving for retirement, and the pension freedoms have changed the way consumers access their pension pots. The Committee's report is a thoughtful contribution on how government and regulators should approach this changing landscape.

We have taken a broad range of actions in this area since the pension freedoms were introduced. In October 2018, we published a joint regulatory strategy with The Pensions Regulator (TPR), setting out the key issues which contribute to people not having adequate income, or the income they expected, in retirement, and how we would work together to tackle these issues. We have also introduced a range of new rules to improve the pensions market and protect consumers - many covering areas which are touched on in your report.

Please find below our response to the specific recommendations made in the report.

Pension scams

> "We recommend that the FCA review whether it dedicates sufficient resource to combat active pension scams, prevent new pension scams and protect individuals."

In addition to the above recommendation, the report states that the FCA only has 10 people working in our pension scams intelligence team.

I refer you to my letter of 7 March 2019 where I outlined that the number of people working on pension scams is far greater than 10. While there are 10 full-time staff within this particular team, overall we have more than 100 full-time staff working on tackling different aspects of pension scams and related issues. This includes staff in the specialist supervision team, the pension scam intelligence team, the whistleblowing team, the campaigns team, and the supervision hub, as well as other team-s across the FCA. We of course keep resourcing under regular review and make adjustments where appropriate.

Our work dedicated to preventing pension scams includes our consumer communications campaign, ScamSmart, which over the past year we have run in collaboration with TPR, to warn consumers of the risk of pension and investment scams. The campaign website hosts the Warning List tool,[5] which provides information on whether what the consumer has been contacted about could be a scam, and allows users to search the list of firms operating without authorisation.[6] In 2018/19, over 520,000 people visited the ScamSmart site, and more than 6,400 users were warned about an unauthorised firm after using the Warning List. We launched the ScamSmart campaign in 2014 aimed at preventing investment fraud more broadly. Since then a total of 1.2m people have visited the site and

5 https://www.fca.org.uk/scamsmart/warning-list
6 https: //www.fca.org.uk/consumers/unauthorised-firms-individuals

more than 20,000 have been warned about an unauthorised firm after using the Warning List tool. With an average loss to investment fraud of around £30,000, it means we have potentially stopped as much as £600m from falling into the wrong hands.

> "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."

We will consider this recommendation and discuss it with our partners, including partners within Project Bloom, the multi-agency initiative set up to tackle pensions scams.

Our Warning List is widely publicised, but we recognise that consumers often use search engines as a first point of call, and therefore ensure that individual firm warnings appear when consumers search for the relevant firm name. The type of firms that we add to the warning list tend to be those that are the most likely to be at the scam end of unauthorised activity - such as clone firms (unauthorised firms passing themselves off as authorised firms) and overseas online trading firms where we know that our remit to take action is limited.

Advice and 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."

We recognise the importance of both advice and guidance in helping consumers to make informed decisions about their pensions.

As you may be aware, section 18 of the Financial Guidance and Claims Act 2018 requires us to make rules which set out that, before proceeding with an application to access or transfer a consumer's pension savings, firms must ensure that the consumer has either received appropriate pensions guidance or opted-out of receiving it. The Act gives the FCA discretion in certain areas, and says we may make rules about how, and to whom, a consumer indicates they have received or opted-out of pensions guidance. The Act also requires us to consult with the Money and Pensions Service (Ma PS) before consulting on rule changes. We are currently working closely with MaPS - and TPR and the Department for Work and Pensions - on testing approaches.

MaPS are leading these trials and are working with the Behavioural Insights Team,[7] who specialise in generating and applying behavioural insights to public policy, to scope out trials with pension providers. The overall aim is to understand how we can encourage more consumers to seek guidance when they are thinking about accessing their pension pots. So far MaPS have confirmed involvement from Aviva and Hargreaves Lansdown. The results of these trials will help inform our approach to the rules, which we will then consult on.

> "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

7 https://www.bi.team/

> 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…"

We agree that firms should be clear and transparent to consumers about upfront costs and further charges they may face and have recently acted on this. Following our Retirement Outcomes Review we have introduced new rules (PS19/1)[8] on disclosure of charges when consumers enter drawdown or take a first uncrystallised funds pension lump sum (UFPLS). This means that from 6 April 2020 consumers will be given a one-year single charge figure in pounds and pence. This will be provided on the front-page summary of their Key Features Illustration (KFI) and builds on our existing rules that require KFIs to include information about costs and charges.

In our recent feedback statement on Non-Workplace Pensions (FS19/5)[9] we committed to exploring measures to improve charge transparency and reduce charge complexity while consumers are accumulating their pension funds. f we decide to take any measures forward, we plan to consult on this in Q1 of 2020.

> "… Investors should also be given a 14-day cooling-off period where transactions can be reversed without detriment to the investor."

We agree with the Committee's view on the importance of cooling-off periods: FCA rules already require 30-day cooling-off periods (cancellation periods) where a consumer enters a new pension, drawdown or annuity contract, or varies an existing contract to go into drawdown.

Independent Governance Committees (IGCs)

> "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."

IGCs were established under FCA rules in April 2015, at the same time as the roll out of automatic enrolment, to drive value for money in workplace personal pension schemes. In 2016, alongside the DWP, we assessed the effectiveness of IGCs at remedying potentially poor value legacy workplace pension schemes. We found that IGCs were generally effective, but identified some areas for improvement. As recognised by the Committee's report, we have committed in our 2019–20 Business Plan to carrying out a further review into the effectiveness of IGCs. Work is already under way and we expect to report in Spring 2020 - we will of course keep the Committee informed on the outcomes of this work.

> "We recommend that the FCA should introduce requirements for contract-based schemes, corresponding to those introduced for trust-based schemes,

8 https://www.fca.org.uk/publication/policy/psl9–01.pdf
9 https://www.fca.org.uk/publication/feedback/fs19–05.pdf

> to report on environmental, social and governance factors as proposed in the FCA's consultation on Independent Governance Committees: extension of remit."

In April 2019, we published our consultation on Independent Governance Committees: extension of remit (CP19/15).[10] This included draft rules which would introduce a new duty of IGCs to report on their firms' policies on environmental, social and governance (ESG) issues. This consultation closed in July and we are now considering the responses. We plan to issue a policy statement setting out our final rules and guidance on this matter before the end of 2019.

Decumulation and investment pathways

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

In July 2019, we confirmed plans to introduce investment pathways for consumers accessing drawdown products (which the Committee refers to as "default decumulation pathways"). At this point - with the investment pathways not yet implemented - we do not know what the "right" price for such pathways is. Firms should challenge themselves on the level of charges. Given that 0.75% has been set as a maximum fee for default arrangements in accumulation, we will take a close interest in any fees above this level when we review charges after implementation.

> "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."

We agree with the Committee that investment pathways should be monitored robustly.

We will supervise investment pathways in accordance with Our Approach to Supervision. This can include meetings with management, on-site assessments, desk based reviews and reviews covering clusters of firms.

Our future supervision in this area will be co-ordinated with our planned review of investment pathways. We will review the pathways, including the charges applied to them, one year after implementation. If at that point we find evidence of problems, we will consider imposing a cap on charges for investment pathways. As well as charges, this review will look more closely at how providers are offering investment pathways (that is how their choice framework helps consumers select a pathway) and how they are complying with the relevant product governance requirements. In conducting our review, we will collect data from firms offering investment pathways. For example, we published guidance in PS19/21 which sets out the records that providers should keep about investment pathways, and may request these data during our review. As appropriate we will share the findings of our review with DWP and HMT.

To provide further protection for consumers, we have proposed to extend the IGC regime to cover investment pathways. A provider's IGC would have independent oversight of the

10 https://www.fca.org.uk/publication/consultation/cpl 9–15.pdf

value for money of their investment pathways. Our consultation on this closed in July, and we plan to publish our final rules on this in a Policy Statement by the end of the year, alongside our final rules on IGCs reporting on ESG factors.

> "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."

We agree with the Committee that people who have accumulated savings should be supported to make informed choices about their retirement income. As well as the new rules on investment pathways, the Retirement Outcomes Review set out a package of measures (informed by behavioural research) to help consumers engage with retirement income decisions. This included improvements to the 'wake up' packs that consumers receive as they approach retirement, so they are provided earlier and more frequently, and include more effective prompts to use Pension Wise. These 'wake up' packs summarise all the options available to consumers, and encourage them to use guidance or regulated financial advice. Firms need to start sending these improved 'wake-up' packs from 1 November this year.

Our work supporting the development of the Pensions Dashboard should also, in due course, help facilitate consumer engagement with their retirement income options as they save for their pensions.

The Pensions Dashboard

The report supports the introduction of a pensions dashboard and makes a number of recommendations for Government on the introduction and the content of the dashboard.

The FCA believes that a consumer-friendly digital interface that enables consumers, at a time of their choosing, to view information about all their lifetime pension savings in one place has the potential to drive genuine consumer benefits, allowing for more informed planning and decision making.

The Pensions Dashboard is a Government-led initiative. However, we continue to work closely with DWP and industry stakeholders so that we can help to ensure the dashboard can deliver good outcomes for consumers.

Costs and charges disclosure

> "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."

The FCA convened the Institutional Disclosure Working Group to consider how the costs of asset management could be disclosed more effectively and comprehensively to professional investors, including pension schemes. This work is now being taken forward by the Cost Transparency Initiative (CTI). We will monitor the market to assess how effectively the CTI templates are working, including the level of uptake and the accuracy and timeliness of information.

FCA authorised firms are subject to FCA Principle 7: 'A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.' But if evidence emerges that there are problems in this area, we will consider whether more detailed rules might be necessary, including around independent verification, to improve the functioning of the market, subject to the costs of doing so being proportionate to the benefits.

> "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."

We would need to demonstrate that the costs of introducing such a requirement are proportionate to its benefits. There would be a stronger case for intervention in this area if there is evidence that the templates developed by the Cost Transparency Initiative (CTI) have not been effective. We think it is too early to conclude this yet, but will keep this area under review.

I hope that you find the information in this letter helpful. We have a wide-ranging programme of work on pensions, and we will continue to keep in touch with the Committee as this progresses. If you need anything further on any of the points covered in the meantime, please do let me know.

Andrew Bailey
Chief Executive