House of Commons

Work and Pensions Committee

Oral evidence: Protecting pension savers – five years on from the Pension Freedoms: Accessing pension savings, HC 237

Wednesday 16 June 2021

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Watch the meeting

Members present: Stephen Timms (Chair); Debbie Abrahams; Shaun Bailey; Siobhan Baillie; Steve McCabe; Nigel Mills; Selaine Saxby; Dr Ben Spencer; Chris Stephens; Sir Desmond Swayne.

Questions 1 - 30

Witnesses

I: Chris Brooks, Head of Policy, Age UK; Laurie Edmans, Commissioner, the Financial Inclusion Commission; Dr Julia Mundy, Financial Services Consumer Panel member and Research Lead (Centre for Governance, Risk, and Accountability, University of Greenwich), the Financial Services Consumer Panel; and Renny Biggins, Head of Retirement, The Investing and Saving Alliance,

II: Tess Page, Chair of DC Committee, Association of Consulting Actuaries; Yvonne Braun, Director of Policy, Long Term Savings & Protection, Association of British Insurers; Joe Dabrowski, Deputy Director Policy, Pensions and Lifetime Savings Association; and Paul McBride, COO of HSBC Retirement Services Limited, the Society of Pension Professionals.

Written evidence from witnesses:

Chris Brooks

APS0062 Age UK

Renny Biggins

APS0011 The Investing and Saving Alliance

Laurie Edmans

APS0018 Financial Inclusion Commission

Dr Julia Mundy

APS0031 Financial Services Consumer Panel

Tess Page

APS0029 Association of Consulting Actuaries

Yvonne Braun

APS0043 Association of British Insurers

Joe Dabrowski

APS0055 Pensions and Lifetime Savings Association

Paul McBride

APS0014 The Society of Pension Professionals

Examination of witnesses

Witnesses: Chris Brooks, Laurie Edmans, Dr Mundy and Renny Biggins.

Q1 **Chair:** Welcome, everybody, to this meeting of the Work and Pensions Select Committee and the first evidence session in our inquiry on accessing pension savings. I warmly welcome the members of the first panel to join us. Will each of you introduce yourself to us in a sentence, starting with Chris Brooks?

Chris Brooks: Good morning. Thanks for inviting me today. My name is Christopher Brooks. I am head of policy at Age UK. We are a charity for helping older people.

Renny Biggins: Good morning. I am Renny Biggins, head of retirement for the Investing and Saving Alliance. We are a not-for-profit consumer-focused membership association.

Laurie Edmans: I am Laurie Edmans, with a lifetime in employee benefits, pensions and insurance, mainly with product providers. During my executive career I did most jobs, from doing the filing to chairing a life company. Among other things I was a founder director of NEST, the Pensions Regulator and the Money Advice Service and the founder chair of the Zurich IGC. I am here today on behalf of the Financial Inclusion Commission, where I spend about a third of my time. The other two thirds go equally between NOW Pensions Ltd, where I am a non-executive director, and an initiative called GAIN—the Group for Autism, Insurance and Neurodiversity—which is seeking to improve radically the employment prospects of neurodiverse people in this industry.

Dr Mundy: Good morning and thank you, Chair. I am Julia Mundy, here today in my role as a member of the Financial Services Consumer Panel. The panel is an independent statutory body. Its remit is to advise and challenge the Financial Conduct Authority from the earliest stages of policy development to ensure the consumer interest is considered.

Q2 **Chair:** Thank you very much. Apologies for the delayed start. What information do people need to make good decisions about how to access their pension savings and who should provide that information to them?

Chris Brooks: People need a range of information in order to make good decisions. That includes, first, an understanding about the products that are available and their choices—quite simply the kind of information that Pension Wise provides. Beyond that, it is a process. People need to start with a simple overview and build on that until they are in a position to understand how to manage their finances. There is a lot of information that people need.

We have to be a bit careful about putting too much emphasis on the information that is provided. That is of course important, but all the time people will need the support and the help at all stages of the process to guide them through and to help them to get the most out of freedom and choice. Freedom and choice is fiendishly complicated for individuals. It has the potential to cause a lot of problems. The majority of people are not familiar with pensions. It is a new thing and a series of big decisions that they are likely to have to make. It is important that the information is provided impartially to them. We also need to focus a bit more on health and support.

In terms of who should be providing the information, there is clearly a role for the schemes. The schemes know their members and they understand their members' needs. But at the same time we have to remember that that information will not necessarily be impartial, so I would be looking to the Money and Pensions Service, MaPS, as the main body that would provide impartial information. The service that the Pensions Advisory Service has provided in the past has been effective as well. Pension Wise has a key role to play, too.

Renny Biggins: I wholeheartedly agree with everything that Chris said. It depends to an extent on exactly how close to retirement they receive that guidance or advice. They may well have a few years left before they decide to take their pensions and access guidance or advice prior to that.

Generally, they will need to understand the options available and the inherent risks associated with each of those options as well. Since we have had the shift from DB to DC, all those risks have moved from the employer on to the individual. Often they are unaware of the risks that they are exposed to.

They need to have an understanding about the expectation of what their retirement might look like. Most of them will be probably fairly surprised in one way or another about what that retirement looks like when someone points it out to them. If they get that guidance or advice earlier on in the journey, it may give them enough time to do something to fund any shortfall.

In terms of who should provide that guidance, certainly Pension Wise does a cracking job. We know that not enough people use that service, despite the signposting provided by providers.

I believe providers have a much greater role to play here. Speaking to our member firms, they want to go further than they currently do to help their members. Typically, the first port of call for an individual is their pension provider and they are normally told, "We cannot help you. You have to go somewhere else," and there is a break in that journey. The problem they have is there is no clear boundary of the definition between advice and guidance. Even the FCA itself said a couple of years ago that this is impossible to define. They want to do more, but because they are so concerned about straying into the advice territory, they end up being ultra-cautious and doing less for the individual than perhaps they could. I would like to see that clear definition and also perhaps enabling providers to provide an element of personal recommendation or some sort of personalised guidance. That degree of personalisation resonates with individuals.

Laurie Edmans: The single thing most people need is to understand where they are and whether they are well provided for or, even more importantly, whether they are not. I believe that, as Renny has said, the process needs to start earlier than at retirement. I believe people ought to be able to get a broad understanding of the key things that lead to a good situation at retirement, which are of course far and away most importantly how much goes in, secondly the investment performance, and a distant third now, unlike 20 years ago, are the charges.

I agree that Pension Wise is key in this. The most important thing to do is to expand use of Pension Wise. I cannot see why it should be restricted to being the only organisation providing it. For example, MaPS sets and monitors standards for the quality of debt advice being given and I wonder whether a similar approach would enable a broader range of people to give similar guidance—completely unbiased and unrelated to products—to people at retirement.

Dr Mundy: I agree with the previous witnesses that understanding is every bit as critical as information. People need to understand that their retirement will not be the same as their mother's and father's. They will almost certainly live longer. They will probably be much more reliant on income from defined contribution savings. There is a much bigger risk that their income will not match their spending aspirations.

The best way to help people through this is probably through some sort of guided conversation. It is critically important to get this right because if their first experience leaves them feeling worried, they are much less likely to come back and seek further support.

In response to the question about who should be responsible for ensuring people have this information, a macro-level responsibility lies with the Government and Pension Wise to set a vision, change mindsets and establish some expectations about desirable outcomes, leaving the firms to design and implement communications that will deliver those to consumers.

The Consumer Panel would be pleased if the new consumer duty proposed by the FCA encourages firms to think about providing information that activates people to seek support on their way to better outcomes, not just simply landing them with information that they cannot understand and cannot use.

Q3 **Sir Desmond Swayne:** When someone is able to access their pension for the first time, they are presented with a number of choices. They can have up to 25% tax free. How much consideration do they give to that choice and indeed to what they do with the other 75%?

Chris Brooks: The FCA's retirement outcomes review found that people are keen to grab the 25% tax free but they do not give much thought to the other 75%. Of course, the focus is on the early use of freedom and choice—there were people with pent-up savings that they were waiting to get hold of.

The longer-term behaviour might be slightly different. I imagine that it probably will not be. People do value the 25% tax-free lump sum. They see it as a windfall. Suddenly people are faced with possibly the largest amount of cash they have ever been able to get their hands on in their lives and it is attractive to take it as soon as they can. Many people have immediate uses that they think of for it, which is not necessarily in line with the purpose of a pension, which—lest we forget—is to provide an income throughout retirement and to sustain people through their later lives. A potential problem is being stored up.

The FCA has addressed some of that with the work it has done on investment pathways particularly. If people are grabbing the cash in the future, hopefully they will be investing it more appropriately in ways that do not harm their longer-term prospects, particularly by keeping it out of cash funds.

Renny Biggins: When you look at people who have first accessed, from recent statistics, most do not just take the tax-free cash. They take the whole fund. They are considering a total cash-out and are using the money in some way.

For those people who do enter drawdown, yes, well over half are accessing to take advantage of the tax-free cash. They are not actually touching their pension funds. They are in drawdown by default, to an extent. It is just the route that they had to take to access that tax-free cash.

For those who are taking income, when you look at the statistics for all age groups and nearly all pot sizes, the most popular level of withdrawal is 8% or greater. Clearly, that is unsustainable if they have that pension pot in isolation. We do not know what other wealth these individuals have, so we can only go on the statistics that we have, but an 8%-plus withdrawal rate has been by far the most popular for nearly everybody who has taken a withdrawal, which indicates that these people are not getting enough guidance or taking regulated advice.

We talk about getting that support as we approach retirement and at retirement, but as people go through retirement things change a lot. You start off with a more flexible retirement, you have a higher activity rate and then it slows down. Typically, retirement is a game of two halves, but people will not recognise when they are transitioning from the first to the second half, particularly as cognitive abilities perhaps decline throughout retirement as well. You need the support all the way through retirement as well because your retirement journey fluctuates as much, potentially, as your accumulation journey.

Laurie Edmans: This is a good question and it has not been looked at as closely as many other aspects of this. It would be worthwhile to do so, particularly because it is impossible to generalise about people in this situation while we are in a position where so many people still have easily residual DB pots. The basic state pension now represents a significant proportion of the replacement rate for somebody on national average earnings. You cannot give a generalised answer easily. It is an area that would be worthwhile looking at further.

Dr Mundy: There was a small piece of research done earlier this year that suggested that people do leave this consideration late in the journey. They are much more likely to be concerned about immediate living expenses and therefore they want these smallish lump sums rather than an income and do not think about the longer piece.

On the other hand, the high levels of awareness of the tax-free element, for good or bad, is a great example of the power of a clear, simple message that has absolutely resonated with consumers.

Q4 **Nigel Mills:** To move to the next logical step, are you suggesting that perhaps the dramatic reduction in the taking up of annuities as a result of freedom and choice coming in has been a bit of a bad idea for some people and that having a guaranteed income for life might have been a good solution for a lot of people?

Laurie Edmans: Freedom and choice of course coincided with historically low interest rates and at the same time stiffened capital requirements for providers—I was the chair of one of them—following global financial crises. Those things combined to make annuities look like poor value. There are also questions about the charges and transparency of margins in annuities. I am more unsure of those than I am of products for accumulation.

Whether it is a good thing or not that annuities have dropped significantly depends on the importance to the individual of the certainty of an annuity, which the annuity uniquely brings. In many surveys over the more than 40 years I have been doing them, when asked what is most important in pensions, the top answer is invariably security. But security, like any insurance policy, has a price. Whether it is worth paying for depends on the rest of a person's financial circumstances in retirement.

In many ways, buying an annuity is an asset allocation decision to put whatever part of financial assets into retirement, mainly into currently low-yield fixed-interest securities. If someone has no other assets available, intends to rely primarily on the annuity income for the rest of their life and there is no scope for weathering ups and downs, this can be worthwhile. But how many people now are in that situation, especially given the changes to the basic state pension?

When the average DC pot for somebody coming into retirement is £25,000 and the basic state pension has a capital value in the region of £250,000, the risk to a person's overall lifestyle of variation in the DC pot is small. A 50% drop in an average DC pot will be less than a 5% drop in their overall position, let alone other assets such as property, other DB pensions and so on. Does it make sense for such a pot to be assigned to assets almost bound at current rates not to keep up with the standard of living?

Nigel Mills: That was a pretty thorough answer.

Renny Biggins: I don't believe the drop in annuity sales is necessarily a catastrophe or a bad thing because the pension freedoms do provide the flexibility that so many desire and need at earlier stages of retirement. The problem is—and this is the overarching principle in the answers to all of these issues—you need support and guidance to help you along this journey at all stages. The problem is that people enter into a drawdown contract and are faced with what they believe is a binary choice. They will stay with that drawdown contract for life and perhaps they will exhaust their fund early because most people underestimate their mortality rate.

Annuities absolutely play an important part in the retirement journey for so many. Many people will put off purchasing an annuity until later on in retirement because they are fed up looking after their investments and they can now get a better annuity rate. They need that guaranteed income as security for their later retirement life. Again, without that guidance and support being available for them through retirement, they will not know the right time to do that and may not even know that is an option available to them. There is not enough guidance and support out there to help people to understand the options available and the good time to make those decisions.

Q5 **Nigel Mills:** It sounds like you are supporting the idea of a hybrid product, which has a bit of drawdown for you to spend early in your retirement and then a partial guaranteed income that sees you through however long you do live.

Renny Biggins: I am not necessarily a fan of hybrids because they are particularly complicated products to understand. If we want people to have confidence in their decision making, we need simplicity in the products. The hybrid model achieves what is already out there with drawdown and annuity. The hybrid has been tried before. Because of the complexity, it was distributed only through advisers. It was an expensive product and difficult to understand. It did not work. We have the products out there to meet the requirements now. People need access to support to understand the options.

Chris Brooks: Annuities do still have an important role to play. As Renny mentioned, it might well be later on in the retirement journey. As I mentioned earlier, the first cohort of users is still quite young. They will age, experience cognitive decline and it will become increasingly difficult to keep taking ongoing drawdown decisions. An annuity for many if not most people who reach their 80s, for example, will be an important purchase. Hopefully, we will see that reflected more in the product pathways that will be developed to help people through their later lives.

In terms of other products, we did some research a couple of years ago to question why there had been so little innovation since freedom and choice was introduced. We commissioned it because we were concerned about the lack of product development, but coming out of it the lesson I learned was that products probably are not so important. It is not necessary to have hybrid products available, which can be expensive. It is unclear whether there is demand for them anyway. There were one or two in the marketplace in the early days but they were withdrawn because they did not have the take-up. A good financial adviser can use what is already there in terms of drawdown and different annuity products to piece together a retirement journey to help to meet your objectives throughout your later life.

We need to be focusing on how we replicate that for the non-advised marketplace, which is completely without the tools necessary to help them to take the right decisions to meet their circumstances and their personal needs. The question is less about products and more about the support available and how people who do not have a financial adviser to do it for them can be given the tools to help them to manage their spending at the correct rates. As Renny said, 8% seems to be the most common rate of drawing down money. That money will not last, for sure. It is probably too high for almost everyone. Getting that support in place should be the focus, rather than over-worrying about the products available in the marketplace.

Q6 **Nigel Mills:** Does collective DC represent a solution to this? Is it a happy compromise between defined benefit but in a DC world, or is it not available to enough people for it to work?

Chris Brooks: It is still early days for CDC. At the moment it is not available. Anything that introduces some risk pooling into the decumulation retirement journey is a good thing and definitely has a role to play. The fundamental weakness of the DC system is that the individuals bear all the risk. It is incredibly difficult to take decisions to offset that risk and make the right things that end up meeting your needs. You do not know how long you will live, for a start, so how can you decide the rate you should be spending your money or the protections you might need? Any risk pooling that balances that across society will be a good thing.

Laurie Edmans: I agree with that. There are clear merits in pooling longevity risk and some if not all of the investment risk. They seem obvious. CDC could be provided as an alternative to annuities or indeed to drawdowns, but they will safely do so only if the general level of understanding is improved so that people in general are aware of and ready to accept that the income they get from them can go down as well as up. There is no fundamental reason why people should not understand that their income can vary because they lived throughout the rest of their lives with the reality that their income might go up and down with changes in employment or other circumstances. The evidence in the UK from with-profit products, which are closely analogous to CDC under the skin, and in the Netherlands shows that people are not at all comfortable with that variability in retirement, understandably because they have less opportunity to go out and get another job at that stage.

But while people are not comfortable with the variability, product providers or scheme trustees will be wary of being considered to have raised expectations that are not realised. History shows that people are generally quite content to see their benefits levelled up but are not nearly so content to see them levelled down. You only need to look across at the different reactions to the introduction of terminal bonuses for with-profit contracts when everything always seemed to go up and the reactions to market-value adjustments—for those of you old enough to remember them—when they were on their way down. This leads, again, to the importance of ensuring that people have the chance to get a better grip on the fundamentals than at present and access the disinterested guidance to deliver it before people are encouraged to take CDC up in volumes. That is not evidenced from the current measures.

Dr Mundy: I agree with the previous witnesses about the potential problems. Essentially, the risks currently being borne by individuals could shift to society if people are not getting the returns they want. There are lots of potential problems with CDCs and they can in the worst cases begin to look like Ponzi schemes. They do need to be properly thought through and implemented before being let loose on people as yet another option that they do not understand.

Q7 **Chris Stephens:** I want to ask the panel some questions about Pension Wise. Chris Brooks, I know your specific organisation has made some comments and done some work. Does Pension Wise have the capacity and capability to provide adequate guidance for people accessing their pensions for the first time?

Chris Brooks: Yes, it seems to be an effective service. Over 90% of people using it report that it has done a good job for them. It definitely has that on its side.

The capacity, I guess, is flexible as to the demand. If it were to be significantly ramped up, it would be extended to meet that demand. We should not forget as well that the guidance guarantee, which became Pension Wise, was promised as an integral part of freedom and choice to provide the support on offer. The fact that only 14% of pots—about one in seven—are being taken through Pension Wise is concerning. It is low.

As Pension Wise does provide a good service, we would like to see that significantly rise. The Minister has said that he wants it to be the norm, which suggests that a significant majority of people would be using Pension Wise before they take their initial decisions on accessing. There is a lot of work to do.

We have been in favour of putting in place an auto-appointment process, mimicking the inertia that auto-enrolment delivers to boost numbers saving into a pension. To boost Pension Wise numbers, you need to do something quite significant and put people into appointments unless they opt out, which probably is the only way to do it. We have seen the stronger nudge trials that were conducted by MaPS and the Behavioural Insights Team, which delivered a small improvement on the number of people using it. I think it was an 8% increase, which still means that a vast majority of people are not getting the support they need before taking that initial decision. It is important that that changes.

At the moment, having an auto-appointment process does not seem to be on the table. The FCA has a consultation out at the moment, where it appears to recognise the shortcomings of this, but their hands are probably tied to an extent. Yes, it is probably up to the Ministers to push through something that will deliver the support needed by the majority of savers.

Q8 **Chris Stephens:** Thanks, Chris. Maybe I will pick up some of the points you have raised there in my next questions.

Laurie, the Committee was informed in 2019 that auto-enrolment in workplace pension schemes had seen participation rise from 55% to 87% in just six years. Always allowing for an opt-out, should there be an auto-appointment or auto-enrolment system for Pension Wise appointments as a means of pre-empting some of the poor pension decisions that people can make?

Laurie Edmans: My colleagues on the Financial Inclusion Commission and I have spent a good deal of time on this and strongly support the idea. I agree with everything that Chris said about the success of Pension

Wise and I am delighted to see it but I regret the low levels of take-up. Much higher usage would lead to higher costs, but I believe from my background in the industry that there would be a commercial benefit to industry from a more active and engaged customer base. Therefore, it would be in their interests—and after all, ultimately, it is the customers' money anyway—to make sure that MaPS or whoever provided the service was adequately resourced to provide it. If the industry will be asked to do that, the cost of doing so should be reflected in the assessments of value for money that are currently being looked at in this and other areas, as I believe they are valid sources of worthwhile effort. But at the moment, if you look at the way regulators are considering value for money, you will not find measures to improve this kind of information distribution in there. They seem to be concerned with making sure that the car has wheels and an engine and is safe but not that the car has petrol in the tank to get the customer to their destination.

Q9 **Chris Stephens:** Thanks. That is a good characterisation. Renny, both Chris and Laurie have commented on the success and the good work of Pension Wise. The FCA has presented an auto-appointment with opt-out policy as being a mandatory or a compulsory policy. Is that a fair characterisation? Do you agree or do you disagree? Is there anything else you would suggest that can be done to make sure that the successes of Pension Wise are spread out to cover more people?

Renny Biggins: Absolutely. On a mandated approach, I am never in favour of forcing people down a certain road. There is only so much you can do. You can lead a horse to water but you cannot make it drink. As an industry, we are doing as much as possible to refer people through to seek out regulated advice or take out a Pension Wise guidance appointment.

When we think about why this take-up is so low and when we speak to people and see research, we know people's perceptions of pensions and how we try to put perceived obstacles up in front of them to stop them taking their money out. Most people, when they get referred through to Pension Wise, have already made their minds up that they want their money. They do not want another obstacle in the way and having to go to Pension Wise to do something they have already made their mind up about is one of the prime reasons take-up is so low. It needs to happen earlier in the journey, before people make their minds up, to help them to make informed decisions. It cannot happen after the event, if you like—after the horse bolted.

Some member firms have done some work looking at triggers earlier on in the journey, although still when a person is over 50 because that is the earliest stage you can take out an appointment, but we are looking at boosting rates to well over 20%, which is still low but we are looking at well over double the take-ups we are seeing at the moment. We need to consider putting these nudges in earlier on in the journey.

With the more nudges we keep providing to customers who have already made their decisions, they will probably get quite fed up with hearing about Pension Wise and MaPS when they have already made the decision to take their money out. In fact, perhaps a delay in that process as well might mean that they were only going to partially withdraw but they are so fed up with the delay, they say, "I do not want to go through this again. I will take all my money out instead". With good intentions can come unintended consequences as well.

Q10 **Chris Stephens:** Thanks, Renny. Julia, you have heard Chris mention the figure. The latest data from the FCA shows that 14% of defined contribution pots accessed were after Pension Wise guidance. What level of take-up of Pension Wise guidance should the Money and Pension Service be aiming to achieve?

Dr Mundy: Certainly too many people are accessing their pots without any advice or guidance whatsoever, so there definitely needs to be a change. It is difficult to say what the right figure is or, critically, how those who are most in need of support get it at the right time. There is a long way to go here, given the concerns about people sleepwalking into retirement. We need to understand more about who needs the support and when they need it. It may be that that first tranche is quite difficult to shift. It is about looking at who will get the greatest benefit in the next period of time, rather than just setting a target. Targets can be helpful, but they can lead to unintended consequences or can be gamed in the worst situations. There needs to be a more rounded approach to where that support should be targeted and then looking at some levels to get better take-up.

Q11 **Chris Stephens:** Thanks, Julia. Presumably, you would share the concern of the Money and Pensions Service chairman who told the Committee last March that the vast majority of pension savers, "left to their own devices, will probably make a poor decision." I presume you share that concern. You do, and I am seeing nods from the rest of the panel.

Renny had touched on this but I am curious. What is the best stage for people to use Pension Wise services? Around retirement dates? Is it at age 50 or a similar period? What are the benefits?

Laurie Edmans: I am pleased to have been asked by the Minister to join the midlife MOT board. The fact that I am so keen to do that shows that I agree entirely with Renny about how it can be best to get your retaliation in first. The earlier in the process the better.

We have to achieve a change in the understanding, engagement and interest in people's finances generally, not just pensions, which is necessary given the huge shift from responsibility being taken by institutions to responsibility being on the shoulders of the individuals. The earlier the better.

We have a distinct problem right now at the point of retirement, as has been described. We have a solution that we know works well. Everything cannot be done at once. Getting Pension Wise to people at the point when they are first able to access it is the right thing to do.

I can understand why Renny is perhaps sceptical about that, but the way to deal with that—he might be right; he might be wrong—is with the concept of automatic enrolment with an opt out. If people are firmly wedded to doing something different, fine, but that concept could at least be trialled and I believe it should be. I would start with Pension Wise and then wait to see what we come up with for midlife MOTs.

Q12 **Chris Stephens:** Thanks, Laurie. Chris, any view on the best stage for Pension Wise guidance?

Chris Brooks: You could have more than one Pension Wise appointment. I agree with Renny: the earlier the better, in many respects, because then people will be informed from an earlier point before they start that decision-making process. Ideally, you are looking at age 50 when Pension Wise becomes available, but then you probably also want a refresher at the time you are making your decision, which could be 15 or 20 years later, potentially. Yes, there is more than one way of getting that information and different opportunities to engage with Pension Wise.

Dr Mundy: Activating people to seek support some years before they access their pensions is sensible and also can be non-threatening for them at that stage. Also, it has the potential to stimulate a wider conversation among people in the same way that health checks at certain ages have done, which can help to normalise people's experience.

I am not sure that the terminology is particularly helpful. An MOT is a test that you either pass or fail. Perhaps more thought needs to be put into the exact choice of words that will encourage people to ask for support well before they want to access their pensions.

Q13 **Sir Desmond Swayne:** Given the reluctance of people to pay significant sums for advice, was the Committee wise in its recommendation that the cap on the pension advice allowance should be reviewed? Do not all speak at once.

Laurie Edmans: If I may, I will speak about this from the perspective of my eight years as the chair of the trustees of the Mirror Group newspapers. The employer, long before pensions advice allowances were permitted, offered to pay £500 for financial advice to employees retiring. As trustees, we liked that. We regularly promoted it by way of leaflets, e-mails, sidebar comments on commonly accessed intranet pages and so forth. Sadly, the take-up was miniscule.

It reflects, again, the fact that people, in an age when responsibilities are being shunted on to them at quite an alarming pace, still largely have attitudes formed in an age when that was not the case. It is another reason why, although I would have no objection to the pensions advice allowance being extended, I would not expect it to be as effective as, for example, automatic enrolment with an opt-out into a Pension Wise appointment.

Chris Brooks: The advice allowance would probably be more beneficial to people who have higher-value pension pots and who are more likely to consider paying for advice and be aware of financial advisers. Increasingly it probably would not help the mass market. There is still a significant supply side issue within the advice industry. It is hard to find an adviser. Unless you have quite a significant amount of money, you are not viewed as a profitable client to a lot of advisers and they do not want to help you. It does not help the mass market and currently non-advised people will not benefit from it. It is effectively a tax perk for people who will already get financial advice. It is unlikely to act as an incentive to others to find themselves an adviser.

Renny Biggins: I am not against the review of the advice allowance but I am not sure it has been given a fair chance at the moment. A lot of people do not know it even exists. It has not been particularly well communicated.

Regarding finding a regulated adviser, I know the FCA is keen on looking at restricted advice or streamlined advice. The problem there is that the regulatory requirements and liabilities for a firm wanting to offer restricted advice are exactly the same for a firm offering full advice. I know a number of providers would like to be able to offer restricted advice but at the moment, unless the liabilities and requirements are proportioned down to the level of the advice they are giving, they are not willing to take that on. If that was changed, perhaps more people may take up restricted advice from them.

Q14 **Steve McCabe:** Good morning. Those last comments follow on quite nicely because, Mr Biggins, you spoke earlier in your evidence about this whole problem of defining advice and guidance. We end up with this argument about enhanced guidance and restricted advice. Is there anything in that at all or is it just a red herring and, because of the points you have just made about regulation and so on, we will end up with the same argument? Is it worth putting energy into that issue about enhanced guidance and limited advice or would we just say that the Government needs to set a target for the number of people going to Pension Wise for guidance?

Renny Biggins: That is a good point. We know that people do value a degree of personalisation with any sort of support they are given if it is guidance, and of course a personal recommendation if it is advice. If you are providing just information, those are the sorts of things that you can almost get off Google. It is just facts and figures. It is not guidance. It is just information. We would like to see firms have the opportunity to go that little bit further with clear rules to allow them to be able to provide that element of personalisation with the guidance.

We do need that clear boundary defined between guidance and advice. Like I say, at the moment it is a real block to providing a support service right across the industry that individuals want and providers want to provide. We still have a lot of work to do in that area. Clearly, as it stands at the moment, people are not getting the level of support they need. The products, as Chris mentioned earlier, are available; people just need that support to help them choose which products are available at the right time. At the moment, that whole support framework is not in existence and does not quite work.

Q15 **Steve McCabe:** Is it possible to establish this clear, useful boundary? I am wondering if there will be a lot of time and energy wasted on this and we will be in the same position in five years' time.

Dr Mundy: There is a gap between guidance and advice because firms are worried about stepping over the line, so they are staying away from the line that would push them much closer to what consumers need. The Consumer Panel thinks there is scope for this gap to close, but firms will need support.

A good example of this was seen last year in the guidance on pension transfer advice that the FCA published in July. It was a great example of how the regulator can oversee step-change improvements in the advice space simply by being clear about expectations.

Laurie Edmans: I agree with what Julia has just said. As far as the generic problem is concerned, this has been wrestled with for at least the last 20 years with different labels and a solution that has not emerged yet. I suspect, Mr McCabe, the direct answer to your question—will we still be asking this in five years' time?—is yes.

What could be done about it? On the basis that the first step is the most important, getting more people to Pension Wise-type guidance, even if it is not personalised, is a step in the right direction. I believe three quarters of people who go to Pension Wise change what they do, hopefully in the right direction and they are virtually all satisfied with what they do. I believe that a higher proportion of people who have gone to Pension Wise do go on the further step and seek regulated advice. As a proportionate step, it seems to be a logical thing to do from pretty well any angle you look at it.

Chris Brooks: We should focus on Pension Wise at the moment. It is a tricky debate around the advice/guidance boundary. Although I am sure there is definitely something in it and the schemes could do more, I certainly take on board what everyone else was saying. They are probably worried about doing so. I would not forget that the current restrictions were put in place because of quite significant malpractice in the past. If you unwind that, you have to be careful that it does not recur.

Q16 **Shaun Bailey:** I want to look at this area of advice again. We have investment pathways, which have come forward as a way to navigate pension holders down a particular route; can they replace proper advice and guidance? More broadly, given the Government's focus on pension freedom and the ability to choose where you want to go with your pension pot, is the idea of perhaps pigeonholing people aligned to the Government's aim of pension freedoms? Or will there have to be a trade-off at some point between effective advice and guidance and pension freedoms?

Laurie Edmans: The Zurich Independent Governance Committee had to look at the question of investment guidance, so I will speak from that experience, if I may.

Investment pathways are not a substitute for proper financial advice. There is no question about that. Do they constitute a significant improvement on the position of a substantial number of people as they stand? Yes, they do.

The problem, as I understand it from FCA when it introduced the concept, was that too many people were doing something that sounds crazy to anybody like the panellists here who have spent their lives steeped in this stuff but is logical to more normal human beings—apologies, panellists. The first thing that happened with pensions freedoms was people would phone up the office and say, "I would like to take my money out." At least there was somebody for them to phone in a trust-based scheme. The people in the office would say, "Why do you want to do that?" The answer an amazing number of times was, "Because I do not trust where it is in this pension scheme. If I take it out and I put it into a bank account, it will feel like my money."

The investment pathways are not a perfect solution to advice. They are a lot better than people taking tax-relieved funds—soundly invested, managed by trustees—out and putting them into current bank accounts, where all those advantages are lost. We have to make progress by incremental steps and that is an important one, I believe, towards sooner or later arriving at the PLSA's ambitions for pension standards.

Renny Biggins: The ideal situation would be everybody taking regulated advice. The next best situation would be some people taking regulated advice but with a big take-up in people taking effective guidance.

Are the investment pathways a good alternative to either of those or a substitute? Absolutely not. Are they a step in the right direction? Absolutely. The one-size-fits-all approach is not ideal but we have to think about a solution here that caters for the masses. It is certainly a step in the right direction but there are still risks associated with individuals when they are invested in the pathways. For instance, the pathways will not tell you a sensible level of withdrawal. People still have to be exposed to risks and make decisions. It is not a safe harbour by any means. Is it a step in the right direction? Absolutely. I fully agree with Laurie, there are small incremental steps that we need to take and this is just one of those.

Chris Brooks: I agree with everything everyone else said. I believe that investment pathways are an important part of freedom and choice. They do not in any way run contrary to the aims of the policy. It is essential that you have that kind of support in place to help people get the most out of their pension.

I view it as a trilogy of pathways, starting with defaulting people into Pension Wise and having an auto-enrolment and auto-appointment system, then the investment pathways to guide people through to the right outcomes once they have made their personalised decision on what they want, and then the piece that is strongly missing at the moment is the income pathway at the other end and helping people to make the right choices to generate the sustainable income they need and with flexibilities helping them along the way. If all those could be in place, then freedom and choice could be a successful policy. It would give it a much better chance.

Q17 **Shaun Bailey:** When we think of pension dashboards and the amount of data that has been accumulated there on the number of pension pots people hold, that data has been refined as these things develop. Is there scope to use these platforms over time—I am not saying akin to regulated advice because you will not take away that individual interaction—to give much more streamlined, tailored guidance that people could then be using? Is that coming sooner than perhaps we would realise? The potential from my reading does seem to be there but I would be keen to see what the panellists think.

Dr Mundy: Certainly dashboards have an enormous potential to educate people and to get them activated to seek support. It is not just about the type of information but also how it is presented. Language matters enormously. People do not understand the term "pot value" but they do understand "retirement income."

Also, they need a range of tools to help them to plan all the different scenarios. That will require some input from them and also some assumptions that they can draw on to try out different situations.

As part of that, link that to how people could be encouraged to think about how guidance and advice might support them in that next stage. It will not necessarily give them all the answers but it will stimulate their thinking and get them having that next bit of conversation. Making them feel comfortable about the conversation is absolutely essential. We know people feel scared when talking about pensions and they do not understand them. Trying to make the experience normal in everyday language and taking away the fear of it can go a long way to getting them moving and activated into making the right decisions.

Chair: Thank you very much. With apologies, given the time, we will need to conclude this panel there. I thank all four of the panellists very much. If there is anything else you would like to say to us, please do e-mail. We will be keen to receive any further points you want to make. Apologies again for the late start. Thank you for the helpful information that all of you have given to us.

Examination of witnesses

Witnesses: Tess Page, Yvonne Braun, Joe Dabrowski and Paul McBride.

Q18 **Chair:** I welcome the members of the second panel. Thank you for your patience. I will start, as I did with the first panel, by asking each of you to, in a sentence, introduce yourselves to us.

Tess Page: Good morning. I am Tess Page. I chair the DC Committee of the Association of Consulting Actuaries. We are the UK representative body for actuaries in the UK and we advise employers and trustees of pension schemes.

Yvonne Braun: Good morning. I am Yvonne Braun. I am director of policy for long-term savings and protection at the Association of British Insurers. We represent the UK insurance and long-term savings market.

Joe Dabrowski: Good morning. I am Joe Dabrowski. I am the deputy director of policy at the Pensions and Lifetime Savings Association, a trade association for pension funds and associated providers, representing over 20 million savers and £1 trillion in assets.

Paul McBride: Good morning. I am Paul McBride. I am the COO of HSBC Retirement Services Limited, which is a strategist and funder for their coming-to-market master trust. I am here today representing the Society of Pension Professionals.

Q19 **Chair:** Thank you all very much for being with us. I will put to each of you the question that I started the previous panel with. What information do you think people need to make a good decision on accessing their pension savings and who should provide that information? Are you an advocate of the midlife MOT idea?

Tess Page: This could be a long list of detailed information, but I will try and keep this simple. The key information that individuals need is, first, what they have in terms of their pensions pots and often that is the hardest bit for them to find because these things have a habit of disappearing in papers over time; and secondly, the options for them at retirement, the costs of those options both in fees and in charges, the tax implications and the risks. All of those things sound quite simple on the surface but are accompanied by regulatory requirements or particular guidance needs that make it complex for individuals. That would be the basic level of information.

In terms of the responsibility for providing that, at the moment that information is generally available to the individuals if they ask for it. Part of the challenge is that until we have a standardised set of information that is automatically supplied to individuals, using consistent language in a consistent format, it will always be a challenge for them to unite all of those bits of paper and work out the whole picture. Dashboards have a potential role to play there. That would be the summary of the information and the provision of it.

Yvonne Braun: I agree entirely with that. As Tess said, how we get to the place of people having an overview of everything they have is a crucial role for pensions dashboards and I am sure we will come on to that later.

The options include doing absolutely nothing because that is important. We should not be at the point where everybody at age 55 thinks, "I need to take decisions now about my pension". In many cases, it is best for people to continue working. You have to understand the risks involved in taking these options.

As to who should supply that information, I agree with the previous panel: we need much greater take-up of the Pension Wise service, which is a good service in terms of all the consumer feedback that we know about. We believe that an auto-booking system should be trialled, but we also believe—similar things were said by the last panel—that providers should and can play a greater role not just in the provision of information at the point of retirement but also all the way through, because in many ways that is the unresolved piece of the puzzle.

Also, it is important that we get this sorted, because although at the moment the great majority of people retire with DB entitlements as well, so if things go a bit wrong with the DC pension it is not so critical for their financial security in retirement, we all know that things are changing. We need absolutely to bring about a step change in how much guidance is taken up and is available. To return to what was said earlier, we need to get that important thing fixed.

Joe Dabrowski: I agree with much of what the panel has already said. It is important for savers that they do not reach retirement cold, effectively, and then have to make a series of choices, many of which are complicated, including understanding how much they have, the lifestyle they want to live and their options and the products available. Coming at it cold is difficult. We would support the midlife MOT and I will come back to that in a little bit.

It is also important that people understand the costs of their retirement, which is part of the reason we introduced the retirement living standards. We are pleased that 14 million savers are now accessing them.

At the point of retirement there is an important role for MaPS and MoneyHelper, as it will be, in supporting people, but it is also a fact that

MoneyHelper or MaPS itself will not be a silver bullet for solving all the forms of engagement. It is important that schemes can do their piece, too, and that is part of the reason why there are some questions about the advice/guidance boundary and how that can be dealt with better and also why we think in our guided retirement income choices that schemes should have a duty to support members as they enter into decumulation and understand the choices and paths in front of them and what that means for their lifestyle and everything else. I am happy to talk about that a bit more but, to be brief, that is my view.

Paul McBride: The only thing I would add to that is that the midlife MOT will necessarily be different to the guidance when you are reaching the retirement point. For the midlife part, the concerns would be how much I have, how much I need and how I get from A to B. That is much more critical. We could be looking at a timeline of 20-odd years, by which time the whole product horizon will have changed. Annuities, as everybody recognises, in their current state are under a lot of pressure and may no longer exist in 20 years. The information needs will be different.

At a more granular level is everything that has been articulated by my fellow panellists. In addition, within each scheme there will be different choices and options. Most single-employer trusts, for example, are there to recruit and retain. They are not there to provide retirement benefits—I exclude DB from this but in a DC environment—for the longer term. Other commercial schemes such as group personal pensions and master trusts do provide those to and through-retirement options, but many others will not and many will need to take an action that is forced upon them.

I would also add to that comment that there are simple solutions in the marketplace. We could transfer to a master trust where they could access a cheap, effective drawdown solution that has decent fiduciary oversight and is authorised by the Pensions Regulator, but we put up regulatory barriers. There was a joint paper issued in March of this year between TPR and FCA and it talked about the sorts of things that employers and trustees can and cannot do about promoting other options and so on. Anybody who got to the end of that document would decide that they will not do anything rather than run the risk.

There are some things that can be done to encourage employers and trustees to use alternatives in the market if some of those regulatory barriers are removed. But in terms of information, it is critical that members know if they can utilise a particular scheme for everything that they want or if they will have to decide to transfer elsewhere.

Q20 **Steve McCabe:** Good morning. In your experience, how much consideration do people give to the remaining 75% of their pension pot after they access this first 25%? What influences a decision to access the pension? Are there any obvious lessons that we should draw from places like Australia and New Zealand?

Yvonne Braun: The DWP has had some research done by NatCen, which is recent, from October, and that talks about general considerations for people around financial security, financial flexibility, helping their adult children and so on. The concern around people just taking the tax-free cash and leaving the 75% untouched and not knowing what to do with it or not even being interested potentially is precisely what the FCA was trying to fix with its retirement pathways. That is basically a choice architecture in drawdown—because you take the 25% in drawdown—that tries to get people to think about what they want to do with their money.

We have today published a report, which we did in conjunction with Frontier Economics, and that also has some data as to how people are using the pathways. It validates the idea of the pathways because people do make choices, and also quite different choices. About the same number of people say, "I want to take out all of my money in the next five years," as say, "I do not want to touch my money in the next five years." That side of things—this choice architecture—is positive.

The next question, which we believe is unresolved, is what then happens further down the line. In other words, do people actually act in accordance with the pathway they have chosen? If they do not, what can providers do to alert them to this and say, "No, this is not working all that well potentially for you in the long term"? What are the rules around that? This is when we come back to the advice/guidance piece: how can we enable providers to do more?

Tess Page: I completely agree with the pathways comments. A challenge at the moment is that the influences on how an individual makes those choices often depends on the type of scheme they are in and what is offered through that pension scheme. There are quite big differences between the trust-based market and the contract-based GPP type of world.

A big influence we see is what is available through the scheme—if people can easily leave the 75% behind, you get a higher number of people doing that—and the choice architecture that Yvonne talked about around how the options are communicated. Inadvertently, there are nudges in existing communications that might prompt people towards one option or the other just because it is presented much more prominently or is available through the scheme. As soon as you start saying to an individual, "If you want to do something else, then you might want to get advice. You might need to transfer somewhere else," those are all barriers. Those are all "if" statements that the individual does not want to deal with. It is very much dependent on the availability.

Joe Dabrowski: Coming back to the first element of the question, you talked a little bit with the first panel about the structure of how people tend to access. Full withdrawal is the most popular choice—"Can I get my hands on my savings?" Partial withdrawal is the second drawdown option and annuity is the very distant third. There is a huge amount of unadvised money going out of market—I think the data is about £6 billion a year. One thing that is driving this is people's awareness of the 25% and also that people tend to concentrate on making short-term decisions and are less geared at longer-term decisions. The 75% is ignored to a greater or lesser extent by a large number of people and that is potentially to their detriment.

Some of the other data showed that people are moving into drawdown products that maybe were not as suitable for them as they might have been and are therefore losing out on income. The investment pathways are in part to prevent some of those harm choices that were happening before, but they are a little bit narrow.

There are some other drivers we should probably be mindful of. The 25% element is popular but we also see more people entering into retirement with debts or mortgage repayments or other forms of charges or costs they may want to deal with, whether that is supporting families or others. That lump sum is often used for some of those elements and then it is a secondary thought of, "What do I do with the remainder?"

There are quite a lot of different factors playing on how savers behave. One important thing for us is how you help people to think about the 75% and get to good outcomes if they are not. That is one of the key things we try to pick up with our retirement income choices.

Paul McBride: I would add that pathways invariably will be better than the position that proceeded it, which was nothing at all or just a single default strategy that may or may not have been suitable. They should encourage members to start thinking more about the future. In their current guise there are deficiencies because all schemes do not offer all options, as we have said, but I have serious concerns about whether or not we should encourage people to annuitise on a standard mortality basis at a fixed age rather than waiting a few years until a condition may give them the opportunity to avail themselves of a higher income.

We are talking drawdown as if it is a product and a single choice, whereas if you have that option in a scheme it is probably more of a delaying tactic. You can use the money while you then decide whether or not you have a better option, so it is not a permanent choice. It does not have to be that; it just has to be something that will help you over a period of time to get your retirement plans properly focused and in place. There is no need for that cliff-edge decision.

Yvonne Braun: A small additional point on the attractiveness of the 25% tax-free cash option and drawdown is that it does not trigger the money purchase annual allowance, which restricts how much can be put in afterwards. That is another reason why that is very popular.

Q21 **Nigel Mills:** I will resist asking whether any of the panel think we should scrap the 25% tax-free allowance, because I think the answer would be a clear no. It would be hugely unpopular, would it not? But it would change behaviour, I guess.

On annuities, one of the consequences of freedom of choice is that the take-up of annuities has fallen dramatically; does the panel think that is a good thing? I wonder whether it is one of the bad side effects of freedom of choice that we should find a way of reversing, at least in part.

Tess Page: One of the disappointments for me post freedom of choice has been the lack of innovation or emergence of hybrid products. I have had the conversation multiple times with trustee boards or employers of using a drawdown vehicle for a period of time and that turning into an annuity later on, on the basis that lots of older people do not want to manage their personal drawdown pot into their 80s and 90s. It could also help with care costs and so on.

The use of hybrid products might be potentially interesting. I don't have a vendetta against annuities themselves and think they have a role to play. Another communications challenge is that the way they are presented to individuals currently is, "You could trade your pot for this quite small amount of annual income" or "This is the size of your pension fund" and the eye is drawn to the bigger number. Understanding longevity risks is not something most people are able to do.

Yvonne Braun: Freedom of choice has certainly been a factor in the drop-off of take-up of annuities, and particularly the word "annuities" has quite a bad name. Ironically, if you ask people what they would like in terms of their financial security for retirement, if you ask them a fairly open question, people quite like the idea of guaranteed lifetime income. So, I think they still have a role to play.

Obviously, the take-up is much lower than it is at the moment. One factor behind that, apart from freedom of choice, is the wider environment, both regulatory and in terms of macro-economics. We have very low interest rates, we have had them for a very long time, and we have a Solvency II capital regime for insurers that contributes to those rates being much lower than they were in the 1980s and 1990s. We are very glad there is a reform currently ongoing of Solvency II by the Government to look at what is a sensible risk margin and what are the right rules for the matching adjustment to conserve the high protection of policy holders but allow more flexibility in the assets insurers can invest in, so that the rates can be much more attractive to customers.

You can even now start with a drawdown product and then annuitise. It is not a totally binary choice that you have to be in drawdown forever. You can also decide to use one pot, because most people have more than one, as we know, for a drawdown choice where you have ongoing potential upside and, of course, also downside for the stock market, and the other pot could be annuitised. There is more optionality than we think. We believe the real issue is the absence of support and enhanced guidance, as we have talked about previously.

Joe Dabrowski: I agree with the points that Yvonne and Laurie made in the first panel. There were some structural reasons why annuities suffered, effectively post freedom of choice. I also think partly structured in the question is a sense of where is this loss? The loss is effectively the level of certainty that an annuity and potentially a DB income would have previously provided to a saver, and that it is that certainty that savers are often looking for.

We also know that savers post freedom of choice are incredibly keen to access their pension savings and like the fact that they can utilise elements of cash for everyday savings or everyday needs and other elements. Coming to Tess's point, it is one of the reasons why we think hybrid products are an important part of the future. How we up the demand for that and create a market that savers' need and those different lifestyle choices you might make through your retirement—through the active phase to less active and through to potentially areas of cognitive decline—and how you blend all those elements is important.

The market for that is pretty shallow at the moment and underdeveloped, and there is also a very large part of the market that is not directed towards that at all. It is important that we think about structures going forward. How we drive that demand will be a key part of the solution.

Paul McBride: Do I think freedom of choice has been the final nail in the coffin of annuities? No, I don't at all. I think the more important aspects of that are the low interest rates environment and regulatory requirements in terms of capital. All that has been touched upon. I think they are far more critical and if interest rates return to a more buoyant level, you would probably find a reversal of that trend.

Some of the MI we may be looking at might be slightly misleading. I worked for a pension provider not so long ago and we were getting requests for people who had £500 or £1,000 pots. Can they buy an annuity with this? Many people had to annuitise tiny pots that gave them virtually invisible income through an annuity and that was damaging. But all those statistics will be in the MI you are looking at currently. I don't think the demise is related to it and if it is, it is not a bad thing because a lot of people would have been advantaged.

Q22 **Nigel Mills:** I always get slightly nervous when we get on to, "If we just ease the regulatory burden a bit then we can have these products much more cheaply and therefore much better but without any more risk." You think, "Is that quite how this always works in the long run?", but that appears to be what you, Yvonne, were saying on annuities—that we could reinvigorate this market and make them more attractive if we were a bit more regulatory light touch. Is that the same as allowing master trusts to get into this market, as they are trying to do elsewhere on buy-outs, or is that a different situation?

Yvonne Braun: I think that is very different. We have made representation to HM Treasury extensively on what needs to happen with risk margin and the matching adjustment to preserve the very high level of policy-holder protection that we have in the system at the moment.

On the question of collective defined contribution and superfunds and that being supplied through the trust avenue, that is the key point: you have a different regulatory regime. Over here in financial services, that provides the rules for annuities—you have a couple of requirements. You have the PRA and the FCA and you have no comparable rigour of capital requirements on the trust-based side.

If you suddenly give a master trust the job to provide collective defined contributions and a sort of quasi-guarantee, then much like in the discussion about superfunds, you need to have the PRA very heavily involved because you are suddenly turning that into a financial services product or something that is very similar to a financial services product.

If you look at overall where we are with pensions, the move has been very much away from complexity and away from opacity to something that is very simple and transparent. It is one of the reasons why regulators are not so keen on with-profits, because that is a much more complex situation obviously for policy holders and more complex to administer. That does not go terribly well with a move towards super trusts and collective defined contributions, because it is much less transparent to policy holders.

As Laurie pointed out very well in the first panel, there is absolutely no certainty that the outcomes for customers will be better. You still have investment choices to make and, as we all know, they can go well or they can go badly. We have a much more rigorous framework over here, and financial services overseen by the PRA and the FCA.

Q23 **Nigel Mills:** Are there any more comments on collective DC or master trusts?

Paul McBride: It is difficult for me to see how a CDC within a master trust would be seeded, because it requires member 1 to go into the CDC decumulation arrangement with a pot. That suggests to me that the master trust provider will need to seed those particular assets, which is an encumbrance.

Furthermore, for all the reasons that people have suggested it is very difficult to get people to agree that their income levels can go down on the basis of other people joining and other people's experience. I have not detected that much philanthropy in British society that they would be prepared to forego part of their own income to support somebody else's. I think it would be a step change to encourage people to do that.

Joe Dabrowski: A couple of small points. We have quite different regimes across the trust and contract sector and we have had quite a lengthy debate about that in the past, including the European Commission proposals. I am sure you have a whole other inquiry into all of that too. I don’t think there is a particular reason why in the future master trusts and the trust-based sector could not use CDC as a decumulation vehicle, but it is probably also early days for CDC. There is one fund that is currently looking to introduce CDC. A lot of the rest of the market is looking to see how that will pan out and as structured at the moment it is an end-to-end legislative solution rather than a solution that can be added at the end. As Paul indicated, there are questions about how people might transition from a CDC environment if that was the case.

Q24 **Chris Stephens:** The first panel will have heard my questions in relation to Pension Wise so I want to pick up some issues to do with Pension Wise. Tess, given the statistic that auto-enrolment has led to a boost in workplace pension schemes, allowing for the caveats around opt-outs and so on, do you see auto-enrolment or auto-appointments for Pension Wise a means of pre-empting poor pension decisions?

Tess Page: They can certainly play a role and we would all agree that Pension Wise is doing a great job for what it is offering and for those that make the appointments now, and the feedback is very positive. I still think that with the stronger nudge in the auto-appointments there will still be a way for people not to do that. You almost get a selective effect, in that those who are already engaged engage with Pension Wise and the individuals who are unreachable and probably need help the most are unable to access that service.

One question that was shared in advance was around whether some combination of MaPS and Pension Wise could extend the service to provide more personalised advice or more detailed guidance. That is certainly something to consider, but the training and upskilling requirements for the team managing that would be significant, noting that proper regulated advice is heavily regulated.

There is a role to play, but there are viable concerns about capacity constraints, because if everybody suddenly took up their auto-appointments, what would that look like for the service? That is not a question I can answer but clearly it does have an impact on the cost of provision and therefore the levy. There is certainly a role to play but I would be cautious of MaPS or Pension Wise treading into more personalised advice areas.

Q25 **Chris Stephens:** Age UK, the Financial Inclusion Commission, Macmillan Cancer Support and Independent Age are some of the organisations who support auto-appointments. What are the views of your organisation, Joe?

Joe Dabrowski: It can be helpful—it can be a contributing factor—but I think there are concerns about volumes. Pension Wise has 150,000 cases that it deals with per year. We have tens of millions of people now saving through automatic enrolment. I do not think they could do it alone. We are very supportive of Pension Wise and MoneyHelper as it will be able to support people more and give them more than it can at the moment in terms of the digital help and assistance towards advice but not full advice. That will be very helpful.

It is also incumbent on the rest of the industry funds in particular to support members both through their life and at decumulation, because we cannot simply rely on everybody going to guidance services for all the outcomes. The evidence is clearly that people are not taking that in the volumes we would hope for. I saw a study from Just, I think, that is maybe a year or so old, and it said that 80% of the people surveyed as part of the study were not even aware they could get free advice. There is a big gap to cover and we need to think about covering that from as many different places as possible.

Q26 **Chris Stephens:** Paul, coming back to Tess's point about the stronger nudge trial from the Behavioural Insights Team, it showed it led to 11% of people attending a Pension Wise appointment. Is this stronger nudge mechanism and that sort of guidance sufficient to increase Pension Wise take-up?

Paul McBride: I personally do not believe so. The more important thing is for people to get a sense that they will get greater value out of Pension Wise than perhaps they do currently. I take on board everything that everybody has said about it—it is a very well-intended organisation—but I did avail myself of the opportunity to have a meeting with them this week and I cannot in all honesty say I would have come out of that with knowledge of how to go or what next steps to take. Lots of warnings and lots of information, lots of acronyms, lots of terminology that would baffle me if I was not in the industry, lots of great ideas about going to your provider and asking certain questions, but I would not have been empowered to make a decision about going anywhere.

That may be a greater impediment than the appointment booking, which is really simple. Even before here I checked again, and I could have an appointment on Monday if I wished. I do not think it is a panacea. It is probably improving the public's perception of what they will get from the appointment.

Q27 **Chris Stephens:** Yvonne, what do you see as an acceptable target and norm for the uptake of Pension Wise guidance? Are the results of the recent merger trials adequate?

Yvonne Braun: I certainly think the stronger nudge is one element of that, although even with that we need to look at exactly what the customer experience is, because currently as framed it would also apply to people who have taken regulated advice, which does not make sense. We are in discussions with the FCA about that.

We also really need— Mundy talked about this in the first panel—to get to a place where this whole process starts earlier and is a great deal less threatening. The midlife MOT has a big role to play in that because we need people to start thinking about this not at the very last moment when they potentially have to make decisions and maybe want to get their hands on cash and they are probably quite freaked out by all this decision-making they now have to do, but at a much earlier point where people begin to think in the midlife MOT, what are my plans about my work? What is my health like? What is my preparation like for retirement? That becomes a much more natural process and also a bit more preventative because at an earlier point you might still have the opportunity to carry on working and paying in. That will put you in a much better position at retirement because, as we all know, if you have more by way of a pension pot then your ability to absorb risk is also greater.

I think that once pensions dashboards come into play, we have the possibility of a transformation because do not forget MaPS itself will also offer a dashboard. There is then a fantastic synergy potentially for the service between Pension Wise service on the one hand and their own dashboard on the other. That could really bring about a step change, which is one reason why we have been supporting the project from the word go and indeed ran the prototype, and also why we have always said there should be one public dashboard offered by the Money and Pensions Service.

Q28 **Chris Stephens:** Based on your comments, would you recommend, for example, that the best age for people to use the Pension Wise service is around 50 years of age?

Yvonne Braun: Yes, I think so. It should start early, not at age 55 when you can get your hands on your pension and people say you need to take decisions now. No, do it earlier.

Q29 **Chris Stephens:** Thank you, Yvonne; I will take that on board in two years' time. I think Joe was going to come in quickly.

Joe Dabrowski: I will be very quick. I think MaPS has aspirations for a through-life service at different touch points, including Pension Wise, and I think all that will support people through their financial literacy challenges that many people have and support their needs. I also agree with the points Yvonne has made about the midlife MOT and how that can be utilised.

Q30 **Siobhan Baillie:** Taking on board what Yvonne was saying about looking at things earlier, we have not heard evidence about the pension dashboard for a few months. Do you think the dashboards will help with people looking at their pension savings earlier? Do you think it will help with planning? Do you have any concerns about the dashboards? When do you think we are going to see them?

Yvonne Braun: I am happy to jump in. I think they have the opportunity to be transformational. Starting right at the very basic, at the first base, as things stand in DC alone we know—these figures are already a couple of years old—that there is at least £20 billion in effectively lost pensions.

They are not lost, of course, because the providers are looking after them, but lost to the holders of those assets. That is crazy because that could make a really significant difference to people's retirement income and their sense of security.

At least knowing, as was said before, how much it is and where people stand will make a very big difference. It is a very large work programme. I am privileged to serve on the Government's steering group for the work that the Money and Pensions Service's own dashboard project is doing, and there is still quite a lot to be worked through, not least the question of estimated retirement income. The sooner we resolve that the better.

If we work incredibly hard and things go very well, I am reasonably optimistic that we might see dashboards in 2023. It is a very ambitious programme of work. We need to sort out digital identity, but I am pretty optimistic that we will get there.

Tess Page: I echo that—I feel more optimistic about dashboards than I have done for the number of years we have been talking about them. With dashboards we should not let perfection be the enemy of good. There has been a lot of debate about whether we should wait until we have everything, every single pension scheme can get on there and provide exactly the same information. I think just getting the architecture up and running, getting the framework together and facilitating that data sharing between provider and dashboard is critical.

Once it is in place it will go a long way to helping individuals to understand what they have and be able to take that information to their Pension Wise appointment or to an adviser, and a lot of the initial cost of advice is on the fact finding to understand what people have. There is lots to be done but it is also hitting trustee board agendas in a way it has not before, so there is a huge amount of activity going on.

Joe Dabrowski: If I might come in too. I missed an element of the question as my neighbour has decided to take an angle grinder to something. We are part of the dashboard steering group and are fully behind making dashboards a reality. For the public information it feels like 2023 to 2025 is a realistic period for onboarding schemes and there may be some sense of staging. They will be an important way of giving people a full picture of their income. There is still a question about whether that will lead to people making better decisions and there is still some work to be done on supporting them to do that through guidance and other means, but having that transparency will be incredibly helpful to savers.

Paul McBride: To finish on that note, yes, we are incredibly supportive of dashboards. We see it as probably a game changer. In its first incarnation perhaps not. It does not need to be nirvana on day one, but if we get to day two and we have better functionality, more providers being forced, perhaps, to comply, and transactional capability so that members can consolidate and understand why they are doing that—because there will be some information around charges and what they can and cannot do with a particular pension—I see that as a real boon to members understanding and taking a greater interest in what they will do through their retirement.

Chair: Thank you all very much indeed. That brings our meeting to a close. We have covered a lot of ground in quite a short time so thank you for your help with that. If there is anything else you would like to draw to our attention after the meeting, please e-mail us. We will be keen to hear from you. Thank you again for your patience in sticking around for a rather late start. That brings the meeting to a close. Thank you everybody very much.