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 21 July 2021

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Watch the meeting

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

Questions 31 - 77

Witnesses

I: Laura Myers, Partner and Head of DC, Lane, Clark & Peacock; Matthew Arends, Head of UK Retirement Policy, Aon; Rachel Vahey, Senior Technical Consultant, AJ Bell; Stephen Lowe, Group Communications Director, Just Group.

II: Philip Brown, Director Policy and External Affairs, B&CE; Peter Glancy, Head of Pensions Policy, Scottish Widows; Colin Clarke, Head of Product Policy Strategy for the Workplace DC Pensions business, Legal & General.

Written evidence from witnesses:

Laura Myers, Lane, Clark & Peacock (APS0027)

Matthew Arends, AON (APS0038)

Rachel Vahey, AJ Bell (APS0050)

Stephen Lowe, JustGroup (APS0049)

Philip Brown, B&CE (APS0045)

Peter Glancy, Scottish Widows (APS0037)

HOUSE OF COMMONS

Examination of witnesses

Witnesses: Laura Myers, Matthew Arends, Rachel Vahey and Stephen Lowe.

Q31 **Chair:** Welcome, everybody, to this meeting of the Work and Pensions Select Committee, with a particular welcome to the witnesses who are on our two panels this morning. Thank you all very much for being here. I will start by asking the members of the first panel to introduce themselves very briefly.

Laura Myers: I am Head of DC at Lane, Clark & Peacock. I also chair the PLSA's DC committee and I am a member of its policy board, representing LCP.

Chair: Welcome, thank you.

Matthew Arends: Good morning. I am Head of UK Retirement Policy for Aon, a global professional services firm that provides actuarial advice to major organisations' pension schemes.

Chair: Thank you.

Rachel Vahey: Hello. I am a Senior Technical Consultant at AJ Bell. AJ Bell is an investment platform and a pension provider. We provide SIPPs and SSASs, ISAs and a general investment account. We deal with customers direct and through their financial advisers.

Chair: Thank you very much, welcome.

Stephen Lowe: Good morning. I am the Group Communications Director at Just Group. We are a retirement specialist. We manufacture long-term financial products and we provide retirement-focused regulated advice and guidance. Quite simply, our purpose is to help people achieve a better later life.

Q32 **Chair:** Thank you all very much for being here.

I will put the first question to Ms Myers. Lane, Clark & Peacock has suggested decoupling the tax-free lump sum from the rest of the pension pot. Can you tell us what that would entail, what the Government would have to do to facilitate it and how you think it would help?

Laura Myers: Our evidence said tax-free cash should be decoupled from all schemes. Our concern here is that people are aiming to access their tax-free cash, which is what we are seeing in the vast majority of people when they come to access their pensions. Our research in this area—which, as you said, we submitted in the written evidence—is that we are seeing, on average, people moving into drawdown products, which can be more expensive, and not taking drawdown. They are doing that purely to access tax-free cash. Alternatively, they are going into full encashment, they are going into a cash account. You will have seen in the evidence that we suggest that is over half a million people. That is FCA data, so

just having a GPP rather than your own trust data. There are probably a lot more people we are unaware of who the data does not cover and who are doing exactly the same thing from own trusts.

What we want to see is that people in our schemes could take their pots, take tax-free cash and leave the rest of their pension pot as it is in the scheme. We want to see legislation to enable that. At the moment the vast majority of our clients do not offer this, do not facilitate this. It would be considered drawdown within the scheme at the moment so we want to see changes there.

Q33 **Chair:** Would it require a change in the law for this to happen?

Laura Myers: Most lawyers would say that this would be considered drawdown—accessing that when they access the pot. When our clients receive legal advice they are basically told not to do this—not to have that facility to decouple cash. Therefore, yes, I think there would need to be clarity in the legislation.

Q34 **Chair:** At least some clarification in the law. What do the other three witnesses think of this particular suggestion? Do you think investment pathways will be enough to deter people from taking their whole pension in cash if that is not in their best interests?

Matthew Arends: I see the case for decoupling cash sum from pension, but I must confess I have some concerns with the suggestion. For example, it might encourage members to believe it is right to take a quarter of their retirement savings as cash, or indeed that a quarter is the only percentage they could take. Furthermore, it may open the door to people taking cash sums at the earliest age they can access that part of their pension savings, which may not ultimately be in their best interests even if they take the remaining 75% at a later age.

When it comes to investment pathways, we have to bear in mind it is a very helpful development and step. It makes individuals think more carefully about their options and why they might select them. However, it is not a panacea. One example of that is that they only apply to contract-based DC schemes and not trust-based DC schemes. Therefore, you have a difference in approach between those two types of schemes.

Rachel Vahey: On decoupling, I can see the intention and why it has been put forward. However, I am really unclear exactly what benefit it offers. We can do this already with drawdown. People can enter drawdown when they take their tax-free cash or partially crystallise to access some tax-free cash. Then they can keep the remainder invested and do not need to take any income. Therefore, what has been proposed can already be achieved with drawdown plans. Introducing another element and another option will add complexity for people who are making decisions at retirement and when it is not actually needed.

I think there is an issue with partial crystallisation as well. We do not want to be necessarily encouraging people to dip in and take all their

cash, so there is an element of how it would work with partial crystallisation. At the moment we have almost a clearly defined line between crystallised and uncrystallised and I think it would be confusing in that spectrum.

Again, I can see the intention of investment pathways, which is to help people make better decisions about what they want to do with their investment funds and their drawdown funds. However, it has been a blunt tool and the regulations that have been put in place have been highly prescriptive and detailed. They have not taken account of how, for example, our platform, and many other platforms, work. The end result is that the rules are not really intended for our customers. Our customers are already engaged with their pension savings and with their pension investments. The effect of investment pathways is that since February we have had 1,700 people come through investment pathways but only four of them have chosen to invest in an investment pathway.

I see the objective of helping people make better decisions, not investing solely in cash and encouraging them to think wider. However, I think there are other ways, and better ways, we can do that that may be more targeted depending on the pension customer.

Stephen Lowe: As the Committee knows, no policy proposal is perfect. This solution has some merit. It will prevent some consumer harm but I do not think it resolves the bigger problems. I can see it would be a short-term fix until a better solution can be put in place.

As I am sure we will discuss in the rest of this evidence session, we need to get ahead of that decision on tax-free cash. As one of the members has already provided evidence for, it is really important that we do not in any way try to turn taking tax-free cash into some kind of fast-food service. It is an important decision and it should be considered. It has some merit but I think there are other factors we need to put ahead of it before making that choice.

Investment pathways are very much a backstop for people who have not made choices and have not engaged. Again, I am sure during the Committee session we will talk about engagement. I think they bring some value. They are not perfect. They will help prevent harm for some people. However, they are very much a backstop solution when other interventions have failed.

Laura Myers: I want to say it is already happening. We speak to so many people and the only thing they understand about pensions is their 25% tax-free cash. They are very passionate about this point and very much want to take it forward. For my sins, I have been doing work with the PLSA on tax reform and different options. When we speak to people it is really about this 25% cash. Therefore, even with a lot of education and a lot of moving forward—we can say it might not be in people's best interest and they should take that cash-free cash over their lifetime—I do not see that it is going to happen.

What is happening at the moment, though, is that there is definite harm in that people are accessing it and then accessing their whole pension. There are 1.7 million, according to the FCA, who have cashed out their pots fully and put it into predominantly things like cash ISAs in high street banks and it has not remained invested, or if they have remained invested they have moved into retail products that are causing fee erosion in significant fees.

I think if there are other solutions, it is something we should all be discussing and trying to push things forward. However, at the moment we are in a place where people are losing significant amounts of money because of this poor choice. Therefore, the help we can give them in potentially decoupling that cash will be beneficial.

Chair: Thank you very much.

Q35 **Nigel Mills:** There are always rumours as we approach a Budget that the Chancellor wants to squeeze some money out of the pension system. You are not suggesting, Laura, that taking away the 25% tax-free cash would be a constructive way to save some money for the Exchequer? I guess that would be hugely unpopular with pension savers. I think that is a promise they have written in ink that they can access it, perhaps for good reasons such as to pay off debt. That is not a change you are advocating?

Laura Myers: No, I totally agree with you. That is the change we would probably save for the very end. That would be the last thing you should touch because that is the one thing people genuinely understand and is one of the key differences with things like ISA savings as well. People understand and really want that 25% tax-free cash and that benefit, as you say, for things like debt.

Q36 **Nigel Mills:** Do any of the panel want to disagree with that and think it would be a good area for change? I do not see any takers for that one. I am not too surprised, I guess.

I am switching on to decumulation pathways. Is there any case you would see where the charge cap that applies in the accumulation period should be applied to people who are, effectively, default decumulating in that way if they do not understand and have not made an actual choice, to make sure we are not overcharging people and that people are not suffering detriment to their pots that we tried to fix in the earlier phase?

Rachel Vahey: I will answer that by saying we need to review if the investment pathways has helped people and how it has helped people. The FCA promised a review and I think it is going to come forward next year, in 2022. At that point we need to look to see if investment pathways is working for all customers in the ways policy wants it to. As part of that, the charges that are being applied at the moment should be taken into account. I think that would be the best time to review the whole policy and to see if there are, as I said, other ways or better ways we can do it to help encourage people to make better decisions.

Stephen Lowe: I will add to that, Mr Mills. One of the first challenges with pathways is to see whether consumers will engage with it. Rachel gave some evidence that there were low levels of engagement a little earlier. Quite frankly, today it is impenetrable, and it is almost impossible to help people shop around. The volume of charges that have been identified by the FCA are too voluminous for any sensible person to comprehend.

I think there is a case to simplify, help people engage and shop around. That might then answer your question about whether or not the charge capping constraint is an important factor or not. I think at this stage the case is not really proven because people are not actively engaging with pathways. As Rachel says, we should get given some insight when the review takes place next year. I think we should manage our expectations about the extent to which people are engaging though.

Q37 **Nigel Mills:** Obviously you advise people what to do with their pensions once they reach the decumulation stage. Do you think it is viable to offer good-quality products with a charge cap of 75 basis points? That is not impossible for you to achieve, is it?

Stephen Lowe: Some providers are already achieving that. Yes, I think it is possible for people who want to have a low-cost strategy and a simple solution. Then, as you know, there will be people who choose to offer a different added-value service. There is an opportunity for people to offer different solutions. I am more concerned about the extent to which it is in any way feasible for somebody to make these comparisons today, which is probably the job of work.

Q38 **Nigel Mills:** Thank you. I want to switch on to one of these products that people might choose to use in the decumulation phase—a collective defined contribution option that I know the Government have legislated for in the Royal Mail scheme and are looking at other single member schemes. Do you think that is a viable solution that could improve pension outcomes, we could improve on DC by making it collective and that is something we should be encouraging perhaps as a way of achieving similar outcomes to annuities, but without all the regulation and all the cost, or do you think this is just a long shot that will never really happen?

Laura Myers: It may be a slight long shot. Anything that has the benefits of risk pooling, longevity risk and so on is a good thing. One of the key things with DC is that we have passed the risk on to the member, as you are very aware.

There are quite a few challenges, which is why I would probably lean towards the long-shot point. One of them is demand. We have not really seen significant demand for this from any corporates that we work with among schemes—I know one provider that is considering maybe creating a CDC arrangement—so that is going to be an issue. The main issue is probably member understanding. Members want certainty for retirement.

We have seen in the past—with profits and if you look to the Netherlands, for example—members do not understand the point that maybe their income could decrease. I think that is going to be a key issue if we go to CDCs. There are a few big issues to potentially overcome also with things like how you would seed it, how you would start with that risk pooling. It would require providers to put quite a bit of money into that. I think there are a few issues why it may not be a panacea.

Q39 **Nigel Mills:** Do you think, in theory, that we should be creating conditions where a mastertrust could move into this market and try to offer these products? I think, if I am right, there is no particular reason why you could not move into it late in your accumulation phase, or even at decumulation, if you decided to pool the risk at that point. There could be a market there. Even if there is not one for employees who want to sign up to it all the way along, you could find a way of doing risk pooling in retirement.

Laura Myers: Some mastertrusts maybe want to move into that space. I will let the others have their views on that as well. You mentioned in comparison to annuities where they have things like Solvency II and a very different risk regime. It is how the insurers compare that for the guarantees and the structure behind that kind of product.

Matthew Arends: I am a big advocate of collective DC schemes. I think they would have something very distinctive and additional to add into the options for members saving for their retirement. I say this because we know from our 2021 DC and financial wellbeing survey that 60% of individuals want an income for life in retirement, yet we know that something like 20% of people buy annuities. There is a need there, a demand that is not being met. The point Ms Myers raised about personal longevity is crucial. It is a very significant and, to my mind, not well understood risk each individual bears that CDC addresses.

I think mastertrusts have a big part to play in the future of CDC in this country because they will be the vehicles by which smaller employers, and possibly the self-employed, could access CDC savings. Indeed, that form of CDC could be, as you said, Mr Mills, the decumulation-only phase, in other words individuals transferring in their pension pots just before retirement and buying a CDC pension in retirement. It is an area that is in the early stages, but it has an awful lot of helpful characteristics to offer savers.

Rachel Vahey: I think there is an issue here, as Laura was saying, with how members perceive this and exactly what this product is. Many years ago I used to work for insurance companies where we offered defined benefit schemes. I remember distinctly when we stopped talking about them offering guaranteed benefits and moved to talking about them offering promised benefits. The promise you get from a defined benefit scheme is quite a firm promise. I think the promise you get from a CDC scheme maybe more of a vague promise.

It is having another option. However, people need to be absolutely clear about that fact and the fact their income could go down as well as up. They need to be very clear about exactly what it is. If they want a guaranteed income they can buy an annuity. If they want to have more personal control over what their income is going to be, they could consider drawdown.

Stephen Lowe: The only thing I would add, Mr Mills, is that it would be wrong to stifle innovation. The debate needs to continue, we need to explore and unpack. However, I share the views of other colleagues who have already replied, which is what we have to do is protect the long-term reputation of pensions and long-term savings. Being very clear with customers, members, what they will receive and what they will not receive will be crucial.

A similar debate, as you know, is happening within consolidation in the de-risking market in the wholesale space of defined benefit pensions. It is a similar conversation really. There is an absolute guarantee and then there is something else. We need to be crystal clear with people.

Q40 **Sir Desmond Swayne:** I suppose the principal ways in which people save are by purchasing a house and their pension. My granny used to tell me to save for a rainy day. If at the end of my life I need social or residential care, is that not the rainy day? To what extent should we be encouraging people to consider their long-term needs when they access their pension? If we should be encouraging them, how would we incentivise both the provision of and the take-up of appropriate hybrid products?

Laura Myers: I do not believe we should be encouraging people to think about long-term care needs when they first access a pension. They are not saving enough for their pension needs at the moment so they do not have the spare tens of thousands of pounds they would need if they potentially did need social care so, unfortunately, I think they should disregard it. If you think about lifetime allowances, there is not enough to cover both and I cannot imagine the Government wish to increase the lifetime allowance.

Social care has to be an insurance or risk-pooling issue. The Government need to fix that either with tax or potentially private insurance so people could cover the needs of their own costs. I think it is important that we need to get people to focus on saving for pensions—saving enough into pensions—which they are not doing at the moment.

Stephen Lowe: Just Group has some skin in the game. We are one of the very small group of providers that provide some form of insurance for long-term care funding, so we have a little bit of experience in this space.

We have been asking people since 2012 about their attitude towards funding for care. There are consumers who are content to use their savings and their pensions. I think what we have seen over the last three

or four years is a greater acceptance that using some of their housing wealth will inevitably have to be a solution and one they are voluntarily now disposed to. There is about £3.5 trillion worth of housing equity for people aged 50 and over in the UK so it almost feels an inevitable space to turn to.

There are one or two hygiene factors. It is clearly a very topical week for talking about care. The study we have been running for almost a decade now says that about 75% of people have no conversations about care with their families, do no kind of planning. One of the biggest reasons for that is that they feel somewhat confused about the policy, which I am sure the Committee can understand today. That is acting as a barrier for them putting in place some kind of planning. However, they are not uninterested; about six in 10 want to have the conversation.

I will stop going on, Mr Swayne, but I think there are some hygiene factors around comprehension and clarity that might stop them progressing and making those kinds of decisions. However, inevitably housing wealth feels like it is going to be part of the answer.

Rachel Vahey: I will echo what other witnesses have just said. A lot of this is around having a wider discussion. It has felt very piecemeal over the last 20 or 30 years. We need to have a much wider discussion about exactly how long-term care can be funded. As we have already discussed, there are several different ways forward.

Sometimes there is an inclination to look at the pension pot and think, "This is a really handy big lump sum of money here". However, as Laura was saying, people need this to provide later-life income and that is what they have saved up for. I am not entirely sure you can keep smashing this particular money-saving pot to provide all of our life's needs. We need to concentrate on encouraging people to save within a pension for their later-life income.

Matthew Arends: I agree with many of the comments that have been made so far. There is a need to encourage all individuals to think about their futures, whether that is retirement or the possibility of long-term care. That would be a helpful development.

There is an issue about how long-term care costs might be met. Apologies—this is a slightly morbid topic—but not everyone will need long-term care because they will not live to need it. Therefore, I agree with Ms Myers about the fact that saving for long-term care costs is not very efficient because you may not ultimately need those savings. Conversely, in my view, insurance is a better way of meeting those care costs for those who need them later in life.

Q41 **Sir Desmond Swayne:** For any additional costs that come with greater age, is there not any scope for increasing the annual allowance for those who are going to save for annuities that deliver in later life, say from 75 onwards?

Matthew Arends: I certainly think individuals will need help and encouragement, incentives, to provide for their long-term care costs, if they need them. A tax incentive may well be a way of doing that. Clearly, however, that comes with a cost.

Laura Myers: I agree, they would need more savings to cover them. Like we said, either the annual allowance or the lifetime allowance would need to be increased to help facilitate that.

Q42 **Siobhan Baillie:** Good morning. Thanks for joining us today. I was struck by Laura's comment that the only thing people understand about pensions is their tax-free cash. We know employers are required to auto-enrol. To a degree, employers will be trusted by people and there is already a relationship there. Do you think employers should be responsible for ensuring employees receive greater guidance about pensions and saving for their future? If so, what are the top three pieces of information that should be cascaded from the employer at that stage? I have to go to Laura first because I name checked you.

Laura Myers: I am quite positive on employers being more supportive. There would be some positives for the corporates and the clients we work with. I think that previously employers knew a lot more, when there was a DB pension, potentially when people were going to retire. Right now it is a different world. People reduce their hours and do things in a different way. Some of the HR representatives from our clients have been saying they did not know people were planning to leave work. More support and guidance and more interaction between employers and employees could be beneficial for the employer as well. Often the first thing that they know is when the employee comes to them and hands in their notice to quit.

On the information, it is the type of information and how it is received. We have found these seminars—which are now webinars in this current environment—have been much better received by employees rather than handing them loads of leaflets with very large, voluminous words, having things in an easy format like that. We have been doing that with quite a number of clients and they have been saying, "I wish we had had this earlier. I wish I had known how much I should have been saving into my pension". When we were having retirement seminars, they wanted a lot more information earlier.

The types of things that people need to cover is how much they need in retirement. That is one of my big things, and I am working with PLSA. Retirement living standards is something I think should be coming into the everyday lexicon. A little bit like you know you should eat five fruit or veg a day, you should know how much income you need in retirement—how much you need and then how much you have. Dashboards should help with that, but people are losing pots all over the place. Hopefully that will help with how much you have and how much you need and then understanding the products and options.

Stephen Lowe: I think employers should be providing a good service to their employees. We provide services to employees via employers in the workplace, both regulated advice and guidance. They are definitely a segment that can help their members, their employees, but they are a minority, because we have other segments that are not served by the kind of employers that will deliver those kinds of services, like smaller employers and the self-employed. It does not provide the total answer, but there are some great examples of employers that do an amazing job providing support to their colleagues. I would say that is a minority, not a majority. It is part of the solution and, as we may go on to discuss in the rest of this evidence session, I think there will be some other solutions as well.

Rachel Vahey: Employers should definitely be encouraged and allowed to give guidance on retirement. As we have said, there are many very good examples of them already doing that at the moment. What we need to avoid though is any prescription, and especially unnecessarily high prescription over how they have to do this. There are so many different types of employers and workforces out there that it is dangerous to prescribe too heavily how you have to talk to one particular group of people. There is a worry that if that happens other employers who are doing so much in this area could level down their guidance and what they offer to fit this prescribed route.

Yes, definitely encourage employers. Be very clear. I think employers need clarity about what they can say and what they cannot say to their workforce as well, and this is all areas of pensions. I am sure we will cover this later, but we need to be very clear about how personalised they could make it, or how much they can directly relate it to their workforce's position. But, yes, we need to encourage it.

Matthew Arends: I agree with many of the comments that have been made already. We know from our survey information that 70% of individuals expect their employer to provide support as they approach retirement, so there is definitely an expectation there already among working-age individuals. There is a question as to who should be providing the guidance. Is that the employer, recognising that not everybody will be employed at the time they need guidance about their retirement, including the self-employed? Should the obligation be on pension schemes and pension providers instead? That is one question.

Providing guidance as a mandated requirement might encourage poor-quality guidance, whereas I think everybody on the panel would agree that good-quality guidance is needed. We get to the point that has already been made as to whether it is a requirement or an encouragement to provide good-quality guidance.

Q43 **Chris Stephens:** Does Pension Wise have the capacity and capability to provide adequate guidance for people accessing their pension for the first time?

Matthew Arends: There is a couple of points on your question, Mr Stephens. The first is that Pension Wise only provides guidance on certain pensions, defined contribution pensions and, therefore, not all the pensions that will appear on the pensions dashboard, which includes defined benefit and state pensions. We live in a world where many individuals will have all three of those different pension types built up during their lifespan. There is a question of the breadth of Pension Wise. There are also questions about the staffing levels. If Pension Wise were to provide guidance to all people approaching retirement I imagine that would require fairly significant increases in hiring levels and, therefore, costs, which presumably would fall back on levy payers. There are questions to be resolved there.

Overall, I think Pension Wise has a great role to play in supporting individuals in understanding pensions more generally and what options lie in front of them. I think it has a great role there for helping individuals, but there are some questions about the practicalities of it.

Q44 **Chris Stephens:** We may come back to that. I will move now to the others on the panel and ask them. What level of take-up should we be aiming to achieve with Pension Wise?

Stephen Lowe: Probably one area of consensus across everyone giving evidence is that we recognise there is a gap where we need to help more people. That is probably one area where most of us will nod and agree. To get the reality—the Committee will have had some of this evidence previously—today 14 out of every 100 pension pots that are accessed benefit from impartial Pension Wise guidance. The Government have stated that they would like that to be what they describe as a norm behaviour—a norm usage. They have not defined, nor has the regulator, what "norm usage" is or what the target is. We asked the great British public, "Tell us what you think norm behaviour looks like", and they came out with a number that is about seven in 10 people.

As you will know, the Committee has had evidence that the stronger nudge that has been trialled—we have hard data on that—will move that 14 out of 100 to approximately 22 out of every 100. That leaves a 50% gap in those that would benefit from Pension Wise impartial guidance. The question for all of us is: what can we add as a positive contribution to fill that gap? I am happy to talk to that later in the session. Today there is a material gap, which can be closed through some more progressive interventions.

Mr Arends raised a very valid point around capacity, and you asked the question, Mr Stephens. It is possible to structure appointments in such a way that supply and demand can be more assertively and efficiently managed than is being done today. Inevitably if we get norm usage we will see more staff required for Pension Wise, but I think there are some efficiencies, as we might go on to explore across this session. The costs are not all one way. We might take some costs out of the wider industry at the same time.

Rachel Vahey: Pension Wise offers a very good service to probably just a few people. Discussions at the moment on guidance are almost assuming that the only way you can get guidance is through Pension Wise. If you think about a person's journey towards retirement, when they very first start thinking about it, maybe at the ages of 45 or 50—because we all do—and you go through to when they are making the decision how to take their benefits and then beyond, how to manage their money in retirement, there are lots of touchpoints. We have just discussed one, employers offer a touchpoint to offer help and guidance, but providers also have a massive role to play and to help people.

We end up saying, "Guidance is only coming from Pension Wise, and that is the only way someone can access it, and that is the only way we can measure it". I think that is a mistaken view. We should be thinking much wider. Some people will want Pension Wise guidance, and that is to be encouraged, but we also need to think about how we can help people in a much broader way. This has to be a much broader, holistic discussion about guidance.

Q45 **Chris Stephens:** Thanks for that Rachel. Stephen referred to the stronger nudge. Is the stronger nudge sufficient to increase the number of appointments?

Rachel Vahey: No, I think we need a wider support, regulated advice, Pension Wise, and employer or a provider guidance. But also one of the issues with the stronger nudge is the timing. If one of our customers makes up their mind what they want to do with their retirement benefits, they get in touch with us. They say, "Can I do this?" At that point, once they have made up their mind, they did not miraculously wake up one morning and go, "Do you know what, I am going to take drawdown tomorrow". People do not do that. They look around. They get information from various areas and come to a conclusion. At that point we stronger nudge them into going to Pension Wise. It is the wrong timing for it.

Pension Wise has a very important role to play in this whole discussion, but it is not at the point the person has already decided what to do. Laura spoke earlier about the value of tax-free cash, and the MAPS research that Stephen alluded to last year showed that some of the people who were part of this trial were saying, "I do not want to know about this Pension Wise. I just want my money. That is what I want, my money. I have already decided what I am spending my money on. I have decided how to access my money. I want my money, and you are putting this barrier and this delay in my way".

We need to encourage people to think and get guidance before they make that final decision, before they get there, when they are going through that decision, and also later on in retirement. As a number of people in drawdown show, this is not just at the point of access. All our regulations focus on this one point, and it misses the bigger picture, that

people need help before and during making the decision, not once they have made the decision, and then later on in income.

Q46 **Chris Stephens:** Thanks, Rachel. Laura, what level of take-up should we be aiming to achieve with Pension Wise appointments?

Laura Myers: Targets can be quite hard. You could have unintended consequences, and Rachel has just beautifully articulated all the problems with what we are doing at the moment. The issue here is if targets are at the wrong place and time. If you are aiming for, as Stephen says, seven out of 10, you need to make sure that is at the right point. It is not just about setting a target of what we are doing now; it is taking a step back and doing exactly what Rachel has just said about the timing point of this. That is the frustration that people have in this journey. As Rachel was wonderfully saying, they have gone through all that process to make this decision and we just put obstacles in the way. People get really frustrated with pensions and, as an industry, we do not really help them.

I am also very supportive of the points around more support that providers and schemes could give. People are really nervous about guidance and advice, so they are not getting enough support because providers are almost limiting themselves a little bit in the guidance they could give. Anything we can do to potentially provide stronger guidance and have different innovation in the guidance and advice market would be well received, from my perspective.

Q47 **Chris Stephens:** Thanks, Laura. This leads me to my final question, which I think is probably a very important one. Matthew, I will go to you first, because I know your organisation probably has a contrary view to many others. Should MAPS pilot automatic or auto-enrol Pension Wise appointments?

Matthew Arends: I am not sure if I have a contrary view or not. I am, however, am in favour of exactly what you describe, Mr Stephens, to test it. I think that would be a helpful step. I agree with many of the comments the panellists have already made about the extent to which we expect take-up of Pension Wise and the ages at which people seek that guidance, which arguably needs to start a lot younger and go on into retirement for those who need it.

Q48 **Chris Stephens:** For example, Matthew, some organisations have said to us that the first engagement with Pension Wise should be around the age of 50, which I am coming up to in a couple of years so I need to be aware of your advice on this.

Matthew Arends: Fifty is often a pivotal age to reach for many individuals and it would be sensible to start Pension Wise guidance from that kind of age. I think there is a role to play for education about pensions and finance more generally starting from school age, so that even when one gets to 50, and perhaps seeks guidance from Pension Wise, that is not the first time that discussion about long-term savings has been had.

Q49 **Chris Stephens:** Thanks. I think Stephen Lowe wants to come in here on piloting automatic appointments.

Stephen Lowe: Thanks, Mr Stephens. Yes, there is growing consensus that age 50 would be far more appropriate to run something like an automatic booking. To bring this to life: what is it? I, as a pension scheme member, would receive a letter offering me an appointment at a date and time. The hypothesis is that we rely upon behavioural finance, like we have seen with auto-enrolment, where more people will stick with the appointment than opt out. For clarity, nobody is proposing that this should be in any way mandatory. It is an opt-out process, so people can choose not to see it through, particularly if they have other routes.

There is a growing consensus, as you received evidence of in the previous session, that testing this to achieve approved pots would be a really valuable thing to do. I may have eight or nine different pension pots with pension schemes and pension providers, and to be offered that appointment with Pension Wise once would seem to be far more efficient than nine providers and pension schemes all vying for me to get me to go to Pension Wise. It feels like the consumer organisations, the ABI, Money and Pension Service, a number of members on the call, are suggesting that testing this rapidly—because we know how to test things, the FCA have done this already—would be an appropriate thing to do over maybe three to six months, so we can get a quick decision on whether to pursue this to the next stage.

Interestingly, I read many of the submissions to the Committee. I think it broadly splits something like this: the consumer organisations and associations are in favour and a number of commercial organisations remain silent on this point. That was my interpretation, Mr Stephens.

Laura Myers: I am supportive of what has been said there. I think it should be trialled.

Rachel Vahey: I think before we rush to a trial we should get the stronger nudge process sorted. I do not think it is fit for purpose. As I said, I do not think the timing is right. I do not think the way of doing it is correct at the moment where we also have to include transfers for anyone over 50, and there are lots of issues around that, how you do this and how you put that into that process. All it is going to do is to create delays, frustration, and maybe put people into financial harm as well. Remember, we are talking about people, especially our customers, who are moving in and out of markets. To do that could create financial harm. I think there is broad consensus among the witnesses here today that the process as it stands at the moment is not right. Let us get the process right, and then certainly let's trial these sorts of things before we put them into regulation, but we need to concentrate on doing that first.

Chris Stephens: Thank you, panel, for those answers and their advice when I have my big birthday in a couple of years' time.

Q50 **Shaun Bailey:** Sticking on the theme of advice, I want to touch on the pension advice allowance. This Committee has recommended that the £1,500 cap should be reviewed. What does the panel think about how we measure the effectiveness of the pension advice allowance? What metric should policymakers be using to see whether or not that has worked as a policy? Also, what is your view about whether or not it goes far enough in ensuring that pension savers can access effective paid advice?

Matthew Arends: I think a key metric would be take-up rate. That is something that is relatively easy to measure. The take-up rate today seems low from the information I can gather. I think part of the reason for that is that the advice allowance does not have to be implemented in every situation and it is left to providers to decide whether or not to offer it to savers. A helpful improvement could be to put in a requirement to allow the advice allowance to be taken by every individual and I hope that would lead to greater take-up.

Rachel Vahey: I think that the pension advice allowance needs to be reviewed. The demand is not there and that is why providers are not offering it—it is as simple as that. People are not looking for it; advisers are not looking for it; it does not work. The cap is too low, as the Committee has already discussed, and it is not of any help as it currently stands. If we allow financial advisers to take fees from a product to cover advice that not only looks at that particular pension product but looks at the whole return spectrum, that would be very beneficial. But I think it is these caps that are the issue. If you remove a cap there are concerns that this could be exploited in some way, but providers already, for FCA purposes, monitor the amounts of charges being taken out of plans. We already look at that particular area, and if they are deemed too high, we already take action in that area. To review the PAA would be the best thing to do, and to remove any caps, and I think the controls are already there.

Laura Myers: Currently, the advice is very much linked to high net worth individuals. There is a lot of people out there who do not have any drive or need or want to pay for advice. We have another problem in that we would need to think of a much broader solution. We have found when we are trying to put something in place with schemes that could help more than just high net worth individuals that many advisers are not geared up or they do not want to provide low-cost workplace advice. There are a few things that are driving that small amount of demand that Matthew was referring to earlier. I wanted to add that point in.

Stephen Lowe: Mr Bailey, I will just build on Laura’s point, because I was going to say something similar. I am not sure that our industry, if we held a mirror up, would say we have put our shoulder behind this as strongly as we could. There is probably a big and noble endeavour that we are all trying to find an answer to, which is: how can we get more people to receive the benefit of financial advice in some form? We often look to the workplace and think that is the testing ground, the volume, where we can try to make these principles work. If we made this part of

our top priorities we would probably find a way to break some of these barriers down a little bit more quickly. It is probably something upon us, notwithstanding the feedback that you have received from the witnesses.

Q51 **Shaun Bailey:** That is great. I will just quickly follow up. Does the panel think that there is a place for a scheme such as the pension advice allowance, or do you think in its current form it is not achieving the ends we hoped it would and perhaps we need to work with industry to adapt a better scheme that encourages people to take up paid advice? I am getting the impression that you are not completely convinced that the scheme works as it currently stands.

Chair: Briefly, if you would.

Rachel Vahey: As I said, I think in its current structure it does not work. Allowing financial advisers to be paid from the product and to be able to give more holistic advice, not just relating to that one pension plan but to a person's whole retirement, makes sense to me. Again, it is one particular way of helping people take regulated advice, which should be encouraged, but we should also—and I think we will go on to that—look at the whole spectrum. There is a tendency to rush to one silver bullet sometimes, whether it is MAPS appointments, PAA, pension dashboards or whatever it happens to be. This is a mix. This is a holistic discussion. We have to consider all of these particular ways of helping people get advice. But if the PAA was reviewed that would definitely be one element and it could be a very helpful element for some people.

Q52 **Steve McCabe:** I want to touch on the question that the Committee raised in its previous report about enhanced guidance or limited advice. I notice that one or two of you have expressed some views on it. Do you think there is an unmet need that could be catered for by something like enhanced guidance or limited advice? What do those terms actually mean to you? I am not sure who I should go to first, but I got the sense, Matthew, that Aon is in favour of the idea but has some reservations. Is that fair?

Matthew Arends: That is fair, yes, to the extent that there is a clear distinction in law between advice and guidance and, therefore, one does not want to blur the boundaries. On the other hand, individuals' needs are diverse and their levels of pre-existing understanding are diverse, so individuals need support in different ways. One can end up in an unhelpful semantic discussion about differences between types of guidance and types of advice, but as an industry I think we have to serve individuals' needs appropriately. An additional point in all of this is the provision of advice itself. I see that there is a scope for technology-based solutions to assist with that, and possibly assist with it more cheaply, for some individuals at least. Digital advice, you might call it, could be a very helpful way of providing that advice at a lower cost.

Q53 **Steve McCabe:** Rachel, this Committee recommended that the Department for Work and Pensions should consider this as a service that

the Money and Pension Service might provide. But I think I am right in saying that AJ Bell said it could come from a variety of sources. Is that right?

Rachel Vahey: Yes. Going back to my previous points, I think enhanced guidance could come from a variety of sources. Providers are working together with the FCA to explore this area more. We all want to close the understanding gap that exists for consumers. At the moment if we are providing information to customers we have to provide the whole kit and caboodle. We have to provide all the information that relates to that particular topic in a very balanced way, but we have to provide everything regardless of the customer. We have maybe different customers to those other witnesses have and in the range of customers we have there are many different types of people with many different needs and with many different circumstances.

We are looking not to provide advice but to provide enhanced guidance. Then we can make it more relatable to the customer and their specific situation. At the moment they receive an enormous amount of information, but it is difficult sometimes to decipher what is relevant to them and what is not. We want to be able to provide enhanced guidance that makes it more relevant for the customer and more likely that they will take on that particular bit of information.

Q54 **Steve McCabe:** Thank you. Steve, I got the impression that Just was really saying, "This is not a priority. There are a lot of other things we should be sorting out first". Is that your position?

Stephen Lowe: Yes, that is a good interpretation, Mr McCabe. I think there is some low-hanging fruit already in front of us and we can help millions of people over the next decade by making sure we get the take-up of what are incredibly well received services, which we talked about earlier. That will be the first thing to do. Let's not try to build the emperor's new clothes until we have resolved the ones right in front of us.

To answer your question directly, I think there is a place for enhanced guidance. We think a new regulated activity order might be a way through that and we are working on the ABI committees to explore those ideas.

A word on advice, if I may. I declared earlier that we provide regulated advice, in the way that Matthew described, digitally, and face to face and over the telephone. If you want to provide advice to your customers, you need to put your money where your mouth is. You need to put the capital aside, take the liability and give them the advice. This middle ground, what kinds of decisions can be taken, is an interesting area. When Rachel or Laura or Matthew or I have a customer in front of us, we might want to say things to them such as, "Don't take all of your money out immediately because you might pay more tax than you have to". That might cross some boundaries in some people's minds. It is some of those

quite simple, what we might consider as hygiene steps—that enhanced guidance—that might give confidence to trustees and others. It is worth exploring rather than saying that it is a silly idea.

Q55 **Steve McCabe:** Why is that existing advice so inadequate when it comes to protecting people from scams and things like that?

Laura Myers: I think it is that there is a gap. It is not just that the existing advice would not protect people from scams, it is that a lot of people are not taking any form of advice. There is a big gap in those who could probably benefit from regulated advice but either cannot afford to or maybe they feel that the cost of the advice outweighs the benefits. You have an area there of people who could maybe use some of the help that Stephen was describing, but if we could have something that was more of a bit of enhanced guidance, that could help that cohort.

You are right, there is a lot of statistics out there that show that people, when they get into their 55s, their 50s, and start to think about these kinds of things, are really scared about scams. That is one of the key priorities, we see it time and time again, that people raise and are worried about. If we could provide more support for those members, it would be a positive step.

Steve McCabe: Thank you.

Q56 **Debbie Abrahams:** Good morning, everyone. My question is about the pensions dashboard. Rachel has already mentioned this as a potential way that we could help inform people about their plans to access their savings or their pensions. How could the pensions dashboard help?

Rachel Vahey: The pensions dashboard has an important role to play. It can help people find out what their pension plans are. It is very easy to lose track of certain pension pots, if your employer changes its name or if the provider changes its name, maybe several times in some situations. I think once the pensions dashboard is up and running and it is complete—it will not be complete initially, because the stages are phased—and we have got over the teething problems, it will provide help to people to find their pensions and to give them a value. However, it is a big jump, from knowing what you have to knowing what you have to do with what you have, so it is part of this holistic help but it is not a silver bullet.

It is not the case that you will know what your pension funds are, you will see the light and you will know exactly what to do with it and nor should we encourage it to be that. We should recognise it for what it is and, for example, having a button or something on it that says "Access your pension here" could be a very dangerous step. We want people to get the information but then it is the next stage of the process to work out what to do with their money for the best for them.

Q57 **Debbie Abrahams:** What do you think are the essential features that should be in the dashboard?

Rachel Vahey: I think the dashboard should be complete. One of the issues at the moment, and almost understandably, is that the pensions dashboard programme is almost going for the low-hanging fruit. It is going for the easy ones to get on board. They are getting FCA providers on board, for example, but FCA providers already have a very good information relationship with their customers, who will usually already know what their pension is from those sorts of providers and what it is worth. The problems are more with the difficult, smaller schemes, where people will not know what is on board. The problem is that initially they could look at the dashboard and then not realise exactly the fact that they are not covering those schemes and there could be hidden values within their schemes. There are some issues around that.

Also, at the moment, the pensions dashboard is only going to cover uncrystallised pensions. Our customers have a spectrum. They do not see their pension plans as either uncrystallised or crystallised. It is their pension plan. That is just the wider pension plan. They have a pension plan that they save into. They can take tax-free cash from the age of 55. It goes up. They could then take drawdown after a certain age. That is the way they view their plans, so to miss off one great big chunk because it is crystallised seems to me to be confusing. We need to make sure that the pensions dashboard is going to be fit for purpose, but once these teething problems have been ironed out, it will give people details on what they own and I think that will be beneficial.

Laura Myers: I agree with what Rachel said. I think the dashboards will be a great start. We talked earlier about the essential pieces of information that people need and obviously understanding what they have is a key first step to understanding if they can retire because we need to know where all their pots are. But obviously we need to make sure that people do not have unintended harm, that if they are seeing all those numbers, they do not accidentally access pots and make the wrong decisions. For example, they could damage means-tested benefits if they take 16 k out—they could compromise universal credit, for example. You really need to make sure that it is not that they see these numbers and make the wrong choice. That is the key point and it comes back to all the conversations we have had about advice and guidance.

Q58 **Debbie Abrahams:** Is there anything in essential features?

Laura Myers: I think people being able to see things in a comparable format, having the same kind of information across DB, DC and all their different benefits. People are going to be confused when they see the information in different formats. That is going to be essential and then any kind of safeguarding, so that people cannot just automatically click buttons and transfer things and make bad choices.

Debbie Abrahams: Lovely, thank you. Matthew and Stephen?

Matthew Arends: Briefly, I agree with many of the comments that have been made. The key aspect of the pensions dashboard is that it will

provide individuals with knowledge about pensions and that will drive engagement and then, hopefully, better understanding and therefore better decision-making. That is the ambition. The essential feature I would add to the list is clear contact information for who to turn to for each pension, which is probably the provider or the pension scheme as the first port of call.

Debbie Abrahams: Good idea. Lovely. Thank you, Matthew. Finally, Stephen.

Stephen Lowe: Another essential ingredient is a common currency around what that pension pot turns into as pension income, a retirement income. It is important to make sure we have all galvanised around what that currency is.

I am a pragmatist, Ms Abrahams, so I believe that initially we need to have accurate data and basics, such as bringing pension information together, as other witnesses have said. The dashboard that we will see in five and 10 years' time will look completely different to the one we start with and we must not let perfection get in the way of having a go and starting to make this work. We will augment the basic core data over time with some amazing services that will help consumers in ways that we have not even considered today, but you have to have the plumbing and the basics in first.

Debbie Abrahams: Lovely. Thank you so much.

Chair: Thank you very much, and thank you everybody. That concludes our questions to the first panel. If there is anything that we have not given you the chance to say, that you would like to say, please email us subsequently. We are very grateful to all of you for joining us. Thank you for the very helpful answers you have given.

Examination of witnesses

Witnesses: Philip Brown, Peter Glancy and Colin Clarke.

Q59 **Chair:** We move on now and welcome our second panel. Thank you very much to all of you for joining us. I am going to start this session, as I started the previous one, by asking each of you to tell us all, in a sentence, who you are, starting with Philip Brown.

Philip Brown: Good morning and thank you for inviting me to be a witness. I am the Director of Policy and External Affairs for B&CE, providers of The People's Pension. We run a mastertrust with over 5 million members servicing over 100,000 employers and we currently have about £15 billion in assets.

Peter Glancy: I am from Scottish Widows. I am the Head of Pensions Policy here. We look after pension pots for about 4 million people across individual pensions and workplace pensions of all types, DC, mastertrust,

contract based. We also support people who are in retirement through annuities and income drawdown products.

Colin Clarke: I am Head of Policy Strategy for the workplace DC pensions business within Legal & General. We also provide schemes of a variety of different types. We have a mastertrust, and we provide schemes for the single employer, occupational trusts, and contract-based schemes and annuities and other retirement income solutions.

Q60 **Chair:** Thank you all very much and welcome to you. I have the first question to you. I am interested to hear from each of you what you think is the key information that people need to decide how to access their pension. What information do you give them? Whose responsibility do you think it is to make sure that people have all the information they need; is that your responsibility or do you feel that it is someone else's responsibility?

Philip Brown: Thank you. That is quite an expansive question. The regulations at the moment start a communication journey for members at about age 50 and it is a cycle of communication. It delivers what is known in the industry as a wake-up pack. It is key information about their pension, delivered on one page, with some supplementary booklets from organisation such as MoneyHelper, which tell people about their choices. It is the responsibility of each scheme to provide that information to the member.

The challenge in this is that the communication journey probably needs to start earlier. The biggest issue is for those who have been through the auto-enrolment system. We effectively hold people's hands on the way in. Inertia is used to get them into the pension. The current regulations sort of assume that at the point that people are going to start making retirement choices, they are engaged and that they understand the pension. It is a massive leap from taking people in through inertia to assuming they will be super engaged. We have to try to connect up those journeys somehow, maybe with better communication.

We focus on keeping communication simple, comprehensible and as uncluttered as possible, but that is not the end of the story because engaging people in the retirement process is very difficult. People do not make choices until they get to a point where they feel they really have to. We need to get to a place where people believe it is their money and that they are looking after it and we can communicate with them in an open way for a much longer time.

Peter Glancy: One of the things to call out here is a bit of context. The typical person, a moderate earner for example, will go into retirement and get about 50% of their pension income from the state pension. The other half will come from private pensions. The average person will build up 11 employments, so that means 11 pension pots, some DB, some DC, some contract based, but they may also have other sources of income in retirement, other savings and investments. Many people will have

housing equity. There is more housing equity in the country than pension equity and it is more evenly distributed.

The reason why that context is important is because the conversations that we as a product provider are having with a customer might be about a pot typically that represents about 2% to 5% of their retirement income. Ideally, the information that they need is to be able to see all of their pension entitlements together and within the context of other assets that they may have and then have a conversation about how all of that comes together. Only the wealthiest 20% or so in society can do that by employing an independent financial adviser. We are trying to give everyone else the information that they need about the pot that they have with us on the choices that they have in using that pot and how that might fit into the jigsaw.

The packs and the information that Mr Brown talks about are important because the new dialogue through the investment pathways is getting people for the first time to consciously think about what retirement journey they might go on, what age will they work to, will they start to work part-time, will they have a second career, how does that interact with their spouse's retirement plans, and so on. We are giving them as much information as we can but it is just one of the building blocks in a wider set of thoughts that people need to have about their retirement journey.

Colin Clarke: I echo what the other witnesses have said. The next key important information that people need is the answer to, "What should I do?" We very much need to give people information on all the options and the choices out there in very simplistic language that they can understand. Then the question that they will inevitably ask is, "What is right for me?" and this goes back to the debates that were being had in the previous panel session around advice and guidance.

We know that there is a lot of people out there who do not have access to regulated financial advice, for various reasons. Some people think it is not for them because they don't have enough money. Some people look to other ways to try to get advice. I think there is a very real concern that there are quite a few people looking to sources of unregulated advice, such as friends and family or even social media or online. It is very important, therefore, that we focus on what people need to be able to do something and make a decision with all the choices available to them.

Q61 **Selaine Saxby:** When someone comes to access their pension for the first time, what choices are there for them? Who would like to go first?

Philip Brown: I am happy to go first. What they can do with their hard-earned savings when they get to retirement is an important area for people. There is a number of products in the market available to them. The challenge is not necessarily the products that are available but how to access those products, and which products service different needs. It is

our view that people probably need a combination of products to manage their retirement but that in some cases they are making binary choices to buy individual products, which may or may not be drawdown and which may or may not be cashing out and taking all the money, when they should be looking at a combination of products.

The challenge, as with the conversations in the previous session, is around guidance, how you get people to understand that and then how you service easily a combination of products rather than a structure that might have multiple products through multiple providers, which means you have to deal with lots of people to get to your end solution if you do not have a financial adviser. I agree with what Peter Glancy said that financial advisers service the high net worth in society. If we were asking all people to see financial advisers, we would have a significant capacity problem so we have to find some middle ground in guidance to get people into the right solutions, to assist them with their retirement.

Peter Glancy: I agree with Philip. An annuity is one of the building blocks and income drawdown is the other building block that people can use. An annuity gives you certainty but it does not give you any flexibility and there is no possibility of an inheritance if you pass away at an early age. Income drawdown gives you lots of flexibility and there is a possibility that if you pass away early in life there is a pot to be passed on to your dependants, but there is no certainty.

Most people want a bit of certainty and a bit of flexibility and the possibility of some inheritance and that is why it might make sense for a lot of people to look at the two building blocks in parallel or in combination at some point through their retirement. However, we know that half of the population struggle with percentages and very few people understand concepts like compound interest, so juggling those two building blocks for themselves is quite challenging. We need a facilitator that helps people manage the two building blocks to suit their own individual retirement needs. We really need to challenge ourselves, government regulators and the industry to be able to provide some sort of advice that is available for in the region of £100 to £200. That is the only way to crack this. We cannot leave advice as the preserve of the wealthiest 20% of the population and we cannot leave everybody else chatting to their mates in the pub about the best way forward.

Colin Clarke: I very much agree with you and Philip, Peter. We also see people making binary choices. There is a lot of different varieties of flexible and guaranteed income products out there on the market but the key is how best to use them. In a lot of cases a combination of the options that are available is likely to be more optimal for people than just taking one or the other. There are advantages and disadvantages to each and the challenge is to make sure that people are equipped to be able to use the advantages to their best potential.

Q62 **Selaine Saxby:** People can access 25% of their pensions tax free. In your

experience, how much consideration do savers usually give to the remaining 75% when they first access their pensions?

Philip Brown: That is another interesting question. As the previous panel said, it is the one aspect of pensions that people really understand, that they are allowed to take some tax-free cash from it.

In the auto-enrolment space, we are dealing with a relatively young cohort of savers. The vast majority of people are still saving, they are not drawing money, so we have a relatively immature group of people there. Those who are approaching retirement have modest or meagre funds so the choices are slightly different for them. That said, tax-free cash is important and I agree with comments made earlier that we should not build an environment where people think they should access that cash at the earliest opportunity without thinking about the other assets, because there are potentially tax consequences to how those other assets are drawn.

Peter Glancy: I think if we went back a year or so the answer would have been that no consideration whatsoever was given to the money other than the tax-free cash, but the good work that the FCA did on the Retirement Outcomes Review means that certainly in contract-based pensions we are having conversations with customers that get them to think about retirement journeys and specifically that help them make sure that the money is invested in ways that reflect the retirement journey. We are now getting people to proactively think about what their retirement journey might look like. That is a huge step forward.

As mentioned in the previous session, we don't yet have a similar regime for occupational schemes. I know Government were starting to think about that prior to the Covid crisis and we do need to finish that off. We need a similar framework to engage and protect people on occupational schemes.

Colin Clarke: To be quite honest, I think people did not pay any attention to what was happening with the rest of their money. I think they knew that it would stay invested but not necessarily how it would stay invested. I agree with Peter that the work that the FCA has introduced recently, particularly on investment pathways, has helped people through that decision. It is more about what you want to do with your money rather than thinking about particular funds and risk profiles and things like that, which is something that many people do not understand. Having a solution there for them, if they say, "I just want my tax-free cash and I want to leave my money invested" has very much helped that process and it has made people realise, "Okay, I am going to be invested for a while now. What do I want to do? Do I want to leave it there? Do I want to use it to take a flexible income?". We now have these ready-made solutions for people, but I agree with Peter Glancy that there is a gap in the occupational space, which the DWP needs to look at.

Q63 **Selaine Saxby:** Do people consider their long-term care needs when they

first access their pension?

Philip Brown: That is probably not a consideration for the vast majority of people. In a previous life, I managed long-term care annuities and the only time people started thinking about them was when other family members needed long-term care. Most people did not think about long-term care as part of their pension provision.

I agree with the comments made in the previous panel that we should probably be thinking about long-term care more in the context of insurance than pensions because not everybody will need long-term care and not everyone is going to access that part of the pension if they have a segregated asset held in place. It is a very important feature but it is probably something that is more of an insurance-based product than something attached to the pension. Most people's pensions do not have enough assets in them to deal with retirement, let alone to save for long-term care as well.

Peter Glancy: I agree that people do not think about long-term care. Psychologically, people tend to think positively. It is for the good of all our mental wellbeing. We all think it will not happen to us and, therefore, we choose not to provision for it. On paying for long-term care, most of the building blocks probably exist somewhere in the industry. There are lots of assets: some people have big pension assets; some people have housing assets; and other people could pay into insurance schemes or into savings schemes.

The challenge that we have at the moment in engaging people is that the public does not know what they can expect from the state. They do not know what level of service they could get in their own home or in residential care, how much that might cost in their local authority area, and so on, what is coming from the health service, what is coming from social services, and they don't know about caps and floors and so on. Without the public having a consistent view of all of that, it is difficult for a financial adviser or a product provider to engage people and say, "You know what you are going to get as standard. If you want something over and above that, either because you want a higher level of care or because you want to protect your assets to pass on to the next generation—" If people knew the basic level they were entitled to, we could then have conversations with people about what they might want over and above that. The lack of consistency is causing a bit of a problem in mapping out ideal solutions.

Colin Clarke: To expand on the point about needing clarity on what people are entitled to, we have a number of customers who are in retirement and receiving pensions from us who do not know what additional government support is available to them. We try to help people and educate them and signpost them to various services. We get quite a lot of good feedback from people saying, "I never knew this existed. I didn't know I was entitled to have those kinds of things" when they contact us if they are in financial difficulty and want some help from us

about what to do. Getting that clarity in an easily accessible format is essential.

Q64 **Shaun Bailey:** Could I look at hybrid products? What does the panel think about whether or not hybrid products meet the ever-changing needs of people when it comes to accessing pensions? More broadly, do you believe that if hybrid products were more widely available, there would be a greater demand for them?

Philip Brown: That is an interesting question, Mr Bailey. The challenge is that you could introduce more hybrid products but that would not immediately create demand. There is an understanding issue here with product complexity, which we would have to overcome once you start adding lots of products together. The challenge, especially in the auto-enrolment market, is the size of DC pots. Until those grow in value, there probably would not be more demand for that kind of product.

You see an interesting aspect of this in the PLA research, which showed that 84% of people wanted retirement income, but then in the FCA Financial Lives survey there are not 84% of people taking something that is an income-related product. We have to try to make sure we are communicating in better ways and then those products might be used more to deliver the income that people, through this research, are suggesting they want in retirement.

Peter Glancy: I go back to the point I made about people wanting a mixture of accessibility, flexibility and the possibility of an inheritance for the future generations. That probably suggests to you that a hybrid product is a possible solution but as someone who has designed pension products over the years, my challenge there is customer suitability. I would need to create a halfway house between an income drawdown product and an annuity that was based on a typical person or a typical retirement journey. Everybody's retirement journey is different, so we might have to design, over time, 65 million hybrid products, one for each person in the country. Then, of course, people's plans change over time, so a hybrid product that has been designed for the typical retirement journey may not be suitable in 10 years' time if a person's circumstances change.

I think it comes back to bringing two building blocks together and using them in a flexible way with some sort of guidance and advice wrapped around them and technology.

Colin Clarke: To echo that point, I think we should not talk about hybrid products. I think we should talk about solutions for the customers, which would combine various different building blocks, as Peter mentioned. But to do that you need to give people more personalised information and guidance beyond what we can currently give without stepping over the line into regulated advice. The design of those solutions is going to be very much based on what people need, what their income needs are going to be in both the short and long term, and how those different

flexible and guaranteed building blocks interact with each other over time. To do that you need to be able to keep using data that the customer has given you about what they need and start using that data and information to suggest options to them that are personalised for their needs.

As soon as you start getting into elements of personalisation that is when you start treading over the line into regulated advice. There needs to be a way of bridging that gap in between pure guidance and information that is not helpful at all into some kind of personalisation that is more accessible to people and cheaper for people to access than having to pay for full regulated advice.

Q65 **Shaun Bailey:** Colin, you have pre-empted my second question. From what you are saying, with the development and growth of hybrid products and if this was to go on a trajectory, the importance of access to suitable guidance is going to be crucial either way. I appreciate what you said there about not straying into giving regulated advice. I am going to ask you all to examine where is the balance in providing that guidance and advice. How do we strike that so that we can ensure that pension savers who are trying to access these products know what they are going into and ensure that all professional obligations are met?

Colin Clarke: I think the question that leads you over the line is when people ask you, "Okay, so what shall I do?" You give them all of this information, you tell them that this is how drawdown works, this is how annuities work, this is how taking cash works, and they say, "Okay, well, what is right for me? What should I do?" If you suggest something to them based on their personal circumstances that potentially is a personal recommendation, but there needs to be a more flexible and cheaper way for people to be pointed in the right direction and be able to go a little bit further than just giving them information and say things like, "Okay, people like you do this", in a similar way to other companies like Amazon with purchases.

Unless you can resolve that gap I think the financial services industry, from a technology point of view, is at risk of falling behind other companies that use technology and data for consumers' benefit. It is definitely something that needs to be looked at.

Shaun Bailey: Do Peter or Philip have anything to add to that?

Peter Glancy: We conducted research a couple of years back with around 3,000 members of the public and 76% of people responded saying that the support they wanted was a personal recommendation from an expert, but they did not want to pay for it or could not afford to. Personal recommendation from an expert constitutes regulated financial advice, and it comes in at around £1,500 to £2,000. People are saying they cannot afford that or they will not pay that. That is what we call the advice gap in this country.

We can extend guidance to make a personal recommendation, but I think that becomes challenging because if you make a personal recommendation somebody could sue you in the future and you have to hold capital against that risk and that introduces a cost. The other way to do that is to look at a simpler, more restrictive form of advice, which I think is where the answer lies, whereby you are looking to steer people in a direction that as an expert you know keeps them out of harm, and also point them in a good direction. If you are paying £2,000 to a financial adviser for full regulated advice you are expecting a perfect answer for someone advising you on your £500,000 pot. Most people do not have a £500,000 pot. They just need someone to keep them out of harm and point them in a good direction at a variable cost. I think that is where we need to find a solution.

Philip Brown: I agree with Peter's point on willingness to pay. That remains a significant barrier to take-up but that is not the only barrier. The other barrier is the amount of assets that you have that you require advice on. There is an economic value that advisers cannot go below because it is not economically viable for them to give advice to pots of that size.

As an industry we need to think a bit harder about the use of inertia and how that has worked for auto-enrolment and what we can do with retirement products if we can configure them in a way that serves most people but allow them the flexibility to say, "I do not need the annuity because I have a piece of defined benefit over here" or "I am taking the suggestion you are making" without fear of there being any suggestion that that is regulated advice.

The biggest challenge with advice is the misunderstanding between a member of the public and the regulator. When a member of the public says they want advice they want help, support, guidance or advice and they will use those words interchangeably. When the regulator says advice they mean a personalised recommendation to do something, to not do something or keep doing something, which is very different to what a member of the public would think advice means. There is a mismatch in language that we need to overcome.

Q66 **Nigel Mills:** I will move on to collective defined contribution schemes. Does the panel think that they offer a solution here that could help people get, if not a guaranteed income in retirement, some sort of promised income and get a higher income per year due to the collective nature of them than they can get by doing it themselves through DC?

Philip Brown: CDC is definitely an area of interest and it is possibly a good option for delivering retirement incomes, as you suggest. We need to be clear that it is quite different to annuity, so annuities come with cost, with the attendant protections for being inside the Financial Services Compensation Scheme and they are as close to cast-iron guarantees as you can get in a commercial world. CDC is different to the extent that it is still relying on investment return, so over periods of time there may be

occasions when you need to reduce income as well as occasions when you need to increase it. There will be a communication challenge with members. I think it was mentioned on the previous panel that understanding the difference between absolutely guaranteed or trying to produce a level of income that should beat the guarantee is quite a complex message for the public.

We think that there are potentially higher benefits deliverable for it, but the investment risk remains with the individual, which is quite different to an annuity. It must be understood by the public that they are fundamentally different products. The challenge remains a communication one, in my view.

Q67 **Nigel Mills:** Are you tempted to form a mastertrust and have a go at offering those to people in the decumulation phase or are you steering well clear from that area of business?

Philip Brown: We keep an open mind as to how CDC might be used. Until draft regulations started getting laid yesterday it was difficult to answer that question. I am not sure yesterday's statutory instruments have fully answered the questions we need to answer before we can say it works or we are not quite sure. I cannot answer the question at the moment.

Nigel Mills: A cautious possibility, or something. Does anybody else want to comment on this?

Peter Glancy: I think if you look at DB pensions, for example, the risk sits with the employer and if the actuaries get the sums wrong the bill goes to the employer. With annuities the risk sits with the insurer and if the actuaries get the sums wrong the insurer or their shareholders pick up the bill. With CDC the risk sits entirely with the scheme members and if the actuaries get their sums wrong then presumably the scheme members would be on their own.

Is there a way that you might get a better outcome compared to annuities? Only if you are prepared to say, "We are going to take on all of the risk and all of the downsides if things go wrong." There is certainly merit in looking at CDC. It is a new way of thinking about things. It brings in concepts such as pooling and smoothing of risks and guarantees and you can use less liquid assets. There are illiquidity premiums there that may be an advantage. We should be looking at all the component parts and seeing how these either could be built into existing pension structures or is there something new.

I think that a decumulation-only CDC could be worth looking at. I am sceptical that there will be a great deal of demand from employers because I think that the whole concept is going to be a bit marmite with employees, because some people will not like the uncertainty that their income could go up and down in retirement and that is outwith their control. I do not think employers will want to place a bet one way or

another when their workers are polarised. You could see that some individuals when they come to retirement like the collective idea and it might be that you get products that are set up on a collective basis that individuals at the time could choose to enter into. I do think it will be a little bit marmite and demand at the moment is very uncertain.

Nigel Mills: Less optimistic.

Peter Glancy: Probably similar to Philip, it is too early to tell. There is an awful lot of modelling to do. We would need to do consumer testing and look at all the risks. It is too early but we have an open mind.

Colin Clarke: I agree. We have an open mind also. We are very much watching what happens with the Royal Mail scheme to see how that pans out. I think if you start getting into commercial territory for decumulation solutions for CDC you are raising risks that providers will try to outdo each other on the income that their CDC scheme can pay out maybe initially, but then it comes down to the actuaries getting their calculations wrong or investment performance not panning out as was hoped for when the initial income was set.

This is similar to what happened in the early days of other collective arrangements, like with-profit schemes, where providers were declaring very large bonus rates, this was guaranteed, although it was not guaranteed, and then those were cut back and back over time. There is a very real risk that commercial CDC schemes could go a similar way, but we are watching what happens with the single employer model first before we take any firm positions on it.

Q68 **Nigel Mills:** We must be clear that what collective means is that those who die young pay for those who do not die young to have a bit more and that is what people need to understand on these things. Can I ask all three of you whether you think charge capping decumulation, especially for people who are on a default pathway, would be a sensible way forward, so that we are protecting people from unnecessary charges where they do not understand or are not making a positive choice for something a bit more whizzy and more complex? Would that be a viable business model for you all to offer services in?

Philip Brown: There is a variety of charging models in the market, some of which are below the cap and some of which are above the cap. In the auto-enrolment space the communication challenge would have to get over where there is no cap, that there was a cap that you are subjected to now and there is not one in this new product and our charges are either above or below where they were on your saving phase.

Again, we have an issue of inherent complexity by having different models in different parts of the market and caps in some places and not in other places. If there was a uniform way of doing it that was financially viable for delivering the end product, because drawdown remains a more complicated product but saving into a pension, I could see merit in why

you would try to have a charge cap that spanned both. We need to answer that question about whether drawdown is viable in that environment, because it is a more complex product to manage than saving into a default fund.

Peter Glancy: I think having an aspirational figure of 75 BPS that the FCA has given us all to work with is helpful. Most people will be working within that for the default funds. People are free to work with financial advisers and use palettes of very sophisticated funds in conjunction with their adviser. One thing to look out for is that Government are looking for financial assets and the UK financial services system to be used in ways that help the rebuilding of the economy, reposition the economy post Brexit, support the climate change agenda and so on. Some of the longer-dated assets and less liquid assets that the Government may want us to go into, all of which may be good, particularly in decumulation, can be more expensive. Any charge caps need to be conscious of the fact that in the future we may be using asset types that are a bit more expensive than the FTSE 100 and gilts. You do not want to restrict yourself in the options available for developing products in the future.

Colin Clarke: Certainly there is a case to suggest whether there should be a charge cap for the investment pathways concept. You can make comparisons to default arrangements that are used in auto-enrolment schemes and it is very core level. It is a solution that somebody else has chosen for somebody. They have not gone and bought that product themselves. It has been picked for them based on what they want to do with their money: do they want to leave it invested, take regular income and so on? They have not chosen the solution that underpins that themselves, which is exactly the same as people being enrolled into default arrangements within workplace pensions.

As was said quite a few times on the previous panel, a lot of people just take their tax-free cash and do not have any interest in how the rest of the money is invested for them. Investment pathways were designed to give that solution for the disengaged people who do not have the knowledge or the will to make those kinds of decisions. It seems right that there should be similar measures to protect those people as there are for defaults in the workplace context.

Q69 **Steve McCabe:** Good morning. I want to ask about this question of guidance. Given your experience, who do you think is better placed to provide guidance? Is it pension schemes or is it Pension Wise?

Philip Brown: This is not an either/or question. I think it is a combination of both. I see an environment where Pension Wise is used to give people guidance on the broad aspects of pensions and what the options are, but more specific questions to be dealt with by the scheme. Any pension scheme will be able to define where that advice line is and potentially go a bit closer to it in supporting a member than Pension Wise would as a body that is exempt from authorisation, so they have to walk

a very clear line. It is not an either/or thing. It is a bit of both, in my view.

Peter Glancy: I agree. I echo the point made in the previous panel as well, that the Pension Wise value would be maximised by having it at a slightly earlier stage in the customer's retirement journey. Getting people to think through or become aware of all of the different options available to them before they make a decision would be much more valuable than referring people off to Pension Wise after they have made that decision.

Pension Wise will have a limitation on capacity. I do not think they can support the tens of millions of people who will require help over the coming decade. There could be a hybrid model where Pension Wise designs the conversations and the architecture of the decision trees, and so on, and that could be rolled out as a franchise so that scheme administrators and product providers can have conversations to those scripts or to those rules as part of a seamless customer journey. At the moment we are introducing an awful lot of friction handing people off to have appointments, to come back a few weeks later to execute decisions that they have already made. People are being frustrated by that. There is no reason in the future why we could not operate under licence some of those conversations ourselves and solve the capacity problem at the same time.

Q70 **Steve McCabe:** Would the franchise model that you are describing be cheaper than the proposal to run what is a twin track at the moment, some advice, some guidance, and then Pension Wise on top?

Peter Glancy: It would be cheaper to the extent that we would not all have to develop separate models and research and maintain them and all the risk oversight that goes with that. It would also add consistency. We are all doing great and well-intentioned stuff, but it is all slightly different. As I mentioned earlier, people have an average of 11 pots, some people have two or three and some people might have 20 or 30. It would make sense for that whole set of conversations to be as consistent as possible.

Colin Clarke: I agree that there is a role for both. I also agree that Pension Wise could be used a lot earlier in the journey before people have made up their mind about what they want to do, to give them that foundation of information that they can then build on. I would not want to see people going to Pension Wise and then thinking they are stranded and that they do not have anywhere else to go for the next level of support. There needs to be some co-operation between Pension Wise and the industry that once they have had that high-level information guidance on pensions generally they are then pointed back to their provider or to an adviser to take them through that next stage.

Q71 **Steve McCabe:** I think Peter touched on it, I saw one pension provider say that the stronger nudge policy was an intervention at the wrong time that stands no chance of delivering the scale of impact required. I think it was this point that it comes too late in the process and that people

should have some kind of interview at a much earlier stage. Is that the view of all of you, that the stronger nudge might prove to be a bit ineffective in that there might be a better way, automatic appointments or something, of delivering reliable guidance?

Philip Brown: Mr McCabe, there is an issue here that the research we have done shows that people approaching retirement are effectively looking for the path of least resistance. The stronger nudge has been put in, as everyone else has said, at a point that is the middle of a claims process. The risk it runs is me saying to you, "I would like to take my money," and you saying, "You are not allowed to do that. You need to do the following things first," which may take a week or two to get done. That may leave me with a feeling that you are preventing me from having what you always told me was my money. I agree that it is probably at the wrong point. If it was done earlier—and the point Peter made is important—at a point where somebody cannot make a choice, make a decision or buy a product it would probably be more powerful in educating them to think a bit deeper about the options that are available to them. I agree it is probably too late.

Steve McCabe: Do either of you have anything to add to that?

Peter Glancy: I will add the point I made a moment ago, that people have multiple pots and some people could have 20-odd pots. To go through the process of phoning each provider, being referred off to Pension Wise, coming back in a week or so's time is very painful. It would make sense not only for the intervention to take place earlier but for people to be notified just once, let us say at the age of 50, that they should be setting up a Pension Wise appointment. I am sure we could find a body that could be given responsibility for setting up those appointments so that they are not getting multiple instructions from all the different pension providers they are working with.

Colin Clarke: We were one of the providers that participated in the early trials of the stronger nudge. The point at which the FCA said that the nudge needs to happen was not the point that was trialled. The trial took place on the first contact of somebody saying, "Can you give me some information on my options?" not saying, "I have made up my mind about my options and I want to do something". I am a little unsure as to why the regulator has decided to put the stronger nudge in a place that was not tested with consumers and how their version of the nudge will work, whether it is successful or otherwise.

Steve McCabe: That is very interesting. Thank you very much for that.

Q72 **Dr Ben Spencer:** Following on from nudging and inertia, I was quite interested to hear the evidence from Philip about the impact of people who have gone through from auto-enrolment. Do you have data or evidence that people who have come through that pathway are behaving quite differently than people who have come through different pathways? What are your thoughts about whether they should be more targeted in

the steps going forward? I know it is quite early but what is your take on that?

Philip Brown: I agree it is still at an early stage for auto-enrolment, because it is still a relatively immature policy, despite it having brought 10 million people into a pension system.

If you are talking about pathways in the context of the FCA pathways, I think they are quite a specific intervention that was there to handle some particular challenges in the non-advised flexi-access drawdown market. I need to be convinced on whether they would work as a model for wider retirement challenges. They are definitely a very good step in the right direction. I think there is probably adaptation needed and the reason I say that is they are still asking you to make quite simple choices, "Do you want to not take your money, do you want to take your money as a guarantee or as flexible, or are you going to leave it alone?" I might want to do a combination of those things and the FCA's own guidance says, "Try not to show them a combination". I think they need to see the combination for the very reasons we said earlier, that a combination of product is what they need to manage that trade-off between wanting certainty and wanting flexibility. Not one of those options in the pathway delivers all those things, so they need to see a combination.

I think they are a step in the right direction but I do not think they are there yet. They certainly need some more work in a market where inertia was used to bring people into the pension.

Peter Glancy: The folk that are coming up to retirement now are certainly people who took out products or built up pots in the 1980s, 1990s and 2000s, which is before the auto-enrolment era. The majority of the money and the majority of the pot will be in the older products. Some of those cases will be personal pensions that people took out consciously but many of those older products will still be workplace pension schemes. They probably were not overly conscious of joining the workplace pension. It just happened or they ticked a box. I am not sure their behaviours will be any different to the people who have been auto-enrolled, to be honest.

The upside that we see with auto-enrolment products is that they are much more modern and the communications tend to be better. They tend to be clearer and there is a lot more digital being developed to engage people. I think the people on the auto-enrolment products over the longer run might be better prepared when they come to retirement, just because of the advances in service and technology.

Colin Clarke: To add to that, I think the inertia through auto-enrolment we are seeing plays through into the investment pathway side of things and people tending to take the path of least resistance or the least amount of decision-making. We are not seeing many people use a combination of the pathways even though it is available to them, and that goes back to the points that have been raised previously about looking at

things more holistically. We are also seeing quite a lot of people choosing to stay invested in the funds that they were invested in prior to accessing their benefits. We are wondering if that is a consequence of the power of inertia through auto-enrolment. You just do nothing; you stay where you are.

We are going to undertake a programme of research with customers who have recently gone into drawdown and did not choose an investment pathway to understand why that was, whether it is something that we could do better or whether it is something that the regulations could do better, and use that insight.

Philip Brown: One final point Colin reminded me of by referring to research is that the big challenge for me is if you look at the FCA's own research on investment pathways, most of the people who went through it could not choose the right pathway. That may play out differently in the way providers are designing these solutions. It is a worrying aspect that if the research showed they could not choose, we went ahead and implemented it.

Q73 **Chair:** One of the witnesses in the earlier panel said that hardly anyone had used investment pathways. As far as your customers are concerned, have you had a fair degree of take-up?

Philip Brown: You would need to ask Colin and Peter that one, because we are an auto-enrolment scheme not subject to those regulations at the moment.

Colin Clarke: We have had quite a bit of take-up. We do offer it in our auto-enrolment schemes, even though there is no compulsion to do so. We have made it available across the board, in the FCA-regulated world and also in the mastertrust, so we are seeing quite a few people that are interested in pathways. At the moment the balance has very much shifted to people staying invested where they are. They have not quite moved over to choosing a pathway at the point they go into decumulation. That is what we need to look at, to try to understand why that is.

Peter Glancy: The Association of British Insurers has taken our data and the data of other big providers and aggregated them. What they are seeing is that across the industry about 41% of customers are selecting the pathway having those conversations, 11% are self-selecting their own funds—so different funds to the ones they were in as they go into decumulation—but 48% at industry level are staying in the funds that they were in. We are having the conversations with people as an industry and it is still a sizeable minority that are using the pathways at the moment. As Colin was saying, more research needs to be done at individual provider level and at industry level to understand why people are making those decisions. It is very early days; these things have only been live for a few months.

Chair: That is helpful data. Thank you very much. The final question comes from Chris Stephens.

Q74 **Chris Stephens:** I am conscious of time, so we will try to get through this as quickly as we can. Philip, I have a question for you first about pension dashboards. How do the pension dashboards help people plan to access their savings and is there a risk of people attempting self-diagnosis on their pension rather than seeking professional guidance or advice?

Philip Brown: There is definitely a very significant place for dashboards in the market. There are too many people who become disconnected from their pensions. Dashboards, being able to find your pension, view your pension and engage with it in a way where you can contact the provider that it is with, because you may not have spoken with them in a long time, is an important change in the market.

You are highlighting the risk area and that is a challenge because dashboards will develop over time. In the Australian experience there are quite a few dashboards now that have a big button that says "consolidate". You press that, and if you are a member of an active scheme at the moment it scoops up all your previous pensions and puts them into that pension. In our context that would be a challenging thing to do because a number of legacy pensions have particular benefits or particular guarantees built into them, notwithstanding there is a lot of people caught in legacy pensions that do not have those aspects associated with them.

There is a consumer protection issue here. I worry that we are not thinking hard enough about the consumer protection issue of people having all that data available to them and either self-diagnosing, as you say, and choosing to move all the money or somebody producing an adjacent service that allows them to use data protection regulations to access that data with the members' consent and provide them with a service that moves all the money around. If we do not get the regulations right on that we see—and I have experienced this as both a regulator and a member of the industry—that these things do not normally end well. We have to think much harder about how dashboards will be used in future and we have to tread carefully. Providing people access to see the dashboard, to see their pensions and to aggregate them all and potentially make decisions is important, but we should work slowly because we also must understand what behaviour it generates.

Q75 **Chris Stephens:** Thanks, Philip. Colin, will members of the general public be able to draw meaningful conclusions from the data on the dashboard about their own circumstances?

Colin Clarke: There is one key issue that needs to be looked at for the dashboard and that is the consistency of the information that is going to be shown on it. There are many different ways that schemes will show the estimated retirement income. You have clear differences between DB

and DC. Many DB schemes will only have a benefit that accrued many years ago that might not have valued that to a current date, let alone projected that forward to a future date.

Even within DC schemes you have so many different assumptions that schemes use around investment returns, different charges, you even have schemes that have different selected retirement dates. That is something that the dashboard programme is going to have to look at, because if you see all that information in front of you all with different assumptions, different dates, different bases of payments and things like that I think it is going to be very confusing for people. Consistency of information—the least worst is backing it up with explanations as to what it means, but the preference is for as much consistency as possible.

Q76 **Chris Stephens:** Peter, I was conscious in your answer to my colleague, Mr McCabe, around Pension Wise that some people could be in 20 pension pots. Should people be able to consolidate their small pension pots through the pensions dashboard and what are the risks and/or benefits of that?

Peter Glancy: I think there is a huge desire for people to consolidate their auto-enrolment pension pots over time. We need to be aware of people consolidating older pension pots that may have valuable guarantees attached, because they could lose those guarantees if they take action unwisely.

The Government under DWP have a couple of working groups on the go at the moment and are looking at how we might in the future auto-consolidate small pots. Ideas they are exploring are if you have a small pot, let us say under £1,000, would that automatically follow you to your next employer or would people potentially select a lifetime consolidator, so a provider that they have picked? If you have pots under £1,000 when you leave an employer your pot goes into there. Those initiatives have merit.

We need to reduce the number of pots, not just because it is cumbersome for people to manage all those pots but a lot of them are loss-making for the industry. It is not sustainable to see millions and millions of these loss-making pots. We need to consolidate them. Also, people could pay multiple charges if they have multiple pots. You would expect to be paying lower charges in total on one big pot on average than if you had 20 small pots.

Consolidation is ideal but, as Philip was touching on, people will have an eye to making money off unsuspecting customers and looking to consolidate them into expensive vehicles, potentially into scams. There need to be protections in place where people cannot just hit a button and do some irreversible damage to their pensions.

Q77 **Chris Stephens:** Thanks, Peter. My final question is around when we would expect to see the first pension dashboard. The ACA has told the

Committee that we should not let perfection be the enemy of good, so in other words we should not wait for every pension scheme to be on a dashboard. Is that something you agree with?

Philip Brown: I think that creates a particular challenge, so I understand the sentiment, but if you have only particular pensions available on the dashboard and not all pensions you create an imbalance in market competition where people may consolidate out of those that are visible and not the ones that are not visible, which may not be the right choice for the individuals.

I think we need to get to a place where the level of data displayed in aggregate is a long way towards complete. If you went live with two or three big schemes on there that would be a field day for people wishing to transfer money around from those specific schemes and the rest of the market would remain unaffected. It is another interesting challenge area that you need to get as close to complete as you can before you are in a position of not unbalancing the market.

Peter Glancy: The scheduling of these is pragmatic. We are scheduling first the simplest of products and the pots that are furthest from retirement. Most people that require the complex at-retirement support are in DB pensions and older occupational DC schemes and they are being added later. Having a more holistic conversation is not something that is going to be enhanced by the dashboard in the early days.

One thing we need to be careful with—and I think they might have seen this in Denmark—is that if you publicise the dashboards too early on only a very small proportion of people's assets are there. They will have a look at it and think, "That is not much value to me," and they will not go back to it. It is not just a case of getting as many customers on as possible, all of these small auto-enrolment pots. It is a case of making sure that we have the majority of assets there before we start to push the dashboard as a facility, otherwise we could turn a lot of people off.

Colin Clarke: One of the key policy objectives of the dashboard is to reunite people with their lost pots. The schemes that are being chosen to go first are probably schemes that are already going to have online access and good communications with people, so those will not be the schemes that they have lost track of. The ones that they are most likely to have lost track of are those that are going to be later in the staging timeline. The key question that needs to be explored with consumers is: will people be more engaged with the dashboard if they find something on there that they already know about or if they find something on there that they have forgotten about? I think that is a key question that needs to be explored.

Chair: Thank you. That concludes our questions to you. Thank you all very much indeed. Let me make the point, as I did to the previous panel, that if something occurs to you afterwards that we have not given you the chance to say to us this morning please send us an email. We will be

interested in any further comments that you might want to put to us. It has been a very helpful session. Thank you all for being willing to speak to us this morning. That concludes our meeting.