



Work and Pensions Committee

Oral evidence: Progress with automatic enrolment and pension reforms, HC 668

Wednesday 19 November 2014

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Written evidence from witnesses:

- [Age UK](#)
- [Pensions Policy Institute](#)
- [Trades Union Congress](#)

Members present: Dame Anne Begg (Chair), Graham Evans, Sheila Gilmore, Paul Maynard, Nigel Mills, Anne Marie Morris, Teresa Pearce, Mr Michael Thornton

Questions 1- 66

Witnesses: **Marcus Mason**, Policy Manager, Employment and Skills, British Chambers of Commerce, **Jim Bligh**, Head of Public Services, Confederation of British Industry, **Judith Hogarth**, Interim Head of Employment and Pensions, EEF (the manufacturers' organisation), **Mike Cherry**, National Policy Chairman, Federation of Small Businesses, and **Dr Ros Altmann**, gave evidence.

Q1 Chair: Thank you very much for coming along this morning. This is the first evidence session in our inquiry into the progress of auto-enrolment and other pension reform, so can I, as I say, thank you for coming along? Could you introduce yourselves for the record, please.

Jim Bligh: I am Jim Bligh. I am Head of Public Services and Pensions at the CBI—the Confederation of British Industry.

Mike Cherry: Mike Cherry, National Policy Chairman at the FSB—the Federation of Small Businesses.

Judith Hogarth: Judith Hogarth, Head of Employment Policy, which includes pensions, at EEF.

Dr Altmann: Ros Altmann, independent pensions and policy expert, and business champion for older workers.

Marcus Mason: Marcus Mason, Policy Manager for Employment and Skills at the British Chambers of Commerce.

Q2 Chair: As I said, thanks very much for coming along this morning. We have got a lot to get through. You are our first panel. We have got two rather large panels, and we have only got just over two hours to get through all the questions.

Obviously, there are implications for employers with the introduction of auto-enrolment. All employers with more than 250 employees have been through the auto-enrolment process, and those between 50 and 249 began in April 2014. The Department tells us that the experience of large employers has been positive and that auto-enrolment has been successful to date. I suppose I am just asking: those of you who are representing large employers, is that your experience?

Jim Bligh: It is worth starting off by saying that business very strongly supports auto-enrolment, and, from board level down, there is commitment to encouraging people to save more and making higher contributions into pensions. Many large employers, though, have offered pensions schemes for years and years. They are very familiar with the pensions landscape, with the terminology, with how to choose an appropriate scheme and with how the systems work. The administrative burdens for them, although very significant in some places, were less, I think, than will be the case for the small and mediums, who have never offered pensions before. So far, 3% of employers have gone through it, about 37,000 employers of the enormous business population. We have got a lot further left to go.

I think, in terms of specific challenges, managing opt-ins and opt-outs has been an issue, as has managing the admin of ensuring people are signed up on the day; ensuring they make the most of their three-month window if they are postponing auto-enrolment; ensuring they are well informed and well communicated with; and choosing a default scheme and making sure that people are getting good outcomes. The employer themselves being satisfied that that scheme is appropriate for their workforce has been a challenge for many as well. It has not been without difficulty. It has been administratively costly, as I say, and time-consuming. However, people feel that there is a benefit, in the sense that their employees are more engaged with pensions and they are more engaged with saving, which ultimately is good for their business and their reputation.

Judith Hogarth: Obviously EEF, as a sector, has had a very long engagement with pensions. We have a high penetration of DB schemes, and we have a high penetration of occupational DC schemes, for related reasons. I would echo a lot of what Jim has said. Even though the larger employers have had considerable resources and were anticipating quite a challenge, even they have been taken aback by the scale of the challenge, particularly with the payroll providers not being up to speed. There is still a question mark over whether that is still in place, and that has huge implications for the roll-out to smaller employers.

Again, however, like your experience, many of our members already had very high participation rates, and those have improved. The challenge, again, has been around opt-outs, as Jim has said, but also the restrictive nature of the communications, particularly the TPR's

[The Pensions Regulator] letters, for example, which are very restrictive. Employers have found those not really fitting with their ambitions for communications. Our experience as employers is that there are a lot of employers out there who really want to engage with their workforce, and finding ways to make that easier rather than very restrictive is, I think, quite a long-term challenge.

Q3 Chair: You have anticipated my next question, which was whether there was enough help from the DWP and, indeed, the regulators. What you are saying is that the regulators make things harder, rather than easier.

Judith Hogarth: I would like to say on that that we only hear really good things about TPR. One of the lessons learned that we would like to take, from a broader sense, is that TPR, as a regulator, has been really good at being proactive and being helpful, but they themselves are constrained by the legislation. In the space of the communications, in the letters to employees, they therefore necessarily have to be very formulaic, and have to be very restrictive. TPR absolutely need to be commended, for their leadership and the culture there, and for helping employers through this process. However, making sure they are adequately resourced for the challenge of the smaller employers is important.

There is a problem here. In a way, we would like to sit here and say, “We need some simplification for smaller employers,” but we cannot, because everything is hard-coded into the system now. What we need is consistency to make it easier for the smaller employers.

Marcus Mason: Certainly, the implementation so far has not been painless. I will give you an example of a medium-sized employer that is one of our members, a Midlands-based training company. For them, the implementation has had administrative costs, but also obviously very real financial costs. It has added an additional £60,000 per annum to their pensions and salary costs, and that is around a 3.5% increase to that. To give you an idea of the types of other costs as well, they had to pay an additional monthly fee to their payroll provider, and they had to pay £5,000 for a report from a pensions adviser on how best to marry up their previous scheme with their scheme going forward.

There are lots of ongoing administrative costs as well, including, for example, the time that their staff spend interacting with the pensions provider on a monthly basis. What that particular employer found was that they already had a pensions scheme in place, but they wanted as little as change as possible, so they decided, rather than having two different options, to merge it all into one. The idea of going for one uniform option is probably something that you will find more as we progress with the staging over the next couple of years and bring in smaller and micro-employers.

Q4 Chair: Last time we looked at auto-enrolment, the payroll providers were slow to come up with the necessary IT. Is that sorted now, or is it still a problem? Presumably, they would want to work it out for the larger firms, so that it is there and ready for smaller firms to just pick up.

Jim Bligh: We understand that it is being sorted, but it is being sorted relatively slowly. We know that, from 2012 onwards, the payroll industry has been talking to itself

about getting it fixed. They have set up working groups, and they are working with big schemes such as NEST and others to try to make it work, but I do not think it is there yet.

Q5 Chair: You described eloquently some of the difficulties that large employers have. Do you think that, now it is up and running for the large employers, it is relatively easy, or are there still issues ahead that you would think would be part of the start-up but are continuing on? Might there be new challenges?

Jim Bligh: There are two big issues. The first is real, and it is re-enrolment, starting in October 2015. As you know, you have to be re-enrolled after three years from auto-enrolment. That, we think, will pose some challenges, not least because the employers have never done it before, but their workforces are likely to change quite a lot in the period of three years. The other challenge is less real, but there is a concern about what the regulatory environment will look like post-May 2015. The call from large employers is to keep the system as it is, and not change anything, for as long as we can, to try to make sure that the system in its entirety beds in, including the re-enrolment process, for all employers.

Judith Hogarth: Again, I agree with those two points that Jim has, but I just want to add another point, which is that the fact that it seems to have gone relatively smoothly for the larger employers should not be an indication that it is going to stay that way for smaller employers. Those larger employers have had considerable resources to throw at it, by and large, painful as though that has been. I agree with you. Our experience is that the payroll providers, in particular, have been surprisingly slow. It is not surprising, because they were also dealing with real-time information requirements. Two big issues came down on them at the same time, and what we are hearing is that, for those employers with perhaps older systems, there are some serious challenges ahead.

Dr Altmann: I would just echo some of the concerns around being lulled into a bit of a false sense of security by what has happened so far. Certainly, some of the reports that we have heard from employers do stem around not the cost of the pension contributions but the cost of the administration and the complexity of it. If bigger employers, who are used to pensions, are struggling with the admin, one does have to be seriously concerned whether the smaller ones will be able to cope.

Q6 Chair: To what extent do you blame the legislation? Obviously, as you said, Judith, they are hardwired and have to have particular wording in the letters. That was one of the key complaints of this Committee: “Why on earth can’t the Department just write in plain English?” They always come back, “Well, it is in the legislation.” Surely, they could put that in an annexe, and still have the plain English on the front page. To what extent is it the actual primary legislation that is the problem, or is it just the interpretation of that legislation that seems to be particularly rigid?

Jim Bligh: The Pensions Act 2008 is enormous, and it contains most of the proscriptions for how you should go about doing auto-enrolment step by step. It also includes all the definitions, which leaves the regulator with very little room to play with when it is trying to create practical ways of working. It also left little room for the commission that

looked, in 2010, at simplification. There was some stuff they could do, but really most of it lived in the primary, and that is a real challenge.

Q7 Chair: We do have the regulator coming in front of us. Mike, what are the challenges for small businesses? We have probably heard some of them already. If the big businesses were finding it difficult, what about small and micro?

Mike Cherry: Our concern has always remained around the actual cost of the impact assessment, which was a bit of a joke at the time, and that is now proving to be a major factor for some of our larger employers who have auto-enrolled recently. The other huge worry that we have is the administrative burden. That is something that we have always been really concerned about, because, as we have already heard from both Jim and from Judith, large employers have the resource. They have also often got schemes where they have a team that is able to deal with that.

For small employers, particularly micro-employers, it is me and you. We have to try to deal with that. We have to choose a pension, which is not what we wanted to do. We had always advocated from the start that there should be a good default into which it can just be simply putting people in. Then, if they wanted something better, they could enhance that by going out to the providers for that enhancement. We have some real concerns, given how the larger employers do seem to be finding the administrative burden a challenge, and it is that administrative burden, in time, and the worry of not being able to get it right, that is a real factor for the majority of small businesses.

Q8 Chair: You mentioned a default. Is NEST not operating, effectively, as a default? Was the intention not that, "If you don't know, go off to NEST."?

Mike Cherry: NEST can be a default and, as you know, the FSB has set up its own scheme from its member services side that is specifically for our members, and we are getting a reasonably good take-up of that. The fact that an employer has to make that choice, and also has to try to decide which may be the best scheme for each and every employee, which will vary over their career path with the employer, does give them some real worries and concerns that they may not have got it right.

Q9 Chair: What should be done to mitigate these concerns?

Mike Cherry: You need to make it a lot easier. You need to have the ability for employers to be able to see the transparency in costs and charges between the different schemes, which would really make that choice a lot more simple for them and make it easier to explain to their employees why they may have had to make that choice, or why they chose that particular scheme.

Marcus Mason: Clearly, the challenge for auto-enrolment, despite some of the issues we touched on earlier, lies ahead. For that particular reason, it is really important the regime, as a whole, focuses on being as simple as possible for smaller and micro-employers to

operate. The focus has to be on compliance, and making sure that that rate of non-compliance does not increase drastically as we stage smaller employers.

We would therefore urge for this regime to not introduce any additional complex changes, whilst we are going through staging over the next two to three years. Where there are areas that can be simplified, we would urge them to do that, but to do it in the least destructive way possible. In terms of thinking about that complexity, changing the threshold at which employees are eligible for auto-enrolment at this point in time could add an additional layer of complexity that could be an issue.

Q10 Chair: We have questions on that coming up. “Simplify, but don’t change” is what you are saying.

Marcus Mason: Do not add complexity to the system. If there are small areas that can be simplified, by all means do it. The communication can be tailored and simplified for smaller employers. There should, however, be no big regime changes that essentially could affect the compliance rate.

Dr Altmann: Having a default would have been, and would be, very helpful. However, a lot of employers simply seem to have no idea about the administrative complexity involved just in using NEST. Many of them had expected, or would expect, “Just tell me where to pay the money. I don’t mind paying the 3%, or whatever it is.” It does not work like that, so you have to have really complicated admin, with band earnings, entitled workers, and eligible job holders. All of this just makes it so much more difficult, particularly for the smaller employers. As Marcus was saying, as far as NEST is concerned, if they do already have a pension scheme, many do want to have just one scheme, and NEST does not take any transfers right now, which worries me. They have already an existing scheme; they cannot use NEST, even if they want to.

Chair: I think NEST are equally frustrated by that.

Judith Hogarth: Just echoing what Ros was just saying, we have long advocated that restrictions on NEST should be removed as quickly as possible, because that is a major barrier to NEST acting as a one-stop shop for those companies that do want to have one scheme, which significantly reduces the range. There is a real risk that smaller employers, in particular, think that this is going to be a little bit like stakeholder pensions. They think that there will be somewhere to go where they can just pick something off the shelf that has been designated as on a list somewhere. Again, if we could somehow get a little bit closer to that sort of model for those who are about to auto-enrol that might help to mitigate, to answer your question about mitigation.

Q11 Chair: Marcus mentioned compliance and, obviously, the compliance with the larger employers has been generally quite good. The fear is, with smaller employers, that there will be inadvertent lapses in compliance. I do not know. Mike, again, what are your feelings around the ability of the small employers to find themselves not complying, when

they have been trying to do everything, but all the complexity that you were talking about just defeats them?

Mike Cherry: Clearly, as I mentioned a moment ago, all employers, I suspect, are really worried about how to comply and being caught out by a technicality or something that they just have not understood properly. We, like others, have been working very closely with TPR. We have found their engagement to be very good so far. However, the point we have been highlighting is that I am not sure that they understand the huge numbers of small and micro-businesses that have to auto-enrol that do not understand the pensions themselves, let alone are able to communicate it properly yet to their employees. That poses them with a real problem in trying to make sure that those businesses are able to comply and are helped to comply, rather than fined, through a technical default, which should be no fault of the business.

That does not mean to say that those that genuinely do not wish to comply, or never comply, should not be fined. We have already seen TPR taking action against those types of businesses, which is welcome. However, for the vast majority, and that is the huge number of small and micro-businesses, there is a worry that they will make the wrong choice, and that they do not know how to do it. We have already heard the point to be made about plain English. Quite frankly, that has not happened yet, and neither has effective communication, in our opinion, from DWP, NEST and The Pensions Regulator, in that simple plain English to make people far more aware of what is going to hit them. They understand that auto-enrolment is coming down the track, but they do not understand auto-enrolment.

Q12 Chair: Unfortunately, Glenda Jackson could not be here this morning, so I am going to ask the question she always asks about the small shopkeeper. There have been concerns, which we have heard in previous inquiries, that there might be a minority of employers who think the whole thing is just too difficult, and therefore they “encourage” their employees to opt out. How can we guard against that? Is there anything in place that would stop them doing it? That is effectively non-compliance, but by the back door.

Mike Cherry: I resent that sort of prevailing attitude, which seems to almost tarnish every employer as being a bad employer unless they prove that they are not.

Chair: I did say minority.

Mike Cherry: I am just reiterating that point, because it has not cropped up just here; it is cropping up elsewhere in some of the legislation that small businesses are being faced with. That is very unhelpful indeed. We advocate that those who will not—not cannot, but will not—comply be taken to task. What we do resent is those genuine businesses who really do struggle to comply, because they do not understand it, and they need much more help to understand it and to ensure that compliance works. Simplification and learning lessons of how the medium-sized businesses in particular have found it, and to make any very simple changes that make it easier for small and micro-businesses, would be one of our points to advocate.

Q13 Chair: My point is about the very small number who, as I said, “encourage”, and would be pushing their employees to opt out. Is there a mechanism to pick up that employer? It is a type of non-compliance.

Mike Cherry: I think there is.

Chair: Alarm bells ought to start ringing somewhere when all of the employees of a small business opt out en masse that maybe there is a problem with that particular employer.

Mike Cherry: I think making employees aware that they can report instances of that is to be very welcome.

Marcus Mason: In terms of the communication going to small and micro-employers, there needs to be much more clarity on crucial concepts around inducement and prohibitive recruitment, and also where employers might inadvertently slip into giving almost financial advice, which, of course, is a no-go area. The communication has to pick up on those concepts, and really hammer those home to small employers. I would also agree with Mike just on the penalty side of things. What we will find is that the nature of non-compliance, as we stage these smaller employers, will be very different from non-compliance that we have seen over the last year or two. It will be largely inadvertent, and it will be perhaps as a result of not following every single last letter of the paperwork, etc. For that reason, the penalty of currently £400 might be quite high.

Q14 Chair: Do you think the regulator is sensitive enough to be able to distinguish between the inadvertent non-compliance and the actual obvious non-compliance, where a person has wilfully non-complied?

Marcus Mason: It is difficult to say. Ultimately, the regulator is going to have to dedicate a huge amount of resource, not only because of the number of businesses coming through but then also in digging into that detail of the nature of the non-compliance. I think, similar to Mike, if there is ongoing non-compliance and it appears to be wilful non-compliance, of course the penalty should escalate, and it should escalate very rapidly. For a lot of smaller businesses, however, there is probably a danger of them being caught out with that initial penalty notice.

Judith Hogarth: I just wanted to raise a couple of points coming out of that. The bias and assumptions that Mike has referred to are part of the root of the problem of the complexity of the legislation. There is a broader theme here about legislation being overly focused on the non-compliance, because that then creates complexity. There is a point there.

The other point is that it is not just a question of what the non-compliance level of opt-outs is a proxy for. It is a broader issue. It is not just a small and micro-employer issue. We have got medium-sized employers who are worried that maybe the company that does a similar thing down the road is perhaps putting a little bit more pressure on opt-outs, because that obviously undermines people’s competitive positions. It is not just a small and micro issue. We would be interested in exploring whether the regulator has sufficient data to pick out outliers in patterns of opt-outs and things like that. That would be of interest.

Chair: That is another question for the regulators. We will move on to exclusions. It has already been touched on.

Q15 Graham Evans: Currently, the earnings threshold for auto-enrolment is aligned at a personal allowance of £10,000. What would be the advantages and disadvantages to the employer if the earnings trigger were not aligned to the income tax threshold?

Jim Bligh: The biggest disadvantage is that it would not align with payroll systems and with the process they have already got to trigger tax payments and the rest of it. That is a very significant disadvantage when the admin burden is already very big. I suppose the advantage for the UK is that more people will save, and, of course, one of the objectives of auto-enrolment was to get people who were not in saving into saving, particularly at that bottom end of the earnings spectrum.

That said, there is a trade-off to be made in the next few years, certainly, whilst we are still rolling out auto-enrolment in the very early stages until 2018. Do we want it to be simple and enforceable, so employers can comply? Yes, that is where the balance and the focus should lie. Do we want to get people in? Probably, but that is a longer-term question. For us, it is about making sure it is as simple as possible. Changing the threshold is a big change.

Judith Hogarth: I would absolutely echo that, and I think we have got the balance right. There are opportunities for people below that threshold to opt in, if they want to. In getting that balance right, I think we are there.

Dr Altmann: I understand the employer's reluctance to consider changes and, if I was an employer, I would say the same. I must stress, however, that from the individual worker's point of view and from the policy aim point of view, it does seem very disappointing that suddenly you have had a whole range of lower earners taken out of auto-enrolment, when they are probably the very people who most need that push that auto-enrolment relies on—the inertia. Relying on them to opt in is, in a way, undermining the original purpose of the policy.

Q16 Graham Evans: Sure. There is nothing to stop them taking out a pension or doing it themselves. It is the “auto” aspect to it.

Dr Altmann: Well, the “auto” aspect is the very powerful one that we are trying to capture.

Graham Evans: No, I appreciate that. It is a very good point.

Marcus Mason: I would just echo some of the comments we have heard from the employer groups. The main focus of this policy for the short term should be to make it as simple as possible, to get as many employers on board as possible. Having it aligned with a very recognisable tax threshold makes it easy for employers to understand, makes it easy to process through payroll, and therefore, I would suggest, is the best option for the next few years, until you have most employers on board. Then it might be a good time to consider

changing the threshold—once you have employers on board and have them understanding the system.

Mike Cherry: Can I just come back on that as well? What you are missing here sometimes is the fact that micro-employers in particular are no different from their employees. They do not understand it. Therefore, having this alignment, as we have got it set up at the moment, makes the system more simple from the employer's point of view, which makes it easier for them to help compliance for their employees. If we move away from that, we run a severe risk.

Dr Altmann: There is the National Insurance threshold as well.

Q17 Nigel Mills: We have two recognised tax thresholds. We have a National Insurance one at £6,000 a year—don't we?—and an income tax one at a much higher level. Presumably, you have to operate payroll to pay individual and employers' National Insurance at £100-something a week with wages, so I am not totally sure that the admin is harder if you use the NI threshold rather than the income tax point, is it?

Mike Cherry: You bring in another set of complexities, so that is a third element to this that employers just do not understand. If you have got a payroll system that works adequately, and can cope with that, which we have not got at the moment, in some cases, then in theory, it should work. However, that has to be further down the track, rather than as of now.

Q18 Nigel Mills: I thought you and Mr Mason were saying you had to stay at the income tax threshold, because that was the recognised threshold that employers could understand. I was just saying there is a second lower threshold that employers have to apply every time they pay someone. Surely, in theory, that is as usable as the income tax one.

Mike Cherry: It is if you have a payroll system, but for those who are still operating a manual system, it does add that extra layer of complexity.

Q19 Nigel Mills: Yes, but they have the same problem with the income tax one, don't they? I am trying to work out whether your concern was that it would cost employers more to bring more people in, rather than it being administratively more difficult. What you are saying is that, if we use the NI threshold, that would be as equally complex as the income tax one, not more.

Marcus Mason: Obviously, the NI threshold is, as you say, the recognisable one. The issue is changing it a couple of years in. The main priority should be implementing the current system. Another issue with looking at changing the threshold, if it was to be implemented next year, is that the timing of that would be just as you have got those small employers and micro-employers staging in. That just adds a whole layer of confusion and complexity that probably is best worth exploring further down the line, once you have that bulk of employers on board.

Dr Altmann: I suspect there is a broader national policy issue, in terms of the cost of tax relief. If you have lifted the tax threshold and you do not lift the auto-enrolment threshold, then there would be an extra cost to the public purse from auto-enrolment plans.

Q20 Graham Evans: I will take it, and we will leave it as it is for now: there are more disadvantages than advantages for the time being, given how early we are in auto-enrolment. My next question, Mike, is for you, regarding self-employment. I agree with what you were saying about the small businesses and the contribution they make to the economy. There are 4.5 million self-employed people—15% of the workforce. You alluded to it earlier. What more can be done to ensure that these self-employed people are helped to make appropriate provisions for their retirement?

Mike Cherry: We have advocated that there is a strong case for looking more closely at how the self-employed could save more through auto-enrolment or through pensions. I think, though, that this does come back, to some extent, to a fundamental point we made at the very beginning of all of this. You have to restore confidence in the very word “pensions”. People have to see that they are going to gain from it, and at the moment the industry is not as transparent on its charges structure and what it offers. There is obfuscation still there in how it puts across what you have already got, perhaps. That has an element of putting the self-employed off from using a pensions scheme to save for their retirement. They will use other assets or other vehicles. They invariably will look at using their business. Unfortunately, often, the business does not realise what their expectations may have been compared with the reality. There is a lot more work that could be done around that, but there are other factors that obviously could be putting them off from saving in a pensions scheme or using auto-enrolment.

Q21 Graham Evans: It is interesting you say that, because some self-employed businesspeople that I know refer to their business as “my pension”, whether it is building or whatever—“This is my pension.” We have seen this with looking at the pensions industry, in the lack of transparency. They like to go for the cream at the top but do not seem to be interested in the bulk below. What could the pensions industry do, specifically for this group of 4.5 million people, to look at how they could market and pitch specifically for the self-employed? Have you got any ideas?

Mike Cherry: In exactly the same way that they struggled with stakeholders, they have struggled with offering auto-enrolment for the lower-paid. Let’s not forget that many of the self-employed are also lowly paid in comparison with national averages. The industry could be making it worthwhile, and making it in plain English, so that the self-employed can understand what they need when they are due to retire. If they are saving x , then they should genuinely see what it will relate to when they reach retirement age. It comes back to that plain English, it comes back to restoring confidence in pensions, and it is making providers provide what the customer wants, not what they want to offer.

Q22 Graham Evans: Do you think there is an opportunity here for NEST, for example?

Mike Cherry: Absolutely. It really does not matter who is there, but the provision is not. That is the thing that we need to overcome.

Q23 Graham Evans: In terms of the complexity, or simplicity, or making it simple, NEST has done a lot along those lines—hasn't it?—for many people. Do you think there is a window of opportunity here for the likes of NEST or any other provider to do something similar?

Mike Cherry: There is certainly an opportunity. I come back to that point: I do believe that the industry has not provided for the customer; it has provided for the industry.

Q24 Paul Maynard: Opt-outs are often taken as rather crude indicators of the success, or otherwise, of auto-enrolment. I wonder what people think about the actual opt-out indicator. Do those who have been through the process already have any evidence of whether workers are pulling out the scheme after two months or longer? That would affect whether the opt-out indicator is worthwhile or not. Anyone?

Jim Bligh: Our view is that opt-outs are a reasonably good proxy for engagement and assessing whether people have bought into their scheme and want to stay in it. I personally have not seen any data for a lot of people staying in schemes for longer than six months. I agree; it would be more meaningful if perhaps you could see the longevity of how long people are in a scheme for. I wonder whether that data could be collected at the point of re-enrolment for businesses, so starting in October next year.

It is helpful, though, to be able to compare between large businesses, medium and small as well, and see what the level is. It also might be helpful to compare across different earnings groups as well. If you are a group of low earners, does that have an impact on your opt-out rate? At the moment, it does not suggest there is, but it is worth looking at the data again at re-enrolment point.

Judith Hogarth: Yes. I think, like Jim, we have not really analysed and looked at the data in any detail. Anecdotally, we have seen that those employers who contractually auto-enrolled people, and many did in our sector—the engineering and manufacturing sector—are seeing similar patterns for contractual opt-outs after that with the auto-enrolment opt-outs. Again, it suggests that there is an element of consistency there. What we are also picking up is employers being able to predict the kinds of people who will opt out, and that there is an alignment between that and what is happening on the ground. Probably, on balance, it is a good indicator, yes.

Dr Altmann: I think, overall, the opt-out levels have been much lower than were expected, but let's face it: we have only got 1% contribution right now, so it may be less of an indication of the long term. However, I would be concerned that it seems to be older workers who are opting out.

Paul Maynard: I was going to ask you about that very shortly, but carry on.

Q25 Graham Evans: I think we should say “more experienced” workers.

Dr Altmann: Well, those closest to the point at which they might need to get the money out.

Paul Maynard: She is herself an older person, so she is allowed to use the phrase.

Dr Altmann: Under the previous regime, as it were, until the Budget, that did make quite a bit of sense. If people were on low pay, for example, and heading for pension credit, then they probably should have opted out. Now, however, with the freedoms that we are expecting to have, in fact it is these older workers who particularly should stay in, because otherwise they are turning down the free money that is on offer. Auto-enrolment had the powerful incentive to save. It is a pound for a pound: “buy one, get one free”. There is not really another savings vehicle that offers you that. Your auto-enrolment contribution is matched by the employer in tax relief, completely.

There are reasons to expect opt-out levels to remain low, and perhaps much lower than you would have thought with the smaller schemes. Again, larger employers have been promoting their pensions schemes in ways that, even if small employers—and I do not expect them to—do not encourage people to opt-out, they are not going to actively be promoting their pensions scheme necessarily, which is a different environment. The new pension freedom and flexibility regime will improve the attraction of pensions, both for the self-employed and for those who are auto-enrolled.

Q26 Paul Maynard: The DWP in their evidence, as the further roll-out continues to SMEs, have halved their estimate for the opt-out rate, down to 15%. Do you think that is a credible assumption? They are now factoring in an extra 1 million people in the scheme by halving that estimate of the number of opt-outs. Does that seem credible to you, given what you have just said?

Dr Altmann: It is a defensible assumption. It is very difficult to know how much an impact the encouragement for people to contribute to the larger schemes so far has had on employee attitudes. I think, on the one hand, I would have expected a much higher opt-out rate among the smallest firms, but with a different pension environment and all the positive news that is coming out around pensions, it will be very interesting to see whether that has an impact.

Especially, I think, in the early days, it is more likely that opt-outs will be lower as contribution rates rise, or if there is a lack of engagement from the industry to offer much better value schemes and to restore the confidence that has been lost in the long-term pensions savings industry, there might be dangers down the line. We are in a period, over the next three or four years, where we have really got an opportunity to get confidence in pensions up and to bring more people into pensions than we have had before.

Q27 Paul Maynard: If there is this slight uptick in the opt-out rates and it is higher than the DWP expects, surely there would need to be some sorts of contingency arrangements. Where should responsibility for addressing that higher opt-out rate sit?

Would that be the regulator, the Government, or employer organisations? Who should pull the lever, as it were?

Dr Altmann: I would imagine it is more of a Government responsibility, to be honest. Employers would be straying into financial advice if they were to try to say, “You should not opt out.”

Q28 Paul Maynard: One final question for Dr Altmann on the older workers scene, but I promise I will try not to ask about road signs. One of the themes that emerge in DWP evidence is that it is older workers who are opting out in slightly higher than average numbers. The perception is that this is because they do not think they will get a good enough return on the money they put in to make it worthwhile. The DWP has said, no, that is not the case, because 95% of individuals in the scheme will get “adequate” pensions.

Two points: does this definition of adequacy, which I understand relates to the 2006 Pensions Commission, still hold true, given all the changes we have been discussing about both income tax thresholds and changes to the pensions system? Secondly, does this have consequences for the 8% cap in contributions? Do you think we need to raise that for older workers to encourage them to contribute more? Or would that introduce a greater layer of complexity that would then upset all the others, who want it to be kept as simple as possible? There are too many questions in one there—apologies.

Dr Altmann: Don’t worry. I think that, if the older workers do feel that they are not going to get an adequate return on their money, they do not understand how auto-enrolment works. Every pound they put in immediately becomes two pounds. Of course, with these new freedoms, if they wish to, they can just withdraw the money at marginal tax rates. From that perspective, there may be a problem with communication and understanding. We know financial education is pretty low, so I would say there is a concern.

However, I would also agree with your suggestion that the 2006 adequacy calculations need to be redone. The annuity rates that were assumed in 2006 are simply not recognisable today. It is quite clear that, never mind older workers, in general, 8% of salary is probably too low for an adequate pension, if you like, and over time those people will probably assume that there will be some increase. I would like to see an auto-escalation scheme, rather than putting the burden on employers. If individuals get a pay rise and they want to devote more of that to higher contributions, that will increase the contribution rates over time.

Chair: We have only got about 10 minutes and we have got a lot of questions.

Q29 Mr Thornton: We have answered quite a lot of my questions. I want to do a sort of double question, and anyone can answer this. We talked about NEST earlier, and we are looking at the restrictions being removed in 2017. Mike, do you think that is going to help?

Mike Cherry: We have long advocated that the restrictions on NEST, now that it is in a competitive market, should be removed far sooner than that. That is what the Government has chosen to do, so we welcome it, but I do not feel it is soon enough.

Mr Thornton: I think probably you would all agree with that, would you?

Judith Hogarth: Yes.

Q30 Mr Thornton: Secondly, when I was in the industry, I always tried to say to people, “How much of your current income do you want in retirement?” That would be what you would aim for. We have been talking about lower earners. If you are earning, say, less than £10,000 a year, the state is going to provide you with 75% of that on retirement. If someone came to you, Ros, and said, “I want to put money aside so I get 75% of my earnings at retirement,” you would say, “Well, great. Go for it.” Well, the state pension is going to kick in at about that—isn’t it?—for someone on £10,000. Isn’t it perfectly reasonable that lower earners do not opt in to this, if they are already going to get 75% of their salary as a state pension?

Dr Altmann: That would assume that lower earners are always going to stay lower earners and have no aspiration for any higher income or standard of living. I would certainly suggest that we need, perhaps, to be rather more ambitious than that.

Q31 Mr Thornton: It is going to depend where they are. If they are two or three years from retirement, it would be one thing. But if they were 25, it would be something else altogether, then.

Dr Altmann: Yes.

Q32 Mr Thornton: We do need therefore to push for lower earners to be able to get into it.

Dr Altmann: Indeed, if we are thinking about an ageing population, and we are heading towards a period where we want people to be able to have spending power in later life, they do need to supplement the state pension. The state pension is only meant to be a minimum. It is those very people with the lowest earnings who need more encouragement.

Q33 Mr Thornton: There is a big difference between someone earning low earnings because they have decided to work part-time and it is a bit extra, and people who are there because that is all they can get at the moment but they want more later.

Mike Cherry: May I just come back on your initial question? It was phrased the wrong way around. If you ask people, “How much of your income do you feel you need?” they will not be able to answer that. If you phrase it, “This is what you need, and that is the way to achieve it,” that will help people to realise what they need to be saving.

Q34 Mr Thornton: Absolutely. I was being quick on that. That is not really the employer’s job—is it?—to do that.

Mike Cherry: It is a society job, because it comes back to restoring this very word of “pensions”, and restoring confidence in it. If we want people to save, they have got to be able to see quickly and clearly the benefits of doing that.

Mr Thornton: Absolutely. I quite agree.

Judith Hogarth: I just wanted to come back to this question about the opt-out levels, and it relates to your question. There is a reason why the opt-out levels have perhaps been predicted as being the levels they are with the larger employers. The employers have seen this as an opportunity. They have spent a lot of money on pensions, and this whole process has opened eyes as to how little employees understand it and value it. There have been some really significant engagement programmes about exactly these questions—about the link.

Regarding that being available to lower earners as well, particularly in the smaller employer sector, there is a definite link between employer communications and encouragement, and employers wanting to be in that space, many of them. A lot of them are very nervous about going there because of the problems that Ros has highlighted with advice. We need to somehow tackle that and enable employers, without frightening them to death about saying things.

Dr Altmann: One really powerful thing would be to build on the guidance guarantee. Just giving people financial guidance at retirement is not enough. We should embed in auto-enrolment a programme of financial education. I would suggest that it would be worth considering making it a requirement of auto-enrolment pension schemes that they include some kind of financial education. In a way, it is even more important, perhaps, than capping fees, because people who are in there need to know how to manage their money, and that is an opportunity. As soon as you are in it, you have an opportunity to learn something about managing your money.

Chair: That leads us on to the next question about cost and charges.

Q35 Sheila Gilmore: Sorry, I was just asked not to ask all of the questions, so I am just trying to think which ones, because we are running out of time. Obviously, one of the difficulties for employers is understanding the relative costs—the charges, the transaction fees—in making choices. Whose job is it to support employers in this?

Jim Bligh: There is an element of responsibility for the providers themselves, but then also professional advisers to employers. Employers will have the responsibility—obviously it is on their heads—to pick for themselves as well. It is helpful that some of the aggregator websites have been set up, which compare and contrast the costs of different schemes. That should enable people to make better informed decisions. There is not currently a community of people who are providing for small and medium-sized businesses in particular the full range of information that they need to choose not only what is appropriate for their workforce but also what is an appropriate and adequate cost for them to bear.

Judith Hogarth: I would certainly underline that. The thing that struck us the most, with looking at the implementation of auto-enrolment and reviewing the entire space here, is

how many employers are, in fact, reliant on IFAs in particular to give them advice. We have seen so many examples of really dubious situations. I will give you an example.

We have a very large employer who realised very late, belatedly, in its auto-enrolment programme that a company it had acquired had nearly 1,000 employees in a particular scheme and had charges of 1.5%. For years, their IFA had been advising them that there were very good reasons not to review the situation. That scheme was not on the employer's main pension adviser's radar until very late.

There is a biased assumption that maybe large employers, or medium-sized employers, will always have in-house, good, strong advice. The picture is so much more complex than that. There is a real need for building up the capacity, certainly for IFAs in particular, to really understand the space. We think they do not.

Dr Altmann: I really think there should be an obligation or responsibility on the regulator itself to support employers. Had we had a national default scheme like NEST that was open to everybody, that would have been the ideal vehicle for any employer who was not quite sure what their duties were to be able to go there. The problem we have had is that employers, because they do not understand, especially the smaller ones, all the details, are vulnerable to whoever they happen to go to for advice telling them what they want to sell.

The employer does not pay the costs; their workforce does, which has this other dangerous disconnect, in terms of overall responsibility and information. Many employers are just like ordinary people. They are treated as sophisticated customers. There was not the same kind of regulation that you would have if you were advising an individual. There is a regulatory aspect to this, given its complexity.

Chair: We will move on to our last section.

Q36 Nigel Mills: The changes to take away the obligation to buy an annuity when you hit retirement age have changed the landscape. How do you see those changing how perhaps employers, and employees, handle auto-enrolment in pension schemes?

Mike Cherry: We have come out very publicly saying that we welcome that. Hopefully, that will enable the sector to provide better annuities, and more competitive products, to give people what they should be receiving. As we know, at the moment, the annuity market is right on its bottom end, whereas when the figures were done back in 2006, it was almost at the top end. We need to be reflecting the changes in that in what people can be expected to receive, and should be receiving, when they reach retirement.

Jim Bligh: We have also welcomed the freedoms and flexibilities. I agree with everything Mike just said. We would like to see the building of a savings culture go a little further, though, by thinking about how employers can offer workplace sharesave schemes, and more flexible savings products throughout people's working lives, not just from the age of 55 onwards. If you used the vehicle of auto-enrolment to get people into those schemes in addition to pensions or perhaps—this is certainly off the political table, I suspect—instead of pension saving, then we will get people to engage a lot more with savings in general and save more over their lifetime to be able to access it to save for a rainy day.

Judith Hogarth: There are two points I would like to add to that. Firstly, there is a really urgent need for a policy catch-up on the implications of the Budget reforms on the decumulation end of this. In the discussions we have been having recently over governance and charges, in relation to the accumulation phase, there seems to be a big gap. We think that should be dealt with. Again, for all the points that Ros was making about employers not understanding, they need to very quickly catch up with that. But there is a regulatory issue there as well.

The other thing that we would say is that the reforms are so far-reaching, and we do not know their implications, that there is probably a business case for pausing on the “pot follows the member” proposal, because we do not know how it will drive behaviours. In addition, what we have coming on-stream is another massive administrative arrangement that we call “son of auto-enrolment”. It is going to be as big an administrative headache for many schemes and employers. We think there is a business case for pausing and thinking, “Do we still need it? Let’s look at the evidence base for that.”

Q37 Nigel Mills: Are these changes going to make it harder for employers to set up schemes? Presumably, you do not know what your employees are going to do when they hit retirement age. Should you be de-risking 10 years before retirement age? Should you be doing something completely different? How do you get your employees to engage in that choice?

Judith Hogarth: Yes. We have been, as my colleagues, no doubt, have been, responding to the DWP’s consultation document on governance duties on occupational trustees in particular. They are being asked at this point in time to really start upping their game on reviewing the default, at precisely the point in time when the evidence base is not available to understand exactly what their scheme members are going to be doing. It is very difficult at the moment. There is no evidence of how employees will, in fact, respond.

Marcus Mason: What we have heard from our members on this is that is a double-edged sword. It makes planning assumptions more difficult. At the same time, it brings in a certain amount of flexibility. You have older workers who might enter into, therefore, more flexible working arrangements if they are able to draw down some of their pot. We have heard it is a double-edged sword.

I would like to come back quickly on an earlier question on who is responsible for pushing out some of the information to do with auto-enrolment. I agree with everything that was mentioned by my colleagues, but employer groups as well have a certain responsibility to inform their members. Certainly, we have published report guidance with NEST on auto-enrolment, and many chambers across the country are engaged in events that inform their members, both businesses and also intermediaries, to try to get word out as much as possible on this issue.

Dr Altmann: Taking away the obligations to buy an annuity, increasing the flexibility and choice, has really far more implications and puts more onus on providers. Employers are caught in the middle, because they can only offer their workforce what the industry is producing. It has been inadequate for the needs of a modern society. The lifestyle and default funds that were so common assumed you were going to buy annuity at the pension

age that you might have chosen many years before. What we are seeing here is this enormous importance being placed on the free guidance that people are going to get before they decide to do anything with their fund.

We are in a position where providers need to offer much better and more flexible default options that perhaps assume a more ongoing investment approach rather than suddenly buying an annuity. There is a real need to ensure that providers themselves have a duty of care to their customers, so that they, in some way, have to make at least some cursory suitability checks before they sell them an irreversible life-long financial product that may be entirely unsuitable for them.

Q38 Nigel Mills: We are short of time. Can we just move on to the new schemes being permitted by the Pension Schemes Bill—shared risk and collective pension schemes? Are you sensing any of your members are going to be rushing to set up one of these schemes once the powers are available to them?

Jim Bligh: Our quite strong sense is there is not a huge appetite for the new types of pension schemes—defined ambition, collective DC, or whatever shape they take—not least because most larger employers, at least, have already developed new schemes and new offers for auto-enrolment so far. It has come at the wrong time for them. The biggest issue, though, for all of them, for FDs and chief execs in particular, is that there is not much appetite to take on additional pensions risk. This is particularly the case for those who have run defined benefit schemes and have very large legacy deficits, for instance, and contributions to pay for that. Taking on further unspecified risk, when the Bill mentions valuations and deficit repayment contributions, is not massively appealing. That said, I suspect that one or two very large employers might think about it over time.

Dr Altmann: The flexibility at retirement is also going to undermine the possibility of collective defined contribution, because in order to have collective defined contribution you have got to be able to assume that the pool of money stays until retirement and you are paying the income out of it. Nevertheless, there is a big role for further pooling, rather than the small individual pension pots that we have, collecting money into large pools of funds, with economies of scale. That has merit. But whether you need that as defined ambition or just defined contribution is an open question.

Q39 Nigel Mills: It is consolidating rather than collectivising. Ms Hogarth, you do not fancy an engineering employers' collective pension scheme to make being an engineer even more attractive, do you?

Judith Hogarth: Absolutely, for the reasons that Jim outlined, there is not that appetite for taking on that risk, and even more so in light of the reforms, as Ros has so eloquently outlined, it absolutely challenges the assumptions that sit at the heart of the collective DC model. There will be a lot of long reflection over that. Again, similarly, given our history, we have a number of employers with smaller DC schemes who are interested in what the incentives are and how they can start on the path of pooling and aggregating their schemes. That perhaps is maybe the policy challenge, to achieve that, with all that means in

terms of economies of scale and impact on charges. That is perhaps an area that our members are more interested in at the moment.

Q40 Nigel Mills: The example is always the Dutch tulip growers' collective pension, where whichever tulip grower you work for, you are kind of being paid into the same pension pot.

Judith Hogarth: Yes, at a very superficial level, it looks like, for a sector like ours, where you have got rotation between employers, it would make sense. However, people have been looking across the water at exactly what has been happening in the Netherlands, and it is making people feel a little bit nervous.

Chair: On that note, was it not tulip bulbs that led to the South Sea Bubble? I would like to say we have exhausted our questions—we have not—but time has defeated us, and we do have another panel. Can I thank you for coming along this morning and giving us the benefit of your expertise? We really appreciate it.

Witnesses: **Jane Vass**, Head of Policy, Age UK, **Rachael Badger**, Head of Policy Research for Families, Welfare and Work, Citizens Advice, **Chris Curry**, Director, Pensions Policy Institute, **Michelle Cracknell**, Chief Executive, The Pensions Advisory Service and **Tim Sharp**, Pensions Policy Officer, Trades Union Congress, gave evidence.

Q41 Chair: Thank you very much for coming along this morning. Most of you were sitting in the back, so if there is anything that you want to contradict from what we have heard, then feel free. Also, if you agree with them, then that gets us through things a bit more quickly, because obviously we have got slightly less than an hour, now. Can I start with you, Rachael? Can you introduce yourself for the record, please?

Rachael Badger: Rachael Badger, Citizens Advice.

Jane Vass: I am Jane Vass, Head of Public Policy at Age UK.

Tim Sharp: Tim Sharp, Policy Officer at Trades Union Congress.

Michelle Cracknell: Michelle Cracknell. I am Chief Executive of The Pensions Advisory Service.

Chris Curry: Good morning. I am Chris Curry, Director of the Pensions Policy Institute.

Q42 Chair: You are all very welcome. Can I just start by asking you a similar question to the one I asked the previous panel? The DWP says that auto-enrolment with large

employers has been a success. I am just wondering whether you agree with that, or whether it might have been a success, but what are the looming problems that might still need to be tackled?

Jane Vass: It is a very encouraging start, first of all. We have watched the opt-out rates with interest and pleasure. However, there is a huge amount still to be done. In particular, we are concerned about the older workers, as Dr Altmann raised. We share her concerns. There are also huge numbers of people already excluded from this system. We are thinking about people below the trigger, and we are concerned about suggestions that the trigger should be raised.

For example, even by last year's impact assessment in the DWP review of the auto-enrolment trigger, over half a million people were excluded, compared to what it would have been had it been set at the National Insurance primary threshold. If it goes up to the tax threshold, that will mean a further 120,000 people, many of whom are women. Then there is the whole implication of the changes to the abolition of forced annuitisation. There is a huge agenda still to be worked through, despite the very encouraging start.

Chris Curry: I would agree a lot with what Jane has been saying there from the earlier session. Given that this is a long-term policy process, and that probably the ultimate objective of automatic enrolment is to increase income in retirement, or the resources available for income in retirement, it is still too early to say how successful it has been. However, what we can say is that what has happened so far has been implemented in a very successful way. Opt-out rates are much lower than has been expected. Employers have been probably more engaged than has been expected.

The big challenges are to see what is going to happen with different-size employers, when they come in, and the different type of employees. Another challenge is what is going to happen when the contribution rates for automatic enrolment start to increase, and what is going to happen when people who have been automatically enrolled for a while come to retirement and then look at how that affected their retirement income. It is a long-term process, which is going to need evaluation over a long period of time with a number of different aspects. Certainly, what has been happening so far has been very encouraging.

Q43 Chair: For those who represent consumers, do you think the consumers have been well supported throughout the whole process, whether it is from the employers, the regulator, or whoever else, or DWP themselves?

Michelle Cracknell: We operate a helpline in conjunction with The Pensions Regulator, DWP, and the Money Advice Service. In 2013-2014, in total, across the four organisations, there were less than 3,800 calls by employees, which reflects the fact that automatic enrolment does rely on inertia. We are not getting a huge volume of calls. As we progress through, and with the increase in contributions, what is going to be important—and I agree with Chris that it needs to be continually evaluated—is whether making pensions contributions has become a social norm. If it has, by virtue of automatic enrolment and the inertia effect, then that will be a positive.

Q44 Chair: Tim, what about employees, because you are the one that is representing that side?

Tim Sharp: In terms of how things have rolled out so far, we have had few reports of any issues. However, as stated in the previous session, what happens when small employers come to their staging dates will be key. Our concerns lie in two areas: one is around contribution rates. There is a broad consensus that 8% of band earnings, which is a maximum, really, of 6.8% of salary at the very most, is going to be inadequate for a decent income in retirement. We have to view auto-enrolment as this being what we have had so far as a first stage of the process, and think about how to take it on.

Secondly, the point was made by Jane about those who are excluded; we are particularly concerned about the position of women. A quarter of women earn less than £10,000, so they are effectively not participating in the system. How do we bring them in? It has been good so far; it has been very effective use of inertia. The other point I would raise is that there does seem to be a slight contradiction in the two parts to the Government's pension reforms. First, you have got use of inertia and auto-enrolment. Secondly, you have got freedom and choice, which just seems to assume that, on retirement, you suddenly have a class of active, informed, engaged market participants. We are concerned there is a contrast, and there has to be some thinking done about that.

Q45 Sheila Gilmore: The earnings threshold was set. There was a lot of debate about this, of course, at various times, suggesting that it was perhaps too high. What do you think we should be doing for employees who are excluded? I have been particularly concerned about the group of those who might have multiple jobs, who are excluded because each of their jobs is under the threshold. There is a more general issue as well.

Chris Curry: I think, as you say, there has been a lot of discussion about the trigger point—the earnings threshold for automatic enrolment. One of the things we do know about the automatic enrolment group so far, which The Pensions Regulator very helpfully provide an update on every month, is how many people we have automatically enrolled, and are still participating. At the end of October, that was just under 4.9 million. It also tells you how many people, working for those same employers, have been through the process but were not eligible to be automatically enrolled, and that was just over 4.9 million. So, interestingly, just as many people in the employers have not qualified for automatic enrolment as have been automatically enrolled. That is not because they were in a qualifying scheme somewhere else. That is a different figure within the report. There is not a lot more detail about who these people are, but thinking as to who it could be, it could well be people who are outside the age group for automatic enrolment, or people who are not earning enough for automatic enrolment. When you think about the type of employers we have been through so far—some very large retailers—they may well be the employers that have lots of part-time workers, who do not have earnings high enough to trigger automatic enrolment.

The other group who is excluded as well is the self-employed, and that is another area that is worth considering. It is possible for the self-employed and people on low earnings to opt in, if they want to. I have not seen any figures on opting in, but I would imagine the rates are pretty low. That is one area the Department could maybe look to see if there is any more evidence available as to how many people are choosing to join a scheme, rather than being

automatically enrolled. Given how most of this works on inertia, I would imagine that it is not very much.

There is a case for looking back and seeing what can be done to encourage people who are not automatically enrolled to maybe think about it. Without a doubt, there will be people in that group who would benefit from having an employer's contribution, and who would find it affordable to be part of automatic enrolment. They would therefore, in theory, be better off from participating in a pension scheme.

Michelle Cracknell: I would add two points to that. The first one is that we did a women and pensions survey at the beginning of this year. Of course, women are a large category of people with either multiple jobs or below the £10,000. The indications coming out of that survey were that they were unaware that, even if they cannot be automatically enrolled in the scheme, they could opt to join.

I would link that with my second point. On our helpline, albeit that we have only received a small number of calls, most of those calls are about the process of opting out. The reasons given for opting out are very rarely affordability, which does suggest that people may, in the lower-paid groups, still be prepared to put contributions away into pensions, if they were easily accessible through an automatic enrolment process.

Tim Sharp: We think, in the case of multiple jobs, you have to think first of all about where the trigger lies, and secondly about the band of earnings on which contributions are made. There is a strong case for having a bigger band of earnings. For instance, you could start employer contributions from the first pound of earnings, as a way of dealing with some of these issues.

Rachael Badger: The basic debate here is obviously about adequacy of retirement income versus people's ability to pay the bills now, and at Citizens Advice, about half of the people whom we see about pensions also have a problem with debt, housing benefits, employment, or something else. We have been through a period where household debt has been higher. We hope that we will see sustained earnings growth in coming years, and things will change in terms of affordability. It is, however, important to understand that there is a pressure that many households are facing now as well.

Jane Vass: We would support a reduction in the earnings trigger, but also some promotion to women so that they are aware that the option is there, so that it is not assumed that it is just the woman of the family who gives up her pension contributions. Hopefully, as pension savings become the norm, people will start to expect to be auto-enrolled.

Q46 Sheila Gilmore: Is the problem not partly that, if people's circumstances change, they have missed out on a certain number of years of contributions? The main argument the Government gave was you would be qualifying for so little that it was hardly worth having, and might even contradict your ability to claim other things, so therefore it was a poor bargain. That might be particularly true of, say, a woman who does part-time work for a certain number of years and then returns to full-time work. They have missed out on those intervening years altogether.

Jane Vass: The “hardly worth having” argument is one that definitely needs to be addressed, because it is also the one that older workers sometimes cite in research as well. Hopefully, that is one of the benefits of the changes at the decumulation end. It will make people aware that it is worth having. Also, even if you cannot save enough to have a huge increase in your retirement income, it would still provide you with a return that you can use to pay off debt, which in itself will reduce your outgoings in retirement, and also hopefully provide a cushion against the unexpected.

Chris Curry: I would add to that that, as to how much it is likely to be worth, it depends how old you are when you are in the situation that you are not being automatically enrolled, and also how it fits in with the rest of your career and your career progression. People are not static in the labour market; they do not stay in the same job, or in the same band of earnings, or doing part-time or full-time work, or self-employment, right the way through their working life. It may well be that people, for whom it seems it might not be worth very much, by the time you add in, as we have talked about, an employer’s contribution, tax relief and 30 years of compound interest, it can be worth something, which they have been giving up by not being automatically enrolled.

On the other hand, I can see that there is also a question as to how to make the system work. If you have lots of people making very small contributions, it can be very difficult for providers to manage those very small contributions. It might fit in with the way in which small pots might follow individuals around, in a time when the industry is being pressed very hard, and potentially quite rightly, to keep costs as low as possible. You might be adding more cost and more unprofitability into the system by having an increased number of very small pots.

I know that this has been a problem, for example, in Australia, where they have had the compulsory system, where they have a large number of very small stranded pots that people have lost track of. You have got to make sure that, whatever you do, it is going to work in practice.

Q47 Sheila Gilmore: Is that not an argument for a default scheme like NEST?

Chris Curry: Even NEST would struggle with a large number of very small pension pots, although that is what they are set up to do. It is part of their business plan. You would have to ask NEST as to their opinions as to whether they would be happy to have more individuals, with lower pay and smaller contributions, as part of their target and part of their caseload as well. There are other providers out there who are doing a similar job to NEST. It is not necessarily “NEST or the market”. There is a crossover that is happening now, where a lot of very large schemes are starting to look and feel a lot like NEST, at least in the way they deal with individuals. Something like that would help. Simple, low-cost providers that provide good quality and do a good service for their employees is definitely a benefit that automatic enrolment would help to introduce. I still think that they would struggle with a lot of very small pots.

Q48 Anne Marie Morris: One of the continuing themes coming out of this is that we have got new ideas and new schemes, but, fundamentally, this is about culture change, really, to make this work. It is a bit like, “You can take a horse to water, but you cannot make it drink.” While you have all identified that as a problem, I am not sure yet we have got to any answer. I wondered if we could explore just some initial thoughts on how we might begin to change that culture.

In the last session, where we had employer bodies, it was all about information. Should that be the responsibility of the regulator? Should that be the responsibility of the FSB, the CBI, etc? In a sense, looking at the different bodies that you represent, what it is that that could be done within your own organisations?

Let’s take Citizens Advice. Clearly, I appreciate that people do not have an awful lot, and they are worried about how they are going to pay the gas bill, and the rent, and all the rest of it. In a sense, at the moment, however, we do not even have a conversation. I expect that there is an assumption that, “Well, I can’t even think about the pension. That is just off the scale.” However, a conversation which begins to help people think not just about today but about tomorrow, and when they are 65, even if they cannot afford it now—do you see what I mean?

Are there things within your organisations, and likewise with older individuals? The self-employed are a particular challenge. I do not think any of you are particularly responsible for the self-employed; they are responsible for themselves. How do we get the message through to them? What are your thoughts, really, on how we can move that culture change? Parliament is not just the detail. It is all about thinking about a much longer timeframe of their lives.

Michelle Cracknell: We are responsible for giving help, information and guidance to members of the public, so the self-employed are part of the target market who should be calling us up. We dealt with 80,000 customers last year; we will probably deal with about 100,000 this year. It is still only a very small fragment of the population. What would we like to see happen to try to get that cultural change that you have so rightly described as needed in making people find pensions more accessible? There are three particular areas that we would draw on.

The first one is that we find on our helpline that customers get very frustrated with pensions, because of what they deem to be inconsistency. We have pensions legislation, and we have a set of scheme pension rules. The two are not necessarily the same. Something that we identify on our helpline is customers getting frustrated, in the aftermath of the Budget, hearing what they could do, and then, when they ask their scheme, their scheme says, “No, we do not allow that, because we have got a different set of rules.” That is one area that could help the position.

The second area is the customer journey. The customer journey around pensions, and from our position, where we are trying to signpost people to the next place they need to go, is very difficult. Where do they go to get information and guidance? It is not uncommon on our helpline to have to say to people, “You phoned four people before you got to us, and you are going to have to phone another four people to get the answer.” Again, the customer journey in pensions is a complex area, which, I suppose, leads me on to what we hope might

be a solution to that second point, which is the more norming of people accessing the guidance.

As I said, we are very proud of our customer numbers, but they are very small, and are certainly very small when you reflect on the number of people and the number of constituents that you have that ask you questions about pensions. If there is any way, possibly through the April 2015 initiative, for launching guaranteed guidance, that guidance can become more normed in the population and more people will access organisations like us, where we can navigate them through the questions they have and also the customer journey.

Q49 Anne Marie Morris: It is not just really the employer bodies or the employee bodies; it is the local councils and any body that individuals come into contact with in their working life. Is that really what you are saying?

Michelle Cracknell: That is right, and promoting the different sources of guidance that are already available but are not accessed as much as they should be. In April 2015 there is an opportunity, and I hope that the FCA regulations for the guaranteed guidance will make very strong onus on the employer and the providers to promote the retirement guidance. It is a small part of it, but I hope it will be a stepping-stone for generally more people taking guidance.

Q50 Anne Marie Morris: CAB, I would be very interested in your view.

Rachael Badger: I would agree with what has been said. The guidance guarantee shows that the Government understand the value and the importance of support and guidance in helping people to understand these reforms. About half of our clients say they come to us for help with navigating systems. That is quite an interesting way to think about the sort of help that people need in these circumstances. The pensions system is complicated, as is the social security system, as the Committee knows, and other areas as well that we help people in.

There is also something in terms of the big change that you are talking about around financial capability, and financial education. Lots of our bureaux do financial education work: schools, Jobcentres, and lots of different settings. That focus on improving financial capability from school age—at the beginning of people's working lives, at the middle and at the end, including pensions issues from an early stage—is the change that we need to see to raise the public's understanding. We have asked the Treasury to think about more investment through the lifecycle as part of the Autumn Statement, particularly in the context of more policies that give people more choice about their pension options, and in the context of the fines recently levied by the FCA. That is the big change we want to see.

Jane Vass: I agree with what previous speakers have said, but we also see a lot of people, at the end of their working lives, and they often have quite complex situations. They may not be coming to us about pensions necessarily, but they may be coming about care for an older relative. A holistic advice offer is absolutely essential, and so too is an advice offer that is not just at retirement. We think we have a golden opportunity now to join up the

advice journey. I do not know if you are aware that BIS has recently been piloting a mid-life career review. We would like to see something like that rolled out nationally, so that older workers are encouraged to look at their pensions situations before it is too late: at-retirement guidance, and through-pensions guidance, but also later on in life, when it comes to spending any last savings you have—how to do that; whether to buy an annuity.

However, there are also barriers. One of those is lack of trust in the system, because of the continued existence of poor-value legacy products. This must be a priority; otherwise it will get in the way of the exciting things that are happening. Other options would be a single combined pensions forecast. This has been tried and mooted in the past. Possibly, this may become easier in future. Building in sensible defaults and straightforward decisions is also important.

The power of inertia, it has been shown, can be powerful, and it will be important to, at the point of retirement, build in some simple options to make sure that the options are there. Defaults are already in the system by what a provider does or does not offer, to ensure that the easier options meet good standards. They should not be expensive. We do not want to go through this whole cycle of innovation, then mis-selling, then clearing it all up. That is not somewhere where we, or, I am sure, the industry, want to be. So looking at defaults, in retirement, will be hugely important to improve culture.

Q51 Anne Marie Morris: Tim, what about your trade unions?

Tim Sharp: Cultural change and education are important. They are very much long-term issues, and they are perhaps somewhat limited in their impact. We know from behavioural economics that people struggle to think about long-term issues; we know they struggle when faced with a range of choices. The beauty of auto-enrolment is it makes it easy for employees, and employers hopefully, to make the right choices and do the right thing. The priority should be building on that sort of system.

Q52 Anne Marie Morris: In the same way that people said in the last panel that the Federation of Small Businesses, etc, should have a role in helping the employer, with regard to the employee, do you think there is a role for the trade unions to assist their members to really understand these options? In a sense, for many of your members, you are going to be the first port of call for any help. Should you be educating your members on what this is all about, rather than just relying on the auto-enrolment?

Tim Sharp: Auto-enrolment is an important vehicle. There is nothing wrong with relying on auto-enrolment. We have to think about how auto-enrolment works well in harnessing inertia through accumulation; where do we go with the decumulation? However good the guidance we get through the guidance guarantee is, the idea that millions of people are going to be equipped and ready to deal with a baffling array of options is perhaps unrealistic. We want to make sure there are solid default options in place that work for most people, and the worry with the way that the freedom and choice reforms are going is that the timescale is so short that those options might not be available.

Chris Curry: Just very quickly, because the panel has already covered an awful lot of good stuff, I think information, education and guidance are definitely necessary, in terms of improving retirement outcomes, but probably not sufficient by themselves. That is where working alongside things like automatic enrolment is really important. If people are engaged from the time they leave school right the way through their working life, they are much more likely to be engaged at retirement, so that will hopefully lead to better outcomes at that stage.

However, we have got to be realistic. There will always be potentially a very large group of people who are not going to be engaged in any way, shape or form during their working life. The system has to work for them, and that is where automatic enrolment really comes in. The big challenge for automatic enrolment is to carry on as it started, to roll out in as good a way for the medium and small employers as it has done for the large employers. The challenge is to maintain people saving up to the expected minimum of 8%, and then to think about what more can be done in terms of getting people either to engage and voluntarily do more than the 8% minimum, or rethink whether the 8% minimum is enough as a minimum, and whether something else needs to happen there.

Q53 Paul Maynard: We have talked a lot already about opt-outs, and the 8% just mentioned, so just a few quick, probing questions: Michelle, you mentioned earlier you had had a lot of phone calls from the people opting out, and that affordability was not the reason why they were opting out. I was dying to ask: what were the reasons they were opting out?

Michelle Cracknell: We have not had a lot of phone calls; I would just start by saying that. The number of phone calls that we have taken has been very small, because of the whole inertia element around automatic enrolment. Of those that we have taken, the majority have been about “How can I opt out?” or about the opt-out process. The reasons for that are really wide-ranging. They have been everything from, “I don’t need it because I have already got a very significant pension scheme,” through to, “I don’t think I should be in it, because if I am in it, will it contravene the fact that I am already drawing a pension?” Again, this is a misunderstanding. There are also some correct assumptions that, “I have got a very high pension and therefore I don’t want to add to it because otherwise I will be going over the lifetime allowance.”

There are a variety of reasons of why people are saying they would like to opt out, but, like I said, very rarely do they quote affordability as being the issue as to why they have decided to opt out. They do find the opt-out process frustrating, and, for us, we get a number of complaints, because they do not meet the timeframes, and therefore are not eligible for the refund of contributions. Therefore, they are complaining to say, “The employer did not let me know, and I did not do it within the timescales.”

Q54 Paul Maynard: That makes sense. There are two marginal groups, if you like, who are of interest. One is lower-income workers; the other is older workers. In terms of the lower-income workers who fall just below the threshold, maybe I could ask anyone on the panel, perhaps Rachael, whether more could be done to get them to opt in to auto-enrolment, because certainly they risk missing out at the moment. Who would play the role of encouraging them to opt in?

Rachael Badger: The policy design is broadly right, in terms of who is being defaulted into the scheme. There are questions about the income figures, particularly in light of changes recently to the personal allowance and to state pensions. We would not feel that there is a real gap there in terms of information. The principle is that people have the choice, and if they are opting out, then that is an active choice, and I think that is right.

Q55 Paul Maynard: Jane, with regard to older workers, I think you heard what Dr Altmann said earlier. If you disagree with anything she said, please say, but she seemed to indicate that the perception on the part of older workers that it was poor value needed to be challenged and there was an issue of communication. Do you agree? Who do you think should be doing that communicating? Should that be the employers, the Government, or yourselves, for example?

Jane Vass: Looking at the research that DWP did, there was a whole range of reasons, and there were perceptions. Perhaps one also needs to look at the position of older workers in the workforce, full stop, and just check that employers are aware of the benefits for them. There is research, for example, that the PPI has done, that suggests that in most cases they will benefit. It is another reason, for example, why the mid-life career review is needed.

Paul Maynard: We call them elections in our profession, but yes.

Jane Vass: Exactly. So that is a good point. People need not just to look at pensions, because that may be too early, but just to look at their whole working pattern, and to start to think about how long they want to carry on working for, and just to introduce the idea of pensions generally.

Michelle Cracknell: If I could just add to something that Jane said in her first answer, which was about levels of trust. One of the reasons why an older worker may opt out is a perception that it will not create value for money if they are only contributing to a scheme for a couple of years. This has already been said by the previous panel and this panel. That is not necessarily the case now. However, those perceptions we hear all the time on our helpline: “It isn’t worth it because I’m only in it for a couple of years,” or “Charges on pensions are high, aren’t they?” or “I have had a bad experience, so I’m not going to do it again.”—hence coming back to trying to encourage people to have the conversation, because things have changed and there are more safeguards in place. However, it will take a long time for that cultural shift to happen in people’s minds, and that is why there needs to be some very active encouragement to try to get people to open their minds and have a conversation about their pension scheme, so that we can start saying, “Well, this is the current state of play.”

Tim Sharp: On the issue of value and trust, the Government is doing a lot of the right things in trying to build on that: the charge cap, for example, is going to come in in April. We would like to see it eventually come a bit lower, but it is going in the right direction. There are improvements in governance of pension schemes as well. We think that there is at least a step forward in bringing in independent governance committees. We also think that the role of NEST as almost setting a standard for everybody else should be acknowledged as

well. Good things are happening that hopefully, over time, will build trust in the pensions system.

Q56 Paul Maynard: Chris, just a final question to you about the definition of adequacy, and whether you agreed with Dr Altmann's comments that we need to review that definition. Do you share that view, and how fast could it be done? How fast should it be done?

Chris Curry: Before I get onto that, a couple of points on the other points. The older workers research, which Jane alluded to, which we published earlier this year, showed that the vast majority of older workers would get benefit from being automatically enrolled, because of the reasons we have already discussed. The ones who would have to be careful would be those who already have high levels of outstanding personal debt, where it might be worth them paying off debt, rather than saving at that particular point in time, or those who might have interactions with housing benefit in retirement, where the benefits were less clear.

Following on from the earlier question about culture and what is going to shift the culture, one of the things that would shift the culture is a very successful automatic enrolment process and people seeing themselves having reasonable amounts of money in our terms. In their terms, probably once they have got a pension fund that is worth their annual salary, suddenly it is much easier to engage them with it. They can see what the benefits are. Then, when they become older workers, they are much more likely to carry on. There is a timing issue through all of this, and the culture may shift gradually over time.

On adequacy, I was listening to the earlier session. We use the Pensions Commission work, as does the Department for Work and Pensions, in a lot of the work that we do. I am not as clear that it is undermined by changes in annuity rates, because, certainly in the way that we do it, it takes accounts of changes in annuity rates. It just means that people need to save more in order to get the same income as they would have done when the Pensions Commission did the work. There is an automatic mechanism that takes account of that. At a theoretical, principle level, it is just as reasonable today to look at how much money people might need in retirement, compared to when they live, because all that is trying to measure is what kind of income are people likely to need in order not to see a drop in their living standards when they get into retirement.

I think, on one level, it is still a valid measure. The reason that we are looking to review it—and I would agree, it does need to be reviewed—is because of the Budget changes, and the fact that even though in principle people might have, as a target, that amount of money, what they are going to do with it in retirement might now be very different. They might not be using it all to secure retirement income. They may want to take advantage of the flexibilities to have a lower guaranteed level of income, but more savings they can dip in and out of to match their needs during retirement, which we know do not stay constant. They do change year to year.

We want to try to find a way of defining what an adequate retirement asset and income would be, which is much more closely aligned to what people are going to use it for. Then it has got much more value and much more benefit as a target, if you can tell people, "This is what you might want to use or need in retirement, and this is how it looks, and this is

how you need to get there.” It is much stronger than saying, “We think you are going to need to replace two thirds of your income,” when people are thinking, “Actually, what I want is a big lump sum that I can hang on to and then use in emergency.” It does need looking at, to make it more relevant to how individuals are going to be living in retirement.

Q57 Sheila Gilmore: NEST obviously was set up primarily, not entirely, to be a vehicle for lower earners. Since then, we have had other companies come in as well to that market. Are these providers—NEST and the others—currently offering good enough value schemes for individuals on lower earnings? Is there more they could be doing?

Chris Curry: It is early days, but if you compare what is available in the market now to what was available in the market even five years ago, there is a fundamental change in the types and structures of companies who are providing the bulk of pensions for workers in the United Kingdom. Costs are substantially lower. Master trusts have made a big difference in what has happened there. The average size of schemes is now much larger. If you think about the way the market is likely to develop, you could well see the vast majority of workers in one of five or six very large schemes come the end of the automatic enrolment staging process.

By and large, the very big schemes that are involved here are well-run and well-governed. They have got very clear governance structures. They have historically low charges. We think they have responsible investment policies, which seem to be performing as well as others at the moment. As with the whole of automatic enrolment, these are things that we need to keep an eye on, to see what is happening in there. I think, given where we started from, and where we have got to at the moment, the market is developing in such a way that it is a much better environment for low earners and small savers to be coming into than was probably expected even when automatic enrolment was first envisaged back in 2006 and introduced in 2012.

The one issue, I guess, is that the Pensions Commission envisaged eventually an even lower level of charges within the market, talking about 0.3% of charges. I know that that is NEST’s long-term ambition. What we are seeing, both through the development of the market and through the Government’s pressure on charges and the charge cap, is that that will probably continue over time. The market is still developing and automatic enrolment is obviously still developing, so we would expect to see some further changes coming forward.

There needs to be focus on costs and quality. It is important to bear in mind that there are two sides of the same coin. It is no good having a very low-cost scheme if it does not deliver what it needs to do. On the same basis, there is no point having a very high-quality scheme if that is eroded by the charges. It is getting that balance, which is very important. Things are certainly working in the right direction at the moment.

Michelle Cracknell: I would add to that. Of course, with charges, it is not only important about the future. People do have a perception based upon what they have experienced, and it is important that the past is also looked at. Off the back of the Office of Fair Trading report, an independent public board was set up by the ABI to carry out an audit of legacy schemes, and that is being chaired by Carol Sergeant. That work will be published before the end of the year. It is going to be very important that that audit of schemes, which

starts quantifying the charges on old legacy schemes, and how that may be affecting individuals, is pushed forward by the necessary regulators to make sure that individuals are also looked after in respect of the past as well as the future.

Jane Vass: I agree. We also need to be looking at costs on products being developed as money comes out of the pension, because, however efficient the savings stage may be, if you are paying very high charges on small-ish amounts at retirement, then that could undermine this positive picture. It is going to be really important that the regulator keeps a firm eye on what is happening. For example, are people coming out of a charge cap default fund into an expensive product with exit fees? That is the sort of thing where we think some defaults may need to be developed for small savers, and certainly regulatory action, if things are not going in the right direction.

Q58 Sheila Gilmore: Tim mentioned some of the other changes as well as the charge caps coming in. We have got some charges having been banned altogether that we have criticised before. There have been some changes in governance. Are there any other changes that you would like to see?

Tim Sharp: I think, on things like IGCs, it is good that it is accepted there is a need to do something about governance and contract-based schemes. We have concerns about the independence of the individuals who are selected to sit on those and their powers to effect change. If, in an ideal world, you had trust-based schemes, where trustees were obliged to act in the interest of scheme members, that would be a lot neater and it would be more reliable. Moving towards that would be preferable. Likewise, I think, on the charge cap, transaction costs are the big area. I think there is movement on identifying what those are, but it is important that that is dealt with robustly and that transaction costs are also brought in within the charge caps, so people can be confident they are paying fair charges.

Michelle Cracknell: The other thing that we would like to see is that, where an individual is about to take an irrevocable action—picking up on Jane’s point, they may be coming out of a scheme, they could be choosing to cash in their benefits, or they could be rolling it over into another product that does not have a charges cap with the provider—in those instances, the provider is required to go through a series of questions, so that the individual does have some warning prior to taking what could be an irrevocable action and buying a product where they could be incurring higher charges than they are used to.

Jane Vass: One final point on the same lines, which is action against frauds and scams. Obviously, the Bill does protect against pension guidance masquerading, unless it is the official pensions guidance, but we are concerned about the risk of scams and frauds, and think some sort of inter-agency hit squad will be needed to take quick action if frauds emerge.

Q59 Sheila Gilmore: Could more be done to represent employees on the management of pension schemes?

Tim Sharp: That is certainly something that we are enthusiastic about, and I would like to see more of. There is an issue with the selection of IGCs in particular about limited

encouragement of member representatives. We should recognise the value that a range of perspectives can bring to pension scheme governance. It is not just about being able to have actuarial skills and be able to do complicated sums in your head. There is definitely a range of other skills and attributes that member nominees in particular can bring to bear in these discussions.

Q60 Nigel Mills: I have seen some of you at different evidence sessions on the pension reforms before, so it might be a bit of a repeat. Can you just perhaps set out your views on how you think the new pension flexibilities will impact on some of these issues and some of these changes?

Rachael Badger: We support the reforms. They are giving more choice to people, and we are really pleased to be one of the delivery partners for the guidance guarantee. It is really important that people have free impartial advice as they are approaching retirement, and we are confident that we will be a great organisation to help people start that conversation.

Jane Vass: Age UK welcomes the principle of choice, and indeed, as Dr Altmann set out, it will certainly simplify the decision of whether or not to stay in pension saving. However, choice exists where you have an adequate pot of savings to start with, so it takes us back to ensuring that auto-enrolment really does work. Many people will be in uncharted waters, having to manage large, for them, sums of money, over a long time, and to cope with the longevity risk. It is vital that the guidance is taken up and effective and that we do find that people have sensible defaults and suitable products at the other end.

To continue the theme of auto-enrolment, it is really important that the system as a whole delivers for disengaged pension savers as well as for engaged ones, because we have auto-enrolled them into a scheme, so defaults are needed coming out.

Q61 Nigel Mills: What does a sensible default look like?

Jane Vass: As I said earlier, there are lots of defaults already in the system. Providers may restrict your choices, but things like default rate, default investment strategies, holding funds that meet minimum standards, ensuring that pathways are sensible and, indeed, considering what options there are for small savers are important.

Tim Sharp: We would accept that you can make an argument for reform at the decumulation stage. What is regrettable is that for the best part of a decade, since the Pensions Commission, changes have been based on evidence and based on building consensus. What we have done is basically blown up the old system without ensuring there is a good new system put in place. We know from decades of experience that the pensions system is not a functioning market in the way that other consumer goods might be. It is important that there are robust, good-value default options in place for savers, and it is not at all clear that they are going to be available, certainly in April.

Michelle Cracknell: Based upon the volume of calls we are receiving on our helpline regarding the new reforms, it does suggest that this could be a catalyst to people becoming

more positive about pension savings, which has to be a good thing. However, we do have concerns, from the helpline, of perhaps misunderstandings that people may have about the reforms, or mistakes they could potentially make. There are five areas that we have concerns about.

The first one is that we do not think that people understand the tax position of cashing in their pension fund, and they certainly do not understand marginal tax as a concept. The second thing that we are concerned about is unfortunately that the volume of calls we have received about pensions scam-type activities has increased. Of course, post-April 2015, the activity can be completely legal and yet the individual is still ill-informed that they are moving from a regulated charge-capped product, where they have protections, and cashing in their pension fund and buying an unregulated investment.

The third area that we are concerned about is the number of people who have contacted us who have got defined benefit scheme benefits, and perhaps are now thinking that defined contribution could be their solution. Are they being actively encouraged to think that way, from people selling them defined contribution solutions? The third area that we fear for is that annuities are quite often synonymous with bad value. Annuities can be bad value, but they can also be good value with the right product. We are again concerned that people may not do the necessary investigations to fully understand their retirement options and have an open mind about those particular issues.

Finally, we talked about trust earlier. There is still a big piece to be done, so that people do not think, "Pensions are complicated, so what I will do is I will cash it in and move it into a bank account, because I understand it. When I move it into my bank account, I will then plan." Of course, they will be taking a number of irrevocable actions, and if they do not have a plan, the potential of the money evaporating is really high. All of that entailed, as I say, we are thinking that this could be a catalyst to positive thinking about pension savings, but there are health warnings where we need to be encouraging people to actively seek guidance or advice, so that they do not take up the wrong choices as a result of it.

Q62 Nigel Mills: How long does it take to guide someone through that? I am trying to work out how long a session you will be funded for. Perhaps Miss Badger could answer this. Is it a half-an-hour conversation, or do you need an hour?

Michelle Cracknell: The Treasury are still working out the length of what they expect the phone call to be. At the moment, 15% of the phone calls we take on our helpline are people at retirement. On average, that takes us 25 minutes, to help those individuals think about themselves, think about their issues and needs, talk to them very briefly about the options, and, most importantly, signpost them as to what to do next.

Q63 Nigel Mills: You are hopeful of being funded for half an hour per caller, are you?

Michelle Cracknell: The Treasury are trialling and testing what they think it will be, for not only the actual call time, but also the total call time in preparing for it and wrapping it up afterwards. We hope that they will be adequately funded.

Q64 Nigel Mills: If I came to you and said, “Look, you can do this for 15 minutes all-in. It will cost a fiver,” would you say, “No, we are not being tainted by that. That is madness.” Are there levels below which you will not go?

Michelle Cracknell: The user testing certainly supports our hypothesis about the length of the call. They also recognise that a face-to-face may take longer than the non-face-to-face channel that we are operating in. They are doing some user testing at the moment to make sure that it is right. To your point about if it is too short, obviously we would still have our existing business as usual to pick them up through, but it is important to us that the guidance is fully-funded, as part of the Treasury initiative.

Chris Curry: It is a very interesting question. The answer about the impact, and the implications of the freedom and choice agenda, is that at the moment we just do not know what the implications are. Partly, I think, following on from Tim’s point, the evidence just is not there as to how people are going to respond, and what they are going to do. As you might expect, we are doing a very large research programme around this, the first report of which is coming out next week. We will make sure the Committee sees a copy of the report as soon as it is available.

In the work that we have been doing, however, it is very clear that individuals, even those who are going to be able to take advantage of the reforms in April, do not really know what is available, what they want to do, or what they might do by the time they get there. People start to think about it and plan very close to the time that it happens at the moment, as a result of the system not engaging them right the way through. What evidence is available is relatively mixed. For example, around guidance, one large survey suggested that nearly everybody would either definitely take up or would probably take up the guidance that was offered to them, whereas another study which looked at groups within a single provider who had been offered guidance found that very few people did it. Neither of those are exact replicas of what the system is going to be, but it indicates there is a wide degree of uncertainty as to what people are going to do. Even the Treasury is not expecting even the majority of people to take up the guidance, even when it is offered to them free of charge. What we highlighted so far in the research is that there is a real need for some people to have access to advice on top of guidance.

There is a clear idea that the guidance is enough to get started, but for people really taking decisions, where it is very important as to what happens for the rest of their life, they are going to need advice to do that. There is also, however, a very sizeable group—probably the majority of people—for whom advice just is not either plausible or affordable, or something that they would seek. That is where we need really strong defaults, both in terms of how money is invested and the products that people go into, which is really important.

Q65 Nigel Mills: We keep coming back to this sensible, strong default—those were the two phrases. What should we do—what should the regulator do, what should schemes do, what should Parliament do—for somebody who joined a pension scheme 10 years ago, who said, “My retirement age I want is 65,” and everyone is assuming that you have a pot, and you have annuities at 65, and that is the plan? What do we do with those people who do

not write to us now and say, “Hello, I would like to not de-risk it. I will do a flexible draw-down now.” If you do not get a positive instruction, what should the default be?

Chris Curry: It is a big topic of discussion within, as you would expect, the investment community at the moment. The prevailing thinking at the moment is firstly to acknowledge that there is never going to be a perfect default. By its very nature, there is going to be a wide range of people in there using it for different things. What you want is something that does not overly penalise anybody within that fund for doing something other than what was originally expected. It has got to be something that is robust to people taking out money five years earlier than they expected, or leaving it in five years later.

It is not going to be perfect, whatever time they take it out, but it should not be too far off having one of the best outcomes. It should not, at any stage, give a very bad outcome in terms of the investment side. In terms of products, it is very difficult, because depending on the types of individuals who are within the scheme, different schemes might want to have different defaults. What is going to be very important is how some of the large master trusts react—so people like NEST, the People’s Pension, NOW:Pensions, and Legal & General—and find what they do.

At the moment, the default is just that the money stays within the fund, and it stays invested until someone decides to do something. If they start to have options within those—for example, to allow people to have partial draw-down to take out some of the money they want to do at different points in time—then that might become the default that most people are quite happy with. What happens in that part of the market is going to be very important.

Q66 Nigel Mills: If I ring up the Pensions Advisory Service, or I go into the CAB and say, “I have got this strange letter from my pension fund. It tells me that there are all these new changes, and it says, ‘What investment option do you want at 55? Do you want to de-risk or not?’” what would you tell me? Presumably, you must be thinking through these questions.

Michelle Cracknell: Obviously that would be something that would come through under our business as usual. If you called us up and asked us those sorts of questions, we could not give you a definitive course of action, but we would talk you through the issues that you need to consider as an individual. We would be talking to you about when you plan to retire, what you think the retirement shape will look like. Will you stop work in one go or will you stop work gradually? We will talk you through what each of the options looks like, and things that you should be thinking about as an individual, and really focusing on your personal circumstances, which relatively few people do when they phone up our helpline.

People are more inclined, when they phone our helpline, to say, “I have got a pension product, so I am just going to buy an annuity.” They focus in on that, rather than thinking about their own personal circumstances. Ultimately, we then have to signpost you to go and get potentially further information from your provider, and other areas where you can access information, such as tools available on the Money Advice Service website. Alternatively, as Chris has pointed out, for some individuals, we will think there is a real need for them to get regulated advice, and we will give you ways that you can go and find an adviser.

Rachael Badger: I would agree with that as well. Our expertise has been, for 75 years, in helping people to make sense of their choices and to give them information that they need and to put them in control. We know how to help people who are grappling with technicalities of that sort, and how to put an isolated question in the context of a wider range of issues, perhaps around tax or debt, or whatever. It is very similar to our core business already. For example, we already provide advice on debt under an FCA licence and we are very used to those sorts of hand-offs to an IFA or to a solicitor, for people who need specialist advice rather than general guidance.

Chair: Once the bells start ringing, we start losing members of the Committee. We will soon not be quorate. Unfortunately, time has overtaken us. We did have more questions, but if you feel that there was something you were burning to say and you have not had the time to say it then please write to us. Any evidence is gratefully received. Thank you very much for coming along this morning. We really appreciate your time.