



Work and Pensions Committee

Oral evidence: Recent pension policy developments HC 938-i 23 March 2016

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Members present: Rt Hon Frank Field (Chair), Heidi Allen, Mhairi Black, Ms Karen Buck, John Glen, Richard Graham, Craig Mackinlay, Steve McCabe, Jeremy Quin, Craig Williams

Questions 1 - 54

Examination of Witnesses

Witnesses: **Huw Evans**, Director General, Association of British Insurers, and **Joanne Segars**, Chief Executive, Pensions and Lifetime Savings Association, gave evidence.

Q1 Chair: Might you introduce yourself for the sake of the record?

Huw Evans: Huw Evans, I am the Director General of the Association of British Insurers, which is the leading trade body for the long-term savings industry and the insurance industry.

Chair: Joanne?

Joanne Segars: I am the Chief Executive of the Pensions and Lifetime Savings Association. I think the last time I gave evidence before this Committee, it was still the National Association of Pension Funds. We are the voice of workplace pension and lifetime savings in the UK.

Q2 Craig Mackinlay: Obviously, the Budget was, “Will he, won’t he?” on pension reform, whether we go for a TEE system or a reduction in the tax relief rate. Indeed, a few weeks ago, I wrote a paper on the possibility of a single-rate of relief. We have ended up with a slightly hybridised LISA that has some of the features of a TEE. Do you think the matter is now at rest, or do you think there is change coming, and which form would you swing towards or think may fulfil what we are trying to achieve here? I think both of you would have some professionalism in this one.

Huw Evans: Okay. I think we were disappointed that there was not a meaningful flat-rate reform in the budget. We thought there was an opportunity for it. If I am honest, we were relieved that the very, very flawed and dangerous Pensions ISA proposal did not make it through. We had mixed emotions, if I am honest. We thought that the Pension ISA had deservedly very little support for the risks that it posed both auto-enrolment and to the

overall level of retirement savings. We thought that a flat-rate reform, as you also covered, Mr Mackinlay, offered an opportunity for a more sustainable and fairer system that would benefit most people compared to the current system.

We think that the status quo is preferable to the Pension ISA, but it is still probably inherently unstable. The flaws still exist in the system in terms of the allocation of tax relief, and as we saw in the Budget last week, it does not stop Ministers continuing to change the system and add to it. We do not think that the situation has stopped here. We think the case for reform is still there, but if it was a choice between Pension ISA and the status quo then clearly we felt that avoiding the harm to automatic enrolment that the status quo brings was the least worst option.

In terms of the LISA, which I am sure we will cover in a bit more detail, I think we broadly think the test lies ahead in terms of whether it will genuinely add to the amount of retirement saving that exists, or whether it will simply shift money from one ISA system to another.

Joanne Segars: We took a somewhat different view. We argued all through the reform process and the consultation process that the right option was the third option that the Treasury put forward, which was no change. We believe that that was right, so we were very pleased that the Chancellor chose not to take forward those radical changes, because we felt that the Pensions ISA option could not work, would not work, and would ultimately be damaging for savers, and for the taxpayer, and for the Exchequer over the long run, and for employers. Similarly, we had concerns about the flat-rate system, which would have immediately meant, if we went with the 25% option, that nearly 5 million people would become penalised for saving in a pension. It would have been very, very difficult for employers to implement, particularly those still wanting to find benefit pension schemes, particularly problems for the public sector, for example.

We think the right answer is no change. That is not to say we think the system is perfect. That is not to say we do not think there is a debate to be had about how we incentivise people to save in pensions, and that now is the discussion we think we need to have. We are not convinced that the tax system is the way forward. We have welcomed the introduction of LISAs. No doubt, as Huw has said, we will talk about that in a bit more detail. We think that is a useful supplement to pension saving. We recognise that people will save for their retirement in many different ways, but we certainly would not want to see the introduction of the Pensions ISA.

Q3 Craig Mackinlay: Now that we have the LISA out of the bag that is almost a step on the way towards a pension-style ISA with—I suppose it is only 20% effective relief. Do you think, now that has started, depending on how it is taken up, that may extend into the future, so, by default, we will be seeing a Pensions ISA just coming into being? A second question, if I may, did you do any modelling on what the return, or savings, or expense to the Treasury would have been under the two options that we thought might have happened, either a TEE-style Pensions ISA, or a rate relief at 25% or 30%? Did you do any modelling on that?

Joanne Segars: We certainly did some modelling on the TEE, the Pensions ISA option. Our modelling showed that a 10% upfront incentive would ultimately reduce tax revenues by about 15% over 25 years, so quite significant. In terms of the Lifetime ISA, the LISA, clearly that will depend on how many people take that up. We have not yet done

modelling on what that might look like. There is clearly an upfront benefit to the Chancellor. Our initial assessment is that over the longer term, depending on take up, the Exchequer could lose out, but we are still modelling those numbers.

Huw Evans: To add to that, from the modelling we did on the flat-rate reform, we thought that it would save the Exchequer £1.3 billion a year. On TEE, as you know, our main argument was that we thought it would just bring forward revenue for the Exchequer. It was really a question about whether the Exchequer benefits from the tax. Clearly, it brought lots of revenue in for this period, but at the expense of future Chancellors. In terms of the LISA, we think that the current costing of this is quite opaque, because in the Red Book it does not differentiate between the cost of the overall increase to the ISA allowance and the increase to the cost of the LISA. It just has a cost of £850 million in 2021, but it does not break that down. I think there is probably more work for Parliament to do to understand from the Treasury exactly the break down and the projected cost of the LISA component of the ISA measures in the Budget going forward.

Q4 Craig Mackinlay: When you did your modelling on the £1.3 billion you raise there, that was the return or savings to the Treasury of a flat rate at what, 25%?

Huw Evans: Yes.

Q5 Craig Mackinlay: All right. Okay. Because I would have always thought the loss to the higher-rate taxpayer would have been far greater than that to the benefit of the Treasury.

Huw Evans: The thing with the flat rate was that for most higher-rate taxpayers they are basic-rate taxpayers in retirement anyway, so it was not necessarily as big a hit as people thought. It was a perception problem, and it was undoubtedly one of the reasons why the Treasury was nervous about how a flat rate would go down, was the view that even though most higher-rate taxpayers are basic-rate taxpayers in retirement—it is a bit like inheritance tax—they do not necessarily like to think that that is the way they may be. I think the Treasury had concerns that it would be a difficult one to sell. We did some quite detailed modelling of all the different permutations, and we are very happy to share that with the Committee if it would be helpful.

Joanne Segars: Likewise, we would be very happy to share our modelling on that with the Committee. I think from our perspective it is about looking at the wider implications and the wider knock-on consequences for pension provision and good-quality pension revision, which is clearly what concerns us, and I know what concerns this Committee. Our concern was the behavioural impact for employers and the signals that would send to employers if we went for either the Pensions ISA, or in this case, as we are talking about, the flat-rate system. Our concern was that if employers are effectively disenfranchised from pensions that sends very significant signals to them about what they want to provide in terms of their own staff.

Of course, many employers pay far more than the statutory minimum. Some of our members were saying to us, “A flat-rate system may prompt us to scale back to statutory minimum contributions.” Ultimately, we could see £25 billion in voluntary contributions coming out of the pension systems. I think we need to look at this in the round, not just the tax-take figures. We need to look at this in terms of the long-term sustainability.

One of the concerns that we had, and I know others too, was that we were looking at the short-term tax take and not the long-term consequences. Of course, with all of these, this is a very long-term game, and we need to look at what the long-term consequences are, not just for the next five years, not just for this Parliament, but for the next 50 years.

Q6 Richard Graham: Huw, thank you; I am sure the Committee will welcome seeing your modelling and so on. Just briefly, why did you go for 25% and not 33%, which seemed to me to have potential in terms of a straight one for two to the coffer if the money was going to be recycled? If you did go for 25%, what impact do you think that might have had on higher-rate taxpayers saving in a different way, so that all the potential savings might not have been generated?

Huw Evans: We did argue that it should be as high as possible, and we did say that 33% would be infinitely better than 25%, but we clearly modelled on a range of options, and it was clear from our conversations with Treasury officials that they were modelling on a spectrum between 25% and 33%. It was their view that if Ministers wanted to go to a flat rate, then they viewed the bracket as being that. Just to clarify that point, I agree; clearly, the higher the rate, the more attractive it would be. We did not subscribe to the somewhat apocalyptic view that a flat rate would drive away a huge amount of employers or employee contributions. We thought it was much more sustainable, and because it will not be the grain of the existing system, which is an EET system, and auto-enrolment has been built around that.

We thought it could encourage savings into pensions, because it reframed a tax incentive that currently a lot of people do not understand as a saver's bonus, something that would be more readily comprehensible. Therefore, it might encourage people to go with it. We took the view, anyway, that for higher rate, and obviously particularly for additional-rate taxpayers, their ability to save into a pension is already being constrained by decisions that Ministers have already taken. Therefore, we viewed a flat rate as being a means that would primarily benefit the lower and middle-income pension savers who were not already being constricted by the changes to the allowance system and by the taper that were already ministerial decisions that had been taken.

Q7 Richard Graham: Great. Thank you. To what extent do you think the debate was changed by an arguably surprising intervention from Steve Webb, given that he had advocated a flat rate and it was in his party's manifesto at the last general election, apparently coming down so strongly and negatively against any change to the existing system?

Huw Evans: I think Steve argued primarily that a 25% rate would be too low, and I think he was also concerned that a Pensions ISA in particular would in effect get rid of the tax-free lump sum, which most people value. I saw his intervention as being in a slightly different place from that, but in broad terms, I think he still supported the case for a flat rate. I think he certainly subscribes to the view that the current system, the status quo, is a mirage, because it is not stable and there is very little that is fixed about the status quo or has been for the last 10 years, ever since we were promised that the system would become stable, and that has not been the case.

Q8 Richard Graham: Chairman, if we might, can we hear from Joanne on that as well?

Joanne Segars: Thank you, sir. Your point on why not 33%, I think the short answer is, and PPI modelling demonstrates, that that would cost the Exchequer £1 billion more than they are already paying. If part of what the Chancellor wanted was long-term fiscal sustainability that might argue against that particular objective in the consultation document.

Q9 Richard Graham: Why would it cost £1 billion more?

Joanne Segars: We will have to send you the PPI modelling for that. That was certainly what the PPI seemed to be suggesting. In terms of Steve's intervention—

Chair: He had a different employer.

Joanne Segars: Yes, he does have a different employer. My broader point was going to be there were a large number of voices expressing concern over the Pensions ISA or the flat-rate option. There were lots of voices, including in Parliament, of course, talking about the concerns that they had. Moreover, the big brains at the Treasury simply could not get the policy to work. We had many, many conversations about both options with the Treasury, and making the policy work, and making the policy work for defined benefit pension schemes—and let's not forget there are 16 million people saving in funded, defined benefit pension schemes still—was proving very, very difficult indeed. It was partly the lobbying and broader political context, but it was also the workability of the policy.

Q10 Chair: Given this is a huge welfare dependency question here, which you are basically defending, Joanne, that there should be these big tax subsidies because people will not save unless we bribe them to do so, did you do any modelling at all in just abolishing totally, given that we now have a state pension that guarantees people a minimum, so they are not dependent on means tests? What business is it of the Government to try to influence our decisions? I wonder whether you did any modelling on no tax relief at all, or over time phasing it out to nothing.

Joanne Segars: No. I read with interest your article in yesterday's paper on that point. We did not model that. It was not part of what we were asked to look at by the Treasury, so we did not look at that.

Huw Evans: I would like to make two points. First, I do not think that the widespread opposition to the Pensions ISA and the more mixed views on the flat rate are strictly comparable. Pensions ISA had no friends outside the Centre for Policy Studies. There are plenty of people advocating for a flat rate. There are plenty of people who felt that a flat rate would work effectively in DC, and that the Government may want to take a different view in terms of how they tackled tax relief in the DB system.

I think part of the problem here is that we ended up with too many tests. The reason why this became mission impossible for the Treasury was that it was trying to tick too many boxes. It wanted a reform that it could describe as radical, but then it said that there had to be consensus for it. It said it wanted something that would be fairer and that would save money for the Exchequer, but then it transpired that it only wanted winners and it did not

really want any losers. Best will in the world, these are impossible things to square, and I think that is the reason why ultimately we reached the impasse that we did.

Finally, Mr Field, in terms of your question, I think we did not model that because that was not the exam question, but clearly the origins of tax relief are to compensate people for income they chose to defer. There is a perfectly logical case in this society to encourage that. There is a respectable case for it, but it is one of the many problems in this area, that we call it a tax incentive when really it is about providing an opportunity for people to defer income now that helps them build up a greater retirement pot that they can then access in retirement. It is something we do not explain very well, and if nothing else comes out of this impasse that we are in at the moment, if we could improve the language so that most people could understand what it is then I think we might take a step forward.

Joanne Segars: I suppose it would be rather odd for workplace pensions and pensions alone not to be a tax incentivised savings vehicle. ISAs, and clearly the LISA, LISA, whichever we chose to call it, will be tax incentivised. For many people we talk about tax incentives, but of course for many, many people it is tax deferral. They receive tax relief on the way in, but they pay tax, at least 75% of it, on the way out. We need to look at both sides of the balance sheet when we are having this debate. Again, that is perhaps something that was lost throughout the consultation period.

Chair: Because I was arguing on the model, if I invest in ING, I pay it out of taxed income, and when I draw my dividend from ING when I have retired, I pay tax on it as well. I was arguing, should we not be moving to the simplest of regimes modelled on that, now we have a minimum state pension guaranteed? It was not the job of Governments to bribe us to save, because many of us would do that anyway. Even if we did not, then we just have to bob along at the bottom of the pile, but we would not be dependent on welfare. All these tax incentives were built up because we never believed we would have a Government that would give us a minimum pension, and we now have that, thanks to Steve Webb. Anyway, I will stop abusing my position; we are supposed to be asking you questions. Craig and Jeremy, are you going to pick up the questions again?

Q11 Jeremy Quin: If I may, I am just curious as to the industry's reaction over the last 24 hours or so to LISA and to the Budget recommendations. Is this going to be a market that is going to be very attractive? Are people going to be rushing in to provide products, or could we, in one year's time, be saying, "Gosh, where are the providers?"

Huw Evans: No, I think providers will want to take part in this market and will look for the detailed rules that will enable them to do so, for example, being able to offer it through employer-based schemes to employees. I think providers will want to take part. In terms of, "Does the industry think this is a good idea or not?" I think we have tried to take a balanced view of saying, "The test lies ahead in terms of whether this does what it says on the tin." If it genuinely helps self-employed people who at the moment do not have a retirement option to save, that could be a good thing. That is clearly a gap in the current system. If it just moves cash around, so that an affluent under 40-year-old who currently has money sitting in an ISA moves it to a LISA so that they can get the Government top up, then that may not be a terribly good use of taxpayer's money.

If it drives house prices up, as the Red Book says in the small print that it may do, then that would potentially be a consequence that policy makers would be worried about.

Overall, if it adds to the sum of income that people are saving for their retirement and adds another option that is used sensibly and that is reasonable value for money for the Exchequer, then we think it could work. It really depends, going back to an earlier question, what the intent behind it is and how it develops. On the face of it, it offers value for the self-employed, but at the same time it also offers value for affluent under 40-year-olds who now get a Government top up for doing something they were probably going to do anyway.

Q12 Jeremy Quin: The point you raise on the self-employed is a powerful one, but for those who are not self-employed, is this going to detract from auto-enrolment?

Joanne Segars: We would be quite concerned that it might. We have taken a very balanced view on this. We recognise that people will save for retirement in many different ways, and the LISA may be an additional way in which people may chose to save for retirement. We would be quite concerned, however, if people took up the LISA option at the expense of matching contributions into their pension scheme, for example. We would be very concerned about that. As Huw has said, there are a lot of questions that still need to be bottomed out. We are very much looking forward to contributing to the consultation on the LISA when we get it, I think, in the next few weeks.

We need to look at how the LISA will compare to pensions. One of the big pushes and one of the big advances we have made in pension provision over the last few years has been dragging down costs and charges connected to pensions. The average cost of a pension that my members provide is around 42 basis points. The cost of the average equity ISA is more than twice that. We need to look at the whole issue around value for money and how and where these will fit in, and for our members too, what the role of the employer might be.

Q13 Jeremy Quin: Chairman, if I may I will play devil's advocate a little bit. We will not go into their costs and the differential costs, but at the moment it is a higher cost than the ISA route. We have an industry that is marketing the LISA product quite hard, which should be a good thing, pushing people to go in that direction. There may be employers who would prefer to see their employees opting out. This is a danger, is it not? Should we be perhaps saying that if you opt out of auto-enrolment you do not get the advantages through LISA? I am just playing devil's advocate and seeing what your reaction is.

Huw Evans: I think that the critical element in all this is that it does not end up encouraging employers to say, "Chose the LISA instead," and thereby try to duck out of their contribution. That would obviously run completely contrary to the grain of public policy that has been agreed on a cross-party basis for the last 10 years and that has led to the remarkably successful—much more successful than originally predicted—roll out of auto-enrolment so far.

We know for people on a basic rate it would be worse if they opted out and went into a LISA. Basic modelling in the last week suggests that if a basic-rate taxpayer who at the beginning of their working life went into a LISA rather than an auto-enrolment, where their employers were just paying the minimum, nothing fancy, would end up with a retirement pot that was 37.5% less than they would have otherwise. There are very significant consequences here potentially for employees who think that the LISA is better

than a pension scheme where their employers is contributing to it. That is why I say that the test really lies ahead in terms of how something that, on the face of it, could be a perfectly sensible additional product, particularly for the self-employed, does not get used to take us in the direction in which people are mistakenly tempted by the Government top up to think that this will be better for their retirement income. It will not be.

Q14 Chair: Did the Government ask your view before they announced it?

Joanne Segars: No.

Huw Evans: No.

Q15 Jeremy Quin: I just wanted to sum that up, Chairman. We need to be conscious that there will be a pull factor into the LISAs, marketing pull in particular, that there may be a bit of a push factor away from auto-enrolment through employers, and that we need to be conscious that that is likely to result in a worse outcome for those who go down that route. Is that fair?

Joanne Segars: As we start to craft the detail of what the LISA looks like, we need to be conscious of all of those factors. Of course, we are putting in place very significant protections and rules on what employers can and cannot say, and there are quite significant penalties for employers who do try to encourage their employees out. Of course that is a criminal offence. We need to make sure that that does not happen. We need to make sure that this does not disrupt the trajectory of auto-enrolment, and we need to also acknowledge that auto-enrolment is proving very popular among the under 40s.

The average opt-out rate from auto-enrolment is just around 10%, so, as Huw said, far lower than any of us anticipated. I think DWP was suggesting perhaps as much as 30%. Among the under 30s, it is just 7%. We need to acknowledge that once younger people have put into their pension, they stay in it and they take the contributions. I think the challenge is how we get more contributions going in. Certainly, that is a much lower opt-out rate than among the over 50s, where it is above 20%, perhaps not surprisingly. It is somewhat counter-intuitive, I think, that opt-out rates are lowest among the youngest. That is again a measure of the success of auto-enrolment, and something we need to build on.

Huw Evans: I think that is a really important point, because the Chancellor, of course, in his statement, prefigured the announcement of the LISA by saying the opposite, by saying that young people do not really do pensions, they do not get them, "Therefore, I have decided to do this." As Jo said, the evidence is completely the opposite. The opt-out rates are the lowest for the youngest age group. That statement does not really lead into the policy that then followed.

The other point I think we have not covered, which is worth bearing in mind, is one I think the Pensions Minister made at the weekend. It may have been drowned out by some of the other things she was saying, but she pointed out that among younger people cash is much more popular than equity. Equity investments are the key to building a decent retirement pot, yet people in the 25-to-34 bracket are 10 times more likely to opt for a cash ISA than they are for an equity ISA. Again, it comes back to, even if they are the right target group, if they go for the LISA, what type of LISA do they go for? If they want it to be something that helps them build a retirement income then they should be going for an equity-based

ISA, but all the evidence would demonstrate at the moment that they are less likely to do that.

Joanne Segars: We have spent a lot of time on and this Committee has commented, very wisely, on the situation of investment defaults for pensions. We need to think about what that might look like for the new LISA. If you are targeting a house purchase in four or five years' time, that may be a very different investment option to keeping the money until you are 60. We do need to think about all of these issues and, of course, added to that the suggestion that you might be able to dip in and dip out in the 401(k) style at other points in your career.

Q16 Jeremy Quin: I hope that as part of the consultation you will be able to put forward some strong ideas on this. I was very conscious of the point you have just made, Joanne, and Huw, that we should be steering people towards equity, but equity scares people. As we all know, there is a very low culture of investing direct in equity in this country and if you are a young person and you are embarking on a savings scheme, putting it into equity seems risky, whereas for a pension it would be the right long-term solution normally. There will be those who are thinking either/or, "I might want to have this for the long term, or I might want to grow it into a deposit for a house in a few years' time." I don't know where they are going to get the advice from—another age-old perennial for this Committee—but it is something that I hope you are going to be address in the consultation and how people get clarity on the fee structures as well. It is one thing for the people who are investing currently in ISAs, but hopefully we will get a brand new set of investors in the LISA. Making certain that they are fully aware of what the cost implications are and the comparator between a pension scheme and the LISA I think is something we will be looking to do. Are there any tweaks? At the moment, as I understand it, people will be able to withdraw without penalty at 60, whereas the state pension age is 67 and you can take your pension at 55. Any comments on that or any other tweaks that might be made to make it more logical?

Joanne Segars: I think we are seeking clarity as to why it is 60 and not 55 or some other age.

Jeremy Quin: And I am seeking it from you. Fine, okay.

Joanne Segars: When we find out the answer we will let you know.

Q17 Craig Mackinlay: We have been used to TEE and EET. With this now, for a basic rate taxpayer, it is EEE, which is rather odd. I can see it evolving over time that you will be allowed to invest in equities. That seems to be the next logical step when we have had a merging of cash and equity ISAs over the last few years. What about this 40 year-old threshold? I am struggling to think, "Why 40? Why not 50?" It exempts most of us in the room, except for Mhairi. You should get your skates on, Mhairi—sorry, and Mr Williams. Where do you think that came from? Is it a sensible age? Is it fair or anything else?

Joanne Segars: We are keen to sit down with the Treasury to understand some of the thinking behind it. I suppose it is the thought that at 40 you need to be starting to put your money into a pension proper, for want of a better phrase, and taking advantage of the employer contribution.

Huw Evans: It is a definition of youth that is painful for many of us. I think we might have a fruitless search for science behind it. The way in which HMRC itself measures ISA bands is on a 35-to-44 band, so there is no consistency, necessarily, with the other categories within it. Given it was not consulted on and it was not part of the very extensive and lengthy discussions we had with the Treasury over many months, I think we are all on a bit of a quest for information about it, but we will try to make it work and for some people at least it could be beneficial and it could add to the overall level of savings. We will not let a degree of confusion about the whys and wherefores get in the way of recognising that for some people, at least, this is a valuable addition and the market should ensure that it is available to customers.

Q18 Richard Graham: The definition of age is always an interesting one. One definition used in the annual Anglo-Chinese Young Leaders Forum is whatever either side decides it to be. I was even invited on one of these a few years ago, which I thought was pushing it a bit.

On the question of lifetime ISAs and so on, I think what you are both saying really boils down to the fact that it could be very useful for the self-employed and that is perhaps where the restriction should have been. Its main impact on auto-enrolment is one of choice, you could argue, or confusion, which would be an alternative way of putting it. One person who may be very pleased with what happened in the Budget is Michael Johnson who saw one of his two recommendations for an ISA-centric world come through. The lifetime ISA has come through, but the other one he has focused on, which I do not think the Treasury has completely abandoned, is the workplace ISA where, effectively, the employer contributions would be housed in the workplace ISA and would be left there until the age of 60, along with an upfront incentive, so a sort of mirror image of the lifetime ISA. I think what you have both said suggests that neither of you would welcome that. Do nod if that is broadly correct.

The key is how are we going to get a much wider consensus that is going to be able to support auto-enrolment to see it through to completion and then to carry on the work in terms of increasing the contributions there so that auto-enrolment does work rather than continuing to chip away, arguably undermine it and eventually make it not a success? How are we going to achieve that?

Joanne Segars: That is the big question that we face. I think we would all agree that auto-enrolment has been very successful. We have that underpinned by the single-tier state pension, as the Chair has said. The question now is: how do we build on that, how do we make sure that everyone has an adequate income to live on in retirement, and how do we join up these increasingly disparate parts of the retirement savings landscape? It is one of the reasons why before the election we argued for the creation of an independent retirement savings commission. We were supported in that by a number of bodies, including the ABI, and I noted last week that Adair Turner suggested the creation of a similar body. We think that body could play a very important role, be divorced from Government, be independent of Government, and play a role a little bit like the OBR, the MPC, or the Low Pay Commission that could start to define what the new consensus is and get agreement around that. One of the big successes of our pension policy over the last decade is that it has been built on consensus and that consensus has stuck.

We need to reset and redefine that consensus in the light of the changes we have had and the success and the experience we have had with auto-enrolment and freedom and choice and make sure that the commission, or whatever we choose to call it, sticks and keeps us to that. It keeps us on the straight and narrow in pursuit of that consensus, provides an independent assessment, much like the OBR does with Government macro figures, on who is winning, who is losing, where the gaps are, who is at risk of not getting enough, and makes sure that we can continue on the basis of consensus with that shared understanding of where we are going. I think the points that you made are very valid.

We were very pleased to have the support of the ABI and others, including the TUC and the Federation of Small Businesses, before the election for the idea of that commission and we think it is right that we come back to it post-Budget in the light of what has happened. A number of the issues that we have been discussing, that the Chair raised, about the interaction of welfare with private saving that has been raised over the weekend, and the whole issue about incentives and tax, need to be addressed on that cross-party, cross-industry, cross-social partner basis, so that we can get the long-term consensus that we talked about at the beginning.

Huw Evans: The New Zealand commissioner, Diane Maxwell, is a very impressive figure. She does not interfere in politics. She recognises it is Ministers' prerogative in a democracy to decide how tax is spent and the ultimate decisions are made, but she is a powerful advocate for better consumer understanding and for consistency. We support that.

On the overall question, Mr Graham, on the pension ISA, you could call Michael Johnson many things but a consensus seeker probably is not one of them. It was designed as being a very radical, totemic policy that would be a world first. One of many problems with it was that it was as if auto-enrolment did not exist. It was so incompatible with auto-enrolment it was almost like an idea that had been drafted 15 years ago in a world that existed then but does not exist now.

Chair: It would be deadly to auto-enrol.

Huw Evans: Indeed. There is no way in which it could be made to work with auto-enrolment and it resulted in lower overall saving. The independent modelling from NIESR, which nobody disputed and was done by the Treasury's former leading macroeconomic experts, predicted it would result in lower GDP, rising house prices and lower retirement saving, and nobody was able to disprove the modelling that put that forward. There were some very significant arguments against it and I hope it never sees the light of day again, but nobody should be complacent that it is off the table because the benefits it brings to the Exchequer are so significant in the short term.

If there is one good that comes from it, I hope that it has focused efforts more on trying to protect auto-enrolment and build it and develop it. I think there is a slight degree of risk of complacency among all of us who have worked on auto-enrolment that because it has had a good start, it is destined to succeed and that it will sustain itself. It will not. It requires considerably more political support, parliamentary support and support from employers and stakeholders to make it work. As you know, the real test in some respects lies ahead. The implementation test has been now, but the tests of what happens when the contributions start going up to a more meaningful level and whether we can keep the opt-

out rates at a low level lie ahead of us and particularly in the latter part of this Parliament, 2018-2019. It is going to be really important for all of us who support auto-enrolment and believe it is a huge achievement and lays the foundation for a much better retirement outcome for most people in this country, that the battle to protect it and develop it still lies ahead and the debate has brought that into focus.

Q19 Chair: One the advantages of your commission, Joanne, would be that it could help squash these ideas, couldn't it?

Joanne Segars: Yes, absolutely, and to make sure that we have a consensus going forward about what will work and how we build on what we have. That has been built on consensus; it has been successful; it is what underpins the success of automatic enrolment, and I would argue that that is what we should build on going forward. It is about a good set of commonly agreed, sensible ways forward.

Q20 Richard Graham: The great thing about a body like that would be not that it would set out to squash anyone or anything but that it would be able to air them and come to conclusions that everyone would be able to then latch on to and hopefully support, which could be critical in this, as you have suggested.

One thing for both of you: in terms of what the Government are going to have to ask employers to do to help make auto-enrolment achieve what we all want it to achieve, which is going to be an increasingly big ask and one that employers are not necessarily going to relish, do you think the link between what we are going to need to do on auto-enrolment from employer contributions and things that are employer-friendly, like capital gains tax or corporate tax, has been enough spelt out? Do people understand the balance of what is being required of employers on the one hand, whether it is minimum wages, auto-enrolment contributions, and then on the other hand what the incentives are for entrepreneurs and businesses to grow and expand? Do you think there is a lot more to be done?

Joanne Segars: For us, the role of employers is absolutely critical and we know that we see the best pension provision where we see the most engaged employers, and I would like to think that those employers sit with our membership as scheme sponsors within my association.

Q21 Richard Graham: Yes, but do you see the wider point? What is your answer to the wider point?

Joanne Segars: I think part of it is about keeping the engagement of employers and making sure that they can remain engaged. It does also come back, quite clearly, to joined-up policymaking, making sure that as we are asking employers to potentially increase contributions through automatic enrolment—and I think that is something that is broadly acknowledged will need to happen; there is a broader question about how but it will need to happen—we think about how that happens in relation to, for example, the introduction of the new minimum wage.

Q22 Richard Graham: Do you think employers were surprised by what some people could interpret as quite a concerted attack on the fat cats running and owning

businesses and that the wider world perhaps did not understand the linkage between the requirement of employers, on the one hand, to provide decent wages and decent savings, while at the same time being able to retain more profits for the growth of the business and so on? That is really my question. Huw, what is your feeling on that?

Huw Evans: One of the consequences, I suspect, of having three Budgets in the space of a calendar year is that there is a very significant number of different moving parts for employers to engage with and understand. On the starting point of your original question—have employers really figured out how this all works out and possibly have a balance sheet of pros and cons?—I suspect most employers probably do not have that yet. There has been a lot to work through and there still is. I think where we are in a better position as a result of auto-enrolment is that most employers, certainly of any meaningful size businesses, have had to have advisers to help them to get this far, to help them through the induction process. It is the job of those advisers, on an ongoing basis, to help update them and to make sure that there are not any surprises or, if there are rabbits out of hats at Budget time, that they are informed of them quickly and have time to adapt to them.

Part of the next phase for auto-enrolment is to remake the case for decent employer contributions. If we go back to when the Turner settlement was agreed, within the Labour Government at the time, the employer contributions were set at an artificially low level to ensure that there was widespread support from the CBI and other groups. I hope we do not get too defensive about the fact that from 2019 an employer contribution will be at 3%. That is still very modest, particularly compared to the historical position of occupational pension schemes and the level of employer contributions that went into those. It is a mark of a civilised society that employers pay in a decent contribution for their workers in a pension deal. We have a way to do that and we have a set of contributions that were set at a very balanced level. I hope we do not get too much of a backlash against that as we get closer to what are still quite modest contributions in.

Q23 John Glen: One of the striking things from the evidence we took from the regulator was the concerns over the number of small, unstable master trusts and whether the master trust assurance framework making that mandatory would be sufficient to give the right level of oversight and assurance. What are your views on that? While there are issues around the process of ratcheting up business contributions and keeping the momentum until we do that, it feels like it is not such a big issue while there are small amounts of money in these pots, but we want to make sure we do not have a scandal in 20 years' time. What are your views about what should happen with respect to the master trust framework?

Joanne Segars: We share the view that the regulator and the Minister have that master trusts have a very important role to play, in particular for the 1.8 million small employers—we have just been talking about large employers—who are coming into auto-enrolment right now. They provide master trusts the opportunity to make sure that savers can go into low-cost schemes and well-run schemes. We absolutely share the concern that master trusts must be well governed and must be well run. We have raised with the regulator some of the concerns about the barriers to entry or the hurdles to entry. We have been having these discussions with our own master trust members and similarly with the Pensions Regulator, and we have raised some concerns about what happens to master trusts if they do fail and they are under-capitalised, which means that the individual member pots may have to be dipped into in order to wind up those master trusts. That is a

very real concern that we have. We are in active dialogue with the Minister and with the Pensions Regulator on those points.

Our own pension quality mark READY scheme sits in parallel to the master trust assurance framework, and we have had 12 master trusts that have gone through the pension quality mark READY scheme. They provide benefits to over 5 million working people. That sets standards for governance and the quality of those schemes. We are working with our pension quality mark READY holders to think about what some of those issues might look like, what some of the issues for capitalisation could look like. We absolutely share the concern that we need to make sure that these master trusts are well run and that there are very strict rules about who can and can't be a trustee and how they operate. Whether the answer is making the master trust assurance framework compulsory is an issue we want to discuss with our members. The master trust assurance framework deals with a number of aspects of how master trusts operate. The pension quality mark READY deals with issues of governance, costs and charges that are not covered by the master trust assurance framework. We need to make sure that we can have a holistic approach to this.

Q24 John Glen: The concern that may exist is that there must not be a gap between those two levels of oversight. Sometimes, we bring cases to Parliament where there is a dispute over, say, the FCA needing to regulate something or needing to look into something and then it transpires that it is outside their jurisdiction. Surely, we need to be clear that we avoid that risk.

Joanne Segars: That is the precise dialogue that we are having at the moment with the Department and with the Pensions Regulator. They are going to be huge players in the market. They are growing rapidly as it is; they will grow even more rapidly as the small and medium-sized employers come into automatic-enrolment. We need to make sure they are good and that the right schemes get accredited to continue as schemes. There is a broader issue there about how anybody becomes an accredited and authorised pension scheme, and that process is one that is a little bit too easy, perhaps.

Huw Evans: I don't have much to add to that. We have felt for a while that it is an under-regulated space, so we welcome the engagement particularly from the Pensions Regulator. We think she is right to focus on this area, and perhaps, if anything, the focus is a little overdue. We welcome the efforts to zone in on it and we are supportive of the need for a tighter regulatory framework.

John Glen: There is a consensus. We need to see where it ends up and what the output is. Thank you.

Q25 Chair: The Minister said she needed powers to be able to do the regulation properly. Is that your view as well?

Joanne Segars: I think we need to agree what the outcome is and then we can determine whether it will require primary or secondary legislation. That is a discussion that needs to be had, that clearly if we need a pensions Bill to push that through then we need to have that Bill.

Q26 Mhairi Black: This is probably a question for Huw. What is your assessment of the trends in pension freedoms and the use of them and how that has changed from the initial few months?

Huw Evans: I remember the last time I was here back in September, along with Joanne and a few others, to consider that point again. In one sense, our view is still the same, which is that in broad terms customers are showing quite a lot of common sense, as we always expected them to, but it is still the case that it is too early to be able to judge where there are suboptimal outcomes. Self-evidently, if people are taking too much money too early and are going to run out of retirement in 15 years' time, we can't possibly know that yet. It is also quite difficult to judge where tax liabilities have been incurred that people could have avoided. Again, that is a difficult thing to measure. Our overall sense is that the initial dash for cash for the small pots that people wanted to have access to is slowing down. That is broadly what you expect. We knew there was a pent-up demand for people who wanted to liberate small pots that were never going to provide a sustainable annuity and who were keen to do so early on, and that is perfectly logical customer behaviour.

Q27 Chair: Does your analysis bear out that it is the raids on the small pots rather than going for rather flash cars with bigger pots?

Huw Evans: Yes. We felt from the outset that, by and large, as far as you could tell, the customer behaviour was logical. They were taking relatively small pots that would not provide a sustainable income. What I think we are beginning to see is an increased focus back on annuities and on use of drawdown, the spreading out of drawdown to more of the mass affluent population, which is obviously one of the designs of the reform, and people are beginning to buy the annuities again a bit more. Our data for the last quarter is that, for the first time in a while, more people bought the annuity than bought a drawdown product, so that is quite an interesting way in which the reforms are beginning to work their way through that.

Joanne Segars: We have recently published a report called "Understanding retirement: no more normal" and that shows that we have not quite got into an established pattern of consumer behaviour yet. What that showed is that 2.8 million savers could have used the freedoms in the first six months of their existence: just over half a million have done nothing yet; 1.8 million are still thinking about what they are doing and investigating it and they are thinking very hard about it and finding how they investigate that process quite tricky; just under half a million have accessed their pensions, 14% of the total. Of that, only 14% have taken cash and people tend to spend on home improvements, which seems to be the most popular route for that, and who can blame them, I suppose?

When we were looking at those figures—and of course this was the first six months, so it does not take account of Huw's later data—27% took drawdown and 20% were taking an annuity. What was quite striking, however, is that 75% of savers prioritised an income for life and over half of them thought that a drawdown product would give them that guaranteed income for life. We have a big job of work ahead of us in how we communicate to and how we help savers through that process. It is one of the reasons we have been arguing, as we discussed when we last come before this Committee, the need for signposting, so that trustees can signpost their scheme members to good outcomes and why we are developing a retirement quality mark to sit alongside our pension quality mark to signal good quality in retirement products.

Q28 Mhairi Black: To follow on from what you were saying there, Huw, do you think it would be fair to say that the rates of annuitisation are underwhelming or less than you would expect them to be?

Huw Evans: They clearly took a massive hit when the reforms came in, for obvious reasons. What is interesting is an emerging pattern—but it is too soon to say whether it is definitive—that customers are beginning to go back to annuities a little bit, not at the scale they were before, but our quarter 4 data shows there were 21,000 annuities bought in the last quarter of the year compared to 19,700 drawdown products. We are beginning to see that this tranche of customers, who are not the people who just took a small pot and have gone off and spent it, are thinking a little more about what are the respective merits. As Joanne said, many customers when they are surveyed on, “What do you want from your retirement?” say, “I want it to provide an income for life and a fixed income for life.” That is an annuity. The advantages of an annuity are still there for many customers. The interest rates continue to make an annuity a challenging proposition for some people in terms of what their original expectations were. Clearly, the big change is that people are no longer effectively forced to buy one. The relative merits of an annuity are still there for many people and it provides a valuable insurance.

Q29 Ms Buck: I do not know if you are aware of the Just Retirement Group research. They are indicating that research shows that around a third of consumers who purchased a financial product have regretted it since then and that virtually no one scores consistently highly on the indicators that would together give people the combination of information and knowledge to be able to make a balanced decision. What is your view of that? People are making decisions, but they are not necessarily making good decisions, and Just Retirement are adding to that by saying that this is quite helpful to the pensions industry who are benefiting from these ill-informed decisions. What would your response be to that?

Joanne Segars: I would agree with Just Retirement to the extent that savers are finding it very difficult to navigate the new pension freedoms. We know that not everyone goes to Pension Wise. Those who do go to Pension Wise like the service they receive. We know that people do not want to go and pay for financial advice and people are finding it very difficult to navigate those new pension freedoms because it is very challenging. We are asking people to become their own IFA and actuary rolled into one, aren't we? That is one of the reasons why we have said let's meet the Government's objective—as the Chancellor said, it is their money and they should be able to spend it how they want—by ensuring that we give people those freedoms but help them through the process with some sensible signposting. People will come back to their provider, to their pension scheme, so allow trustees to signpost to particular products and good products so we start to ensure that people do not regret, do not have that buyer's remorse.

Q30 Ms Buck: I would not want to tar everybody with the same brush—it is important we don't do that—but Just Retirement is saying, and they are not the only ones who are saying, that there is enough poor practice within the industry to indicate that some people are not being well served, even adjusting for the fact that people are not their own actuaries.

Joanne Segars: That is one of the reasons we are saying let's have a retirement quality mark, so that we can say that these are the good products and these are the good in

retirement drawdown products that have been independently accredited. People can see which are the good ones and which are not, so that we do not have the opportunity of people being sold something that is not meeting their needs.

Q31 Ms Buck: I am sure Huw will have something to say about that, but the ship has sailed for a lot of people, hasn't it? Shouldn't this have been done before pension freedoms?

Joanne Segars: These reforms were introduced in 55 weeks from start to finish, so that is why we—

Ms Buck: Exactly. Why did they break their necks to do this when clearly neither the quality marks within the industry nor the information for the consumer were in place?

Joanne Segars: This was a timetable set by Government.

Ms Buck: I know that.

Huw Evans: I think it is an evolving picture. It is a little too early for pessimism, if I am honest. We know that the framework for providing assistance to customers and helping them make a choice that not only is right for them objectively but they feel comfortable with, which are two slightly different tests, is still evolving. That is why we support the measure in the Budget and the “Financial Advice Market Review” that TPAS and Pension Wise should be rolled together and made a more effective one-stop shop for people. At the moment, there is a ridiculous overlap and underlap between Pension Wise and TPAS and they spend a lot of time handing people off between each other. I think that can make a big difference to the service that people get and being able to get all their questions answered in one interaction. In turn, that will help them understand some of the trade-offs that are involved between the different products that they might choose. If a customer feels that they have had all their questions answered—and a bit like many other transactions, there is a trade-off involved, there is a judgment and they are comfortable with it—it will hopefully be better. But I think it is still too early to say objectively that many of these decisions are wrong for people. If they have bought a drawdown product and they take up far too much in the early years then it will not deliver the thing they want at the end of the day.

Q32 Ms Buck: The last question was going to be that. There is fairly consistent evidence, is there not, that people incline to the short term? We are almost hard wired to do it. We make decisions without necessarily realising what our life expectancy is going to be and what our needs are going to be over the long term. That is a much deeper problem than just pension freedoms. What is the answer to that? How can we ensure that signposting is enough to counter a deep inclination in people to choose the short term over the long term?

Huw Evans: I think the answer to that lies in much more specific help to people to understand the fact that all of us—none of us is any better—are wired to underestimate our longevity, to underestimate the likelihood of us requiring care in later life, and most of us can't do the maths to work out what taking out too big a chunk early on does to our pot later on. Only a very small percentage of the population can actually do the sums. I think the way to tackle it—and this is an area Joanne and I disagree on a little—is less through quality marks, because they are trying to standardise something that for many people is still an individual decision, but more through ensuring that people understand the mistakes

that they are likely to make and then engage more in the process, so that they can overcome them, just as we do in lots of other areas of life where we have to take financial decisions. When we buy a house, we engage with the different options and understand the consequences of decisions. We are starting from a pretty low base in this country. We had the default into annuity for so many years and most people did not really have to engage in the thought process and most of our citizens don't have the financial capability and the core skills to be able to have a good start in those judgments. That is something we all have to improve.

Joanne Segars: The quality mark is not instead of advice and guidance; it is as well. One of the standards we are proposing for the quality mark is that providers should be required to notify customers if they are at risk of drawing down too quickly. Our research shows that one of the biggest fears that people have is the fear of drawing down too quickly and running out of money. We need to address that head on. That is one of the reasons we are building that into—

Q33 Ms Buck: They may fear that, but the decision may be objectively wrong. It may be sensible for them to do that. This is the thing that worries me. We can have anxieties about whether we are making the right choices, but they may not be objectively right.

Joanne Segars: But they may be wrong. Without standardising of an environment in which individuals are free to choose, we need to make sure that we can guide people through that. Part of what the retirement quality mark is there to do is to address some of those big fears.

Huw Evans: But we have to be honest. We can't completely wrap the system in cotton wool. The decision that Ministers have taken with the freedom and choice reforms is to give people a greater degree of freedom and, quite explicitly in saying so, the freedom to make mistakes. We can all contribute towards a system that can help minimise the mistakes that people might make, but we cannot have a system that eradicates them when the defaults have been changed so radically.

Q34 Ms Buck: That is absolutely right. I have no in-principle objection to it. I think pension freedom in principle is the right thing to do. The anxiety is that it further builds in the risk of inequality because there are many people who are, for different reasons, less able to make that decision than others. Unless we get that balance right, you will provide good-quality advice and kite marking that will work well for two thirds of the population but catastrophically badly for a third.

Huw Evans: Yes. We have a significant financial capability problem in this country. Most people do not understand how compound interest works; they do not know the difference between a cash ISA and an equity ISA. We have some pretty fundamental shortcomings in this country in our overall level of financial capability. I think we would probably all be agreed that those levels have to be increased significantly, whatever the architecture in terms of who does what, if we are to be comfortable that alongside the freedom and choice reforms and the opportunities they offer people to have greater choice about how they manage their money in retirement, so that they are equipped with the skills to minimise the number of wrong turns that they could make that would be avoidable, as opposed to

decisions they take that turn out, because of market reasons or interest rates, to be regrettably not as good for them as they had hoped.

Joanne Segars: We also need to recognise that over 40% of people simply will not pay for advice. They are simply not prepared to pay for advice and so we have to work through that system as well. To your inequality point, I think that is a very real one.

Q35 Mhairi Black: To go back to a point that you touched on earlier, we have already heard evidence that the recent falls in the stock market have meant that some drawdown products have less value than anticipated. Do you think this is something that came along as a surprise, or is this something that should have been predicted? A lot of people are feeling quite aggrieved about it.

Huw Evans: I think it comes back to the financial education point, because an essential part of investing in any product with equity is, as the adverts always say, that markets can go up as well as down. People hear the phrase but they don't necessarily assume it. It is that old thing that if people are asked to look at a graph that plots what their returns would be from an equity product, they always go for the one that shows steady improvement year on year, and that is the Ponzi scheme. Everything else has a degree of ups and downs in it because that is what an equity investment looks like. For me, it goes back to that thing that we would not want anyone buying a drawdown product who does not understand that there can be fluctuations year in, year out. We have seen in the last year things that have happened in the global economy and that you have to take your decisions expecting volatility rather than when volatility comes along, as it did with the Chinese market last year, and it is something that is a bolt from the blue that disrupts your thinking. That is the change we need to get to and I would agree we are not there yet, but it is a positive thing overall that drawdown products are no longer the preserve just of the super-wealthy and are becoming something that people with a more normal degree of wealth can use and access. That is a positive thing compared to the old system.

Joanne Segars: But a lot of people are buying drawdown products without advice, and I think a lot of this comes back to the communication between the provider and the customer, and that is part of what we are trying to build into our retirement quality mark.

Q36 Jeremy Quin: I was fascinated by what Huw said regarding the rise in interest in annuities, or the return of interest in annuities. I think I heard you say, Huw, that it was actually Q4 numbers that you were looking at. I was concerned over whether it was the equity market fall that Mhairi was referring to that has prompted people to panic, just at the point where the equity market is falling to then grab a cash product. There are clearly very good reasons why people should take out an annuity. It is what many people are asking for when you look at the data, but we all know the cost of it. A very simple question, at the risk of reopening a former inquiry: is it because of advice? Is it because people are looking at the equity markets, panicking and grabbing a cash product, or is it because they are getting good advice and they are weighing up what they want? I know you can't answer the question really, but what is your gut instinct?

Huw Evans: My gut instinct is that it is a combination of those factors rather than one single one. You would expect at a time when the equity markets are challenging and volatile that people might be a bit more nervous about a drawdown, but I think there was

also an overreaction against annuities, not least because the language that justified the freedom and choice reforms strongly implied that annuities were all worthless. They were never worthless. They were a product that was worth having that was difficult to operate in an era of artificially low interest rates and were not suitable, increasingly, to be the default, for everyone to be forced into by the state. But I think there is a rebalancing going on that we have less negative rhetoric about annuities out there. Many people who say, “I want something that provides me with a guaranteed income for life but I don’t want one of those annuity things,” are beginning to readjust their view and think, “If that is what an annuity does, then that is okay, particularly because I am not being forced into buying it.” I would hope there is that rebalancing. A healthy system going forward, whatever each quarter’s numbers are, would be a healthy sort of balance between people buying annuities and buying drawdowns and, most importantly, as Joanne has been saying, taking informed decisions based on their appetite for risk and their understanding of what they are buying.

Q37 Craig Williams: We touched in great detail about our concerns in the pension freedoms report, and we have talked in this Committee about the gap between advice, people who go to IFAs, and people who receive absolutely no advice. Can I draw you on the provisions within the “Financial Advice Market Review” and whether you think it will begin to address that?

Huw Evans: I think the “Financial Advice Market Review” is a significant step in the right direction. There is no silver bullet in there, but we did not think such a silver bullet existed to be found. I think what you have instead is a series of fairly workmanlike, practical recommendations that, if implemented with a degree of consistency and sustained engagement by the Government, the regulators and the industry, will lead to a better system. It is fairly unglamorous work probably, which may be why it did not feature in the Budget statement, but it is vital to a healthier system and to making the freedom and choice reforms work in the way that I think all parliamentarians would want to see. The key going forward will be that the work continues, that there is momentum behind it, and that step by step all the different areas that are identified in the report, many of them quite technical, have the buy-in from regulators and Government going forward and that we all keep at it. I think if we do we could end up with a better system than we have at the moment, that at least fills some of the gaps even though it may be impossible to fill all of them.

Joanne Segars: I would very much agree with that. I would add that, as we have been discussing, advice by itself can’t fill the gaps. There is an important role that employers and trustees have to play. There is also an important role for those broader issues that I have been talking about around signposting, particularly for freedom and choice, and making sure that there are some clear indications of what is good and what is not so good in the products that are available. Advice is part of the answer. We think the “Financial Advice Market Review” and the response to it goes some way towards addressing that but, of course, it is not the silver bullet.

Q38 Craig Williams: Can I draw you on the Government’s proposal for accessing £500 from DC pots before 55 and what you think of that?

Joanne Segars: I think it is a good and useful thing. The question will be how well it is taken up. I am not sure I have ever seen any statistics, but my gut feel is the £150

allowance was not taken up terribly much. It was fairly well hidden in the Finance Bill, so I think there is perhaps a job of work for Government to do to publicise its existence.

Huw Evans: I think it is a good idea. It is one of the things we discussed as part of the review and we also were encouraged to see the discussions about how to improve employer NICs exemptions to help encourage employers to provide more advice through the workplace. With auto-enrolment, that is an obvious place in which many people can engage in either advice or guidance or somewhere between the two. Those tax things have a role to play and could help. We would certainly encourage it down that route and support it.

Q39 Craig Williams: Do you think there are any quick wins working with industry here to get the signposting with Pension Wise and things like that and encouraging more people to take that up?

Joanne Segars: We are certainly doing what we can, and I think our members are doing a good job in signposting their pension scheme members to Pension Wise and we have been encouraging them to do that. Our pension quality mark requires anybody who holds the pension quality mark to do that. I am very pleased to see that the Government advertising for Pension Wise has started up. It went through a rather untimely but clearly necessary break through the election period when everyone was gearing up for pension freedoms, so it is good to see that they have started again.

Huw Evans: Quick wins? I think that none of the low-hanging fruit is particularly big but the sooner we can get to making the fact-find something shorter and easier to move around the system that will help reduce the cost and be more useful for consumers. At the moment, the whole fact-find and suitability reports are very weighty and difficult to use for many people. The sooner that the regulators can develop a degree of comfort with rules of thumb that can be used not as advice—absolutely not as advice—but to help people with a greater understanding of some of the areas we have discussed in this session where they tend to be ignorant that will be helpful. Finally, I think the regulator is showing a lot of interest in this somewhat oddly-named sandbox idea. We have talked about how you can use this sandbox that the regulator runs to say, “If you had a complaint about this, how would you look to respond?” The more that we can help providers and advisers understand how a particular type of scenario might be treated, the more we can do to try to tackle the risk aversion that exists for helping people, particularly if they want to do something that is potentially against their interests or likely to be something that they regret, which is the big challenge. The so-called insistent customers who are determined to do something that the adviser thinks is against their interests is the really difficult one to crack, but anything along those lines—and the sandbox is as good an idea as any—that can start to tackle that problem would be helpful.

Q40 Heidi Allen: Picking up on some of the things I have heard, people can’t do the maths; a LISA might be less advantageous than a workplace pension; savers are finding it difficult to navigate pension freedoms; an annuity is what you want if you want a fixed income for life. In the Budget there was some sense of a streamlined pensions advisory service, presumably collapsing the two that we have at the moment, Pensions Wise and the Advisory Service, into one. Are there any risks with that in the sense that people are

struggling to know what to do with pension freedoms and young people are not quite sure how to access the right product for them? What is your view on the role the Government should be providing by way of advice?

Joanne Segars: We have welcomed collapsing those bodies into one. We think it will ensure that there are fewer gaps, for the reasons that Huw has previously described, and it will make sure that there can be a much more coherent and consistent set of advice given to savers. To Mr Williams's point earlier on, I think it is also, therefore, clearer about we can signpost savers and direct savers and scheme members towards that single advice service. But, of course, a lot of the issues that we are talking about will arise through discussions about other aspects of people's financial well-being, so it is really important that we make sure that when we have our single retirement advice service, or guidance service I suppose we must call it, that that is not so ring-fenced that it can't consider some of the other aspects that people will come along with. Where the LISA now fits into that will be a very real issue that I hope must be considered.

Huw Evans: Just hearing you read that list back, it sounded quite negative and I hope it has not come across that way, because the nature of these sessions is that you focus on the things that may need work or attention. I think overall the long-term savings industry is still of the view that the freedom and choice reforms are the right thing to do and they provide many more opportunities for customers than previously existed, but there is a lot to do given they were introduced at very short notice. Clearly, most of the work comes after they have been introduced rather than it might have been in a more leisurely process.

In terms of where the advice framework fits into that, we supported TPAS and Pension Wise being put together. There was too much overlap between them from the start and it is a much more sensible way of doing things. I do regret the fact that MAS is being disbanded in its current form because it did meet a wider need around financial capability and, although it had a bad start, under its current leadership, it has operated much effectively and was in the process of turning itself around. It was clearly a decision for Ministers, but I think it is worth putting on the record that its current leadership has done a good job.

The thing that we must not lose as all these organisations come together is the broader focus on financial capability. You could see a scenario in which you have a merged TPAS and Pension Wise that does a decent job in helping people with retirement income choices. You have a chunk of money that is funnelled through for debt advice for people who have got it horribly wrong and are in a very difficult position and need help. But then what happens to the rest of the people who are neither on the point of retirement nor in debt? How do we tackle their financial capability and build that up and develop that, so that they are taking the right choices throughout their lifetime? The LISA that we have been discussing is a classic example of a choice that they would be making in the earlier part, well ahead of where they look to retire. I think that is the bit that has to be the focus and that, whatever the organisational infrastructure, however the deckchairs are rearranged, the financial capability focus is not lost. It is critical at all stages of people's adult life to making the right financial choices.

Q41 Heidi Allen: If you could set up those deckchairs, how would either of you set them up to provide everything? It is kind of financial education at every stage of your life really, isn't it?

Huw Evans: Yes, it is.

Chair: Our maths in schools should be around these sorts of topics, shouldn't it, and the real problems we are going to actually face? It is a lot more interesting than most maths.

Joanne Segars: Much more useful than the maths that I was ever taught, that's for sure. We have financial capability in the national curriculum and making sure that we can leverage that properly is going to be very important. Making sure we have the proper support for teachers to provide that support will also be very important. We are starting to join this up. It is a rather trite thing to say that we need to have a joined-up view and it is a point that I am aware I have made a number of times in this session, but nonetheless it is true. We need to make sure we can join these issues up because individuals don't see their pensions or their financial issues in quite such a compartmentalised way as perhaps we might or, on occasions, Government might.

Huw Evans: To answer your question, if it was my decision, I would have merged TPAS and Pension Wise for the reasons I have outlined. That is sensible. I would not have abolished MAS. I would have carried on and thought that it is going in the right direction, so let's just target it even more and help it do the right job. If it is going, which is clearly the decision Ministers have taken, and becoming more of a commissioning body, I think the level of scrutiny about what it spends its money on from Parliament will be really important; otherwise you could easily see defaults take over: debt advice is more important than financial capability. In some respects, you can show more progress with debt advice because there are a number of people who are helped and you can show some progress metrics. It is a natural thing if you are a commissioning body to go towards it because of the management information data that will work through it, whereas driving up people's overall level of financial understanding, improving the level of maths and so on is a much more difficult thing to measure. I think that will be the test: how transparent will this new commissioning body be and how well rounded will its objectives be for the way in which it chooses to spend the money that it raises from the industry? It could work but it will need quite a lot of attention and scrutiny to ensure that it has a well-rounded remit not a narrow one.

Q42 Heidi Allen: Assuming that the deckchairs are going to stay the way Ministers want them, how can we best communicate to people that they need to go for advice, where to go for advice and that the phone numbers in the world that they have been getting used to in their heads for pensions is all changing? How could we best communicate that to people?

Joanne Segars: There is clearly a very important role for Government in that. A number of different Government Departments are involved in it, so they need to work together to make that happen. There is an important role for the industry, both aspects, both dimensions of the industry, to make sure that it is linked into those new bodies, perhaps much more effectively than has been the case in the past, whether it is through the commissioning process or whether it is through a more genuine partnership, to make sure that there is that linkage. It is making sure that there is consistency, clarity, that common

vision that we were talking about earlier in what we want to do and there are some clear and consistent messages out to say this.

Huw Evans: I think the brand is very important. It is a Government-led body. It has to become a trusted brand over time, so I hope there is stability in it and there is a lot of investment in developing it, not constant chopping and changing. One of the huge frustrations this time last year was that we were five weeks before the go-live date and we did not even have a phone number for Pension Wise. Providers were trying to send out letters to advertise its existence and schemes and they did not have a phone number to direct people to. The catch-up advertising campaign that Joanne flagged is very welcome and I hope that has sustained investment in it, but there are two other segments that have to make it work.

Employers have a critical role to play, particularly when they are providing workplace pension schemes. They have a captive audience and they can be hugely powerful in using that to help develop people's understanding throughout their working journey. Providers have a key role to play. My members have an important role to play with the material they provide, making it as accessible as possible, signposting effectively to Pension Wise and other bodies, and working to simplify and streamline pensions language, which is something the ABI has been working on. We know the jargon is baffling. If people find maths baffling, they find jargon even worse. We are running an initiative, which the PLSA is also involved in, to try to simplify pensions language. We are working with the regulators on that. The more we can do on that the more I think we can help people with the challenges that they face, which are still significant ones.

Chair: Before we come on to the last topic, can I just say that at 11 o'clock the bells will ring for a minute's silence, so we will pause then.

Q43 Steve McCabe: I want to ask about this idea of the pensions dashboard to deal with all the small pots that are floating around. This Committee has said in the past that it is a good idea and we want to see it develop. That seems to be the Government's position as well and they want industry to develop it by 2019. Recently, the Pensions Minister has expressed some doubt about the timescale and the quality of information and I think there have been other doubts expressed that the information may be poor and may lead people up a blind alley or certain providers may choose to give information that is beneficial to themselves. Is it still a good idea? How are we going to iron out these glitches to make it work? Is 2019 a feasible timescale and, if so, who has to do what?

Joanne Segars: We do see the potential for a pensions dashboard. We need to bear in mind that at the moment 62% of people have only one pot, so we need to be cognisant of that. We share your concern and the Minister's concern that the data on the dashboard needs to be good and robust. Producing that dashboard is now a lot more complicated because we need to factor in the LISA. We are concerned that there are a number of dashboards under construction at the moment. We need to make sure that there are some very clear and consistent objectives for that dashboard and that there needs to be a singular dashboard. We very much welcome the suggestion that the regulator or regulators will get involved to hold the ring on the development of these dashboards. It would be unfortunate if we end up a bit like food monitoring where you go into one supermarket and you have one set of metrics, you go into another and you have something different, and then you

give up and just go for the cream doughnut option if you are me. We do need to make sure that there is some consistency and some singularity to these dashboards, so we are very much supporting the regulator getting involved to hold the ring through the creation of these. I think 2019 is quite a tall order, given all the data that needs to be included, including state pensions, occupational DC and DB and now the lifetime ISA.

Huw Evans: We are still very supportive and positive about the pensions dashboard. We have been calling for it since 2012. The average for most people is they have 11 jobs in their lifetime, so it is absolutely critical that the dashboard exists. The freedom and choice reforms will not work without it. But it is critical that it is comprehensive, that it has the state pension entitlement in it, which for most people who have a pension pot of under £250,000 is going to be the single biggest element of their retirement income. It is vital that the public sector—

Chair: Do you mind if we just stop there because it is 11.00 am, although the bells have not rung?

Huw Evans: Of course.

One minute's silence observed.

Q44 Chair: Huw, prior to this, you were saying how important the state pension would be.

Huw Evans: Yes. I think it is critical that the dashboard is comprehensive. If it is going to work, everything has to be on it. So the state pension has to be on it, as I said, for people who have a pension income—which is most people—of under £250,000 a year in total the state pension is the most important bit of all. It is important the public sector is fully engaged. The NHS in this country is the fifth biggest employer in the world, and it would not make much sense for the public sector not be fully engaged and clearly the pensions industry has to play its part as well. That is why we are delighted that the Government has engaged much more proactively than it has done in the Budget previously to say it will play a much more engaged role in helping to drive this forward, and the regulators are committing to do the same, particularly the Pensions Regulator. That is very welcome, but it is what is needed.

There are far too many cooks in the kitchen at the moment when it comes to the dashboard. Everyone seems to have a dashboard taskforce, everyone has lots of different ideas about it, so we do need the Government to play a strong leadership role in helping pull this all together and work out what is feasible. Not do so I hope at the expense of what is ambitious and we should stick to 2019 as being, “Well let us try to make this happen by then,” but obviously as with all big projects have a realistic process for implementation, so you are not trying to have a big bang approach, but you are trying to make sure that things come on line in a sensible way.

We think that the Government digital service—money advice service—prototype is probably the leading prototype that has been developed so far, but there is a huge amount of work to do but we are fully committed to making it happen. It is absolutely vital for all the issues that you wanted to look at today, that a pensions dashboard system gets up and

running. It is not mission impossible, it has been done perfectly well in other parts of the world. The Swedes have had it for over a decade, so I do not believe anyone who says that we cannot do it in this country either.

Q45 Richard Graham: That is very interesting, Huw. The fact that the Swedes have it may not necessarily be the best leading indicator on how successful a dashboard could work here in the UK given the enormous differences between the two systems and the huge accumulation of different savings pots that we in this country have allowed to come into existence and accumulate.

I see this as absolutely as vital as you and everybody else in the room does but as a potentially nightmare project. I would love to hear from both of you about how the interface between Government project management and the private sector is going to work, and in particular on whether you think the Government should take actual ownership of a project that is going to have very complicated IT elements to it and considerable cost, or if Government is going to act as an enabler, which I think is where the Pensions Minister and the Government probably is? Who is actually going to deliver this and is there is any link between the delivery of this project, in your minds, and some form of pensions commission?

Huw Evans: Perhaps if I start with that. I think my point, particularly in relation to the Swedes is that what they have demonstrated is that this doable from a technology perspective. Of course their system and ours are different but over a decade ago they did overcome the technological barriers that stood in their way at the time with their particular system.

Q46 Richard Graham: They did not have DB pension systems, did they?

Huw Evans: No. I think from an industry perspective, we accept the industry has to be the people in the lead on the technology side of it just as the public sector would need would be with our own systems.

The Government and the regulators have a key role to play in terms of leadership, in hammering out a spec, which we do not have at the moment. We have lots of different specs and lots of different prototypes. So they have a key role in terms of that and they have a key role I think in terms of enabling the innovation that can then develop. But it does require leadership, I do not think it can just be a, “We will just get everyone in a room and see how it goes.” The Government is going to have to roll its sleeves up on this, but I do think it is possible to develop a division of labour, if you like, where those people who are responsible for the pensions are the people who are putting in place the technological solutions and trying to join them up but the Government has the overall sort of ring hand on what is needed to make this sort of thing work all together. That partly comes down to a question about whether you have one dashboard or whether you have a sort of dashboard prototype that lots of different people can customise according to their own customer base or whatever. There are different views on that, whether you go for a single entity, or whether you enable several different dashboards to develop that all follow a basic common standard.

Q47 Richard Graham: Okay. Joanne, in your answer, can you touch on what already exists because of course there are providers out there who have effectively their own dashboards for different gatherings of individual pension pots and so on? So how is this going to sit alongside what already exists?

Joanne Segars: Of course all of these things really need to mesh together if they are to be useful and if they are to address some of Ms Buck's earlier points about the clarity of information and pulling together all of that information and making sure people can see, in one place, their current financial at retirement projections or position. So it rather supports Huw's point about making sure that all of this comes together in a single place.

We were looking at the work around dashboards earlier this week and noted that in the Netherlands, it is the Dutch national banks and the Dutch Regulator that actually owns the dashboards in the Netherlands I believe, so that could be one potential. I think the question of ownership is more open, but I think it is absolutely the case that we need to have that drawing together of this process from Government and the Regulators and that sort of bashing heads together from the Government and Regulators to make this happen.

I am old enough to remember when we were first looking at this issue when it was called combined pension forecast, before we were all technologically savvy and before we all had our tablets and we talked about pieces of paper and putting everything together on a single piece of paper through a combined pension forecast. That rather fell down because, as I recall, of the problems of getting data from the private sector and data from Government, in particular state pension data, together on one single piece of paper. So there are going to be some quite significant technological issues and data issues to work our way through, and I think that can only be led by the regulators and by Government.

Q48 Richard Graham: Who is going to pay for this?

Joanne Segars: I think the Government have been quite clear on that: this industry.

Q49 Richard Graham: Right. Is there going to be a levy or what?

Huw Evans: That is not clear yet. The big change in the last—

Q50 Richard Graham: What is your view here?

Huw Evans: Well, I think the industry has always accepted that it would have to meet the bulk of the costs of the pension dashboard for its own customers with their money. That is not an unreasonable position to expect.

Clearly, as I say, for me the success of the dashboard would be how many participants take part fully and you would expect the Government and the public sectors to take part fully in the dashboard project, and it would seem fair and reasonable that everyone meets their own costs for the point of taking part in it, just as you would expect them to meet the cost normally involved in providing a pension service for the beneficiaries of that scheme.

I do not think this is a huge financial commitment for the Government, but it is potentially a very significant commitment in terms of time and expertise and engagement, and that is the thing that I think has changed for the better in the last week because I think contrary to some previous indications, including to your Committee, we have seen a more determined bit of will from the Government to try to make this happen and hopefully we can build on it.

Q51 Richard Graham: Yes, and in terms of my last question, the leadership on this and is there a connection between this and having a pensions or a savings commission, do

you see any overlap there, or do you see it as two entirely different things with separate leadership and project management?

Joanne Segars: I think they go together in as far as we need to make sure there is a common end point, an agreed end point, and where the dashboard fits in to that. This was a bit more operational than one might like—or I might like at least—a commission to be getting their paws on, but clearly one would expect a commission to have a view on the role that the dashboard can play and they may indeed have views on ownership.

Huw Evans: I think the difference is it now feels like the dashboard is Government policy to try to make it happen. It is one of the core outlets from the “Financial Advice Market Review” to which the Treasury is a signatory. It is part of the Budget statements. That is a difference from the slightly more laissez-faire, “Well if you want the dashboards, you have got to go off and do it” type of attitude that we have had sort of loosely up to now. So that is the big difference, and the difference therefore with the commission is that the commission is not Government policy, we would like it to be but it is not. Clearly, this is one of many areas where a commission in future could apply greater consistency and skill to this area.

Joanne Segars: I think a commission could play a very important role in testing the efficacy of a dashboard. It is one thing for folk per se to have the information, but there is a bigger question about what are they doing with that information. So a commission could play a very important role in assessing the efficacy of those dashboards.

Q52 Richard Graham: Lastly, Chairman, if I may, and very briefly. How important is this and getting this right? Is this up there alongside the implementation of auto-enrolment and trying to have some form of clear sense as to whether we are going to retain current structures on pensions and tax free savings, rather than going into a workplace ISA environment, or is this an operational “nice to have” thing?

Huw Evans: I don’t think it can be as important as ensuring that people have the maximum amount of money in their retirement pot as they are able to get and then, when they come to take decisions about their retirement income, take them wisely and sensibly and do not make decisions that they come to regret when they have done the right thing and saved all their working life. Clearly, that has to be the most important thing.

It is pretty important for the reasons we have discussed—namely, that if freedom and choice are to work then people have to become much more informed about what is a much more complex retirement income position for them than it would have been in the old days where they might have had, as Mr Field said, an inadequate state pension and probably quite a generous occupational pension. There was not a huge amount for them to think about. They also had a system that defaulted them into an annuity if they had a DC pension.

Compared to that world, where we are now it feels like a dashboard is pretty much a must have. But if you are looking at what would be the worst thing for Government to get wrong over the next 10 years, it probably would not be implementation of a dashboard compared to moving to something like a pension ISA, which would damage the amount of money that people had to live on.

Chair: Joanne and then John.

Joanne Segars: For us as well, it would be focusing on auto-enrolment. Let’s get the job done. We have still got a huge tranche of small to medium-sized employers to get through

auto-enrolment, we need to make sure that lands very well and then we need build on, as we were discussing earlier, that whole issue around adequacy, making sure people have got enough to live on. They can have a dashboard, but if they have not got enough to live, they have not got enough to live on. So that has to be the focus, making sure we build on the success, and the very considerable success, of automatic enrolment.

Q53 John Glen: I think Richard has picked up on most of it. Clearly, there are people that are very familiar with the different pots they have and there are products out there from some private providers. My concern is that given the divergence in experience and understanding of pensions and financial literacy, given the issues around data, IT infrastructures, confidentiality and so on, there is a risk that this concept will be seen to be giving everyone an authoritative view of their overall financial circumstances. In fact, given all those issues, it would be extremely difficult to deliver in a timely fashion and it will under-deliver in terms of that level of assurance over people's sense of financial well-being and we could be setting up expectations of a clear communication of future entitlements that could fall well short. Isn't it important that the Government scopes this in a way that is meaningful and restricted to deliver the core essentials for the people that need it most, rather than trying to do everything for people that have a good idea anyway?

Huw Evans: I think I said at the beginning that regulatory input is as important as Government involvement for precisely that reason. This needs to be a regulated space in terms of the judgment calls that will have to be made about what type of content is there and how that content is put forward because as we all understand, and as Joanne has already alluded to, how you project or forecast a retirement pot is not an easy thing.

So it has to be a regulated space, I agree, and it is not a risk-free enterprise, but it is still an important thing to have in the overall scheme of things. I would hope that the ambition does not become too dulled down in terms of what needs to be there because if people's retirement pots are much more complex than they used to be, well, we should still aim to have that complexity reflected in the dashboard even if they need a lot more help to understand what it is that they are being told, and what they are told has to be quite tightly regulated.

I would accept all those pre-conditions but still hope that it provides a means to be suitably ambitious rather than to start from the view it is all going to be quite complex and therefore we should sort of narrow what is in it. I would rather go wider but make sure it is fully regulated and the caveats are made clear to customers about what they should use the information for. As with all dashboards, as Joanne said, it is only as good as the concentration that is applied into it and the way in which people choose to use the information, so it is not a good in itself; it is just something that will help.

John Glen: Sure, thank you.

Joanne Segars: I would agree with that and we need to make sure that there are the caveats and the clear signals around the dashboard about what it is there for and what it does and what it does not do effectively, so that savers can have a very clear indication of what the dashboard is telling them—but not build the dashboard around the needs of savers who perhaps can already add their pots together and figure out how much they have. We build it around those who are less financially sophisticated and making sure that it meets their needs and not the needs of those who are already financially savvy.

Q54 Chair: Joanne and Huw, it was a great session, thank you very much. I think you can guess how our report is going to take shape from that session. Thank you very much.