HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: Pension freedom and choice, HC 404

Wednesday 1 November 2017

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Watch the meeting

Members present: Frank Field (Chair); Heidi Allen; Jack Brereton; Emma Dent Coad; Ruth George; Steve McCabe; Chris Stephens.

Questions 1 - 68

Witnesses

I: Baroness Ros Altmann, Former Pensions Minister, Michelle Cracknell, Chief Executive, The Pensions Advisory Service, Andrew Seager, Head of Service Development, Citizens Advice, and Peter Vicary-Smith, Chief Executive, Which?.

II: Gary Bottriell, Board Member, Personal Investment Management & Financial Advice Association, Rob Yuille, Head of Retirement Policy, Association of British Insurers, Otto Thoresen, Chairman, National Employment Savings Trust, and Sir Steve Webb, Director of Policy, Royal London.

Written evidence from witnesses:

- Baroness Ros Altmann
- The Pensions Advisory Service
- Citizen's Advice
- Which?
- Personal Investment Management and Financial Advice Association
- Association of British Insurers
- National Employment and Savings Trust
- Royal London

Examination of witnesses

Witnesses: Baroness Ros Altmann, Michelle Cracknell, Andrew Seager and Peter Vicary-Smith.

Q1 **Chair:** Welcome. Peter, could you begin by identifying yourself for the sake of the record? Then we will go down to our other three guest witnesses today and then we will begin.

Peter Vicary-Smith: Peter Vicary-Smith, Chief Executive of Which?.

Baroness Altmann: Ros Altmann, former Pensions Minister.

Michelle Cracknell: Michelle Cracknell, Chief Executive of The Pensions Advisory Service.

Andrew Seager: Andrew Seager, Director of Business Development, Citizens Advice.

Q2 **Chair:** Could I ask a gentle question to begin with: how have you seen pension scams changing in the recent past?

Michelle Cracknell: You are right. We have seen pension scams evolving over the last few years. A number of characteristics are changing within them. First of all, a lot more are now based upon inappropriate investments rather than illegal activity, so encouraging people to invest their pension fund in something that is completely legal but totally inappropriate, for example has high charges, high risk or does not provide the income that the individual needs. That makes it very difficult because the providers cannot stop the transfers happening. People who come to our service say, "I thought that the provider would have stopped it", but of course if it is a completely legal action then the providers cannot stop the transfer happening.

Baroness Altmann: Reports of pension scams have been increasing in number so it would appear that the problem is growing, unsurprisingly perhaps. All the pension scams that I have seen emanate from a cold call, an unsolicited approach of some kind. In the past the scams were mostly about pension liberation, trying to get people to take money out before they were entitled to do so. Now it is about pensions being cashed in over age 55 or transferred into scam investments, as Michelle was talking about. We have this tussle between a desire on the one hand for consumers to be able to transfer their pensions very quickly—almost like a bank transfer—and on the other hand pressure on providers, who might believe that somebody is trying to transfer to a scam scheme, to be more wary and prevent it. We had a very unfortunate ruling from the ombudsman that found against Royal London for not transferring somebody's pension to what they thought was a scam scheme and that puts the providers in a very difficult position. I think we do need to clarify what the duties respectively are and what customers can reasonably expect.

Q3 **Chair:** We have got Steve later and I am going to ask him the same question but, Ros, as Minister, what tightening up did you do against scams?

Baroness Altmann: The best remedy is to make sure that people have help before they transfer. Ideally, that would be financial advice but obviously not everybody has that. The guidance service, like Pension Wise that is provided or The Pensions Advisory Service, can help people avoid transferring to scam schemes. One of the things that I was desperately trying to do, and we are still trying to do, is to ban the cold calling, like we have done for mortgages, so that you cut off the problem at source. It would need to include banning companies who cannot demonstrate they have not used leads from cold calls, not just the banning of cold calls.

Q4 **Chair:** What was the resistance and from where was the resistance coming to that eminently sensible suggestion?

Baroness Altmann: The resistance was coming from the civil service. I had numerous meetings at which officials gave me a number of reasons why we could not ban cold calling, including such things as, "Well, they emanate from overseas so it wouldn't really stop it," or, "We are doing it. We have Action Fraud. We have Project Bloom. We have lots of different things," or, "It is very difficult and complicated". When I subsequently asked written parliamentary questions, after I left the ministerial post, it turned out that a number of the reasons they gave me did not seem to have been valid. For example, they don't have any idea where these schemes originate from.

Q5 **Chair:** Ros, was that your own civil servants or from Treasury or both, or was it from other—

Baroness Altmann: Both. I had numerous meetings at which I kept saying, "We have done it for mortgages. Let's do it for pensions". I met with Project Bloom. I met with the various bodies, City of London Police and so on, but the answer was always, at that time, "We can't do it," or, "It won't work".

Q6 **Chair:** Given that we stopped the scams about mortgages—as I understand it, if one looks at public complaints—why wouldn't it work in this instance?

Baroness Altmann: As I say, I had a number of explanations that to me did not really ring true, which is why I kept going back and trying to have more meetings on the subject. Part of it was, "We haven't given it enough time. We have all these bodies working together on trying to prevent scams. We are going to advertise. We are going to help people". But, to be honest with you, I think that the Government have now recognised that we need to do this. The problem is that, if the Government do want to do it, they need to get on with it and do it quickly. That is why we tried to get it into the current Financial Guidance and Claims Bill and we have an amendment that was passed, although it is not the ideal way to do it. The second thing is to do it in the right way. By leaving it to the ICO, you are trying to catch people who have already scammed rather than trying to stop people being scammed.

Q7 **Chair:** Peter and Andrew, do you need to add anything to that?

Andrew Seager: Our research backs up Michelle's. In the first year after the pension freedom we identified 11 million people who had been contacted by scammers, instant choice of—

Chair: Sorry, Andrew, can you repeat that number?

Andrew Seager: Our research showed that nearly 11 million people had received unsolicited contact about their pension—a key warning of the scams—in the first year after the pension freedom. Instantly we saw language and hooks that came up, things like, "Let's have a pension review. Let me give you pension advice". They are so quick off the mark and so ready to move into any opportunity. Pension Wise does enable people to feel confident about scams but that is only when they get to Pension Wise. People think they can recognise a scam but, in reality, it is very different.

Q8 **Chair:** That side of the scamming industry works rather well, doesn't it?

Andrew Seager: Depressingly so, yes.

Q9 **Chair:** I was surprised when, at 75, I had to take part of my pension, I did not get calls—I don't know why I didn't—but I did get correspondence advising me what I had to do.

Andrew Seager: It is very slick. It is very sophisticated.

Chair: Obviously, they were programmed for people's 75th birthday and, bang, the letters came through. Peter?

Peter Vicary-Smith: The only thing I would add—and we were talking about it before we came in—is that this is not a group of people running any form of legitimate business. These are people who started off on PPI. They have moved on to other forms of nuisance calls and they are now doing pensions. They are out for a quick buck and they do not care who they are cheating to get it. I would regard them as criminals who operate across wherever they see an opportunity to defraud a vulnerable person.

Q10 **Chair:** That is a very important point. They acquire abilities to activate their scam very quickly, don't they?

Peter Vicary-Smith: Exactly.

Baroness Altmann: One final point that I think is relevant is that, when the advice was coming through about not being able to ban cold calls, I felt that there was not enough attention being paid to the consumer point of view. One of the big reasons to ban cold calling isn't necessarily to stop it happening, because that is pretty difficult to do—there will always be people trying to do it—but the important thing is to be able to give the public the message that anyone who does contact them out of the blue about their pension, or whatever, is breaking the law. They are criminals. That will allow the public to not fall so easily for these issues and that is why it is so important.

Chair: That is really important, Ros, because at the moment to do what was done to me was not unlawful, so it was not a criminal act. You are suggesting that we make that sort of approach unlawful so that it would be criminal.

Q11 **Ruth George:** We know how clever these fraudsters are. They are picking up on the Government's advertising scheme, following up, pretending to be phoning as part of the Government's own review. How would you prevent that from happening?

Michelle Cracknell: A ban on cold calling will help because we will be able to put out a very clear message that you are never contacted by the Government for a free pensions review, so anybody else who is purporting to do that as part of the Government initiative is misrepresenting themselves. That will be a very clear message to get across. We have to recognise that pensions are always going to be rich pickings and a big target, because we have the perfect storm of low levels of knowledge of people understanding their pensions, coupled with an asset that is quite often the biggest or the second biggest value that they have. I think we should be doing more about raising customers' awareness of their pension, their ownership of it and how they keep that safe. There should be more general public service awareness of that particular point to try to make people be very wary. We need a similar sort of campaign on pensions as the work that has been done on bank accounts: be very wary about giving away your PIN.

Baroness Altmann: We need to help get the message across to people that direct marketing to somebody's personal mobile, home phone number or personal e-mail address, for example, has no place in business models for modern business. That does not stop anybody advertising, taking out blanket advertising, asking people to contact them, but this idea that somehow it is perfectly acceptable to do this—to have the sucker lists, to sell on the leads from the cold calls—needs to change.

Peter Vicary-Smith: We need to look at this in the context of what has happened on similar types of frauds across a range of industries. We have just submitted a super-complaint on bank transfer frauds and the themes come out very similarly. There are often some things that providers can do to make it harder but, fundamentally, it is about giving information to people so that they are more mistrusting of anyone who just rings them up or contacts them online. It is a sad indictment of where we have got to, that we have to encourage people to be mistrusting in that way but, ultimately, that is going to have to be the backstop.

Q12 **Ruth George:** Do you think that that would be effective in preventing the sort of scams that Michelle mentioned, which are perfectly legal but are often very high risk? I had a constituent who was persuaded to put his life savings into care home investment and was told he would get a 15% annual return on it. He just did not realise and, of course, the company folded and he lost everything. How can we prevent those sorts of legal scams happening?

Peter Vicary-Smith: Then you are into the question of guidance/advice.

Baroness Altmann: The amendment to the financial guidance Bill that was passed last night—if it is maintained and implemented when it gets to the Commons—would be a massive step forward because it would automatically enrol people into guidance. Anyone who called up their provider to ask them to either transfer the pension somewhere or take some money out would automatically be given an appointment with the Government's free guidance service. Pension Wise is doing a tremendous job but not enough people are using it. It was set up deliberately to help with pension freedom and so far providers have been quite good at pretending they are trying to pass people on. Some of them genuinely are but most of them want customers to call their own hotline and buy their own products, which you understand but I think we need to change.

We have people going into pensions automatically. We are not following through at the other end and automatically helping them to understand how to deal with their pension savings or avoid losing them. If somebody who has been scammed had an appointment with Pension Wise the first thing they might be asked is, "Is this scheme something that resulted from a cold call or an unsolicited approach?" That would immediately raise the alarm bells and help avoid some of the problems because they would be talked through the risks.

Chair: But if any of our constituents are offered products with a 15% return either they ought to be advised to lie down in a dark room or, if the person providing it still believes that, they should be invited to do so. Anything over 5% surely ought to ring alarm bells.

Q13 **Steve McCabe:** It is good to hear that this amendment was passed last night. Who was against it and what were the reasons?

Chair: You were there, Ros.

Baroness Altmann: To be honest, I am struggling to understand the Government's position on this. I don't know anyone who is begging for us not to ban cold calling. I don't know anyone who is begging for us to make sure not enough people go for the guidance that was deliberately set up. It is called a guidance guarantee. It was meant to guarantee people would get the help they need. When you introduce pension freedom into a marketplace that has never really been encouraged to engage with pensions and mostly does not understand much about them, obviously you need an expert to help you. I don't quite understand why the Government have resisted this and maybe you can tease that out when it comes over to the Commons, if the Government are not supporting these amendments.

Steve McCabe: You are not going to help me, are you?

Chair: The dagger is passed to us.

Q14 **Heidi Allen:** Some of this, as we have heard already, hangs on people getting the right advice and knowing it is trustworthy advice, and that is Pension Wise but just not enough people are using it. Michelle and Andrew, do you want to give me your views on how on earth you get more people to that advice? Do you have to drag them there? Then if Ros or Peter have any views as well.

Michelle Cracknell: There are green shoots and people understand they need the guidance. The reason I say that is that Pension Wise was set up very specifically as part of the Chancellor's promise attached to the pension freedom and it deals with one element of pension guidance, which is the retirement options on defined contribution. In the early days, a lot of people who were accessing their pots were just tidying up old small pots that they had but were not really looking at their retirement options. We have now seen that dash for cash change very significantly to people who are thinking more fully about their retirement. We have been delivering pension guidance on all types of pension schemes and over the last three years have seen an increase of 143%.

Chair: On a very low base, though.

Michelle Cracknell: Yes, absolutely right. Pension Wise is starting to see an increase in the take-up rate. In the first six months of this year there have been 40,000 appointments compared with a total of 60,000 in the previous year. But you are right that it is a small base.

Q15 **Heidi Allen:** Why do you think you have had what seems a good increase already? Have you done something different, more advertising or—

Michelle Cracknell: No. I think it is the fact that people are now taking their pots because it is part of a retirement plan, rather than the dash for cash that we saw in April 2015. We need to work even harder because, while we are really proud of our increase, it is still only a small fraction of the people who should be taking guidance. What we need to look at is that in the past people did not need guidance because they were exiting defined benefit schemes. We now have a change in pensions. People who are now in their 50s are likely to retire with a very significant part of their pension coming from defined contribution arrangements. I believe that we need to have an intervention, so that people realise now that the responsibility for their retirement income is with them. We need to push people towards guidance and independent, impartial guidance is part of this: "If you want to have details about your pension pot, here is a time for your appointment", so that, from a behavioural point of view, the individual is more likely to change the time of the appointment rather than cancel it.

Q16 **Heidi Allen:** That would be automated correspondence that goes out a year before your cold call letters arrive?

Michelle Cracknell: Yes. If you make contact with the provider to ask for the value of your policy, you will get back an appointment time for when you should go and receive some independent guidance about that.

Q17 **Chair:** What would be the objection, other than muddying the water? The one exception to cold calling would be your service, that you would make the contact with people. They would expect only one. You would obviously bag a huge number of names so that people could not bag the name near yours to pose as you, but wouldn't that proactive way be a possible advance?

Michelle Cracknell: The only issue we would have with that is not being able to send out a clear message about, "If you receive a call don't respond to it".

Chair: No, I can see that.

Michelle Cracknell: We would need to have some form of security measure that validated it, as we do with the Pension Wise appointments at the moment. We call back but only after you have organised the appointment yourself. We do need to make sure that we have the security in place so that they recognise the difference, because we know people are mimicking The Pensions Advisory Service and using names very similar to ours to purport to be part of the Government service.

Q18 **Heidi Allen:** You are right that the damage is almost done, isn't it? The scammers have got there before we thought of it so that message has been diluted, hasn't it? Andrew, what is your view?

Andrew Seager: I echo what Michelle is saying. When people get to Pension Wise, it is working well. We are seeing those green shoots, we are seeing demand going up, but the devil is in the detail of exactly when people get there in the first place.

There are two things from our perspective. What we are trying to do is make people talk about pensions and view taking guidance on it as a social norm. When we introduced the pension it wasn't, and that takes time. We are very early on in that. There are two things we could do. First, we could look at what Pension Wise does and how you get into that system, such as default guidance and exploring, piloting and testing that to see how it works. Also, it is about making sure that when they reach Pension Wise it is giving them what consumers need, so not making it difficult, enabling more than one appointment, widening the reach about what Pension Wise covers, all those kind of elements.

The second thing is to get people talking about pensions as a social norm. For us, that means being proactive at life events that impact on your future money, like having a baby or starting work, and then offering an intervention. We talked in our response about a money MOT, which is an idea that is a bit of a money makeover to look at where someone is: how they are doing; how they are saving. Do they need any input on saving? Then it is about creating a personalised action plan for the next steps they need to do. That would be another way of making a seamless route into thinking there is other support and guidance that you could have available, whether that be debt advice or advice on money management. I think there is more we can do on both those fronts.

Q19 **Heidi Allen:** Ros, with your other hat as an ex-Minister, how doable is this kind of change?

Baroness Altmann: One of the problems we have is that we have introduced this radical new system for pensions and we have not really changed the processes that go with it, so people are left dangling on their own in a way that they should not have been. The idea of having the guidance automatically to help people is absolutely right but we have not put in place different processes. Part of it is about the FCA. If you think about it from the consumer perspective, what you need to do is change the journey and we have not done that.

We still have these so-called wake-up packs of 40 pages, guaranteed to send you to sleep. They are sent out six months before some supposed pension age, at which time most people are still going to be working. The message they send to people, which was deliberate before, is, "Your pension is over. You now need to decide what you are going to do". That is completely the wrong message at a time when people are still working and are likely to keep on working for a number of years. There could be a different process that directed them at that point to free guidance, in the way that Michelle was describing, but you have to put the onus on the provider to send them an appointment that they can change. It would be a telephone appointment but if they want face-to-face they can change that. That is automatically built into the process and they can have discussions about whether they need to do anything with their pension at all. If you are still working, the best thing you can do is to put more in and keep it invested, and keep on investing until the point where you might want to take money out.

Alternatively, what would be ideal is if the FCA was to do away with the wake-up pack six months before whatever the pension age is and send some kind of wake-up message at age 50, so to everybody when they reach their 50th birthday, "This is the start of the second half of your adult life. You are eligible to go—"

Chair: We hope.

Baroness Altmann: It should be. That should be the norm, "This is all you have in your pension so far". We need a standard pension statement where everybody can see what they have, on one page ideally, and they can see what they have built up so far, and then the message is completely different. It is not about the pension ending and taking your money out. It is about, "This is what you have so far. How much more might you want? Let's plan how to do that".

Peter Vicary-Smith: There is an important point in what Andrew was saying about what Pension Wise covers. At the moment—and this will decline over time—people are retiring or coming up to retirement with a mix of different schemes: DB or DC. What they need is somebody who can take an overview for them and give them guidance: "When you've got a DB pot, this is what you do with it or these are your options," or, "You've got this DC pot and this is what you might do with it". At the moment it is a bit too boxed in. One thing that is said to us by people who have gone to Pension Wise is that, "Because of my circumstances I am beyond what they have been able to give me guidance on". I think widening the scope by taking different things into account would be helpful.

Q20 **Emma Dent Coad:** What Andrew was saying about making the discussion of pensions a social norm was interesting. I don't think I have ever had a discussion about pensions with my peer group, whereas young people are saving for weddings and are prepared to spend £15,000, £25,000 on weddings without a thought for their future. What practical difference could this single financial guidance body make in the provision of comprehensible, user friendly, trustworthy and thereby effective guidance, if I knew nothing about Pension Wise? How can we do that? How can we bring the people to the advice, because that is clearly not what we are doing at the moment?

Michelle Cracknell: One of the functions of the single financial guidance body will be the provision of pension guidance. That is quite important because that covers an individual's retirement situation and whatever types of pension they may have as part of that, the total pension position. That is already in the functions of the new body. However, we must not make the mistake of thinking that just by creating a new body we are going to have people rushing to its door.

Picking up on Andrew's point, it is going to be incredibly important to create this social norm of, "Because I am 50 I should be getting an appointment". All the behavioural science says that if you automate it then people will go and have that appointment. We need to have that intervention to reflect the fact that your retirement income is now your responsibility compared with a lot of retirees now, where it was all done for them, either through the state or through their employer provisions. We need to start introducing interventions, like the mid-life MOT, and when you get your pack from the insurance company you already have an appointment booked with the Government service to talk about your pension.

Andrew Seager: Building on Michelle's point, the other two streams that come into it are anything about money and debt, so it is a connected issue. We know from our own clients that one in four who reach Pension Wise have connected issues of debt or benefits. The point about making it joined-up and holistic for the consumer is important so that they seamlessly move in. There are already good referral links, like us and TPAS have had referral links for—I am not going to say how many years, but longer than my time. It is just making it really easy so that, if someone comes forward and wants help, they can seamlessly get to the right person at the right time and it does not make it any more difficult for them.

Q21 **Ruth George:** If somebody does come to you with debt problems—and we are obviously going to see more of that as we get the rollout of Universal Credit and personal debt increasing—can you advise people about accessing their pension pot in order to more cost effectively reduce their levels of personal debt or, even if we get interest rates rising, if they are tied into a mortgage that is not a very good deal?

Michelle Cracknell: We have done analysis of the number of people who come to us for pension guidance who have problem debt issues, and that proportion is relatively small. In fact, 1% of our callers identified problem debt issues and we pass them to people who can sort out those issues. That is what we are already doing to transfer people across with problem debt.

Q22 **Ruth George:** Do you ask them about debt?

Michelle Cracknell: Yes, we do.

Ruth George: They don't have to self-identify?

Michelle Cracknell: No. We ask them about debt. Part of the Pension Wise appointment is to ask whether they have any outstanding debt. It also forms part of the fact-find we do in our general pension guidance service. We already do the referrals across. The other thing is that organisations share knowledge, and I believe this will become even more the case with a single guidance body. We are doing some work with debt advisers at the moment, so that they understand how to treat pension contributions when they are putting together debt repayment plans or IVAs. We work on those sorts of things together. Under the new body, as Andrew said, it will be more seamless than it is currently but it is already happening.

Q23 **Chair:** Ros, we are endlessly talking about what the Government should do, and there clearly is a Government role, but, so that we do not totally depend on the nanny state, what do you think the industry should do?

Baroness Altmann: There should be an onus on the industry—going back to the pensions process—if anyone wants to transfer money or take some money out, to send them an appointment for free guidance before they get anything about what the provider can offer them. That should be the first port of call. At the moment, it is all mixed up in a letter from the provider that also gives the phone number that people can call to talk to the provider's own hotline. Then they think they have had the free help and they don't even bother with Pension Wise. Before the provider is allowed to capture the customer in that way, it should be automatic that they have the opportunity of an appointment. We know that not everyone will take it but, if it is automatic and it becomes the norm, far more people are likely to say, "Okay, I'll have that". If it is a half hour conversation and they have the time and they can change the time to suit them, I think that is critical because—

Q24 **Chair:** They should have in their advice, "This is not a company stooge. This is somebody who is independent from the company".

Baroness Altmann: That is where I think there is another potential issue for the public. At the moment, what they are being offered is what is called free impartial guidance. Those words, apart from the word "free", are not particularly meaningful to the public. Talking about independent expertise and saying that there is an expert there to help you—those sorts of messages—are probably going to resonate and be more attractive to the customer. This is a marketing issue.

Q25 **Chair:** Free and independent are the two key things for people, aren't they?

Baroness Altmann: Yes. The second thing that providers must be encouraged or forced to do is to give people these simple, standardised statements. Whether you call it a pension passport or a standard form, somewhere on one piece of paper, you should use the same words for the same thing and people should be told, "This is what you have in your pension".

Q26 **Chair:** Like we get with our monthly pay cheque. This could say what assets you have and what you might expect from that.

Baroness Altmann: Also if there are any special terms or whatever else, because pensions obviously are not simple like a pay cheque. There is a possibility to have standardisation. So far the regulators and the Government have resisted that. Of course it would impose some kind of cost on the industry but the people who would be most against it, I believe, are the people who are the worst offenders in trying to hide, in complex jargon, what the customer actually has so they don't quite figure it out.

Peter Vicary-Smith: The purpose of this single advice point is to get good consumer outcomes. It should be relatively ambivalent about the delivery channel that is required to get that outcome. One of the lessons from MAS in 2010 is that, to be able to give a good consumer outcome, you need to be able to fully assess the consumer need. Getting that right at the beginning is going to give a better result at the end.

On the question of what the industry does about it, whether you want me to talk about it now or later, I would like to get on to product innovation in the context of the pension freedom, which has been pretty lamentable so far. One thing the industry can do more is develop products that are not just a simple, "You can have an annuity or the pension drawdown, which is the one we used to do anyway". There has not really been any great development that I have seen beyond that.

Q27 **Emma Dent Coad:** I want to follow up on a point that Ros brought up about the age at which people should be prompted. For a lot of people I think even 50 may be a bit too late. I wonder if the best wedding present is a pension plan. That would be a good industry push. As I said, there are times when people spend an awful lot of money on weddings or any kind of partnership that people are entering into. That may be the time to prompt people rather than leaving it until halfway through your life. As I said, I have never had a conversation with my peers about pensions.

Baroness Altmann: What I would recommend and was trying to instigate in the workplace was that, while we are introducing auto-enrolment, part of the requirements of any workplace auto-enrolment scheme should be that there is proper financial education information and guidance in the workplace alongside auto-enrolment right from the start. That is something that this single financial guidance body is meant to have in its remit—to offer financial education before the workplace. What I think we need is to make sure that it is available in the workplace, because that is obviously the most efficient and effective way.

Emma Dent Coad: But not everybody is employed, of course. General education is more important.

Baroness Altmann: It is coming into school education, but then we are missing anyone who is beyond age 18 in the meantime. You are absolutely right that we need to make sure that we have an increase in the level of financial education. The reason I suggest age 50 is that you have to start somewhere. It was a success for us to get the age that you can start going to Pension Wise down from 55 to 50. That was my deliberate attempt to have a conversation that is not about taking money out, because at 55 you can. It is about how much more you might want to put in, which is what you could look at at age 50. Maybe your kids have left home, maybe your income is increasing and you can start planning to put more in.

Q28 **Jack Brereton:** I want to touch on the pension dashboard. It has been suggested that people have 11 different pension pots over their lifetime and the dashboard is a way that people can view all their pensions and pension pots in one place. What do you think the Government should prioritise in developing that dashboard?

Peter Vicary-Smith: We have been very supportive of the introduction of a pensions' dashboard by 2019 and welcomed the Pensions Minister's recent commitment to delivering the project. What we need is to see a clear plan to ensure that it is delivered on that timescale. We are going to be publishing a report over the course of the next month that is looking at the specific things that should be in it but, broadly, the key asks are going to be legislation to give a legal right to access data in a clear form and electronic format, so that individuals have a right to access that from the providers regardless of the particular pots that they hold.

However, there needs to be not just basic information. It needs to include things like charges, contributions, benefits and guarantees. You are going to look at this thing once, initially, and say, "Is that helpful to me?" and if all it does is say, "There is a pot there and a pot there", that does not tell you enough about what you should be worrying about now. We know the effect that different charge levels have upon returns, so by giving charge levels on a pot people would see, "That looks a bit of an expensive one. I wonder if I should move that over". It should be the source of not volumes of 20 pages of information but simple data that starts prompting the kind of questions that people should be asking.

The final thing is it should be regulated by the FCA, and these things should be hosted on the website of the new single financial guidance body. It should be a standardised format and a serious piece of financial information and, therefore, deserves regulation to ensure it is being done properly.

Q29 **Chair:** It is more than just putting the rate of the charges down, isn't it? To most of us the charges look gentle beyond belief but if you said, "Over 30 years this is what it will cost you, a third of your pension would have disappeared"—

Peter Vicary-Smith: Yes, absolutely. The difference between 0.75 and 0.5 is £45,000 over the course of the pension. But I think you want to prompt the questions. There will be resistance to putting in lots and lots of information. You don't want to drown people in information but the pertinent stuff that people are saying to us is: "I want to know where my pots are. How much is in them? What am I going to have contributed if I work to 65 or 70? What is it going to look like at the end?" That will seem like a big number, so what does that mean per year for you and your partner? That is often forgotten in these sorts of calculations. It needs to be in one place. It is great to see the dashboard coming in. I think it needs to come in with a degree of information beyond that which we fear is currently being planned. It is a big undertaking but it is a really important one.

Q30 **Chair:** Ros and then Michelle, given the reply to Jack was that this seems quite simple to me, what is the problem?

Baroness Altmann: I don't believe it is simple for legacy pensions. I think the current auto-enrolment pension schemes will all pretty much be online and have information that they can then upload, but most of the old-style pensions, which lots of people in their 40s and 50s would have, will not be in a format that can go immediately online. The cost of doing that will be quite significant and for defined benefit schemes even more so. They do not even have the correct records for many of their members on paper, never mind on a system. Records have been lost over the years. We have to recognise there are practical difficulties in getting everything in one place but that does not mean you cannot start with what is possible.

I would like to reiterate that one of the things that is so important alongside this dashboard—and possibly even instead of it for some people—is to have a standardised format for telling people what their pension is, what is in it, in a simple readable format. Even the legacy providers would and should be able to do that. It would help the customer, and also any guidance service they needed to go to, to understand what this piece of paper meant. As I understand it, at the moment a lot of advisers' time—and possibly the guidance service too—is often spent trying to find out what it is that this person has in one pension and then you have to chase up all the other ones, so standardisation. LV have been working on a prototype for this, which I believe has had some very good results and I hope the Government will adopt that.

Q31 **Chair:** If the records for defined benefits are in such chaos, how does anybody know they are getting the right pension?

Baroness Altmann: To be honest with you, Frank, there is a significant element of uncertainty in many schemes about what the true entitlements are for many of their members. Partly it is a function of takeovers and mergers of previous companies many years ago, when records were all kept in boxes and pieces of paper and some of the boxes got lost when the company moved headquarters. Partly it is a function of the incomplete reconciliation of GMPs and that is adding significant complexity. Then you are going to have all the equalisation potentially going on. Even your state pension statements that you get currently are not totally reliable because they have not been reconciled to the old GMP.

Chair: That might be another inquiry, Ros.

Q32 **Jack Brereton:** You mentioned a number of things that you think should be done in addition, like a mid-life MOT and pension passport. Are there other things that you think Government agencies and the industry should be doing? I am particularly interested in the potential for some sort of comparator system within the dashboard or something that the industry could look at. What other things do you think could be done to make it easier for consumers to access and be engaged with their pensions?

Michelle Cracknell: On the dashboard, we have to recognise where we are in the journey. Making people aware of needing to talk about their pension and retirement income is a piece of work that we need to start on because the dashboard is going to be an enabler of getting information more easily. It is not an engagement tool. The people who use it will be those who are already very well organised and, therefore, the people who really need it—from the conversation we had earlier—are those for whom we need to create this new norm that they start thinking and getting help regarding their pension.

To answer your question as far as what is held on the dashboard is concerned, we would love to have lots of information on the dashboard in order to do our job, but we have to be really careful because there are two issues with that. First, we do not want to stop suppliers of the information because they say, "I can't provide all of that so I won't put any of the information on the dashboard". That would be a great mistake because we would be a lot better off today if we just knew that we had six pensions with no information. We are not able to do that today, to go to one place to find out all of our pensions.

Q33 **Jack Brereton:** Why is it so much more difficult to do that? If I want to go and change what energy I am on or where I get my car insurance or something like that, I can go on a comparison website and see all the different potential schemes that I can subscribe to or different ones that will get me a better value. Why can't we do that for pensions?

Michelle Cracknell: It goes back to the legacy of pensions. There are hundreds and thousands of pension schemes that have been set up by individual companies. We have a huge fragmentation in this country that leads to a colossal amount of tracing, coupled with the fact that they have moved. Unknown to the member of the pension scheme, they could have moved because the ownership of the company has been moved as well. That is the reason why it is so difficult. These small pension schemes that a company set up back in the 1970s do not have the central records in one place, as you are suggesting.

Andrew Seager: I echo Michelle's point about tools. There is a range of tools that we can have to help consumers. It comes back to that norm piece about making people talk about pensions at a much earlier age and not leaving it until 50, so making sure that we are embedding that and making it much more of a social norm. That will take a lot of work but it is worth paying off because the risks of people making wrong decisions are too great. As deliverers of guidance and debt advice, there is a lot more all of us in this room can do.

Chair: Thank you all very much. The Bill that you were talking about, Ros, comes back to us probably in a month's time, so, although we might want to discuss afterwards how we move to a report about the advice, I think you have managed to persuade us not to touch the dashboard as something that we could immediately effect. Thank you all very much for your session.

Examination of witnesses

Witnesses: Gary Bottriell, Rob Yuille, Otto Thoresen and Sir Steve Webb.

Q34 **Chair:** Welcome. Steve, can you begin our session yet again by identifying yourself for us and then we will go down the panel?

Sir Steve Webb: Thank you. I am Steve Webb. I am Director of Policy at the mutual insurer of Royal London and I am the last Pensions Minister but two.

Rob Yuille: I am Rob Yuille. I am Head of Retirement Policy at the Association of British Insurers, standing in for Yvonne Braun, the Director of Long-Term Savings and Protection, who is ill.

Otto Thoresen: Otto Thoresen, Chairman of NEST, the National Employment Savings Trust.

Gary Bottriell: I am Gary Bottriell. I am a financial adviser who deals with the public at the retirement horizon, but I am here because I am member of the board of PIMFA, the trade association for investment management and financial advice. For the record, I am also a member of the Professional Standards Board of the Chartered Insurance Institute, which is responsible for the professionalism of advisers in the space.

Chair: That is on the record, even if it has gone over my head.

Q35 **Chris Stephens:** Gary, could you tell us what you believe are the reasons for the high proportion of transfer advice that has been issued to defined benefit scheme members found by the Financial Conduct Authority to be unsuitable or of unclear benefit to the customer?

Gary Bottriell: To be perfectly honest, not very much. I do not operate very much in that space and I do not believe many of the members of our organisation are particularly active in that space.

It is quite clear that transfer values are very high as a result of very low yields. Quantitative easing has meant that transfer values are quite often 30 or 40 times the pension. I can think of a particular case I saw the other day of a chap who had worked for BP for many years and was looking at a pension that he could draw at the age of 55 of £21,000 a year. He was told on the scheme's portal—he was not asking for a transfer value—that his transfer value was £987,000. He did a bit of mental maths and thought about himself and his wife and his two children, still at university, early in their careers, and thinks, "If I can harness that sort of level of value and put it to good use for the benefit of me, my wife and my family, we are probably going to extract a much greater benefit than we would just accepting the £21,000 a year that comes from BP". The other thing that is very sharp in people's minds is death benefits, because they appreciate that if he dies that would become £16,000 a year for his widow that would be taxed, but if he has taken the transfer value she would get a tax-free £987,000. It is a very compelling story.

My experience over the last couple of years has been more about trying to persuade people to recognise all the issues, getting them to recognise their longevity, explaining to most people in their 50s that they have a 25% chance of becoming 97 and probably, if they accept that transfer and invest it wisely, there is still a 20% chance of running out of money during their lifetime. They need to understand that before making a decision.

Q36 **Chris Stephens:** Do you think that the regulation in relation to transfer advice is adequate at the moment?

Gary Bottriell: I think it is adequate, because I have the qualifications and I respect the need for me to sign a safeguarded rights certificate and I take that responsibility very seriously. I will not sign them if I think there is a degree of misunderstanding or the client does not have the capacity to lose the money and can't take those risks. I do accept that there are firms out there that have set up commodity-based operations of, "Come along. Let's have a look at your pension. Let's do a transfer". I am slightly reminded of a moment in 1987, when I was an adviser in the first year of regulation, when the first pension transfers came along and we saw a major pensions group with a man outside of B&Q with a big hoarding saying, "Got a pension? Come and talk to us". They were aiming themselves at NHS staff.

I would like to think that regulation and professionalism has moved us on from that position, but there does still seem to be some commodity-type operations popping up that are probably finding regulatory systems whereby they can do this on an execution-only basis and they have somebody with the qualifications to sign those certificates. I think that the focus of attention should be the quality of the people doing it and professionalism. That is what it boils down to.

Q37 **Chair:** Steve, on Chris's question, would you like to introduce your bar chart to us?

Sir Steve Webb: Yes. I am grateful, Chair. This is from the FCA's retirement outcomes interim review and it is on this issue whether people are taking advice or not. I believe the Committee members got it this morning and hopefully have circulated it.

What I was struck by is that the top chart says that, in the drawdown space, two-thirds of people are taking advice—70% are taking advice. But what the bottom chart shows is essentially exactly what you would both want and expect, which is people with serious amounts of money are taking advice and people with very small amounts of money on the whole are not. If you look at the final column on the left-hand side, if you have a pot of less than £10,000 you are not going to spend £1,000 on advice and it is pretty obvious what you are going to do; you are going to take the cash. There is no drawdown product that is going to be suitable and you would not get a very good annuity. There is a risk that we understate the extent to which the system is broadly working. The majority of people with serious money and options are taking advice, although there are problems, as we have just heard.

Coming to your question, Chris, about the tail, the FCA reported on the issue that you raise about suitability of advice. They give three things that they found were not working as they should have done—if I could share that. The first is not obtaining enough information about clients' needs and personal circumstances; just not asking the right questions. The second is failing to consider the needs of the client alongside the client's objectives. You know what the client wants, but what do they need? Are you thinking about what they need? The third is not taking an adequate assessment of the risk a client is willing and able to take. If you have a client who could not cope if they lost money, or who is very cautious, you do not put them in a high risk investment. I think there is a tail. Most advice is very professional, very good and well done, but what the FCA is finding is that there are cases where it isn't. I fully support anything the FCA does to make that advice good quality now because we do not want people coming back in five years' time saying they were missold.

Chair: And it should be independent.

Sir Steve Webb: Absolutely.

Q38 **Ruth George:** Your figure 15 does not show the numbers of people who are affected by the size of pots and the numbers taking advice or not. I have been working for the shop workers' union for many years. The vast majority of our members have pension pots of between £50,000 and £100,000, which is their entire life savings and what they will need. It is quite worrying to me that about 27% of those people are not taking advice and we saw a lot of the scams that were mentioned in the previous session, about people being persuaded to put their money into very high risk investments and often they lost everything.

Q39 **Chair:** Ruth, before we bring Steve back in again, this does not tell us whether it is independent advice. This is just advice, isn't it?

Sir Steve Webb: When you say independent—

Chair: Well, separate from the people who have got your money in the first place; that is you.

Sir Steve Webb: I work for Royal London pension provider. If you come to us and say, "I want to access my cash", first, we do not employ any advisers at all. Secondly, we are obliged by law to say, "Have you been to Pension Wise? You ought to go to Pension Wise. Why not go to Pension Wise?" That is all far too late, as Ros said. We have found when we say to people that phone us up six months before pension age, "Why don't you go to Pension Wise?" they say, "Why are you trying to stop me getting my money?" The research evidence is people have already decided that late, so all of this stuff, all of this pointing to guidance needs to be much earlier when people have not made up their minds and the guidance can help shape it.

On your point about independence, Chair, if an employer wants to pay for financial advice for their workers deciding whether to transfer out or not, I think that is an entirely good thing if it is genuinely independent. Not, "If you can get more people to transfer out we will pay you more," but if it is genuinely independent, the more advice we can get to the question I was asked the better.

On the shop workers' issue, if they have a final salary-type pension then, if they want to transfer it, it is mandatory advice. Tesco has run a final retirement scheme for a long time, for example. But if they have a DC pot then certainly, if they had £30,000, £40,000, £50,000 in the past they would have had no choice. They would have been forced to buy an annuity, £30 a week for the rest of their life or something.

What we definitely need is more advice and what I would like to see is advice vouchers. The problem we have is advice is valuable. Advice is generally well received by those who take it but people do not value it or appreciate it. We have to get people through the door—literal or metaphorical—of advice and have a pilot of advice voucher. A shop worker is given an advice voucher. They have a first consultation for free, or something like that. If they don't want it that is fine but, if they realise it is valuable to them, we have got them through the door.

Q40 **Chair:** Is your company going to pilot that, Steve?

Sir Steve Webb: I think it should be the Government and industry together. I would be all in favour of that.

Otto Thoresen: Chairman, can I clarify a couple of things?

Chair: You were going to come in later.

Otto Thoresen: But on this issue. I think this issue about DB to DC transfers and also pot sizes is important. Much of the discussion I have heard this morning has largely been about what I might describe as the retail market—people who have had personal pensions who have chosen to turn their personal pension into a retirement income in one way or another or not. We cannot forget the occupational sector, which is a huge part of the pension provision, whether it is DB, for those who are fortunate enough to be in those schemes, or DC, which more and more is the norm.

The retail sector still has a tendency to think mainly about those with pot sizes closer to £100,000 and above, rather than pot sizes of a more moderate level. But a pot size of £40,000 or £50,000 can make a 25% difference to your state pension every week, so that is not to be ignored and not to be treated lightly.

The other point I was going to make was that we still have two regulators operating in this space. We have the Pensions Regulator, which operates predominantly on the occupational side, and we have the FCA operating on the retail side. The boundaries there continue to concern me. Having been in the industry as long as I have, I know some of the issues that can create. That is something we should not forget.

The final point I would make is there is also a real risk that we think about the advice piece as something that only has to happen once, when a decision is made, but if you move into a vehicle that provides retirement income for the final quarter or the final half of your life, there will be many points along that journey where you are going to need more support and guidance to continue to make the right decisions. We must be careful not to build in a faith and a dependency on advice being able to deal with those issues all the way through people's lives, because the cost of that as a proportion of the pot size would be very, very significant.

Q41 **Jack Brereton:** There has been quite a lot of concern about the amount of people using the freedom they have within their pensions. Research has shown that there are very low levels of people who are shopping around. The ABI indicates that 94% of non-advised drawdown sales were made to existing customers. I would like to ask what further encouragement the industry needs to ensure that individuals are making the best use of their freedom, and particularly on the point that I asked the previous panel: what other tools could be put in place, such as comparator websites, to help people engage more effectively with that freedom?

Chair: Rob, would you like to begin?

Rob Yuille: Yes. As Steve said, it is worth remembering that people are making good use of freedom already. When we say "good use" that implies a value judgment that this is good for them. What we do not have is a stated desired outcome, both of the policy and for an individual, of: what does a good retirement outcome look like? That could be a useful output of this Committee or the FCA's pension strategy that we are expecting. From what we are seeing, people are generally using pension freedom sensibly. Those who are accessing small pots are taking them as cash and those with larger pots are generally putting them into regular income. There are lots of people accessing the tax-free lump sum and then taking no income and, presumably, continuing to contribute.

I should pick up on the 94% figure. You should not see that in isolation. Most people buy an annuity, a guaranteed income, and most people going into drawdown are switching at that point. It is not surprising that a large number of people are remaining with their existing provider to go into non-advised drawdown. Before the pension freedom, that did not really exist. What changed was that people suddenly had access to flexible options they did not use to have. The main place that they can access that is with their existing provider, so I am not surprised by that figure but you should not see it in isolation. Most people are switching.

Q42 **Jack Brereton:** What evidence do you have to suggest that?

Rob Yuille: Our own, but also the FCA's.

Q43 **Jack Brereton:** Do you have any statistics or figures on that?

Rob Yuille: Yes. I am happy to send the latest ones.[1] It is also worth bearing in mind that whereas with an annuity it is a one-off decision, and a very important one, with drawdown it is rather different and you will see people consolidating their pensions, say in the 40s and 50s. From their point of view, they have done their shopping around, and accessing a tax-free lump sum and going into drawdown is just accessing a feature of that product. It is not the end of the story because, once you are in drawdown, you can—and people do—switch.

That comes back to Otto's point, and I agree with many of the previous witnesses, better access to advice and guidance is key but it needs to continue throughout retirement.

Otto Thoresen: I think you are on to something in terms of comparisons. We have a history in the industry, but we in the industry have a great tendency to say how complicated it is and how much there is in the past that makes this difficult. To the point that was also made earlier about the conversation around pensions, the social acceptability and the social norm, in Australia they have come an awful lot further on this. Jo Cumbo, who I think is tweeting at the moment, often writes about this and says that around the barby, they do talk about what is in their statement, how well it is doing and whether they should think about going somewhere better. I don't think we should give up on the idea that, as part of this engagement with people on this issue, we can start to make these sorts of comparisons, in terms of a prospective view, easier.

It is very hard to try to make sense of the past because it has many, many layers to it but, looking ahead, the DC savings vehicle is a simple vehicle. We have a charge cap that has introduced certain levels of consistency in terms of charging across the industry. I don't think we should give up on the idea that we can make it something that people can engage with themselves.

Rob Yuille: Can I add to that? There are already annuity comparison tables the Money Advice Service has set that are impartial, and that is very widely used. We are developing a set of proposals for what a drawdown comparison tool could look like. That is much more complicated than choosing an annuity but it is doable, so providers compete. It is partly on charges, partly on investments and the degree of flexibility. The FCA has recommended that in its retirement outcomes review, so I think it will happen. Again, it is the guidance body that is likely to be best-placed to do it.

Q44 **Chair:** Before we go to Chris, I had always supported the drawdown proposal with the proviso that you had to keep enough capital there to prevent you coming on to state benefits, otherwise you were getting two subsidies. You are getting a subsidy, tax relief, to build up your pension and then you get another call on taxpayers to draw benefits again. When

[1] Follow-up letter from Rob Yuille to the Chair of the Committee, dated November 2017

you are talking about the developing advice you give, do you not think, Rob, we should be thinking of that as well and maybe the Government should be thinking of that?

Rob Yuille: I would expect that advisers would do that. They would look at capacity for loss. Gary is probably best-placed to talk about that.

Q45 **Chair:** Are you saying that in Australia they don't do that and people just run out of money?

Rob Yuille: There have been concerns about people running out of money, but it has been running out of money rather than blowing it. There are cultural and policy differences. For example, there is a means-tested state pension.

Q46 **Chair:** Steve, as you were the advocator of fast cars, would you like to come in?

Sir Steve Webb: Yes. The first thing to say is, when we look at what people are doing with their cash, the big issue is not Italian sports cars. It is excessive caution. It is people who take their tax-free cash who think, "What shall I do with the rest? I don't trust the financial services industry. I will put it in my cash ISA. I am getting nought point not very much, minus inflation". That is the big worry. In the same document I have sent you that sheet from, the FCA have a chart showing what people did with their money. The FCA's title for the chart is, "Most consumers who fully withdraw their pots saved or invested their money. The minority spent it". So that is not the wicked, evil financial services industry. That is the regulator saying most people are not blowing their cash. My worry, Chair, with your suggestion is it would—

Q47 **Chair:** Before you go on to problems with my suggestion, when you say "most people" what is the percentage? I could not see from here what the diagram showed.

Sir Steve Webb: There are five main headings: 32% saved the larger share; 20% invested the larger share in capital growth; 14% used it to pay off debts; 9% unknown; 25% used the larger share of the pot—spent it, basically—so a quarter. You are talking often small pots.

Q48 **Chair:** It is the minority, isn't it?

Sir Steve Webb: The minority spend it. Yes, that is right. The vast majority invest it.

Q49 **Heidi Allen:** Although paying off debts is kind of spending it. It could be the debt of a car that you bought that you should not have done.

Sir Steve Webb: I suppose I would regard paying off debts as the opposite of mad, profligate expenditure. It is historic debt that might be hanging over you. I would have thought paying off your debts with a small pension lump sum feels quite responsible to me. I do not know.

Just on your suggestion of a floor, that would kill pension freedoms. Your suggestion would kill pension freedoms.

Q50 **Chair:** Why? Because most people have such a small amount.

Sir Steve Webb: What you are suggesting is if you could only access your pension pot, provided you leave enough that you could not possibly draw any means-tested benefit at all, including Housing Benefit. When we think what rent levels are across the country, you would be talking such a high income you would have to secure that we would be back to the world pre-pension freedoms, when pension freedom was for the rich not for the masses. That is what it would do.

Q51 **Chair:** What you are saying is that with all this effort that the pension industry puts in to try to persuade people to save, most people would not save enough to enter into a freedoms choice if you had my bar in?

Sir Steve Webb: I think your proposal would block people from freedoms that they can currently access who have no intention of claiming benefit. Let me just give you a simple example. Let's say I am 60, I want to access something to live on until state pension age and I have a DC pot. I want to run it down in five years and then I get my state pension and my occupational pension and live for the rest of my life, and never claim benefit. But in that five-year period, I just want to run down my DC pot. In the world we have come from I could not do that. I had to buy an annuity. What pension freedoms let people do is flex their income, but you would say to me at 60, "Sorry, Steve. You do not have this guaranteed income. There is a risk you might claim benefit. I am going to force you not to take the pot". That is the risk.

Chair: Sure, thanks. Time will tell, won't it, on this?

Gary Bottriell: Can I just answer Mr Brereton's question from my perspective? I think the pathway to deccumulation should be the same, whether you are going to a new provider or an existing provider. The problem is human instinct is to follow the line of least resistance. You have all this paperwork and one bit is going to see a counsellor or a guidance service or an adviser; the other one is writing your bank details down, ticking the box and waiting for the money to arrive. The pathway to that should be the same as the pathway to any deccumulation route.

Q52 **Chris Stephens:** I will start with Steve and go along. What more does the pension industry need to do to improve value, clarity and choice in the products it offers the consumer?

Sir Steve Webb: That is a really good question. For me, the innovation is happening but it did not happen overnight. One thing I have learned, from moving from a policy world to an industry world, is the lead times on generating new financial products. Pension freedom came in in April 2015. Most of the industry is spending its time essentially gearing up to respond to a big surge of demand as soon as the freedoms come in. You then start thinking about new products. The lead time on those: the IT, the marketing, all that kind of stuff, is years not months. I think that the industry is in the process of innovating but it will take time.

The key for me is advice—not guidance, not factual information, but advice—because if you have a worthwhile pension pot, you have lots of choices. It is not obvious to the layperson what the right answer is. What we need to make sure is that more people are making these choices with the benefit of impartial advice. Those who are generally advised are doing pretty well. Pension freedom is the one policy we did in the last but one Government where people still walk up to me in the street and shake me by the hand, as opposed to by the neck. People hugely wanted that freedom but they do need help with it. There is no question about that. The industry—

Q53 **Chris Stephens:** You agree with Otto then, who had mentioned continuous advice? I was very conscious of Otto's point about sometimes advice is a once-only thing and people leave it but it should be a continuous process of advice.

Sir Steve Webb: It should, absolutely. The thing about drawdown is, okay, you have this pot of money. It might have to last you 30-odd years and you need help with it. That again is where, if we can make advice more accessible and more affordable, you have someone who can help you with that.

Rob Yuille: Steve has partly answered the choice question, but innovation had already happened to an extent. We have seen product innovation, for example, combinations of guarantees and flexibility, so annuities with potential for growth or drawdown with guarantees attached, medically underwritten annuities that give you a higher income, for example. Also, there is innovation in terms of the process, so that people can basically have a simpler journey, with more use of technology and advice. But the settings need to be right for innovation as well, and market conditions. That includes both a relatively stable policy and regulatory environment and the demand needs to be there.

You asked about clarity as well. We are well aware that some of the options can be confusing and some of the phrases in the legislation are not particularly helpful, so we have worked across the sector, the guidance bodies, the Government, to come up with simplified pension language that does not use phrases like "uncrystallised funds pension lump sum".

Otto Thoresen: There is an awful lot of nonsense talked about innovation, I have to say. The word "innovation" gets all very scientific and experts in white coats and all the rest of it. The best innovation in other sectors is innovation that makes things simpler. It makes things easy to use. It makes something reliable. It does what you want it to do, something that you do not need to go and phone a friend to find out how to switch it on. It happens. You get used to pressing the button in the order and it works for you. The thing that this sector is crying out for at the moment is simplification. It is not innovation.

When somebody comes to the point where they want to think about their retirement years, they want to know where they can put some cash for a rainy day. They want to know how they can set up something that will generate something to replace the paper—something weekly or monthly that is coming in to pay the bills—and they want to know if it is possible to insure that tail risk that you might live to be 100, so how can you make sure that there is still money when you get to that stage?

That can be done, the capability is there, but you don't do that by generating 200 options within a product that requires somebody else to translate and make sense of it for you, so that you can decide how you want to allocate that £50,000 or £60,000 that you have managed to save. What we need is simplicity. We need something that people can understand and something that they feel it is worthwhile engaging with, because they can then choose what is right for them and have some ownership of it.

Gary Bottriell: There are plenty of options out there. I don't feel that there is a magic product out there that is waiting to launch that is going to solve everybody's problems. The market is producing enough that it gives a range of opportunities for all people, whatever their risk profile, whether they want to play it safe or whether they want to take risks with investments, be more optimistic, be pessimistic. Whatever kind of income profile over their retirement, the market can meet that at the moment.

My only real concern is the shrinking annuity market because we are down to about five providers now, and when you look at those five you do wonder how many of those five are still going to be around in 35 years' time. That is a worry. I don't know whether—

Q54 **Chair:** They have sold their books abroad.

Gary Bottriell: Yes. I don't know whether the companies have gone off to do the bulk purchasing, because it is more remunerative for them—they get a better return on their capital—or whether it is a real problem of capacity in the system to assume those long-term risks.

Q55 **Ruth George:** Having recently set up a NEST pension scheme for a childcare provider, I am very aware of the needs of people working on low pay from a pension scheme and a fairly new one. Do you think that the Government should revisit its decision to stop NEST from offering drawdown options to its members and why?

Otto Thoresen: Of course I do. It is needed. My point would be a slightly different one. I talk as a trustee of NEST, as a member of the trustee board. We have a fiduciary responsibility to our members' interests. What we are looking for is a solution that we can use to help those people move into their retirement years with a solution that works for them. To be honest, whether we build it or whether it is built by somebody else or it is built in collaboration with some of the big occupational DC schemes that exist out there, that for me is a secondary issue but it should be produced and it should exist.

We don't see anybody else lining up to create one. We have a blueprint that we published two or three years ago, which we believe sets out how something like this could work. We believe that we can build it and we believe that, using the governance that the trustee model brings, we can provide continuing oversight over how the scheme is operating for our members into their retirement years rather than, as we would have to do at the moment, move them out into the retail world and expect them then to survive and prosper under whatever regime they are able to exist under.

We think it is important that we progress this now: the idea of something with simple settings on it, with simple decisions that people can make, with strong governance and oversight, making sure that it is doing what it is meant to be doing and delivering against its promises on charge levels that are reasonable for somebody on a modest pot size. That is needed. The demand for it at the moment might be modest because there are relatively few people arriving at retirement with substantial DC pots, but for the auto-enrolment generation it will absolutely be needed. You talked earlier about many of the scheme members you were referring to relying on these DC savings as their source of income. That will become the norm.

As the moment, we have a false position because many people are retiring with multiple different sources, small perhaps but together, in aggregate, something that they can live off. So they look at the DC pot as something that can be used more flexibly and perhaps provide cash to deal with debt or whatever, but in the future, it has to be about income. One of the things that freedom of choice has taken our eye off is that pension saving is for income. It has become something else at the moment and we need to get it back on to being about income.

Q56 **Chair:** Steve, the question that was asked was about stopping NEST from offering drawdowns. Do you have an opposing view?

Sir Steve Webb: I do. I am a great fan of NEST. As the Minister, I oversaw freeing up NEST and so on, and NEST was absolutely the right thing to create for building up a pension pot, so that the small employers had somewhere to go, who would definitely take their business and so on. I think NEST has done a good job. The question is: should we have a state-subsidised provider in drawdowns? NEST owes the taxpayer nearly £500 million; that debt is rising every year. Should it switch to doing something else as well beyond what it was originally created to do? There would be an argument for that if it was clear that there is a set of people coming up to retirement who are not being properly served.

Now, as Otto says, the average NEST customer has a pot of less than £500. I believe that is right. You are not going to buy a drawdown product for £500. It will be years before the average NEST customer has this even as an issue. In the meantime, as you have heard earlier, there are already drawdown products available and new ones are coming on stream. The state should be wary of introducing a state provider into a market that already exists and is evolving. The state should step in when the market is failing. I don't think there is evidence at this stage that the market is failing.

Chair: Gosh.

Q57 **Ruth George:** Could I ask, although pots will be particularly small, people on low pay who suddenly need an injection of cash at short notice might then be put off from investing in a pension scheme and be put off from auto-enrolment by the fact that they are unable to access those funds, even if they are small, if they have a time of need.

Otto Thoresen: I am not going to use the Committee's time in having a debate with Steve.

Chair: No, sure. Even I know it, Steve.

Otto Thoresen: He is very good at that. But I would make a couple of points to your point. There are some things we can do. We obviously can offer people cash at the moment if that is what they want to take, so it is not that we are not able to do anything. But an awful lot of what we have heard this morning is about preparing people for decisions that they are going to make in five and 10 years' time. This is not about just making sure we have something ready for when people start to press buttons and make those decisions.

In the communication and engagement that we can have with our members about how they should start thinking about their later life, we cannot tell them that we have a proposition or point them to a proposition that works for them because, as Steve himself said earlier, drawdown only works at a certain level. When you load on top of it the advice costs through life, then that level becomes even higher. Just to finish, NEST was created to provide pensions for people. That is what we were created for.

Chair: That is very kind. You are not going to dispute and start a discussion with Steve.

Gary Bottriell: Can I make a point back to Ms George?

Chair: Very briefly.

Gary Bottriell: Very quickly. On the access to cash, pension freedom has made people much more willing to invest in pensions; before they would not because they had to buy an annuity. Even though there were provisions for £10,000 pots, £30,000 pots and freedom is only for £40,000-plus, they still would not invest because they believed they had no options, so the opening up of the pensions and the deccumulation market has led lots of people to invest in pensions who would not have done so previously. That also explains the low opt-out rates in auto-enrolment, in my belief.

Chair: That is a really interesting point, Gary. We must probe that with the stats.

Q58 **Steve McCabe:** I want to ask about drawdown. If I heard correctly, Steve, you were suggesting that your chart shows that the number of people who are non-advised isn't such a big deal because the people with big pots are advised. If I have it right, about 30% of people are non-advised over drawdown, and there was this research by the ILC that said that only 3% knew what drawdown was and people thought it was a guaranteed income, it would last for life. If drawdown is going to be part of the system, can we be sure that people are safe or do they need better advice or is there a danger we are going to see people wiped out—maybe not with massive pots, but wiped out? I wonder how comfortable you feel with that as a possibility and what you thought was the obvious solution in terms of advice.

Sir Steve Webb: Just to kick things off, obviously, if you put your money in drawdown, it can be invested in lots of different ways. As a provider, we have things called governed portfolios; people's money is being governed, is being looked after, and we would give people a range of ways of investing their money. If they absolutely could not cope if their money fell, with the help of an adviser, we would put them in a portfolio that was low risk, was not going to set anyone on fire but was going to be a decent, steady rate of return. If they have lots of other money and they are happy with risk, we would do something on things in the middle. Drawdown is not a vanilla product. It is a very varied product and the key—I keep coming back to this thing—is having someone alongside you who can help with all of this kind of stuff.

Otto says we want simple products. Of course we do, but we live in a very complicated world. Gary will tell you, when an adviser sits down with someone, they want to know about the person, their partner, their kids, their house, their state pension and their company pension. It is a really involved thing, which is why we want more value advice to help people through this. But drawdown can be absolutely the right product for people. It can be invested cautiously or with more risk. I absolutely think we want the proportion of drawdown that is advised to go up. There is no question about that.

Q59 **Steve McCabe:** How high should it go?

Sir Steve Webb: How high should it go? Ideally—beyond the smallest pots—as high as possible.

Rob Yuille: A couple of things to say. A lot of the people who are going into drawdown without advice are simply taking the tax-free lump sum and no income. Those people, especially if they do not have to change contract or scheme, are pretty much in the same position that they were but with 25% less in it and, hopefully, would still be contributing. That should be viewed differently to, I guess, what is the pre-flexibility drawdown market.

Yes, there are risks in terms of how much people withdraw and at what rate. The data is encouraging so far but it is important to keep an eye on that cohort that is sitting in drawdown: what are they going to do? At what rate will they withdraw, and what will they end up doing with it by guaranteed income? Yes, there are risks but the essence of pension flexibility is that flexible options are available, and that is what the drawdown is.

Otto Thoresen: Briefly, you have two levels to this. The first level is: how quickly is your pot being depleted? How long is it going to last? If you have short-term investment market falls, it can have a very significant effect on the potential future income stream. The annuity had many shortcomings but one of the annuity's great strengths was it did provide you with lifetime income. The fact that, as a sector, we have not yet come to consumers or members of schemes with a proposition that can give them that confidence that the tail, the long-term risk, is dealt with is a shortcoming currently.

The advantage that gives you, too, in the model we have developed, is you would switch the longevity insurance on at 85. You would commit to it 10 years earlier so, effectively, we have a date that we are working to, to manage your money through to that point, and then the insurance takes over. We have a specific date, so for a year of birth, effectively, we can look at the cohort of people in that year and say, "Are these people still on track or not?" If they are not on track, because of investment volatility, you can engage and make some small adjustments to try to get back on a different track. That does not work at an individual level for a modest pot size in a retail market.

Gary Bottriell: In specific reply to Mr McCabe's question, I would say that if 30% have not been advised and 70% have been advised then that is something to be celebrated. Having heard the panel before us, there seems to be a lot of effort in thinking, "How can we get 100% of people to some form of guidance or advice?" The important thing to distinguish is the boundary between guidance and advice. If you go to an adviser, then you have a guarantee of suitability backed up by ombudsman schemes, regulation and the professional indemnity insurance of the person giving the advice. Guidance is only guidance and, of course, the pension member does have to live with the consequences of his own decisions with regard to the suitability of what he is doing. I read that 70% advised and I think that is good. We have come a long way.

Q60 **Steve McCabe:** I am just curious about this. I can see why you would want to celebrate the 70%, but are you saying the 30% is a risk worth taking? Is that your kind of view?

Gary Bottriell: No, I think we should get the other 30% into an advised or guided place, which is why I made the point I made to Mr Brereton, that the pathway to the default option should be at least as difficult as the pathway to the optimal solution in some sort of expert's view.

Rob Yuille: I think that from these witnesses and the previous set, the risk is best managed by people having a basic understanding of the kind of retirement they want, making a decision about it and being helped to get there.

Q61 **Steve McCabe:** Have we gone full loop here? Are we back to saying that people should get free and impartial advice at a very early stage, so that they would know what drawdown is and they would have some appreciation of the risk? Is that what you are saying that we have to go back to where we started?

Sir Steve Webb: Yes, guidance and advice. Guidance, absolutely, so they know what a drawdown account is. At the end of the guidance sessions, what people very often say to the guider is, "So what do you think I should do?" That is the one question the guidance provider is not allowed by law to answer. Where people have meaningful choices, meaningful pots, it needs to be more than guidance. It needs to be tailored, personalised, impartial advice but, at the very least, we want everybody to know what their options are. Coming back to where you started in the evidence sessions, scams and all that kind of stuff, the guidance process will alert you to the risk factors and all of that.

Q62 **Heidi Allen:** The ambition is 100% guidance or advice for all. Wake-up packs are probably not the most effective way to do that. My question to each of you is: is the pension passport, which has been showing early signs of maybe being a better approach, the right approach? Also on timing, we heard a lot this morning about six months just before it happens being too late, so can I ask about timing and method? We will start with Steve and perhaps move along.

Sir Steve Webb: Yes, I think there is consensus about six months. They say they call it a wake-up pack because it presumes you are asleep and that is the problem; six months before you retire and then someone suddenly shakes you. It needs to be much earlier. The pension passport simplified paperwork is kind of nice but there is evidence. The Government's auto-enrolment review is looking at engagement. They are looking at simplifying statements, which is a good thing, but somebody said, "To be honest, people do not even open the envelopes". You have the best communications in the world, but you get this envelope from a pension provider and you think they are trying to sell you something. There are people with piles of unopened envelopes.

It has to be, in my view, a digital solution in a digital world. This is where the dashboard comes in. In a few years' time we are all going to expect to be able to see our pensions and stuff on our phones. Everybody is going to expect that. The one thing I would love the Committee to recommend that the Government do is for the Government to announce now it will be mandatory for every pension provider and every pension scheme to supply data to the dashboard, because the worry is the people for whom we most need to supply the data will be the ones who will say, "I can't be bothered".

Q63 **Heidi Allen:** You were here in the first evidence session. What do you say to what we heard, "Oh, it is such a fragmented market. It is just not possible. We cannot do that"?

Sir Steve Webb: I appreciate the Government does not have the capacity for lots of primary legislation now, but if the Secretary of State stood up and said, "We will be legislating in two years' time," or whatever, "If you run a pension scheme, I am giving you two years' notice to sort your systems out, sort your data out and then, when this dashboard goes live, you must supply data". It is a pro-consumer thing because, without it, the dashboard is like a jigsaw with missing pieces. If the Government could do that now—I appreciate they cannot legislate now—and announce their intention to legislate, that would have a transformative effect.

Chair: It is a myth that the Government does not have timelines. I have now forgotten what a Bill looks like.

Q64 **Heidi Allen:** That fixes a better brave new world, but what about people who are going to be retiring in the next five years and perhaps are not digitally savvy? What do you do for them?

Sir Steve Webb: Sure. Digital coverage is enormous, as we all know. It is not just the middle classes. If you think about your constituency and the places that do not have landlines, they all have mobile phones, so I think coverage is very, very extensive digitally. It need not be that far away. If you lived in Australia or Sweden or the Netherlands, you would be able to do this yesterday. This already exists. There is already a prototype of the dashboard that the ABI have been co-ordinating. We could get an awfully long way in the next two or three years, to be honest.

Q65 **Heidi Allen:** So no paper version at all? It is the most vulnerable people I am thinking of who cannot afford to have smartphones.

Sir Steve Webb: Yes. You would always have a paper back-up. I think the trouble with paper back-ups is people have to want to have it and the problem we have is people are not engaging. Digital for me is not the whole answer but it is a big part of the answer, because it removes the barriers and makes it easier to find out.

Q66 **Chair:** The recommendation is the Government should be thinking of the cohort coming along but those nearer retirement may want other ways as well. I just found in the referendum, Steve, where all the publicity was to try to get students on to the electoral register, in my constituency the older non-voters picked up the message and applied for the vote online. Instead of getting two pages like this, there was a small phone directory of people. Again, I accept your point that older people are not necessarily so cut off.

Sir Steve Webb: It is both, but I think digital is the key.

Rob Yuille: Yes, all of the above but it is about lifetime engagement. We did some research with the Pensions Policy Institute, where they identified that people engage better at teachable moments in life. In the pensions context that is probably when you change job. Some of them around retirement and in retirement are more difficult to identify, but it should just be this focus on retirement and earlier, simpler communications and the dashboard underpinning it. I agree with all of that.

Otto Thoresen: I will wait and see what the auto-enrolment review says about engagement because I have to say that for me, that is the big issue. We have phasing coming in, in terms of contributions going up over the next two or three years. That is a critical point in the journey we are on. Understanding the view we are going to take on moving from a system at the moment that is inertia-based, where we have not encouraged people to get too involved, to a position where we are expecting them to be on the phone every day checking what their fund prices have done is a long journey, so let's see where the auto-enrolment review gets to.

Gary Bottriell: It does not matter what you call it, passport, dashboard, warm-up letter; it does not really matter whether it is six months, five years, 10 years. It has to be a single page, whether onscreen or on a piece of paper. All the rest of the regulator's handbook should not be able to get involved in what they are being told. There should be one simple set of regulations about what goes into this, so that the people that are issuing it know that they are in a safe space, they have a safe harbour from inadvertently breaching some financial promotion rule. It should be paper and online.

Q67 **Heidi Allen:** What data would be on that single page or that single screen?

Gary Bottriell: It should be all their entitlements, including their state pensions, the date at which they become payable or the date ranges, a generic example of what sort of income they might expect from this if they were buying an annuity or taking a sensible approach to drawdown, and where they go for guidance/advice.

Heidi Allen: Yes, here's Pension Wise to go to.

Gary Bottriell: Yes.

Q68 **Chair:** Steve, when you are next Pensions Minister, looking at this development, would you do this on a pilot basis to begin with to see how it worked or do you think we know enough about it to begin to roll it out?

Sir Steve Webb: The dashboard you mean specifically?

Chair: Whatever we are discussing.

Sir Steve Webb: This is a classic sort of British disease thing. You look at Sweden and Australia and so on and they would be incredulous that British citizens cannot see all their data. We do not need a pilot, just get on with it.

Chair: Just do it. All right, very good. Thank you very much.