

Treasury Committee

Oral evidence: Household finances: income, savings and debt, HC 565

Tuesday 13 March 2018

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Stephen Hammond; Stewart Hosie; John Mann; Alison McGovern; Wes Streeting.

Questions 179 - 247

Witnesses

I: Michelle Cracknell, Chief Executive, Pensions Advisory Service.

II: Baroness Ros Altmann CBE, former Minister of State for Pensions; Sir Steve Webb, Director of Policy and External Communications, Royal London, and former Minister of State for Pensions.

Examination of witness

Witness: Michelle Cracknell.

Q179 **Chair:** Good morning. Thank you very much indeed, Michelle, for coming in to give evidence to the Treasury Select Committee this morning. For the benefit of those in the room and those watching, it would be really helpful if you could introduce yourself and perhaps just say a few words about the Pensions Advisory Service and what it does. I know you have been there since 2013.

Michelle Cracknell: My name is Michelle Cracknell; I am chief executive of the Pensions Advisory Service. We are the public service that delivers help for people with pensions. Last year, we were contacted by 205,000 customers asking us questions about any aspect of their pension scheme. We have been around for 34 years, because we started off our life as a charity, but in 2006 we became an arm's length body of DWP.

Q180 **Chair:** Thank you very much indeed. This is part of an inquiry into household finances, looking at income, savings and debt. This morning we are looking at pensions. I wanted to start by asking about the pensions savings gap. It is estimated in the UK to be somewhere in the billions of pounds, and I wondered what your assessment is—when I say “you” I am probably talking about the Pensions Advisory Service—of the numbers of people who are not saving enough towards their retirement, particularly relating to age and gender. There is a worry that women, in particular, are not saving enough for their retirement, and I would love your comments on that.

Michelle Cracknell: You have to recognise the fact that we are dealing with people who must be slightly more aware because they are phoning us up and so, by definition, they are more aware. When people contact us, they are aware that they need to do something in respect of their pension, but they find the barriers too high and it is a combination of lack of knowledge and lack of confidence. We find that a lot of people miss out on opportunities and so do not get the most out of the tax reliefs or they do not get the benefit from employer contributions because of misunderstandings. There are things that could be done about the gap that would not cost individuals any amount of money, if they just had a little more knowledge.

The biggest thing is that a lot of people have very low levels of confidence in engaging with financial institutions about their pensions, because they do not really know the questions to ask, and when they get the answers they probably do not feel as though they are best placed to work out whether the answer is the right one for them. That is what we think is the biggest driver.

As far as gender is concerned, we are split roughly 60% male, 40% female in respect of our callers. However, that does slightly change when



you look at the specific questions that people are asking. For example, questions connected to divorce matters and how the pension is affected by divorce are dominated by a very high proportion of females contacting us after being told that they need to do something, because they are going to inherit some of their husband's pension and they want to know what to do. We do not get the same cross-section from females across all the questions. As I said, we get it slightly disproportionately for that.

It is difficult for us to say about the under-pensioned, and there has been a lot of work done on that. We probably do not get a huge amount of insight in respect of that because, as I said, by virtue of the fact that people have voluntarily contacted us, they are probably more aware, so I cannot comment on that.

Q181 Chair: You talked about people being made more aware of both the questions to ask and how to deal with the information. Is there a role for the Pensions Advisory Service in more public education, or do you think that is something that somebody else is better placed to handle?

Michelle Cracknell: The pensions landscape has changed dramatically, and the responsibility that now sits with the individual to provide their own retirement income has happened in the law but it has not happened in people's heads. A 50-year-old's only reference point today will be to look at their parents, who pretty much had it all done for them. We are strong believers that we need to create a society where it is normal to be thinking about your retirement income, and the only way we can create that new social norm is by introducing some interventions; otherwise, why would a 50-year-old think to go and get some help on their pension? They have no reference site to say, "That is what my parents did."

We are strong supporters of the introduction of a mid-life MOT as a concept. We are also very strong supporters of default guidance, so that when somebody is making a very big and irrevocable decision about their pension, they are sent to go and have a guidance session. They can turn around and say, "No, I do not want it," but look at the inertia impact that has been so successful with automatic enrolment. Let us book them in and get them to turn it down, because I think then you will find that most people will say, "Now I am here I might as well have one."

Q182 Chair: In terms of the age of people who call, leaving aside the divorce calls or perhaps where there has been a life event, does it tend to be people who are near retirement who are slightly panic-stricken about not having as much money as they thought they would have, or are you seeing people starting to call earlier as they are planning ahead? It sounds to me probably not, from what you are saying.

Michelle Cracknell: I wish they were calling earlier. When I took over at the Pensions Advisory Service in 2013, we were making a concerted effort to bring our average age down, and we brought it down to an average age of 54. It has now gone back up to 59, which is predominantly because there have been a lot of people calling us with



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questions regarding accessing their pot because of pension freedoms. We do have some young callers, but we certainly do not have enough in their early 50s or late 40s contacting us.

Q183 Chair: This morning we are going to talk quite a lot about auto-enrolment, because that has obviously been a significant intervention in the pensions landscape. By 2019, pension contributions are going to rise to 8% of earnings. Will that be enough to meet people's income expectations in retirement?

Michelle Cracknell: It is probably enough for the lower-paid people. It is quite a complex situation due to the level of pension that you get from the state and therefore what you need from your private pension to get to a reasonable level of income. While for a number of people in middle England 8% would not be enough and they should be looking more at double that level of contribution, if it is set there to make sure that the lower-paid have sufficient income in retirement, it is a very good number to start with. We probably should wait until we get to that point before being overambitious about further increasing it. As I said, it focuses on probably the people who need it most at the lower income levels; in combination with the state pension, that probably will be sufficient for them to have enough replacement income in retirement.

Q184 Chair: From the calls, do people assume that it is enough? Do people still need to think about it, or do people assume, because they are being told by the state, that that will be enough to carry on in the style to which they have become accustomed?

Michelle Cracknell: Across all income groups and all ages, there is a lack of reasonable expectation about how much needs to be in a pension pot to generate a reasonable income. If we talk about defined benefit transfer values, that is very good evidence of that particular case.

We get a number of calls from people about automatic enrolment. We very rarely get people calling us up saying that they do not want to be automatically enrolled or they want to opt out because of affordability. The main reasons that people contact us about automatic enrolment are misunderstandings. A lot of people call us to say, "I have been put into my employer's pension scheme, but I am not allowed to be because I am drawing a pension," or "I am not allowed to be because I have another pension in place." They just misunderstand the fact that you can have concurrent pensions.

We also get some people affronted, saying, "How can somebody deduct something from my salary without my permission?" and we get people again misunderstanding, saying, "The reason I want to opt out is I only expect to be with this employer for six months." The reason I bring that to the Committee's attention is that the evidence of what people think is happening with their pensions is the rules that applied 15 years ago. The idea that if I have a small pension pot there is nothing I can do with it applied 15 years ago. It does not apply today with pension freedoms, but



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most of the knowledge that people have is out of date and therefore they make incorrect decisions as a result of that, such as, "I am going to opt out because I am only going to be with this employer for six months," whereas we would guide them and say, "No, even if you are only there for six months and you have a tiny pot, there are still things you can do with that small pot now, with the advent of pension freedoms and the ability to transfer your money."

Q185 Chair: Is there a concern that as the level of contribution goes up people are thinking they might have to opt out of auto-enrolment, just because they need the money now to pay for household or other bills and everyday expenses?

Michelle Cracknell: From the insight that we have, affordability is hardly ever cited as the reason for opting out. Introducing it in April is a time when there is a lot going on on your payslip, and there are a lot of changes. Therefore, when the end of April comes, I do not think we will have any evidence of huge amounts of opt-out. We have to watch some way down the line. Again, our evidence from the people who do contact us who want to opt out is that they are usually doing it three or four months after they have been put into the scheme. This shows that people do not regularly necessarily look at their payslips and it is only perhaps when something has happened and they wonder what a deduction is that it then prompts them to take action. As I said, our evidence is that affordability is not an issue and we probably need to be really careful to make sure that there is not too much going around in the media saying, "Your contribution is going up," because then we are in danger of making it a self-fulfilling prophecy.

Q186 Mr Clarke: I want to talk about cashing out and the classic image of your 59-year-old going and getting a Lamborghini just because they can. The FCA's retirement outcomes review suggested that there is not really evidence that people are squandering pension savings. The Work and Pensions Committee has heard stories that would suggest otherwise. What is your view about whether this is in fact a real problem?

Michelle Cracknell: We probably need to split the pension freedoms experience into two parts. Immediately when it was introduced in April 2015, the dominant feature of the people who were contacting us was they had very small, slightly stranded pots. They were not making retirement decisions; they were just saying, "I have my pension over here and there is £4,000 or £5,000 sitting over here and I just want to cash it in. What is the best way of doing it?" We have now started to see that shift, and the conversations we have when we deliver Pension Wise appointments are much more frequently about looking at people's overall retirement position.

The majority of the people who contact us would reflect the evidence of the FCA, saying that they are making sensible financial decisions and not squandering their pots. Certainly the majority of the reasons that we hear being cited are things such as "paying off my mortgage early",



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"being able to put a deposit down for my children's house" or reasons like that that they are quoting. One thing we just need to be careful of is that that may be all right now, but by the time we get to 2030 or 2040, even if it is only a small pot, it is probably one small pot out of 15 small pots, which all add up to your total retirement income. Therefore, we need to be really careful that the behaviours do not become embedded, with people thinking, "I could just get hold of this cash" for something other than retirement.

Q187 Mr Clarke: Ideas around paying off a mortgage, for example, are effectively benign reasons why you might withdraw money from your pension. The FCA also suggested that a malign reason might be a lack of trust in the pension industry per se. Are consumers right to have concerns about pensions? I sometimes think, for example, with the state pension there are issues around, in truth, whether we are selling people a bit of a pup in terms of just how affordable that will be into the long term. To a certain extent, even if there are no substantive reasons why there is a lack of trust, how do we address any perceived lack of trust?

Michelle Cracknell: I would like to answer that in two parts. Relative to pension freedoms, there have been a number of people who have said, "I just want to move my money out of the pension pot into my bank account," with no specific reason for needing the cash. There is a very low level of ownership of pensions. If you trawl our database, people very rarely talk about "my pension"; they always talk about it in the third person: "Tesco pension" or "Scottish Widows pension". People do not see it as their asset, and this lack of ownership has translated through into some of the results of pension freedoms, where people have said in calls to us, "I do not need the money. I just want to take it out of my pension fund and put it into an ISA or into my bank account", and we have said, "Why do you want to do that when this tax wrapper is a more efficient way of doing it?" This is evidence that we have not got to a stage where people are owning their pension, when it is obviously so important for them to take personal responsibility for their retirement income.

The second aspect, picking up on the trust issue, is the lack of confidence that I have already referred to. Because people are so under-confident in dealing with their pension, asking the right questions, knowing what the right question is to ask, if you did the research, that probably translates into people saying, "I do not really trust it." It also translates into people finding reasons not to do things, such as, "The rules may change. How can I trust it?"

Q188 Mr Clarke: That is a policymaker's issue, is it not? If we chop and change the rules too frequently, it leads to that very ambiguity that you are warning about.

Michelle Cracknell: Exactly. We see evidence that that, together with too many products, stops people making decisions or, worse still, people make the wrong decision. Either there is too much product or they are saying, "They may change the rules, so there is no point in doing it."



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Q189 **Mr Clarke:** You talk about the lack of knowledge and the lack of confidence; that is an opportunity for pension scammers, which they will try to seize. The Government are going to implement a ban on pension cold-calling, which is a very positive step. Will that be enough to contain the scamming, or do we need to see further measures and, if so, what?

Michelle Cracknell: We absolutely welcome the ban on cold-calling. All of us will appreciate getting fewer calls on it. Will it be enough? No, absolutely not. We already have evidence that scammers have found other ways of contacting people. The pension is just too rich pickings, because you have people with low levels of knowledge and very big pots of money, so scammers will continue to find ways to contact people. To give you an example—and we have had a number of people where this has happened—people have had somebody investigate their PPI claim and now they are being contacted to have a pensions review by the same cold-calling operation. Is that a cold call? We had one particular lady who had some money in the electricity board scheme, and she said, “A very nice gentleman sorted out my PPI and he now wants to look at my electricity board pension.” You could argue that she was a client of his, because he sorted out her PPI claim.

It is not enough. Scammers are already finding other ways of contacting people and they will continue to do so, because the pickings are too rich.

Q190 **Mr Clarke:** With that in mind, is the FCA effective enough in preventing and tackling this? Is it capable of intervening decisively and early enough when it sees new things happening?

Michelle Cracknell: Pension scams have existed for as long as I have been in the financial services industry. The issue now is that they can change so quickly because of technology, and scammers can move their proposition around so quickly and make it look very much legitimate. It has become a real issue. I am not sure whether there is any regulation or any regulator that can ever stop it. We sit as part of the Project Bloom work on pension scams, where both the FCA and the Pensions Regulator sit. We talk a lot about there being a proper public service, a public awareness campaign, and we really need to tackle that with some serious messages out in the media all the time to help people protect themselves, because I am afraid that scammers can move too quickly. If they stopped doing it within pension schemes, they will probably encourage people to transfer out of pension schemes and it will pop up somewhere else.

Q191 **Mr Clarke:** That is very helpful. My final question concerns what perhaps might be the cardinal sin, which would be transferring money out of a defined benefit pension scheme. Under what circumstances might a consumer ever benefit from doing so? It is not clear to me what those would be.

Michelle Cracknell: There are a few limited situations. For example, where the defined benefit scheme does not provide protection for



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dependents on death and the person is in ill health, they may consider it the right thing to do. Your premise, though, is absolutely right; it is in the minority of cases.

More worryingly, when people phone us up about doing defined benefit transfers, they very rarely cite those special circumstances as the reason for doing it. Instead, they cite the size of the transfer value. We had one particular case, which reflects many cases we have received: "My transfer value has gone up by 15% last year, so I might as well take it now," with the complete misunderstanding about how a defined benefit transfer value is calculated compared with a pension pot. They cite that reason. They cite flexibility as a reason—"I would like to have the flexibility"—but probably do not understand the cost of the flexibility they are incurring for doing it.

Thirdly, there is probably a misperception and a cultural issue; some people feel as though they would like to pass something on to the next generation. While, for most people, their pension pot is only going to be enough to look after themselves into retirement, they are still harking back to, "At least I will have something to pass on," which again is probably a misunderstanding as to whether they even have enough for themselves.

Q192 Rushanara Ali: The FCA's retirement outcomes review found that half of the annuity purchases and a third of drawdown purchases have been made without advice since pension freedoms. They also found that take-up of Pension Wise has remained low. Why do you think so many people have not taken up the guidance and advice options available to them following pension freedoms?

Michelle Cracknell: Again, I would split it into two categories. The people immediately after April 2015 and certainly in the first year, 2015 to 2016, were people who were just doing housekeeping and tidying-up issues. The numbers the FCA reflected in its review showed that it was very small pots that people were just tidying up as opposed to thinking about their retirement. We also experienced the latent demand aspect: that they thought they had been waiting for 12 months, because it was announced in March 2014, so by the time they got to the starting line in April 2015 they had already spent the money and were desperate to grab the cash from providers. That was the reason why, in the initial bubble of pension freedoms, the guidance take-up was quite low.

We are now seeing encouraging signs within Pension Wise of that increasing. Last year, there were 60,000 Pension Wise appointments, whereas when we got to the halfway point of this year we had already reached 40,000 and so we massively expect to exceed the Pension Wise appointments. However, it is still only a relatively small proportion of the people who should be accessing and getting help. We need to do more to get people to have the guidance rather than have the conversation with the provider about their pension pot. It is a bit like DB transfers; as soon as people have seen the number it is almost as if they have spent the



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money. Having the guidance, which we can do almost in isolation to the number, would be incredibly helpful if people were pushed to do that, before, if you are told you have £20,000, you have almost decided how you are going to spend it and then the guidance becomes almost superfluous and a bit of an irritant.

Q193 Rushanara Ali: For a lot of people, the consequences of bad pension decisions come into play later on in life. How worried are you about how pensions can be used, and what do you think is the scale of the potential problem if people do not get the appropriate advice and make the appropriate decisions and plans for the future?

Michelle Cracknell: There are some things we worry about from the calls that we receive. First, we worry about age 55. The reason for that is you have always been able to take your pension at 55. In fact, you used to be able to take it at age 50. However, all the media coverage on pension freedoms fixated on how you can now access your pension at age 55. For the vast majority of the public, this was the first time they realised that they could access their pension. We need to look very carefully at what interventions we can put in place so that age 55 does not become established as a social norm of the time to have a look at your pension. As I said, it may be just dipping into one pension at that age, but if you keep on doing that then you will not have enough in the long term regarding retirement income.

The second thing we worry about, which was reflected in the FCA's retirement outcome review, is the amount of non-advised drawdown activity. From the people we speak to, people who are ending up in drawdown lack a huge amount of knowledge about what that entails, and the decision has been driven by two things. It is either, "I just want to get hold of my tax-free cash," and therefore the provider has said, "You have to move it into a drawdown product," or the second reason is, "I have been told annuities are bad value, so I will buy the alternative," not really understanding what the alternative is.

One outcome of that is people end up in a drawdown product not understanding the risks they are taking. Certainly we talk to people about going into drawdown and say, "Where are you going to invest the money? Have you thought about how to take the income and, potentially, issues when the market goes down?" and they do not even realise the money has to be invested. Again, that is storing up a long-term problem where people have products they do not fully understand and, potentially, will have insufficient income at the right time.

Q194 Rushanara Ali: How big is the change in terms of the number of people who are doing that compared with when there was not as much awareness that they could draw down?

Michelle Cracknell: I do not have the statistics with me, but the increase in non-advised drawdown was reported in the FCA review; it has increased dramatically since the pension freedoms.



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Q195 **Rushanara Ali:** Do you have any other thoughts on what could be done to try to address this? Obviously, some of the steps to try to nudge people in the right direction, to seek advice and so on, are not having the effect they should. What else should be done?

Michelle Cracknell: There are two things we think should be done. The first one, which we feel most strongly about, is because this is a new phenomenon for people to get their head around, a nudge is not sufficient; there needs to be an intervention. The mid-life MOT or default guidance would be interventions that would—

Q196 **Rushanara Ali:** Is that adequate? You have mentioned those already. Do you feel confident that that will be enough, or should there be something else?

Michelle Cracknell: With the default guidance, which we would like to see happen before you make any irrevocable decision about your pension, the onus should be that you have guidance and the providers do not have it within their control to encourage you not to take up the guidance and just to carry on with the operational process of accessing your money. As soon as the providers have the opportunity of keeping you within their fold and carrying on the operational process, there will be a bias and a conflict of interest, because, for a number of providers that outsource their administration, the driver is to process the business as quickly and efficiently as possible, so they do not want an interruption. Therefore, we believe default guidance should be in place that automatically pushes the individual, without the provider being able to intervene, to have a guidance session. It is for the individual to say, “I really do not want one” before they come out. We think that will be a big step forward. That is the first aspect.

The second aspect goes on to the point I have made about the confidence people have in engaging with their pensions. There needs to be a root-and-branch review about pensions communication. There is some really good pension communication coming out now from providers and schemes, but it is on top of the huge amount of documents that are already being sent out and it is getting lost. These 24-page documents telling you all aspects of your pension mean people have a huge lack of confidence. Statutory money purchase illustrations are difficult even for an actuary, like me, to fathom out. When I got my SMPI it was the biggest turn-off to pensions I have ever received. We really need to do a root-and-branch review of the communications, because, as I said, the really good stuff that is going on is getting lost in the bulk of paperwork that is sent out. It is also costing the industry money to send out lots of communications that are not being read.

Q197 **Rushanara Ali:** Who should do the root-and-branch review?

Michelle Cracknell: DWP has already started to look at statutory money purchase illustrations and it also has to encompass the FCA, because a lot of the paperwork is a regulatory requirement.



Q198 Rushanara Ali: My final question is linked to something you said earlier in relation to auto-enrolment; I hope I am not straying into other colleagues' questions. DWP found that people earning less than £10,000 were being left out of the pensions reform. That is about 13% of workers, 8 million people, who have not benefited from auto-enrolment. You mentioned earlier that you were not too concerned about auto-enrolment; it was working quite well. Do you have any reflections on this particular group and what we should do? Obviously, the age change to 18 and up will help, but do you have any reflections on these numbers?

Michelle Cracknell: My comment about automatic enrolment working well was relative to the fact that affordability was not being cited as a reason for opting out.

Rushanara Ali: But here, in this case, it is.

Michelle Cracknell: In this case, if you are earning less than £10,000, you have to ask to join the employer's workplace scheme. There is a huge lack of knowledge that if you are earning more than £5,800 but less than £10,000, if you ask the employer to join the scheme, the employer does have to contribute. We quite often get questions around that and it goes back to my point that the lack of knowledge often leads to people missing out on opportunities. That is a particular category who are missing out on an opportunity.

Q199 Rushanara Ali: Have you uncovered anything around people's fear of asking an employer? If you are in low-paid work, uncertain work, are you going to feel confident? In substantial terms, is it about communication or is it about the fear of making demands on an employer if you are in quite vulnerable work that is low-paid, where your employer might just say, "What are you playing at?" and give you short shrift?

Michelle Cracknell: It is a really valid point and, by definition, we do not get those sorts of calls because they are fearful of making the call in the first place, so we do not have any evidence to show that. Occasionally—and it has been a very small minority, again potentially because of the fear factor—a few people have contacted us suggesting that their employer has been trying to encourage them not to join the scheme or has been doing something that does not appear to the individual to be fair regarding the workplace pension scheme. It has been a very small minority, but that is potentially because people do not contact anyone when they are worried.

Q200 Rushanara Ali: Who would capture those people? Is there a bit of a market failure here in terms of service providers picking up the kinds of issues that this group would face, which is a significant number of people?

Michelle Cracknell: There is a whistleblowing provision within the Pensions Regulator if the automatic enrolment is not being done correctly



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by your employer. It is whether people have the confidence in whistleblowing, which probably is the nub of your question.

Q201 **Rushanara Ali:** There is no other place they can go to, and your organisation would not really capture their experience.

Michelle Cracknell: In the cases that have come to us there have been people who have asked us to go on their behalf to the Pensions Regulator, which we have done. Again, it is a very small number, because the nub of the problem is people will not whistleblow to anything they see as an authority.

Q202 **Alison McGovern:** It is very interesting evidence; thank you. I have a couple of questions about incentives, if I may. We have heard previous evidence where witnesses were quite sceptical about the effectiveness of financial incentives such as tax relief or matching contributions in changing long-term savings behaviour. Do you have any comments on that? Do you think financial incentives work?

Michelle Cracknell: We probably have a disproportionate reflection of the population, because the people who have contacted us have some form of pension awareness, and tax is in the top five questions they ask, either looking for the tax benefits of making contributions or minimising the tax on exit from a pension scheme.

Looking at the automatic enrolment population or where we do outreach work, it is fair to say that tax relief has very little meaning to people, although they do get the concept that if you put one in, the employer will put in one as well and you will get a bit from the Government. They say, "That sounds like a good deal, so I will do it," so they do recognise those sorts of things.

Our biggest issue probably comes back to something I said earlier. Where people lose trust and faith in pensions is where systems change and they get confused by a set of rules that then are changed either in respect to the future or sometimes in respect to the past as well. That quite often leads people to throw up their arms and not do anything, because they have lost confidence. Any change to the tax system will need to be carefully tested with people to avoid them just giving up. It is not necessarily the incentive they have lost; it is just they have lost confidence because something has changed.

Q203 **Alison McGovern:** To clarify, there are two points there. First, there is probably a divide, in income terms, between the more wealthy, for whom tax is a big question and how they do the most tax-efficient thing, and those who are less wealthy, where the auto-enrolment system has probably worked because there is a sense of being backed up by the employer and the Government. That is a good thing, but that is less about a complex financial incentive and more about a simple message that if you do the right thing your employer is going to do the right thing as well.



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Michelle Cracknell: Yes.

Q204 **Alison McGovern:** Okay, fine. The second point, which is crucial, is that basically you are saying that if policymakers fiddle around with the system it creates mistrust and, therefore, there is a disincentive to save through a pension.

Michelle Cracknell: Yes.

Q205 **Alison McGovern:** That is a really important point and, frankly, a lesson for us all. Would you say that about the state pension as well? Something that has come out through the campaigns by women born in the 1950s is they felt that the very short-notice change they got over their state pension entitlement created a feeling of mistrust, so it did not matter whether it was private pension changes or state pension changes; that feeling of disbelief in policymakers has an impact.

Michelle Cracknell: Yes, it is not only looking at the state pension but people feeling as though they were promised something and it did not happen. That is expressed to us as, "I thought I was going to get this and I did not." A really good example of that would be British Steel and, in fact, any scheme going into the PPF, it is that sense of, "I was promised something and I am now not going to get it."

Q206 **Alison McGovern:** That is a crucial point. Just to turn to something slightly different, in your evidence to us, you talk about product proliferation and say that too much choice is a bad thing. Are there particular incentive programmes or products that you think have caused that sense of too much choice?

Michelle Cracknell: Being very specific on one particular product type, we have found quite a lot of misunderstandings and errors being created around the drawdown market, where there are two types of drawdown and the type of drawdown you go into depends upon your tax position and your desire to pay contributions going forward. We have had a number of instances where people have got very confused about the right type of drawdown to go for. That is a very specific example of it.

Overall, we would say that there are probably enough of the right building blocks already available and it is about how you combine those together to get to the right answers. When you face somebody with a choice between going into a workplace pension scheme or into a LISA, for example, our biggest fear is that people just will not make a decision. One of the successes of automatic enrolment is there was no decision. If we revert and give individuals decisions to make, the chances are they will not join either and that is one of the fears we have.

Q207 **Alison McGovern:** Do you think the LISA is an example of that kind of product proliferation just causing people to be like a rabbit in the headlights, with too much choice and not able to make a choice?



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Michelle Cracknell: Yes. We have enough building blocks, and within them there are ways we can find solutions to immediate needs balanced with long-term savings. We have enough of those building blocks already available to us without adding to them.

Q208 **Alison McGovern:** I just have one final question. Do you think there has been any material effect on people's willingness to save in a pension because of pension freedoms? Has that had an impact?

Michelle Cracknell: It is probably too early to say. We certainly do not have any evidence that people are now saying they are going to put more contributions into pensions because of the freedoms and the accessibility and the fact that, as I cited earlier, "Even if I have a small pension pot it is no longer trapped. I will be able to access it." We probably have not seen that and that reflects the comment I made earlier that people's knowledge takes about 15 years to catch up. Therefore, there is a danger that people are not realising the opportunities available to them now and not joining workplace pension schemes because they think they are only going to be there for a short time.

Q209 **Alison McGovern:** Essentially, what you are telling us is that in terms of what might feel like a change that is well understood here in Westminster, in fact it takes a lot longer and you are still explaining to people that they even have those freedoms.

Michelle Cracknell: Absolutely. If you look at our correspondence box, people talk about, "I want to take 25% of my pension out as a lump sum." You can take it all out as a lump sum; it is 25% that is tax-free, but 25% is embedded, because that has been around for 15-plus years. You are absolutely right. The knowledge that people have is about 10 or 15 years out of date to what we know.

Q210 **Chair:** This might not be something that people discuss with the Pensions Advisory Service, but is that taking money out because people have an unexpected life event or something has happened, an income shock, and they think, "I have some money that could cushion that blow," or is it because they want to take advantage of perhaps putting their money into another investment that they think will produce a higher return for later-life income?

Michelle Cracknell: One thing you have picked up on there is very relevant. Most of the calls we get are about life events, not about pensions. The trigger to phone us up is that they are getting divorced, they are retiring, they are being made redundant—those sorts of reasons. That is the trigger for most people contacting us. Yes, we do have examples of people saying, "Is there any way my pension can help me, because I just need to get hold of...?" We had one particular lady who just needed £500. She wanted to make the very big decision of cashing in the whole of her annuity, and all she needed was just £500, but that was the only way she could access the capital. Coming back to the earlier question, is there a way that could be facilitated through the blocks we



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have at the moment? Yes, I believe there are ways we can facilitate that and therefore make pensions able to deal with those shock areas, but still with the main emphasis being on long-term savings.

Q211 Stewart Hosie: You said earlier that there were not enough callers in their late 40s and early 50s, which is interesting. How many enquiries does the service get from people who are much younger, in their 20s and 30s? How much work has been done to engage those people in long-term financial planning?

Michelle Cracknell: I would have to come back to you to tell you the exact statistics of the people in each of the age bands. We do have that but I do not have it with me. We only have a limited ability to reach out to people, but the availability of our service is signposted in scheme booklets and by providers. We have very limited other opportunities to get different generations to do that. Through the media, particularly social media, we do try to increase the number of calls for the different age groups.

Q212 Stewart Hosie: Just from a general sense of it, are you inundated with people who are 22, saying they are starting their first job and want to start saving—"I understand this is deferred income"—or are those calls few and far between?

Michelle Cracknell: The calls that are in the 20-to-30 bracket are quite often about going overseas, leaving a job or automatic enrolment. The questions they ask are predominantly around, "I am moving employment. What do I do with my pot? I am going overseas. What happens to my pension pot when I go overseas?" The nature of the enquiries from the different age groups is different.

Q213 Stewart Hosie: I am glad those calls are coming in, but, in a sense, these are people who already have a pension savings plan in place; it is not touching those who do not. Let me stay on this theme. You have spoken a lot today about the mid-life MOT for people aged 50 or thereabouts, to help establish saving as a social norm. For saving to be established as a social norm it has to happen 30 years earlier; otherwise it might be too late for people to save enough to meet the expectations they thought they had, particularly if they had a pension scheme and then they look at their statements and think it will not be nearly enough. It goes back to the earlier question of how we, collectively, establish long-term pension saving as a social norm. What would your best suggestion be for that?

Michelle Cracknell: First, just on the mid-life MOT, I agree with you that it does not capture everything, but it is a good place to start. That group of people in their 50s will be the first generation who are retiring where the defined contribution pension pot is a significant part of their retirement income, so they have some priority needs because of being the first generation doing that, hence the reason for labouring the point about the mid-life MOT.



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As far as other age groups are concerned, we could do a lot more to alert people at the time of life events about looking at their overall financial position, which we do not do currently. We know, and there is very strong evidence, that people do take in information just at the right time, rather than planning in advance. For example, when you go through a divorce process there is no nudge or intervention to say, "Here is your decree absolute. Have you contacted these public services? Have you done any budget planning, because these things are likely to have affected your financial position?" If we looked at the life events of divorce, death, birth of a child, etc., we could do a lot more, very cost-effectively, to nudge people to think about their finances. The evidence suggests that people are attuned to thinking about their finances at the time of a life event and they will pick it up at that point.

Q214 Stewart Hosie: That makes sense. I would say that the situation in Scotland is slightly different, in that the minute of agreement that agrees the financial arrangements in advance of the divorce proper is that very nudge to do the things you are talking about. That might be worth further investigation at some point.

To stay on young people, 25 to 34-year-olds are more likely to be self-employed and so, in that sense, auto-enrolment does not work for them at all. What can be done to top up their pot in the absence of auto-enrolment? Is there any specific proposal you have or should the Government reintroduce SERPS for the self-employed—a fantastic saving scheme? How do we get the secondary pension, the top-up pension for the self-employed, in the absence of auto-enrolment, which you have as an employee?

Michelle Cracknell: We are currently doing some work on trying to understand how to reach the self-employed. The reason for that is the number of people who contact us who are self-employed, out of our 205,000, is only 8%, which is incredibly low when you think that those people have no other support mechanism. We should be over-subscribed from those people because they do not have any support from their employer or the workplace. We are currently doing a project to look at how we could reach the self-employed community. At the moment, the majority of the self-employed people who contact us have previously had an employment experience, so they have in their mind already an idea that they do need to provide something out of their pay that covers benefits and pension, etc. Again, it is quite worrying that with an increasing number of people going into self-employment, in the broadest definition of the word, they do not have any grounding as to how they should apportion their pay. That is the reason we are doing some work at the moment, and we hope to run a pilot in May to work out how we can approach this quite hard-to-reach group.

Q215 Stewart Hosie: I am pleased about that, because of all the things you have said today that is the most worrying: that effectively we have no idea whether a substantial number of young, self-employed people have any pension savings whatsoever, in essence.



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Finally, on the lifetime ISA, obviously that was designed, in part at least, as an alternative vehicle to pensions for long-term saving for people under the age of 40, with different tax and bonus incentives. Do you have any early evidence on whether people are taking up the lifetime ISA as an alternative to saving for a pension?

Michelle Cracknell: It is very early days and we do not really have any evidence. Not only is it early days but there are very few LISA products on the market as well. We did a check of our database and we have not had any comments or questions raised about LISAs to us over the last 12 months.

Stewart Hosie: Not a single one?

Michelle Cracknell: It was below 1%. I will have to check whether there was a single one, but it is absolutely negligible.

Q216 **Stewart Hosie:** I would like to see those numbers in a year's time or two years' time. If it still remains next to nothing and people have planned to take out a lifetime ISA but have not got round to it or do not know about it and are not asking you the questions, that might point to yet another group of people, with the best of intentions, again with very limited pension savings if this alternative is not working. Would that make sense?

Michelle Cracknell: Yes, that is right.

Q217 **Stewart Hosie:** I would like to ask one unrelated question. I have a constituent with two small pension pots. He is very ill and wants to cash them in to leave modest sums to his children and grandchildren, but because of ill health his pension provider has said it cannot, because the FCA has not specified what a small pot is and, more importantly, how to price it given his circumstances. Is this an issue that the service has had raised with it?

Michelle Cracknell: Regarding the nature of the pot, I am not 100% sure why they have given that answer. Is it a pot that he has already drawn benefits out of?

Stewart Hosie: Yes, it is.

Michelle Cracknell: Is it an annuity that he has?

Stewart Hosie: Yes, it is.

Michelle Cracknell: There have been some providers of annuity that have offered very small annuitants the ability to buy it back, but it is a very small number who have done that. I suspect he may fall into that category. We would be very happy to look at it, because different providers have taken different stances on cashing in annuities. Some of them have done major exercises in reaching out to small annuity holders and some are saying that they are not sure that they are able to do that, which could fall into the category of your constituent.



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Stewart Hosie: In which case, I will happily send them to you. Thank you very much.

Q218 **Chair:** Such an assiduous constituency Member of Parliament. Just out of your answer to that question on the LISA, does the service provide any updates to—I am guessing—DWP? Do you publish an annual review? Do you tell DWP about the nature and quantity of the queries you are getting or, likewise, that you are not getting, which suggests that the messages have not cut through?

Michelle Cracknell: Yes. We do an annual review every year, which specifies the top queries that we get and other details regarding the sorts of questions we are getting. We also spotlight on certain areas that we think are relevant and we share that both with the industry and DWP.

Q219 **Wes Streeting:** What remit does the Pensions Advisory Service have for proactive outreach to different sections of the public?

Michelle Cracknell: We do not have a remit to go out to people. We are there to help people and, because we do not have any marketing budget, we do contact providers and schemes when we think their members may need help. For example, we will pick up and discuss with other bodies, like the FCA, the Pensions Regulator and the PPF, if a scheme is going through a major transformation. We will proactively go out to that scheme and say, "Do you need some help? Could you share some of your material with us and we can share with you if we get an influx of calls?" We do that the other way around as well. If we have a number of calls coming in with regard to a provider and something that that provider is saying, and we do not quite understand it, we will go out to the provider and talk about it. We think that is good for generally building up confidence in the industry. We only have a limited budget and we do as much as we can within that.

Q220 **Wes Streeting:** Sure, and I totally appreciate that point; that is very interesting. I was struck by your answer to the Chair earlier about the under-pensioned and then Stewart Hosie with younger people. Do you think this is an area where an extension in your remit and the necessary resources following, obviously, would be important? My concern about what you have just said, which all sounds fantastic, is that, by definition, you are working with providers that are already engaged with people who are already, wisely or unwisely, investing or failing to invest or engage to the extent to which they could. I have a big concern about people who probably are not being reached at all.

Michelle Cracknell: And rightly so. We would love to see more interventions where the benefit of having a short, five-minute conversation could make a huge amount of difference. Take, for example, an opt-out. If somebody said, "I want to opt out, here is my paperwork," if they were then defaulted into having a five-minute conversation, which we could do through a number of different types of channel, we think we could make a huge amount of difference. Again, you are hitting people just at the time they are making a decision, and



we think that would be a really good use of intervention. Currently, our contact with a customer averages about 11 minutes and our average cost per customer is £31. As I said, it would be very feasible to have lots of short interventions at decision times, which were done as a default, which could be done very cost-effectively and could make a huge amount of difference.

Wes Streeting: That is very helpful. Thank you very much.

Chair: Michelle, thank you very much indeed for your evidence. It has been really helpful to hear from you and we are very grateful for your time this morning. Thank you.

Examination of witnesses

Witnesses: Baroness Altmann and Sir Steve Webb.

Q221 **Chair:** Good morning. Thank you both very much indeed for being here. Just for the benefit of those watching online, may I ask you both to introduce yourselves?

Sir Steve Webb: I am Steve Webb. I was Minister of State for Pensions from 2010 to 2015, and now I am Director of Policy at the mutual insurer, Royal London.

Baroness Altmann: Ros Altmann. I was Minister of State for Pensions from 2015 to 2016, and for pretty much all of my life I have been working on pensions, either managing pension funds or advising on pensions and pensions policy.

Q222 **Chair:** Thank you very much indeed. I know that certainly, Steve, you heard the first session from Michelle. This is part of a broader inquiry into household finances, so I want to start by talking about tax relief on pension contributions. During the inquiry, we have been told that tax relief on pension contributions is not a well-targeted or effective way of incentivising long-term saving where it is needed. I should just say that questions are directed at both of you unless someone specifically says, but do not feel that you have to answer every question as well. We are also under a bit of time pressure, because of the Chancellor's Spring Statement at 12.30 today. Who would like to kick off on tax incentives?

Baroness Altmann: I absolutely agree with the statement that you just made. Tax relief is poorly understood and poorly targeted. It would be really helpful and more effective if we were able to badge tax relief as a Government bonus on your pension or the Government contribution to your pension or something like that. If you wanted to encourage lots of taxpayer spending to incentivise saving, the people you would normally most want to incentivise are those who have least ability to save. The way tax relief works, of course, gives most incentive to those who are at the top end. I have done research in the past on this and most people do



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not have a clue how much money they get from tax relief, what it is worth to them and what it even means. Indeed, in some cases, those people who have no financial education at all, when they hear “tax relief”, think it is some kind of tax and not a good thing but a bad thing. The 20% tax relief is equivalent to a 25% bonus from the Government—free money.

Effectively, you could look at tax relief in a slightly different way, which is that it is a massive Government subsidy to the pensions industry, probably about £300 million a year, if you assume, say, £30 billion of tax relief, 1% charge; it is somewhere around that level. We have a huge sum of taxpayer money going into the pensions industry, plus of course the employer contributions as well. Is it well targeted? I would argue that probably it would be better off either being targeted more on the lower end or my preference would be for everybody to get the same incentive for the same contribution.

Sir Steve Webb: I have a couple of thoughts on incremental reform of tax relief and big-bang reform. In terms of incremental reform, it has become hideously complicated. The classic example is the tapered annual allowance, so if you are on over £150,000, including your other taxable income and employer contributions, then it is tapered down. It is ludicrous and unnecessary, so simplification would be the most important thing. Instead of having an annual allowance, a tapered annual allowance, a lifetime allowance, have a simple, perhaps lower, if necessary, annual allowance. Having an annual allowance and a lifetime allowance seems odd; you are capped on the way in and on the way out, and the lifetime allowance is a cap on success. You have done well, you have invested your money well, as compared with someone who has not, and you pay more tax, because you have gone over the lifetime allowance. There is a logic to having a cap on the way in or on the way out, but probably not both. You could probably spend the same amount of money but do it much better and much more simply. That is the first thing.

The second is to stop tinkering. We have had six cuts to limits on tax relief in seven years. That keeps financial advisers up all night trying to keep up with everything, and it means the public have no idea what the rules are, which keep changing. The lifetime allowance has come down to £1 million but it is going up in April and we do not know whether that is going to carry on or not. Some stability would be a really good thing.

In terms of big-bang reform, it would be very difficult to do because of huge numbers of gainers and losers. The gainers would not thank you, because they, as Ros said, would generally be people on modest incomes who would gain a little bit of something they did not really understand in the first place. The losers would be smaller numbers of people losing large amounts of money, who would certainly be ringing you up. All I would say on that is that flat rate relief, on the face of it, would be attractive, but flat rate relief in DB is very difficult. We still have 5 million



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public sector workers in DB. How do you do flat rate relief in a DB scheme? You would have to do it on the employee and the employer contribution. It could be really complicated, so in the world of the credible and what Government might do next, simplification and a period of stability would be a good thing.

Baroness Altmann: While I am in front of the Committee, may I put in a plea for the very lowest earners in auto-enrolment who are currently being denied the tax relief they should have? Anyone earning under £11,500 a year, who is automatically enrolled into their workplace scheme, will be either told or assume, and their employer too, that they are going to get the tax relief. The way the tax system works, if they have a net pay administration system for their pension scheme, they have to pay their own tax relief. These very lowest earners, who are mostly women, have no idea that this is happening to them. They are paying 25% more for their pension than they should, and than other people who have more money than them are paying. I have written numerous parliamentary questions about this. I have asked who is responsible, when these people discover that they have been treated in this way and overcharged, for making that back up to them, but nobody has explained to me. Is it the provider that did not warn them or auto-enrolled them even though they knew they would not get the relief? Is it the Government? Is it the employer? We do not know. I would much rather see this issue sorted before we get this huge jump in auto-enrolment contributions. At the very least, the Treasury should allow these schemes to reclaim the tax relief for those people. They know who they are.

Q223 **Chair:** Point taken. Thank you very much for raising that. I want to ask about lifetime ISAs in a moment, but on the tax relief point, if there were to be further cuts, what impact do you think that would have on pension contributions? Obviously, you have both mentioned a series of successive changes, but is that affecting pension contributions? Perhaps not, because people do not understand it all.

Baroness Altmann: The wealthiest are already out of pensions. The older ones have filled their pot and are not putting any more in. It is about rebadging the incentives and talking about this free money, which is free money—free money from the taxman, free money from your employer—and then, of course, you have the salary sacrifice. It is not just tax relief; you have national insurance relief as well. Nobody knows about it or understands it. There is nothing on your pension statement that even shows you, "This is what you put in and this is what someone else put in and someone else put in." I do think that there would be an opportunity to cut the amount spent on tax relief while improving the pensions of the middle-income and lower-middle-income groups in a way that is not detrimental to the overall pension outcome for the population.

Q224 **Chair:** In the previous session, we were talking to Michelle Cracknell about lifetime ISAs. I just wondered if you had any comments on them



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as products—whether they are a useful and suitable addition to the available options for retirement savings and if you think they are now part of a coherent retirement savings landscape.

Sir Steve Webb: When the lifetime ISA was announced, it felt like snatching defeat from the jaws of victory. We had auto-enrolment, where the 20-somethings and the 30-somethings are the most likely to stay in; there are well over 2 million under-40s now in workplace pensions who were not before. We already had Help to Buy ISAs, so if you think that those sorts of schemes help and do not just ramp up house prices, we had one of those already. We had workplace pensions finally getting young people into pension-saving, albeit at a modest level and then, suddenly, we get this strange hybrid.

The original worry was people would choose lifetime ISAs and opt out of the workplace pension, giving up employer contributions and tax relief and so on. In fact, it has been a bit of a flop. Initially, the first three providers that produced lifetime ISAs produced stocks and shares ISAs. Young people, on average, do not go for stocks and shares ISAs; amongst the under-30s, 90-something per cent of ISAs are cash ISAs. The market for the providers that provided the stocks and shares ISA was the children of rich parents. You have a rich parent who cannot use up all their pension tax limits any more, has some cash, gives it to junior, junior gets £1,000 off the Government. That does not seem, to me, to be the priority group for Government spending, so that did not really work.

One provider then offers a cash ISA—the Skipton Building Society, I believe. I am not on commission. I saw some figures and they have sold tens of thousands of them. They pay zero-point-something interest rate, but it does not matter because they are getting a 25% top-up from the Government. My worry would be we have young people starting on that savings journey that we were talking about earlier; let us not divert them with something else. Perhaps for the self-employed, who are not getting an employer contribution, you might think this might be relevant, but what we know about the self-employed is they quite like the idea of accessing their cash. Of course, in a LISA, yes, they can, sort of, but there is a hefty penalty, so it is not quite clear what question the LISA is the answer to.

Baroness Altmann: I am sorry to be strong on this one, but I would urge the Committee to recommend abolishing the lifetime ISA; just scrap it. It is, in my view—and I have seen this for so many decades—another mis-selling scandal waiting to happen. That is why a lot of providers did not offer it. They know that a lifetime ISA is unlikely to be suitable as a retirement saving vehicle for many people who might buy it. You actually need a financial adviser to help you understand whether you should have a lifetime ISA, a Help to Buy ISA or a pension.

None of the under-40s are likely to have a lifetime ISA, unless they are extremely wealthy. As Steve says, if they fill their pension pot and



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already put their £40,000 a year into their pension, a lifetime ISA is a great extra bit of taxpayer money for them. It is the same with grandparents who have done the £3,600 for the grandchildren. They can give them another bit of taxpayer subsidy.

First, the lifetime ISA confuses house purchase with pension in a very unhelpful way. Secondly, lifetime ISAs have the wrong behavioural incentives. First of all, the contributions stop at age 50. Actually, most people can start affording a bit more than that, but if you are in the lifetime ISA as a retirement-savings vehicle, come age 50 you will think, "I have done that. That is me sorted," so you will not do any more.

Now that we have reformed pensions—and this is a great credit to our Government—they now offer the best behavioural incentives for retirement, because, unlike the lifetime ISA, where you can get your hands on the money tax-free at age 60, the pension has built-in disincentives for you to spend it too early; you face big tax penalties. People have to understand pensions; we have a big problem with that. The last money you should ever spend is your pension pot. A pension could form some kind of savings vehicle even to help you fund long-term care. There is nothing in our long-term savings landscape for the biggest problem we face, in an ageing population where there is no funding at all.

People will not understand this penalty. Again, it is a 25% penalty, which is a very clever marketing trick. Most people will think, "Well, that is just paying back my 25% bonus," without realising that that is about a 6.25% penalty before you talk about the charges you have already paid.

The lifetime ISA was a reaction, to try to do something that looked radical about pensions, but it is the wrong answer; it has the wrong behavioural nudges. If people start relying on ISAs and LISAs for retirement, they are bound to be pretty poor in their 80s. If you use pensions and people are educated to understand the reasons not to spend them too soon, pensions are much more likely to last into your 80s. You do not have to worry, and you can pass on inheritance tax-free.

Again, we got rid of the 55% death tax. That was brilliant. Politicians, particularly in our party, have not realised just how brilliant those reforms were in behavioural terms. You do not need to be frightened about spending your pension or not spending your pension. It is there for you when you need it. In the past, the last thing you would want to do is to die with lots of money in your pension fund, because you would have to give 55% to the taxman.

Q225 Rushanara Ali: I was just going to pick up on that point about dying with a lot of money. Given that life expectancy is high, these days it is quite the reverse, is it not?

May I start off with a question around the Government's review of auto-enrolment, which found that 38% of people—that is 12 million—are



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still under-saving for retirement? While that is a 7% improvement since auto-enrolment, can we rely on auto-enrolment to plug the rest of the savings gap? What are the limitations to that? Who would like to start?

Sir Steve Webb: I regard this as the end of the beginning of auto-enrolment. Phase one was a massive success. The Turner Commission and the Labour Government legislated; the last Government implemented political consensus. Fantastic. A little bit of stability in pensions is a really positive thing. 10 million people enrolled; 9 million staying in. That was far, far more people than anybody thought.

We will probably come on to the step-up in contributions in April, but I am very confident that we will have high staying-in rates when that happens. We produced a report, which I will share with the Committee, on that subject over the weekend. That gets us almost to the starting gate, in my view. You asked Michelle whether the 8% was enough. Clearly, if you are on a low wage and you get a state pension, that is enough, but it is not enough for people much beyond that. People sometimes say, "We need to move the 8% to 10%, 12% or 15%." I disagree. If we just made it 10%, 12% or 15%, people opt out and then we ruin the whole thing.

I believe we should keep the 8% where it is, but in behavioural economics there is the "save more tomorrow" idea. Every time you get a pay rise, that 8% becomes 8.5%, then 9%. It just steps up, because the most painless time to put more in a pension is when you have had a pay rise—money you have never had.

If we stop in 2019 with 8%, auto-enrolment will be a job half done. We then, in my view, legislate for a step-up, again with an opt-out, that says, "Every time you get a pay rise, your 8% steps up to 12% or 14%", or whatever we think is the right number. We know that works compared with anything else. It works at scale; it works behaviourally. Any other things we might come up with, such as incentives, advertising, education and so on, are tiny compared with auto-enrolment, defaults and nudges. It works.

Baroness Altmann: I would maybe give a slightly different perspective. I completely agree with Steve that the 8% is only a start. I also agree auto-escalation makes sense every time you get a pay rise. There is nothing to stop employers doing that now. There is nothing to stop the pensions industry recommending people to do that and talking to employers about doing that now. It does not need legislation.

If we are serious about wanting people to do more, and if the pensions industry is serious about wanting people to do more, the normal pattern of a consumer industry is to encourage and entice your customers to want to buy more. The Government have handed all these extra customers and all of this extra money to the pensions industry on a plate. There is an idea that the Government should now say, "We want more customers, because there are 12 million people who are not saving



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enough and umpteen million who are not doing anything,” and the industry says, “We want you to make sure that each of our customers gives us more money.”

I would say there is a huge challenge and opportunity for the pensions industry to behave like any other consumer industry and start understanding its customers and helping its customers see why, as I say, this product is brilliant. It is free money. It is the most brilliant way for you to save for your later life. I am very disappointed that the pensions industry has not really got its act together and reached out in that way to customers. There is an automatic assumption here. Everybody knows you have to save a bit more, but they are not doing it because it is difficult, unaffordable or whatever. We need to start from one step back. Not everybody knows why pensions are great; not everybody understands the mechanics of it.

Of course, we need to simplify the messages; of course, we need to help people to understand it. If there is a role for Government, I would say it could well be to ensure that anyone who is offering automatic enrolment pension schemes in the workplace is obliged also to offer financial education alongside that, so that it is not just customers defaulting in and never thinking about it, but there is actually an obligation to make sure that when you have all these customers coming to you, you engage with them and help them see and understand why this is something they might want to do more of, or design products or approaches that are attractive to them. It is new thinking, but I hope that maybe Steve and Royal London will start the ball rolling.

Sir Steve Webb: That is to misunderstand what is going on. Why do we need to do auto-enrolment in the first place? Because consumers do not view saving in a pension like buying an iPhone.

Baroness Altmann: That is because they do not understand it.

Sir Steve Webb: The impact upon them is they have less now and the promise of more tomorrow. That is an incredibly tough sell. All the attempts to be proactive, advertise, educate and so on all failed, which is why auto-enrolment defaults were needed. Ros is saying the industry is making money through auto-enrolment. In the very long term, it will; in the short term it is losing money. What the industry has done is get 10 million in within five years. Is there any other area of public policy where a fifth of the adult population has been brought in? It has been done incredibly successfully and effectively.

Q226 **Rushanara Ali:** Presumably, it has been a challenging time to do it because of the pay squeeze.

Sir Steve Webb: Yes, you could not have picked a worse time to do it, really. I remember going over to Ireland to advise the Irish about auto-enrolment. They still have not done it, because every year in Ireland they have said, “It is not the right time.”



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Baroness Altmann: If we do not make pensions attractive, opt-out rates will go up. If we do not change our attitude to the way we engage as an industry with our customers, opt-out rates will go up. They are giving the benefit of the doubt to the providers right now. They are staying in. They want something to work for them. Let us engage with them.

Q227 **Rushanara Ali:** It sounds like the answer lies in what both of you are saying, actually. We need a two-pronged approach to try to continue to build on what has been achieved.

I just want to turn to the group of people who are self-employed, which has obviously been in the rise in the labour market. They are not covered by auto-enrolment pension schemes. The Government have said they will test out a number of approaches for the self-employed. Would it not be better for them to just get on with it and move them into auto-enrolment rather than beating around the bush with this?

Sir Steve Webb: Absolutely, yes. We do not have an exact parallel with the employer, but we have something pretty close. Probably about 2 million self-employed people fill in a tax return. That would be my guess based on the number of people who pay Class 4 national insurance, but I do not know; it would be good if the Committee could get that number.

In the order of 2 million self-employed people fill in a tax return. There is no reason why you could not use the tax return as, effectively, a default into pension saving. You are filing it in anyway. Early on in the tax-return process, when you are still feeling confident—when you have just done date of birth or something—and still feeling quite upbeat about the process, you are asked, “If you were to put money in a pension, where would you put it?” You nominate a pension. At the end of the calculation, HMRC says, “We have done your tax calculation. We have included in this a 4% or 5% contribution. You do not have to do this. You can opt out.”

All the behavioural work DWP did shows that if you put people back in control, if you tell them what you are doing and you are absolutely transparent, and you make it clear they do not have to, they will stay in. Once they have done it once and then a few times, they start to build up a pot, they start to engage and they start to get interested.

Q228 **Rushanara Ali:** Do you know whether that is one of the things the Government want to test out? They ought to be testing that.

Sir Steve Webb: I think they are, but they are just being too timid about it. Arguably, the March 2017 Budget, with the problem with the self-employed and national insurance, has probably made them very tentative in this area.

Baroness Altmann: There is an issue with the self-employed, but once again it goes back to this idea that we are not promoting pensions so that they want to buy them. Now we have reformed pensions in the way we



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have, there is this opportunity to do so. In the past, promoting pensions was not going to be a sexy idea.

Q229 **Rushanara Ali:** Should pension companies be putting some money into marketing and promotion?

Baroness Altmann: Absolutely, yes.

Q230 **Rushanara Ali:** Earlier on, our witness mentioned that the Government are not giving her organisation a marketing budget.

Baroness Altmann: The pensions industry itself has an opportunity now. It is a bit like "five a day". Fruit and vegetables are good for you. The whole industry got together and had a promotion campaign.

Sir Steve Webb: It failed.

Baroness Altmann: It did not fail.

Rushanara Ali: Perhaps you can lead the charge in coming up with an innovative approach to the "five a day" equivalent for pensions for public awareness. What do you think?

Baroness Altmann: If you want to think longer term, there is also a radical alternative. From the perspective of the Treasury, we are spending a huge sum of money on auto-enrolment tax relief, but, actually, the most powerful incentive for an employee is the employer contribution. In a way, the £1 out of the £8 they get from the tax relief is peanuts compared to the £3 out of the £8 they get from the employer. You could look to a different system. Once auto-enrolment is established—and you do not want to do anything right now, because it is not even established until 2019 at the full, legal rate—you could consider compulsion. Nobody opts out; everybody has that. Our system is based on a very low state pension. You could compel at the minimum auto-enrolment level. 90% of people are in anyway.

Q231 **Rushanara Ali:** What about the people who are low-paid, on under £10,000? I was asking Michelle earlier about this. Should the Government fill that gap? Frankly, for my constituents who are not at all well paid, compulsion sounds like—

Baroness Altmann: It is a tax.

Q232 **Rushanara Ali:** Auto-enrolment, where they can withdraw, is one thing. Compulsion, when you are not being paid very well and you have suffered a pay freeze for a decade, is not the answer, unless the Government fill the gap. Do you think that they should?

Baroness Altmann: The problem we have here is that we have a very low state pension and it has to be supplemented by private pensions for most people in order to get a decent lifestyle later.

Q233 **Rushanara Ali:** Where does the money come from if you are low-paid? As we know, there are these people who, even if they have the right to



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ask their employer, are in the very difficult situation where they do not have the organising power and confidence to go and tell their employer this.

Baroness Altmann: At the very least, you could compel the employer contribution. What I am trying to say here is that you would not need to spend tens of billions in tax relief on the first chunk. You can then concentrate the incentive spending on getting people to do more than the minimum as and when they can.

Q234 **Rushanara Ali:** Steve, do you agree with the compulsion of employers as opposed to employees?

Sir Steve Webb: I suspect it just comes straight off your constituents' wages. They would just pay lower wages.

Q235 **Rushanara Ali:** Is there a way of making that not happen?

Sir Steve Webb: I work for a pension company, and I do not think everybody should have a pension on a low wage. The state pension is £8,300 a year. The auto-enrolment threshold is £10,000 for a reason. There are two sorts of folk. For the folk who always earn £8,000 or £9,000 a year for their entire lives, a state pension of £8,000 or £9,000 is exactly what is right and appropriate. If £8,000 or £9,000 is just a period of their life and most of the time they earn double or treble that, that is the time to get them. Actually, if you expect workers on £9,000, £10,000 or £11,000 to put money in a pension, I am not really sure they should. In many ways we need to make sure the state pension is a good support for folk for whom it is a big part of their income. I am not sure whether compulsion is the answer.

Baroness Altmann: The problem we have is that we do not have enough money to fund our ageing population. Younger people are either going to be very poor in later life, if we do not plan in the long-term future to supplement the state pension, or future generations of taxpayers are going to have to subsidise them.

Q236 **Rushanara Ali:** The state subsidies are much higher for higher-earning pensioners, in terms of tax relief.

Baroness Altmann: This would be part of the radical change. It has to be part of the radical change.

Rushanara Ali: Frankly, it should be redirected towards lower-income savers.

Baroness Altmann: You would have room to do that.

Q237 **Rushanara Ali:** I just have one final question. The inquiry has received evidence in support of including sidecar accounts in auto-enrolment schemes, which allow people to access some of their retirement savings for rainy days. Do you have any thoughts on that?



Sir Steve Webb: In principle, having a bit of a pension fund that is accessible is not a bad idea. You can kind of create them now. You can create a pension in an account and when the account has reached a certain level you tip the money into the pension. It could sort of be done now. Personally, I have always thought the 25% that you are never going to take as a pension anyway, that you are going to take as a lump sum, ought to be accessible. Some greater accessibility is fine. You still want most of it locked up so that it is still a pension, but some greater flexibility in the margin is fine.

Baroness Altmann: The employer contribution should always remain locked, as should the tax relief, if there is tax relief. People should not access more than their own money. Again, that would need to be part of a much wider reform. What I would like to see is something like lifetime savings accounts—not lifetime ISAs but lifetime savings accounts. If you are not sure you want to lock that money away, you put it in a medium-term vehicle and you get extra incentive later on to put it into the locked-up bit that gets the best taxpayer incentives.

Q238 **Stephen Hammond:** Obviously, one of the reforms in the last few years has been the removal of the compulsion to buy annuities. At the time the ABI said that this did not necessarily mean the death of annuities, yet obviously annuities have fallen by four-fifths in terms of sales. There are two views around. One is that there is a lack of appreciation of longevity risk, and that is a concern people should be looking at. The other view, of course, is that if that compulsion had not been there in the first place, over a period of low interest rates you would not have bought an annuity because it is a bad project for long-term savings. Is the reality actually that, as interest rates start to go up, we are likely to see some increase in annuity sales, and we should not worry because it is just another product in the pensions range?

Sir Steve Webb: We are already starting to see a bit of a pick-up in annuity sales. The main issue with annuities was not that they were inherently a bad thing—as you mentioned, pooling longevity. We just bought them too young. Effectively, what we were doing is this. We would save in a pension, and the pension would say, “We are getting towards retirement. We are going to de-risk and go into bonds.” You then buy an annuity that is backed by bonds, and you spend half your adult life invested in bonds, which is kind of crazy.

Actually, what we may see is people buying annuities later in retirement. You might buy an annuity at 75, not 55. That might well be the right thing to do. We may see hybrid products where you are in drawdown and the drawdown starts looking much more like an annuity later on. I am not too worried about what is happening in the annuity market. The key thing is shopping around, as ever, for enhanced annuities and all of that, which is far more important.

Baroness Altmann: The annuity market was not working properly for customers for many years. I absolutely applaud the Government for



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removing the requirement to annuitise, which did not serve many people that well and did not help them understand anything about how to plan for their later life.

Annuities in the face of quantitative easing do not make much sense. Steve is right: one of the big problems was that people were buying them still young; that is still the case. We need to get as many people as we can to understand that it is not just about getting the best rate for the annuity, which was always the focus of the FCA and the regulatory changes that were supposed to improve the market. People did not know what type of annuity to buy in the first place. If you are shopping around for the best rate for the wrong product, you still do not get much further forward. That was what was happening.

It was not only that very ill people were never asked what their health was. When you buy a standard annuity, yes, you have pooling of longevity risk, but with the risk margins and profit margins built in you are absolutely being sold a product that assumes you are going to live longer than the average, and nobody told you that. Waiting until lots of life events have happened to you before you buy an annuity rather than locking in forever would make much more sense and could be part of later-life planning.

Q239 Stephen Hammond: The answers from the two of you introduce two interesting questions. The first is the point at which people with longer life expectations potentially buy annuities. You made the point about people buying them too young, but you can have a longer life expectation. Of course, that has an impact on the value to everybody else.

The other point Baroness Altmann has just made is about the pooling of longevity risk. Fundamentally, is that risk more proportionately shared by the public or the private sector?

Sir Steve Webb: The public sector is on the hook for bucket loads of longevity risk across health, social care, public services and pensions. The public is redistributing a massive amount to those who live the longest. If individuals are doing some of that through occupational pensions, annuities, cautious drawdown, that is reasonable.

In all of this, a crucial question is advice. You referred to an FCA report earlier. One of the issues it highlighted is that a third of drawdown is sold without advice. That is the worry, because people potentially have a large sum of money that they have no experience of managing, and they are trying to manage it over decades. Ironically, far from the notorious sports car, the biggest worry is reckless caution; it is actually people not consuming fast enough. It is fine for them to leave some money for their kids, but they actually have a rather low standard of living in retirement.



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In Australia, where they are looking at having more annuitisation, the problem they are trying to solve is not reckless Aussies; it is cautious Aussies. They are actually spending too slowly.

Baroness Altmann: That absolutely feeds into one of the things that has been so much missed by policymakers. Of course, it is true that a lot of people do not have a lot of money in pensions. If there is one generation who does, it is the baby boomers. They have huge sums of money not just in pensions but also in ISAs, actually. They are being vilified for it. Young people are saying, "These lucky baby boomers. They have all this money and they have all this wealth in all these different formats." Actually, there is an opportunity here to say, "Reckless cautious is fine," because that means people will have some money for care in later life, which they otherwise would not have.

I am much more worried about people who are being encouraged to spend all their ISAs and their pensions without even thinking that they might need £20,000, £30,000, £40,000 or however much when they reach their 80s or their 90s, if they do, and then they will really regret it later because it will be too late once it has gone. That is one of the things where there is an opportunity for us to encourage the Government to incentivise even further people to keep money back. For example, we could make withdrawals from pension funds tax-free if the money is used for care or have a chunk of ISA allowance be passed on IHT-free if it is earmarked for care. Nobody has a care-saving pot. Actually, just having a pension income is not enough for 21st-century later life.

Sir Steve Webb: I would comment very quickly on care, if I may, because care is important. As Ros knows, Ros and I fundamentally disagree about how we pay for care. I simply do not believe this is a savings issue; it is an insurance issue. Most of us will not have catastrophic care costs; a few of us will. In any other area of life, if a few of us are going to have a catastrophic risk, we pool-buy insurance. We do not all save for all of us to replace our car in case my car crashes, for all of us to rebuild our house in case my house burns down; we pool it. We should not incentivise saving so we all have a care pot of our own for the few who will really need it; we should pool so the people who really get stung are insured.

Stephen Hammond: Is it not going to be a balance?

Baroness Altmann: I am not disagreeing. We are in such a bad position on this. We are in such a crisis. We need a range of options. The odds of needing long-term care are one in four of the population. In a couple, it could be one in two. It is not like the odds of one in a million that your house is going to burn down. Insurance will work for some, but in the meantime, for people who are already in their 60s, who have money, nobody is telling them, "Hang on a minute. There are reasons why you might want to just think about keeping some for later life."

Q240 **Stephen Hammond:** That brings me on to my next question.



Obviously, the Retirement Outcomes Review found that pension freedoms so far have not produced a range of products for retirement outcomes, whether they are insurance or anything else. It would be interesting to know why there has been so little product innovation.

Sir Steve Webb: First of all, in 2015, when pension freedoms came in, it was famously with a year's notice. I suspect the industry spent most of that time and some time afterwards just keeping out of jail. There was a lot of just coping with what had just happened. Something I have discovered since being in the pensions industry is just how long it takes to come up with a product, to test it, to get the system and so on.

Q241 **Stephen Hammond:** That is why you are reassuring us there is a pipeline of new products.

Sir Steve Webb: There is innovation and thinking going on. We clearly have to be clear about what problem we are trying to solve, because there are existing drawdown products that are well liked and effective and so on.

But there are gaps. To come back to the care thing, I wrote a paper recently called, "Is it time for the care pension?" My argument is that you should be able to bolt care insurance on to drawdown. People are buying drawdown; they are seeing advisers. You should be able to bolt a care premium on to that. I am happy to share that report with the Committee. That is the sort of innovation I would like to see.

Baroness Altmann: I completely agree with you that it is really disappointing that there has not been much in the way of radical new thinking for pension products. In fact, there is no new thinking for the accumulation stage or the decumulation stage.

I hate the words "default option", by the way. We need to come up with much more attractive language. It is just another example of how you do not reach out to customers by telling them they should put their money in a default fund. Anyway, the lifestyle products do not really suit and plain drawdown does not really suit.

There are opportunities. For example, there is a new life insurance product you can buy, which promises to pay you life insurance if you die, but if you need care you can get that money to pay for your care. Those kinds of ideas could be much more widespread. You can put advanced life deferred annuities into a drawdown product. If you happen to live until your 90s—these days the odds are that maybe half of us will—there is some extra money for you; otherwise, you can live on whatever you have in your pot.

We need new approaches to investment as well. A lot of people would be very interested in investment options that help society or the environment—responsible investing. One problem with this—I do not know how to solve it; it is a bit of a conundrum, really—is that, increasingly, with DC pensions, people are being encouraged to think that



you should be able to access them immediately. Usually, these products are locked up. Even if you are age 60, they could be locked up for 20 or 30 years. If you have this requirement that people need to be able to get their hands on the money immediately and it has to have daily pricing, you actually remove some of the opportunities that defined benefit schemes are taking at the moment to invest in infrastructure or social housing—long-term investments that could deliver better opportunities.

Q242 Stephen Hammond: Perhaps there ought to be some extra bonus for the social part of a SIPP, for instance.

Baroness Altmann: Yes.

Q243 Stephen Hammond: My final question, if I may, is this. Steve, in your answer to the Chair, you spoke about its being illogical to have a cap on the way in and the way out. You also talked about tinkering. Given that we have a huge problem with savings, on which we are agreed, would it not be more sensible and fairer to abolish the lifetime allowance but to bring the annual contribution down to something that is affordable to everybody who is on an average salary or whatever it is to reflect that? For example, it could be somewhere between £8,000 and £15,000. It would be somewhere there. Would that not be a really sensible thing to do for the pensions market?

Sir Steve Webb: Certainly, getting rid of the lifetime allowance and potentially paying for it with a lower annual allowance and a simple annual allowance would be a good package. The only thing you have to bear in mind is people's life courses. Particularly, take someone who might be self-employed. In the earlier part of their working life, they might be shovelling money into their business and growing their business. They get to 45 or 50, and they are then in a position to save in a pension and we say, "You can only put £8,000 a year in your pension," but you have 30 years to make up. You just have to be a bit careful about low annual limits, because that can damage people who want to recover later in life. In principle, yes, I would welcome a system with a simple annual allowance and no lifetime allowance.

Baroness Altmann: A way to solve that would be to extend the carry-forward and carry-back period. At the moment it is only three years. If you extended that, you could help those lumpy-earnings profiles. There is also an issue with women's pensions. Again, those kinds of areas need to be addressed, but we do not have time to go into that today. I am really pleased you are looking at this, because there is so much opportunity here.

Chair: There is an awful lot to say. I will come back to written evidence in a moment.

Q244 Wes Streeting: I just want to get your views on where we are in terms of pension freedoms. According to the FCA, around half of annuity purchases and a third of drawdown purchases have been made without advice since the start of pension freedoms. The take-up of Pension Wise



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has also been low. Is the low take-up of advice and guidance a sign that these pension freedoms markets are not functioning properly?

Baroness Altmann: What the low advice and guidance figures show is that we have not done enough to promote advice and guidance. We have not helped the industry signpost this well enough, if I may put it that way. There is a Bill going through the House right now, the Financial Guidance and Claims Bill, which would help introduce what is called automatic enrolment into guidance. There is an opportunity, as we are automatically enrolling people on the way in, to help the industry to refer people on to the guidance service that has been set up for them.

When George Osborne introduced the freedoms, he promised people this guidance guarantee. That was what it was meant to be when Pension Wise was established. It was designed—you know this better than I, Steve—to cater for hugely greater numbers than the people who have actually used it. It is what people need before they make any kind of irreversible decision with their pension.

Pension freedoms are great. We just need to help people know about them, understand them and then work out how best to use them. Making sure that as many people as possible get guidance, ideally before they can get their hands on the money—maybe at age 50, but at the very least before they take money out—would also help avoid the scams that are plaguing the industry right now.

Pension Wise has managed to stop people being scammed. If you are cold-called and you are encouraged to do something quickly, you then phone up your pension provider. At that point the pension provider should say, “Actually, you really do need just to check this is the right thing for you before you do it, because once you have taken the money you cannot put it back again. Make sure you check that product out before you move to it.” At that point they should go for the guidance, which is independent and impartial, and that is the crucial thing.

At the moment, a lot of customers end up phoning their provider’s helpline and think they are getting free guidance that way. Of course, it is not impartial; it is not independent. I am not suggesting any particular companies are doing this, but there is an obvious incentive for them to guide you to the products that they sell or the options they want you to take, even if that may not be the best thing for you and even if, maybe, you would be better off keeping the money or transferring it to a cheaper pension scheme.

Sir Steve Webb: I just have a couple of quick follow-up thoughts. First of all, the timing of the guidance is crucial. It is too late at the moment. If someone rings us up and says, “I want to access my money,” and we say, “No, you have to go to guidance,” what they say to us on the phone is, “Why are you trying to stop me getting my money?”



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The Chartered Insurance Institute did some research, which said that people have already decided about a year ahead what they want to do. So, if we send them to guidance three months out, when we send them wake-up packs and stuff, it is too late. Whether it is the mid-life MOT—we are sending wake-up packs five years out now. That is a much better timing.

The advice figures you quoted are not quite as bad as they sound because there is a big gradient by size of pot. On the whole, people with £20,000 pension pots are not taking advice because, frankly, the cost of advice versus the pot would not be worth it. They are taking the cash and, frankly, with a £20,000 pension pot, why would you not? If you look at the gradient, people with serious amounts of money on the whole are taking advice, but we do want more take-up. We need something like advice vouchers. People who take advice on the whole are very positive about it, and the research evidence is that they get a good return on that advice, but they do not perhaps know anyone who has taken advice and they do not see it as a commodity you buy. We have to overcome the barriers to taking advice, including cost.

Baroness Altmann: It is just as important, if not more so, for someone with a £20,000 or £30,000 pension fund to know what they are doing with it. It may sound small to the industry—

Sir Steve Webb: But it is never going to be viable to pay for financial advice.

Baroness Altmann: It may be. It depends on how much the advice costs, and it does not stop them having the free guidance, which currently they do not get. That is what we have rightly set up specifically for them. For the people who use it, this service is very highly rated. There are satisfaction rates around 90%. Unfortunately, lots of people who need it do not get it.

Q245 **Wes Streeting:** We had the Pensions Advisory Service in the first session. Baroness Altmann, I am not sure whether you caught the very tail end of that. Although they seem to be doing lots of work engaging with the pensions industry to try to reach customers and advertise their service, I was struck by the fact that they are kind of hamstrung. They do not have a marketing budget. Clearly, there are lots of people out there, particularly the under-pensioned and younger savers, who are not receiving any kind of engagement with them. Is that something Parliament and Government need to address?

Baroness Altmann: It certainly needs to be addressed. One of the problems I remember grappling with as Minister is when you are trying to do some kind of advertising campaign. Just calling it “free and impartial guidance” does not exactly cut it. We have to find a different way of speaking to people about the whole area. This is help specially designed for you from people who have your interests at heart and nobody else’s. It has to be that type of message. The words “impartial guidance” mean



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nothing to the ordinary person. We all know what it means, but we have an issue of language, which in itself could make significant progress. We have a good service that does need promoting.

In this Bill, however, we can put an obligation on providers to refer people to guidance before they get their money. I know Steve says they might push back a little bit, but if the right words are used—

Sir Steve Webb: There is already an obligation. If somebody rings up, by law, the provider has to refer to guidance. The problem is that the customer is actually hostile at that point, because it is too late. The obligation needs to be sooner.

Baroness Altmann: That is because they do not know what this is.

Sir Steve Webb: I agree, yes.

Baroness Altmann: The provider does not explain to them why they need it.

Sir Steve Webb: No, that is not true.

Baroness Altmann: That is my experience.

Sir Steve Webb: The challenge is that the providers are terrified of going over the advice boundary. If it became apparent they were offering advice, they would be done by the FCA. As a provider, we are a mutual organisation. We actually exist for the benefit of our members. We would like to go as far as we possibly can shy of advice, and we are terrified that we will go over that line and then get done for giving advice, which we are not supposed to do.

Baroness Altmann: I am talking about you referring people to Pension Wise.

Sir Steve Webb: That is a statutory requirement.

Baroness Altmann: It is, but what has happened? Look at the take-up rates. It is being hidden away. People do not understand it, and it is not being promoted.

Sir Steve Webb: If you think about how you would find information, most people these days would go to a website. Millions of people have gone to the Pension Wise website; far fewer of us would make an appointment to go and see someone at the local branch of Citizens Advice. You have to see the whole picture.

Baroness Altmann: That is because they do not understand the first thing about it. I am not criticising your organisation at all. I am just saying that as an industry, as a whole, when the customer calls up and wants to take money out of their pension or when they get a wake-up pack, there is nothing that really helps them be enthusiastic or realise



why taking the money out can be really damaging for them. Buying a product that is on offer can be really damaging for them. The first thing they need to do before they think about anything else is to go and get this free, impartial, independent help from experts who are there to help them avoid doing the wrong thing.

When they call up to say they are thinking about taking some money out of their pension, the person on the phone must say, "Before you do that, it is really important for you to discuss this with someone who is not us, who is not trying to sell you anything and who has been set up specially to help you. Lots of people go there and lots of people are happy. Just have a conversation with them. You can go and see them; you can call them up. It is up to you. Lots of people have been scammed. Lots of people have lost a lot of money or done the wrong thing. It would really be great if you were to think about doing that."

It has to be that kind of conversation rather than what happens being, "Well, I do not want the guidance." "Okay, that is fine. When do you want the money?"

Q246 Wes Streeting: I am really enjoying this interplay, but I have a couple of issues to resolve before we conclude. I am just conscious of time, but I would happily watch you two debate for the afternoon. It would probably be more interesting than the Spring Statement as well. I just have a couple of other issues. When you look at the direction of travel, whether it is the FCA considering mandating default investment pathways for consumers who are not engaging in choosing their pension investments, what happened with the secondary annuities market and the fears there around consumer harm, or the accusations of mis-selling of DB transfers, I wonder whether you think the pendulum is now swinging away from pension freedoms to prioritise consumer protection. If so, is this a positive or necessary development?

Finally, in the first session Simon Clarke poked fun at the idea that pension freedoms are seeing lots of people approaching retirement cashing in on their pension pots and buying Lamborghinis and expensive cars. That is an inaccurate characterisation, but it does speak to wider fears. The Work and Pensions Committee has detailed some cases where large pension pots have been mis-spent and people have become reliant on welfare benefits. If advice and guidance does not improve, are we going to have to look, in public policy terms, at providing an old-age safety net not only for people who have not had the ability to save into an adequate pension, but also people who have maybe made unwise choices, squandered their pensions and have been left facing poverty?

Sir Steve Webb: One of the reasons pension freedoms were possible is because the new state pension was set at the level of the safety net. Under the old pension, if you blew the lot through ill or good, you would then end up on welfare. With the new state pension, at least there is now that floor, which is already at the pension credit level. Now, nobody wants to live on that, but the floor is there more than it was before.



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The thing that struck me most and the thing I have learned most in changing jobs, is the uniqueness of everybody's situation at retirement. It was Simon who asked the question about how it could ever be right to give a DB pension. One of the answers to that question is that some people have lots of pensions. They have had lots of jobs and they have lots of pensions. They might have a secure income; they might be part of a household. With that one DB pension, they might do better to have that as cash to pay off a debt, enjoy it or whatever it is. Everybody is unique. The beauty of pension freedoms is it gives people the chance to make a tailored choice. I hope the pendulum will not swing back, but you are absolutely right: we do then need to enable people to make good choices. You mentioned the Select Committee. The Work and Pensions Select Committee had one case study of somebody who had an addiction problem and gambled the money away. Frankly, they might well have gambled their annuity money away as well.

Clearly, we need to make sure the advice and guidance is there and improve that, rather than say to people, "We realised we couldn't trust you with your own money." The presumption is that everybody is unique; everybody is different. Let us enable people to make good choices for their own situation.

Baroness Altmann: I think pension freedoms are absolutely the right way forward. What we have failed to do, unfortunately, is put in adequate consumer protection alongside them at the same time. That is where the failing is. Partly it is a regulatory failing, for example with DB transfers. Allowing contingent charging has been an incentive to get people who should not transfer to be more likely to do so. There are plenty of instances, as Steve rightly says, where it is right for people to take money out of a DB scheme. If it is a small deferred pension, it might be better for them if they have other secure income. That is no problem. What we have not done is protect consumers sufficiently. The FCA has talked about consumer protection, but it has not actually done it as well as it could in practice.

I would put in a plea to every MP. The Financial Guidance and Claims Bill going through the House now has two measures that would be significantly helpful for consumer protection. One is banning cold-calling. Allied to that—this is crucial, and the Government's amendments unfortunately do not achieve this—is requiring the FCA to ban the use of leads obtained by cold-calling. You are never going to stop cold-calling, especially from overseas, but if you stop companies being able to use the information the cold-callers sell them, you immediately would have made a significant difference.

The second thing is the default guidance—the automatic enrolment into guidance. That is what people need. The people cashing in their DB schemes, without advice if they are less than £30,000, would have been able to have a good conversation with Pension Wise, for example, if it was available to them, to help them understand whether or not that



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might be right for them. It might also help them understand why they might actually want to pay for advice if they are still not sure. The Pension Wise free guidance can then lead you on to taking advice, whereas at the moment, as Steve again rightly says, a lot of people do not want to spend their own money on advice because they do not see it is really something that is right for them. They assume it is free because, in the past, these so-called advisers were actually just commission-based salesmen, but the public thought this was free advice. You would not expect an architect to design an extension to your house for free. They are a skilled person; you pay them. Somehow or other, with someone who has spent years qualifying as a financial adviser, people say, "God, I am not going to pay for that." It can actually save you a lot of money if you do the right thing as a result of it.

Q247 Chair: I just have one final question about looking to the future. One thing we are obviously seeing is that a lot of younger people are taking a lot longer to get on the housing ladder—if they get on it at all. From an industry perspective, in terms of future plans, is this something providers have to factor in? Obviously, we are talking about pensions particularly for those who are either at retirement age or approaching retirement age, but, looking to the future, the assets individuals own could be entirely different from what we are used to today.

Sir Steve Webb: Yes, absolutely. The thing we do not yet know is, when the 90-year-olds die, will their houses go to their 60-year-old children or their 30-year-old grandchildren? If you think about it, there are more houses in Britain than there have ever been. There is more housing wealth in Britain than there has ever been, and you do not take it to the grave with you. What we do not really know is where that is going to end up. We did a bit of research, and we talked to 60-year-olds. On the whole, somewhat grumpily, they said, "We are the golden generation. On average, we have done pretty well. We are going to bump that money down to the next generation."

There will be a huge division between the 30-somethings and the 40-somethings who have, frankly, 90-something grandparents in big houses. Their experience will be totally different to the youngsters who do not have that. We may see a possibly more divided experience. If in retirement you cannot assume you have paid off your mortgage or paid your rent, the level of income you need is substantially higher.

Again, that seems to me about individually tailored financial planning, depending on your circumstances. It will transform later life if you still have to pay a rent or a mortgage out of your income in retirement.

Baroness Altmann: There is also a big issue here that we are missing—the elephant in the room—which is social care. A lot of people are going to end up using their housing equity for care costs, given the way we are heading right now. Of course, for anyone who inherits a house, if there are three or four children they do not get the full value of the house. With inheritance tax and with some of the money going on equity release, for



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example, to fund care costs, relying on that cascading down the generations would be unwise.

The other thing, of course, is that if younger generations do not own their own homes, the safety net we have built into the state pension does not work because on top of pension credit they would still be entitled to council tax benefits and all sorts of benefits that owner-occupiers do not normally get.

We do need to think long term about encouraging people to have more money and understand why they might want it. Part of this is beyond just pensions, both in terms of trying to work out how you afford housing but also how you afford care, with pensions somewhere in the middle. Of course there is an insurance element, especially for young people. It is an obvious one. If Beveridge was designing national insurance now, it would not just be about the state pension; it would be about the state care provision, just like we have health provision.

We have opportunities, and there are challenges, but there are also ways in which we can move forward in a more positive direction. I do believe that pension freedoms are the right move. I would hate, as Steve said, to see it undone because there are worries about the consumer. Let us put the consumer protections in, rather than taking out the baby with the bathwater.

Chair: Yes, absolutely. Thank you very much indeed. That has been a whistle-stop tour through the pension and retirement savings landscape. Obviously, if there are things that we did not cover or points you wish to amplify, please feel free to write to the Committee. We would be delighted to hear from you both but, for this morning, thank you very much indeed for your time. We are very grateful.