House of Commons

Work and Pensions Committee

Oral evidence: Pension costs and transparency, HC 1476

Wednesday 5 December 2018

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Watch the meeting

Members present: Frank Field (Chair); Rosie Duffield; Ruth George; Nigel Mills; Chris Stephens.

Questions 67 - 118

Witnesses

I: Colin Meech, National Officer, UNISON; and Jonathan Lipkin, Director of Policy, Strategy & Research, Investment Association.

II: Dr Yvonne Braun, Director of Policy, Long-Term Savings and Protection, Association of British Insurers, and Nigel Peaple, Director of Policy, Pensions and Lifetime Savings Association.

Written evidence from witnesses:

Colin Meech, UNISON [PCT0013]

Jonathan Lipkin, Investment Association [PCT0023]

Dr Yvonne Braun, Association of British Insurers [PCT0050]

HOUSE OF COMMONS

Examination of witnesses

Colin Meech, National Officer, UNISON; and Jonathan Lipkin, Director of Policy, Strategy & Research, Investment Association.

Q67 **Chair:** Welcome. Jonathan, could you begin, and then Colin, by introducing yourselves? Then Ruth George will kick off our questioning

Jonathan Lipkin: Good morning. My name is Jonathan Lipkin. I am the Director of Policy Strategy and Research at the Investment Association.

Colin Meech: My name is Colin Meech. I am a national officer at UNISON. I am also a representative on the Local Government Pension Scheme Advisory Board. I sit on the investment committee, representing 5 million scheme members.

Q68 **Ruth George:** Thank you. I will start off by asking about the disclosure template that was designed by the Institutional Disclosure Working Group seeking to meet the needs for transparency.

How do you think the template will meet those needs? Jonathan, do you want to start off?

Jonathan Lipkin: The Institutional Disclosure Working Group, as you know, has completed its templates and a number of organisations, including the Investment Association working closely with the PLSA and the Local Government Pension Scheme Advisory Board, have formed something called the cost transparency initiative to deliver these templates. We will see the process roll out very quickly over the next few months. We are confident that having industry working very closely with key customer groups, and in this case institutional pension schemes both in the public sector and in the private sector, we will deliver an additional degree of granularity and also take the work on from the Local Government Pension Scheme templates, which have very much been founding documents in this process. We have been very pleased to work closely with the Local Government Pension Scheme Advisory Board and with Chris Sier throughout this process over the last two and a half to three years.

Colin Meech: I am relieved that the template is finally there given that in the Local Government Pension Scheme we—or certainly I—had a discussion with the Pension Federation of the Netherlands where this all emanated from. We were certainly hoping that by now we would have been way down the road of starting the transparency process among our 101 funds, but that was delayed. We are pleased it has finally been signed off.

Q69 **Ruth George:** I hope it will help with the Local Government Pension Scheme. How do you think it will affect other schemes? Should the

disclosure template be a requirement of other schemes?

Colin Meech: I think the Committee is in a very good position to be able to register the fact that in the Netherlands it is a compulsory process. That is what we need.

In the other sectors that I work in for the union, we are in a constant struggle with trustee boards and employer sponsors to undertake it, even though we demonstrate that we have been doing this in the LGPS. We currently have two transparency exercises running in two utility companies. It is going to be very difficult, however. If you take the 6,000 DB schemes and you were to do one a week, it is going to take 403 years, so there does need to be some impetus to the process.

Q70 **Ruth George:** You do not feel there is any impetus at the moment. Do you feel that there is no incentive for other pension schemes to take this on and that there will be no demand from trustee boards?

Colin Meech: I am not sure how much trustees know or understand about the costs. It is a very niche view of the world. In our experience, trustees are reticent to undertake a cost transparency exercise and officers of the pension fund are often reticent to take a transparency exercise just in case it brings up issues that they did not know about. Consultants are not too happy with the process either. I think that unless there is a statutory requirement to do so, it will take a long time to percolate through.

Jonathan Lipkin: Can I make a comment about the impetus from our perspective?

Taking a step back, there is a regulatory requirement for full transparency of charges and transaction costs at EU and UK levels, the industry is fully compliant with the requirement, and we support it, which means that all schemes, whether they ask for the information or not, will get the top level accountability from their managers about total service product charges and transaction costs. The issue that we are discussing in the LGPS template, the IDWG Cost Transparency Initiative, is the granularity piece.

From our perspective, the message has been sent very clearly from UK regulators that they expect the industry to support that granularity. We have already been supporting it through LGPS and we will take that through. We have made a very significant commitment with our partners in the PLSA—the Local Government Pension Scheme Advisory Board—to put a process around this.

Where I agree with Colin is that we will need to work with pension schemes to help them understand the information, to have a different interaction, and that dialogue will take some time to evolve. What will not take time to evolve, or rather what we are doing now, is putting in place the mechanism to deliver the information. That commitment and that mechanism, which we hope will also be a very technologically enabled

mechanism—in other words, it will not be pieces of paper or spreadsheets, it will be machine readable approaches that will mean that the information flows through the system to customers so they can handle it in the way that they would like to do—that will all be available as part of the cost transparency initiative, which starts now.

Q71 **Ruth George:** If very few schemes do this at least at the start, how will it be possible for people in pension schemes to compare to see whether their scheme is performing well and how competitive it is against other similar DB schemes?

Jonathan Lipkin: There are different pieces of regulation requiring pension schemes to report charges and transaction costs to their members. The DWP has put in place a requirement, if you look at the DC environment, to report charges and costs.

The issue for pension schemes particularly and consumer organisations is how you communicate with scheme members and how you ensure that there is trust and confidence in the information—not just about charges and costs but what the delivery is, and what the return is in the context of the costs.

A more sophisticated conversation is going to happen between the scheme decision makers and the investment managers, which is the subject of this template or framework. This framework has many lines of information that will be scrutinised by people who are interacting with the investment managers, and it is quite right that they should scrutinise the information. The information will then be boiled down and the schemes will then need to take a view about how to communicate it in a way that does not baffle people as opposed to giving them confidence in the information.

Colin Meech: The problem with that approach is that trustees still buy assets without even knowing what it costs to do so. It is not just post the event but pre the event. If you were to sit a group of trustees down, as I do for UNISON, and ask them about how they are approaching their investment strategy, some will say—I had a conversation the other day with a group that said this—"We just changed our strategy". I ask whether they had considered what the costs of changing their strategy were, what the costs of the assets were going to be, what the costs of transactions were going to be, and they just look at me blankly. They don't even consider, when they are buying something on behalf of others, how much it costs. You would not take that approach in your everyday life. No one goes into Currys to buy a fridge and does not consider how much it costs or how much the running costs are.

Chair: Unless you are forced into BrightHouse.

Colin Meech: Yes. I don't know where this gap has come from. You are buying something on behalf of others, in some cases thousands and thousands of people—in our case in the LGPS, it is 1.5 million active

members—so why wouldn't you ask how much it is going to cost? That is the big gap. In the Netherlands, they have had to change the accounting system so that their annual reports to members have administration, fund-managing charges and transaction costs. In the LGPS, we have had to work with CIPFA and the LGA to work out how the LGPS is going to do that. We have had to work with the accounting body and we have worked with the LGA. I would like to put on record how well Jeff Houston and others have done in this area. It has been a fantastic piece of social partnership. I would say that there needs to be a wholesale change about how you approach the issue, including the accounting, benchmarking of some kind, and paying attention not just to the return but also to the costs.

Q72 **Ruth George:** Do you feel that the Local Government Pension Scheme has benchmarked how this can be implemented in a way that others can follow? Or is there enough clarity now within it?

Colin Meech: We have commitment from 101 pension funds, including 89 in England and Wales, 11 in Scotland and one in Northern Ireland, to undertake the exercise of getting all their managers—not just Jonathan's managers but the private equity sector, hedge funds and property funds—so that they can fill out those spreadsheets. We are in the process of setting up an organisation that will help us check the data, check that the managers are filling out the template. We are having to do this is in a voluntary way, which is not my preference. I have discussed with Jeff Houston changing the legislation to make it compulsory. We have worked with CIPFA—the accountants for the local authorities—to change the annual report reporting, so that they collect all their data and report it. Then we will go forward into 2019-20, or at the end of 2019, to start analysing it—there are no analytics now on how well the funds are performing, what is the best investment strategy, and what it is costing. I was hoping that that analysis would have been done by now, but the IDWG have delayed everything. We have embedded a system along with the managers that will see online submission of data, collection of that data, checking the data for accuracy, and then analysing it. I think we will be the first pension system in the UK to do it.

Q73 **Ruth George:** Is that all the local authority pension schemes?

Colin Meech: Yes. There is one pension scheme in England and Wales, there is one in Scotland and there is one in Northern Ireland, in the scheme itself. They are very similar. There are 11 funds in Scotland, 89 here and one in Northern Ireland. They have all signed up to the process.

Chair: Nigel Mills, did you want to come in on that?

Q74 **Nigel Mills:** Yes. One of the things that I have always naively thought is that when an investment manager tenders for some work, they have some idea what it might cost them to deliver the work they are tendering for and therefore they know how much they need to charge to make the

level of profit that they would quite like to make. I am not quite sure, therefore, why it is so hard to work out what those costs are. Presumably any business that operates successfully tracks what costs it is spending on each client to make sure it knows whether it is a client it wants to keep. Perhaps you can explain why I am so wrong, and why apparently no one is tracking these costs and therefore we have to have very slow, convoluted and cumbersome checklists and pro forma to try to capture them. Is the information not already being captured by most people?

Jonathan Lipkin: Most of it is captured. I will come back to one specific element that has been more difficult.

Historically, if you look at the institutional market, there will be negotiation and agreement between an institutional customer and an asset manager in relation to the fees. An investment consultant may assist with that. They will typically know what the market rates are and will be able to advise the scheme. You are absolutely right that the investment managers will have a fee schedule and you would have a commercial agreement in the way you would have commercial agreements in many other parts of the service industries, and also more broadly in the economy. The issue that has caused difficulty in recent years has been a category of costs that are not associated with the fees that are being paid to asset managers. They are basically the fees of brokers, government stamp duty and costs incurred in investment markets when you are investing on behalf of customers. When any payments are made, they are tracked and recorded, and they have been available in fund reports and accounts. Historically, there have not been conversations between customers and managers about those transaction costs, but that is changing. Customers are asking for more information. We are providing more information.

One area that has been difficult and remains difficult is so-called implicit costs, typically seen in a market spread. The everyday analogy would be in foreign exchange where you go to a foreign exchange stall and there is a difference in the price to buy and sell euros or dollars. There may not be an explicit payment being made, but there is a difference in the price to buy and sell. How you capture that has been and is still the subject of debate. The commitment of the industry—we have put forward our own methodology—is to capture the implicit cost.

We are clear that all those costs, whether they be explicit or implicit, need to be disclosed and they are now being captured as part of our regulatory reporting. The issue in the IDWG is the granularity. That is being built and I am confident that, over the next three, six or nine months, we will see the fruits of that starting to emerge.

Colin Meech: When I was trying to provide a proof of concept for the scheme's advisory board, which was a very difficult process for me, I was in a room with 30 asset managers and accountants being told, "Costs don't matter, performance does". That was the mantra. Everyone was saying, "Why are you interested in costs because it is performance that

matters"? In my own staff pension fund, we ran the Dutch spreadsheet with the managers. We had five managers. Three of them took 11 months to fill it out and two point-blank refused to fill it out—the consultant was an expert, it told us, in providing data on asset management costs and did produce an annual report every year about it—but in the end they were dismissed because we could not get to the bottom of the costs, using the same spreadsheet that was now practised in the Netherlands. It was on that basis that there had to be some form of compulsion because if a manager says, "No, I am not filling that out", what sort of economic relationship is that? What sort of commercial relationship is that if they point-blank refuse? They told us to go and look in their annual report and that was where you would find the costs?

I find it very strange in this world, because as a normal consumer you expect to see prices everywhere. If I want to buy a car, I can go to the internet and I can find the model, how much each part costs, I can find out basically anything about the car itself and then I can compare and go on to a website and find out the cheapest model available in the country. Why can we not do that when there are £2.7 trillion-worth of assets held on behalf of workplace savers?

Chair: We won't answer your question because we are supposed to be asking the questions.

Q75 **Chris Stephens:** Let me first declare my trade union membership of UNISON, my former activity as a former treasurer and vice-chair of the Glasgow City branch.

Colin, when you mentioned the UNISON scheme, you were giving me nightmares about a time when we had to transfer the Strathclyde Pension Fund scheme members to the UNISON scheme, so thanks for that memory.

You have touched upon the Local Government Pension Scheme's code of transparency for asset managers. Is there anything you would like to say to us about what lessons have been learned from that initiative?

Colin Meech: First, how difficult it was to explain the importance of it. What I found in the first instance was complacency—it was very worrying—and not only from asset managers and consultants, but also from the accountants in local authorities. I have to say that has changed considerably since then.

The next lesson is about how you get this to work effectively. Because we were told there was no parliamentary time to amend any of the local government legislation, we have gone down this path of a voluntary code, which, to me, is only going to come into a view of success when we get to the stage of filling out the spreadsheets. Given that the local authority pension funds are public authorities, they should be run with ruthless efficiency for the pension fund. Every penny that is lost is lost to the local taxpayer and scheme member. It was through persuasion and social partnership that in the end the employers' side, the LGA, who

provide the secretariat and the accountants, realised. We asked a series of funds if they would volunteer to run the spreadsheet. Of the 89, only one put its hand up—that was West Midlands—and they undertook an exercise where they had a £12 billion fund and £10 million reported on asset management fees. After the exercise, they had to restate that, from £10 million to £92 million, and they got £10 million back. It caused an absolute furore. The leader of Birmingham City Council, which was the largest sponsor of the Local Government Pension Scheme and paid into the West Midland fund, was furious because how can you have a system where there is no accounting for costs? If you do not understand your real return, you cannot change strategy; you cannot work out whether you are getting the best value. Those were the signposts along the way, but it takes enormous commitment and doggedness to explain things that are very technical to our ordinary members, who now are on board with it. That is why I feel there has to be some compulsion, because otherwise people can avoid.

Q76 **Chris Stephens:** Jonathan, is there anything you would like to add?

Jonathan Lipkin: From our perspective, working with the Local Government Pension Scheme Advisory Board on the template has been a very positive experience of customers working directly with the industry to define what it is they want us to input into the template. If you look at the template that is currently on the Local Government Pension Scheme Advisory Board, we are very proud to see the fact that the Investment Association is acknowledged as contributing to it.

On the mandatory point, I checked the current situation with Jeff Houston, who Colin mentioned earlier, and Jeff was comfortable with me saying this to you. I can't speak for private equity hedge funds—they will provide their own evidence—but looking at our membership, which is broadly the mainstream asset management industry, what I was told is that the current position is that either firms are already signatories to the LGPS, or have said that they will sign in the context of the IDWG process working through. In other words, they want to build one set of systems as far as possible and have said they are committed to it and will therefore come on board. Where we are hearing the direction of travel from—and my firms are telling me the same thing but I mention this because it is coming from the advisory board itself—the sign up from managers is looking very positive. We reiterate our commitment to work with both the public sector and private sector schemes as this cost transparency initiative moves forward, using the IDWG template, to ensure that this process works.

One further point about why we think the kind of process that we have undergone is particularly good, rather than going down a hard regulation route. Regulators have historically been quite reluctant to move beyond the top level. The top-level regulation is very clear for us. We account for every pound and pence that is paid in fees. We account for the transaction costs. The granularity of something is often between

customers and managers, and it evolves over time, so the mechanism that has been set up—Chris Sier developed it with LGPS and led it through IDWG—gives us that flexibility to keep talking to the customers, find out how things are working and, if necessary, amend it over time. We think there is a middle ground where the regulator sets a clear signal, we make a commitment, and the status starts to roll through.

Colin Meech: I will tell you where we are with the coverage. There is £260 billion of assets in England and Wales and we have managers committed for £164 billion of that, so we are £100 billion short roughly. Ninety managers have signed the code. Some of the asset pools—you will know that the Government, through HCLG, require the funds to create asset pools to get some scale—have not signed up. We have an issue that not all have signed up. It is okay signing up to a code and it is very comfortable—"I'll sign that code". Asset managers who did not even have a contract in the LGPS wanted to sign the code, because they thought it would give them a Kitemark. Kitemarks are all well and good, but the real practice is going to be when those spreadsheets are filled in, when they are checked for accuracy and then when they are analysed. Then we will see the gap. The idea was that you would not be able to bid for a contract in the LGPS if you did not have the code of cost transparency badge. That is the mechanism for weeding out those that do not.

I go back to the Dutch system. The Dutch went for a voluntary process and they ironed out the issues, but the Government still legislated and I think that should be a requirement on trustees—they should collect, publish and analyse.

Q77 **Chris Stephens:** Would you say, Colin, that local government funds are getting better at holding asset managers to account, or do you think there is more to be done?

Colin Meech: This is the discovery process. You may remember the Independent Public Services Pensions Commission, led by Lord Hutton. We tried to ask one of its key questions, "What evidence is there for economies of scale in the LGPS?" We hired APG—a large, public sector fund manager in the Netherlands—which crunched the numbers and came up with arithmetic that said that, if we scaled up the funds to 13 instead of 101, there would be around £1 billion more available in cashflow. Then the light came on when they said, "But we can't see your transaction costs. Without knowing what your transaction costs are, we still think we could increase that". Jeff Houston and I have a sort of bet on about what is the real cost in the LGPS, because the scheme's advisory board—we are statutory body—has to produce an annual report and we have to tell the world how much it is costing from what we can get so far. In the first year, we have £475 million-worth of asset management costs and, in the second year, £780 million in asset management costs. It is going up and up and up because CIPFA, to their credit, have told their members to find out more about how much more the costs are. I reckon it is probably about £1.5 billion or maybe more in

total from what is stated now. The process of the discovery is the critical issue.

Q78 **Chris Stephens:** In your experience, Jonathan, has the asset management industry now grasped the importance of transparency or are there still barriers?

Jonathan Lipkin: I hope our commitment to the cost transparency initiative illustrates the level of support that we have from our membership to work for full transparency. We have embraced the IDWG process and we have now come in as a founding member of the cost transparency initiative to provide funding for the secretariat that will be led by the customer side—the PNSA—alongside the Local Government Pension Scheme Advisory Board. I would hope that our actions in that regard will illustrate the intent, which is that the asset management industry is with the programme. We do not have things to hide in terms of the delivery for our customers. We accept that historically there has been a different conversation about how returns have been generated and that conversation is now changing, becoming much more detailed, more granular. Transactions costs will be a routine part of the information set. As an industry we look forward to that conversation because ultimately it will lead to the key issue, which is how do we deliver value for our customers. Every transaction cost that is incurred is incurred to deliver a return. If a customer in a pension scheme invests £100 and the pension scheme does nothing with that for a year, it is £100 at the end of the year. If there is a fee of, say, 0.5%, then a 50p fee is taken. Some of that will go to administration and some of it will go to investment management. An investment manager needs to make that money grow and to make that money grow, it needs to incur transactions costs. The scheme has every incentive to minimise those transaction costs, because the higher they are, the weaker the return will be. We accept that we need to have the conversation, "How did you get to that return?"—the £120 or £80, or £150, or whatever it is. The commitment is to be absolutely clear about the product charges and the transaction costs and any ancillary costs, and to ensure that we have the most competitive market. We are a world-leading asset management centre and we want to ensure that we can serve our key UK customer base to the best of our ability.

Q79 **Chris Stephens:** My final question to both of you is what further work is required to enable trustees to scrutinise the performance, value for money and investment strategies?

Colin Meech: The first thing they have to do is commit to signing up to the code and using the data spreadsheet. That is the first process. We try to spread that as fast and as far and wide as possible. We have a programme of work to do that but we are only a limited force in the process.

I disagree with Jonathan: unless there is compulsion, it is not going to work. If a trustee board has four meetings a year and they last about

three or four hours, there are 12 hours a year to tackle all the things that trustees have to tackle. If the trustees are not told to go and collect the data, how are they going to know that they have to do it? How are they going to know that they have to analyse it? Each time we have done this in a voluntary situation with a sponsor employer and a board of trustees outside of the LGPS, it has proved extremely difficult to persuade them to do so.

In the case of the utility, it required a threat of strike action. As a solution, the employer wanted to close the DB completely. We said, "We have remedies to that. Do not close until you have found out how much it costs. Involve us in the next actuarial process". That stopped the ballot because we got agreement. That should not be where we are. We should not be in a process where we have to use the threat of industrial action to try to get something that is a basic fiduciary duty. You are meant to invest in the best interests of scheme members. How can you invest in the best interests of scheme members if you do not know how much it costs? It is a complete contradiction. If we get to a situation like Kentucky, a state pension fund—I don't know if you have seen what has happened in Kentucky; I follow these things—members have sued the trustees and the hedge fund managers. There has been a long case in the courts, fought hard by the hedge fund managers, to stop disclosure and the judge has now said, "Enough. We are now going to full disclosure". So the trustees are enjoined and the managers are enjoined. We should not be in a situation where members of a pension scheme have to consider legal action against their trustees. There has to be nudge—serious nudge—and some education done by DWP about what trustees should be looking for, which is the whole process we have had to go through with the fund accountants in the LGPS. There has been seminar after seminar after seminar. We have working groups and partnership with CIPFA. CIPFA have changed the accounting rules. Unless you get that buy-in, then you do not get the end result. If the trustees do not have to report, why will they?

Jonathan Lipkin: I would briefly add three things to that.

Leaving aside whether this is compulsory or not—Parliament and regulators will decide that—I absolutely agree that the information has to come through. That is the first step.

The second step is that there needs to be a different conversation among investment managers, insurance companies, trustees and IGCs, about the investment process and how we are delivering value.

Thirdly, and absolutely critically for the pension system, the investment industry and pension schemes need to work together to communicate to pension savers the importance of investment in terms of what it is that sits at the heart of a pension scheme. Investment is the beating heart of pension schemes—it is what drives returns and it is what drives the economy. If through greater transparency we can have a much more

positive conversation about what investment means, we will start also to develop greater confidence and trust in the savings system. We need that obviously for retirement, but we also need it for the broader economy in terms of investment in infrastructure, companies and so forth.

Colin Meech: What strikes me more than anything is this. If you are the finance director for Tesco and you go to the AGM and tell the shareholders that you do not know how much it costs to run Tesco and that you have no idea, and that there are all these hidden costs that we have been incurring, can't find them—

Q80 **Chair:** There is a big effect, isn't there?

Colin Meech: Yes.

Q81 **Chair:** There is a judgment day.

Colin Meech: Yes, a serious judgment day for them. So here we have large corporate sponsors who have finance directors and they have a DB fund, which might be closed or might still be open to existing members, but they do not apply the same logic. It just does not compute. If the sponsor is not concerned with how much it costs to run the pension fund and all they look at is the outcome of evaluation—which is a set of assumptions and not real stuff—if they could reduce the cost they are paying into the pension fund because they are concerned with efficiency, they would have more for research and development, wages and jobs. That is the trade-off.

Chair: And pensions

Colin Meech: Pensions as well, yes. If we find ways of reducing costs in the LGPS, UNISON would recommend immediately reducing the sponsors' costs. That is the first thing we would want to do because reducing the sponsors' costs means they have more commitment to the system. The sponsors must take this really seriously in the rest of the economy. I do not, personally, really think anything would have changed until the LGPS changed. Unless the LGPS said, "We are going to collect costs and we are going to monitor them and you should be part of this"—I give Jonathan credit for being part of that—I don't think anything would have changed.

Q82 **Ruth George:** You have both said how important it is to get transparency and that element of competition as well. As Parliament, we like to see things happen within the course of a Parliament, so within the next three to four years, how many schemes—what proportion—do you think are going to adopt this voluntarily if it is not compulsory?

Colin Meech: I don't know. All I know is that we have given instruction to our industrial officers, who I met with the other day, to start requesting, particularly with defined contribution schemes, but also with the defined benefit schemes. We deal with thousands upon thousands of employers. How long would it take us to start the process of getting the industrial officer to talk to the branch to get the branch to ask the

employer? It would just take forever. It would be a never-ending circle of process. I think, with all due respect, that there is an opportunity in the upcoming Pensions Bill.

Q83 **Ruth George:** Thank you. You are talking about sectors where there is union involvement to drive this. Obviously with the majority of the private sector, there is no union involvement to drive these things forward.

Jonathan, you said that it is a matter for Government to decide but we are here to make recommendations to Government. I am asking you, therefore, for your view on how much of the sector will do this voluntarily.

Jonathan Lipkin: Your next panel will be able to talk to you much more about the pension schemes themselves, but if I were to speak for the investment management industry supplying this information, we are making a very clear commitment, both through the CTI and also generally in terms of the work we are doing, to make this information available.

The second area that I referred to earlier in terms of the conversation will also be important. We recognise that it is not just making the information available; it is explaining what it means so that you do not have reams of data that arrive at schemes and we say, "Here you are, that is what you asked for". We need to say, "This is what this means in the context of what you asked us to do. You asked us to deliver a certain return or to take a certain risk to deliver a certain return. This is how we have delivered it. This is a granular cost disclosure that explains everything that we have done to help you achieve that objective". Then I think we will start to have a different dialogue. Our sector is making the commitment to deliver this information.

Going back to the LGPS experience, what has been said by the scheme's advisory board—our managers have either signed up or have committed to sign up—I would hope gives the Committee comfort that this is going to be very widely adopted by the industry that I represent.

Q84 **Chair:** Colin, given what you said, we ought, first, when we have deliberated properly on this, talk to Government about whether they would put it in the Pensions Bill or, if not, depending on the long title of the Bill, put our own amendment in to test the will of the House on this, shouldn't we?

Colin Meech: Yes, Chair.

Q85 **Nigel Mills:** Can you explore, if we were minded to do that, what we would be legislating to require trustees to do? We could easily pass a law that says, "Trustees shall get information on costs". That would be easy to pass, but it would be meaningless, wouldn't it, because they could get a one-sided, high-level thing, saying, "Costs are X"? Or we could pass something fiendishly complicated that legislated for the disclosure

template that has been produced that said, "Trustees shall demand that this is filled in". But even that does not necessarily change behaviour if they do not understand it and then act on it. What is it that we should do?

Colin Meech: That is what they did in the Netherlands and theirs is the best pension system in the world, as I understand it. It wins the accolade. It changes behaviour because people have to do it, which they have not done before. Once they are supplied with a set of data and they have to see what the real return is, then they can make a decision about how they go forward. I know that, in the Netherlands, the compulsion is not on the other side, as far as I can recollect, but I think the FCA should do that. Then you will change behaviour. The thing that trustees say to me is, "So what? Now I have the data, what do I do with it?" The first thing you do is go and ask your consultant to market test. If you now have the full cost in front of you, you market test. That is the first thing. You go back out to the market and ask managers, "What are you prepared to pay for this service?" and if they are going to pay less, then you have an improvement, immediately, and small improvements will add to that.

Jonathan Lipkin: It is already legislated. The question comes back to my point earlier about granularity. Just very quickly, under method 2, which is effectively UK law but will be transposed as part of the Brexit process, there is a requirement in the institutional market for investment managers to provide an aggregated total of product charges and transaction costs and a breakdown on request. There is also a separate method requirement with respect to so-called best execution, which is how to ensure that you are getting the most efficient trading process on behalf of your customers.

The FCA separately for DC schemes, which is a sort of hybrid between institutional and retail, have a set of rules called COBS 19.8, which are extremely specific about transaction costs that have to be supplied. So the discussion for us is not "Is it in law?" Obviously we completely respect the view of the Committee that you might like to make a recommendation about the granularity being in law, but from a supplier perspective what we are suggesting is that, where you are looking at what breakdown on request means, there is a role for customer and industry in the first instance to sit down and work on it. That is effectively what the IDWG did without for a moment challenging what is an essential regulatory requirement for full accountability that stems from both EU and UK legislation.

Q86 **Chair:** Can I ask you a final question, Colin? Given the problems one has had getting transparency on costs, presumably some of your members make ethical demands about what you should invest in and what you should not invest in. How open are the asset managers to answering those sorts of questions?

Colin Meech: In my own staff fund we have ESG requirements and they comply with them. In the funds themselves, I do not think that much attention is paid to the investment interests of scheme members. There is an attempt in the LGPS to do something about that. There is a requirement to produce an investment strategy statement that sets out the fund's attitude towards ESG and on voting at AGMs, but they are very light on detail.

The attempts by UNISON activists to discuss with their funds climate change is very difficult. It has not been a very fruitful exercise. One or two funds have started to address climate change but overall they have not. Generally there is a big disconnect between trustees, LGPS, pension committees and the membership.

Q87 **Chair:** What might we recommend that pushes the position of the members?

Colin Meech: That they are required to do proper consultation. If you take a local authority, it has to consult on a wide range of issues every day, every week. It is not too hard to do a system of online consultation. Go and talk to them. Go and talk to the members. If they do not reply, they do not reply, but begin a process of engagement, not a disassociation. I always get the feeling that scheme members are an irritant rather than really who you are working for.

Chair: The owners.

Colin Meech: Yes, but if you ask questions you tend to get a difficult reaction. We have had similar things with Sports Direct when we lodged a shareholder resolution at Sports Direct AGM. We had terrible problems getting funds to engage with the resolution and with asset managers.

Q88 **Rosie Duffield:** Colin, as a UNISON member for a very long time, do you think UNISON MPs have a role to play in making a bit more of it? Your pension and investments and things are not seen as a very sexy subject to talk about. Could we play more of a role in that and educating people about their choices, do you think?

Colin Meech: Yes, I would love to come and talk to you about that.

Chair: Very good, another meeting. Colin and Jonathan, thank you very much.

Examination of witnesses

Dr Yvonne Braun, Director of Policy, Long-Term Savings and Protection, Association of British Insurers, and Nigel Peaple, Director of Policy, Pensions and Lifetime Savings Association.

Q89 **Chair:** Could you introduce yourselves?

Dr Braun: Good morning. I am Dr Yvonne Braun. I am Director of Policy, Long-Term Savings and Protection at the Association of British Insurers.

Nigel Peaple: I am Nigel Peaple. I am Director of Policy and Research at the Pensions and Lifetime Savings Association, which, as you know, is an organisation with 1,300 pension schemes, which are principally the trust-based pension schemes that you have been talking about.

Q90 **Nigel Mills:** I think you both heard the previous session, so you do not need much preamble. Do you both think that the introduction of the disclosure template meets the needs for transparency and would provide the various governing bodies with the information on transaction costs that they need?

Nigel Peaple: I will kick off as the trust-based schemes are in our membership. Slightly contrary to some of the points from one of the two people you heard before, I am very positive about the work of the IDWG and I am genuinely optimistic about the work of the cost transparency initiative that we, the PLSA, the LGPS and the IA are going to be taking forward to roll out the templates to schemes over the next year, with monitoring at the end of that period to ensure that they are being adopted and used. All my experience of dealing with trustees and pension schemes is that they are very persuaded by the importance of their fiduciary obligation to look after their members and I think they will enthusiastically adopt the templates.

What is often a problem in the trust-based world is the complexity of the issues, because obviously trustees are not professionals. Sometimes they are member-nominated trustees who are normal workers, who may be trade unionists. Sometimes they are non-specialists from the company providing the scheme. They are people who are aligned with the interests of the members—they want to do the right thing by the members but they sometimes struggle with the complexity of it.

I could say, interestingly, it is something that comes out in TPR regulation generally, in particular the smaller schemes. TPR recently did a thematic review of DC pension schemes and whether they are providing value for money for their members. What they found was that about 80% of members within schemes seem to be in schemes where there was a good job being done on value for money, but there was a tail where this was not the case at all and the tail was the smallest schemes. There is a constant challenge in trust-based provision that smaller schemes are not being run as well as the larger ones.

Q91 **Nigel Mills:** Mr Peaple, you seem very optimistic that trustees will embrace this with enthusiasm, but it is not rocket science to want to know how much of your members’ funds are being spent each year. Why have they not enthusiastically embraced wanting this information for the past God-knows-how-many years when they have not had it?

Nigel Peaple: I think it is because of the complexity. It possibly is rocket science. I am sure you have all seen the templates from when you had the IDWG come and talk to you, and the ever more detailed templates below that and the every more detailed ones below that. While it might have been the case that they could sometimes get the data they wanted from their fund managers, to have it in a form that was truly comparable so you could make judgments about whether you were getting the right fund-management service has not been possible until now. I think this big piece of work, which took quite a long time to do with lots of clever people around the table, is going to make a major difference. PLSA will be thoroughly promoting this among the trust-based pension membership. That is why we have put time and resource into taking forward the cost transparency.

Q92 **Nigel Mills:** Have you had trustees, your members, beating on your door saying, "For God's sake, help us find a way to get this information, we are desperately keen to have it" or have they been sat there not realising that they ought to be having it?

Nigel Peaple: From all the discussions with our councils, which are the people from our membership who are of the schemes, and advisers to the schemes, very often are very enthusiastic about this, but not necessarily the trustees.

Nigel Mills: That is not quite the question I asked.

Nigel Peaple: It is not but we do not always have direct relations with all of these trustees—I think there are 100,000 trustees in the country. We often are operating more with the schemes. I genuinely am enthusiastic and optimistic that this will work, because it is the kind of thing that works well in trust-based provision. It is show them how and then it gets adopted. There is no reason why they should not do it because their interests are aligned with the scheme member. They do not have a conflict of interest other than pressure on time and ability.

Chair: Dr Braun, do you have anything different to add to that?

Dr Braun: I think it is important to distinguish between who the compulsion is on. Mr Lipkin said this in the last session towards the end. Actually there is compulsion on trustees and on IGCs to disclose information both about administration charges and transaction costs. That piece of compulsion is already there. The argument we were having was around whether or not the disclosure templates should be compulsory or not. My view is that as soon as you get into things that are deeply operational—Mr Lipkin was talking about the foreman and all the rest of it—you are usually better advised to leave them a bit flexible and have the compulsion at the top end. That is my view.

We are a little bit, if you like, outwith these particular templates because they are primarily directed at single-employer, occupational-defined benefit pension schemes, which we do not get involved in so much

because we tend to run contract-based, defined contribution schemes, which are a great deal more straightforward.

Nigel Peaple: May I add one more point? I think if it was the case in a couple of years that this had not been adopted, then I would be leading a request to Parliament to make them mandatory. I feel that, with all the work that has been done, we are just on the cusp of having an effective voluntary approach.

Q93 **Nigel Mills:** Should we be mandating, effectively, trustees to ask for it or should we be mandating asset managers to collect it and publish it and make it available themselves?

Nigel Peaple: Two thoughts on that. Already under the value for money regulations from DWP on DC schemes, they are meant to carry out an assessment of their costs and charges. With this being in place I am sure it will be the case that TPR will be saying, "To fulfil that obligation you need to be using this and it will be quite hard to demonstrate you are not".

With regard to DB schemes, which are also covered, obviously there is an expectation the Government is on a programme of reform at the moment of DB schemes and there is talk of having a DB chairs' statement. We think if that was to be required, a statement from the trustee chair on how they have met their obligations, that this would be an obvious thing to put in there as well. Therefore, on both sides, the DB and DC trust-based schemes, you would have this either indirect or direct obligation to be using it.

Dr Braun: Likewise, I think the FCA would be interested in whether or not asset managers use the template ultimately that was developed by the IDWG, which was under the aegis of the FCA.

Q94 **Nigel Mills:** It seems, then, that we have the compulsion in place and it has been there a while, yet we still do not have this behaviour change and this information out there. Is that just because it is slow and it is taking loads of time or do you really believe that people really want to do this?

Nigel Peaple: I find myself repeating myself. It is partly in the nature of trust-based provision—there are over 100,000 trustees. The larger schemes are well resourced, the trustees are supported in their decision-making and they are already doing things in this space, but now with this I am confident they will do it quickly. They cover the vast majority of savers and assets.

The smaller schemes will be slower but I think through education and support from the investment consultancy industry—the fund managers I know are very, very keen to try to demonstrate that they are being open about what they do—I am optimistic. I believe that we will have a high level of take-up within a couple of years, but I am sure that the low take-up will be left with the small schemes where they are under-resourced.

Q95 **Nigel Mills:** We heard the witness in the previous session say that for his local government scheme, two years ago he published costs of £450 million but he thinks the real costs are more than three times that, of £1.5 billion. Surely if I were a trustee I would be incredibly nervous now that I might be under estimating the costs I am spending on this pension—by a factor of three in that situation. I would be very nervous for how I can justify that I comply with my fiduciary duties to look after the interests of the members of these schemes.

If I cannot get within a third, even, of what I might be spending—when we get words like optimistic and hopeful—I would be thinking, "I have had a legal obligation to do this for years. It is clearly part of fiduciary duties and yet we are still arguing now about whether or not we are going to get this questionnaire filled in in two years' time and people might think about starting to use it". Are you not underplaying the level of urgency? This is a very, very serious amount of money that for DC schemes has a direct impact on people's pensions and yet we are hopeful and optimistic?

Nigel Peaple: I am not underplaying the urgency. That is why we are putting time and effort in at our association to deliver this. I think it will take a period of time to roll out, inevitably. We going from zero use of the templates, so it will take some time. I am hoping that within a year you will have a very high uptake. My reference to two years was because it was to deal with the rest.

On the point about whether the trustees would be uncomfortable with concluding that they have not been getting as good a value for money in the past as they should, I think that may be the case. Obviously it is their obligation to look after members' money. All I would say is that, as you know, in workplace pension provision the charges in DC to the member are very low compared to other financial services, of around 0.5%, well below the charge cap.

In DB it might be a slightly awkward discussion because it is the employer that would have been meeting those extra charges. Often with a large single-employer company you have the finance director on the trustee board, so he might have some hard questions to reflect upon. But as I said, I think this will be widely and enthusiastically adopted.

Q96 **Nigel Mills:** Dr Braun, one last one. Obviously trustees have been around a long time and we are pretty familiar with their responsibilities. For the independent governance committees, do you think they are going to be, hopefully at least, as effective as trustees might be on this going forward? Do they have the powers and the understanding to make this work?

Dr Braun: I think it is to an extent easier for independent governance committees because they tend to be professionals. It is also perhaps a little easier because it is not DB schemes with more complex investment strategies. They have been around for a bit under four years. How they

have been assessed is the FCA looked at them at the end of 2016 to look at how IGCs have been dealing with the legacy pension schemes. They called them generally effective and said that the relationship between insurers and IGCs was good and the majority of IGCs have been promptly and effectively consulted, provided with regular and sufficient information to evaluate provider actions. They have requested further information where needed and engaged with providers in a timely and appropriate manner. That was the FCA.

ShareAction looked at IGCs as well earlier this year and highlighted emerging good practices. It also talked about some quite nuanced and thoughtful approaches from some IGCs to understanding some quite complex problems around lack of engagement and historic under savings. It also highlighted some room for improvement particularly around a more standardised approach about value for money. I think that is where the regulators can really help. It was good to see in the recently launched joint strategy of FCA and TPR that that was going to be one of their priority areas for working together. We are in a reasonably good place with IGCs, given they are a relatively new introduction to the environment.

Q97 **Rosie Duffield:** Research indicates that on average women have significantly less pension savings than men. We all know that anecdotally. Will auto-enrolment close this gap over time, or are other interventions required to help women to make sufficient pension provision?

Dr Braun: You are right that the data is very concerning. The gender pension gap is tremendous. You probably saw the Prospect report. It puts it at just under 40%. We are looking at this also as part of a cross-industry initiative called Insuring Women's Futures, and identified there, also drawing on public sources, that a man between 60 and 64 will have accumulated almost four times as much as a woman of the same age. It is a very, very significant problem in that particular group of people across industry group and wider as well. We will be looking at what might be the game changers be.

I think automatic enrolment is certainly helping in terms of ensuring that the eligible working population is enrolled in the same way between men and women, but there are some issues around who is eligible. I will come back to that.

I should also draw out some positives. There was a very good report by the National Employment Savings Trust recently on how the UK saves. While it finds that the median pension pot that women have accumulated is only about three-quarters of men's, once you adjust that for salary, women put more in. That is encouraging, I would say.

Q98 **Chair:** Sorry, can we pause on that? Are you saying that if we hold salary bands, the difference between pension provision for men and women mainly disappear?

Dr Braun: No, sorry, that is not what I was saying. I was saying if you think about the quite important, if you like, demographic of NEST, its average scheme member earns £18,000 a year. If you look at its data, if you adjust for earnings—do not look at earnings and look at how much people put in—it looks like women put a bit more in than men. I take some comfort from that but a whole host of other issues are creating problems for women, particularly the fact that many of them work part time. If you work part time you might just be under the threshold for automatic enrolment for each of your part-time jobs. I think that is one of the issues that we need to think about.

Also we need to think about—that was in the automatic enrolment review—paying pension contributions from £1, not leaving out the first £5,000 or £6,000. There is quite a lot to do. Finally, or not quite finally, we need to think about how we address the wider societal problems, particularly around the pay gap and of course what happens when women take caring breaks. These are quite big topics and the pension system alone is probably not going to fix that.

Finally, again slightly wider than pensions, we need to look at what makes people stop paying into pensions and we know that very often it is the absence of rainy-day savings. People have a crisis and they need £300 and they will stop putting money into a pension. We need to look at all of that and the sidecar initiative as well, which is a very promising one, I think.

Nigel Peaple: I agree with all of that, especially over those structural issues in the labour market and women not working for so long and not always getting paid as much. The other aspect is the engagement piece and the degree to which you can help people to be more aware of what kind of pension they are going to get in retirement, so you can empower them, if they have the money, to make either extra saving or working longer.

You may have seen that the Pensions and Lifetime Savings Association earlier this year made some proposals for the adoption of national retirement income targets, which we are currently developing with Loughborough University, who are the people who do the calculation of minimum income for the Joseph Rowntree Foundation. It is doing bottom-up research from across the country on what people conceive as being a minimum form of living, an adequate one and a comfortable one. It is borrowing on the idea from Australia, where they already have these retirement income targets.

We think that having these targets, which will give individuals the sense of, “This is the kind of lifestyle I could have in retirement”, put together with the pensioners dashboard and a couple of simple tools to help you see are you on track or not. It will help women and also men—it will help everyone—to get a better sense of whether they are going to have the kind of retirement income that they are hoping to have.

Q99 **Chair:** How does this help people who just do not have the money and cannot afford contributions? You can talk until kingdom come, saying, "Would you like this retirement level income or that retirement income?" If it is dependent on contributions, it is very limited to what the poor can contribute.

Nigel Peaple: Yes. A couple of points, Chairman. One is—and this is not particularly palpable but it is a reality—people can work longer. They can try to keep themselves upskilled to be able to stay in the workforce longer. People may not realise in their 50s what sort of pension they will be getting 15-plus years away in the future. They might end up taking different decisions about caring and so on or when they give up work. That is a tool that many people have in a situation where there is a high level of employment. The other thing is that—

Q100 **Chair:** Sorry, Nigel, it is all right saying this, but the pressures put on women to carry out certain roles massively disadvantages them when they come to pensions. What ideas do you have that we should be proposing to compensate women undertaking those roles so that the inequality they have during their working lives is not reflected in their retirement lives?

Nigel Peaple: If I might just finish my point, if people are aware of this and if they are in couples or they have wider family groups, they are together better able to understand what kind of incomes the wife might be expecting to get for example. There is then a better chance of being able to have a greater parity about who takes on the caring in later life. There is no reason why it should not be a man. Often it is.

Q101 **Chair:** Many people doing these jobs—hard jobs—and balancing a household are knackered towards the end.

Nigel Peaple: Of course.

Chair: That is why it is so important about the state pension age for those who have been worn out in the vineyard doing two jobs and not one. What proposals have you ever put to Government that we should as a society begin to compensate women for this?

Nigel Peaple: We have always taken the view as an organisation that the state pension should recognise periods of caring and recognise when people have young children as well. That has been a direct solution to that problem. That of course involves redistribution of taxation. It seems to me there is an element of that already in the system. One question is whether there should be more of that if you wanted to deal with that issue in that way.

Chair: Yvonne?

Dr Braun: I certainly think that we cannot continue just to bank the caring contribution that women make. Carers UK put the economic value of women's—generally carers but it is predominantly women—responsibilities and work at £132 billion a year. I think we cannot

continue just to bank that and give people very little in return. It is an issue that we will be looking at in this cross-industry group. I do not think we have a solution for it yet and it is a very, very tricky issue but we cannot just bank it.

Q102 **Rosie Duffield:** Thank you. It is a wider societal issue, isn't it? It feeds into so many different areas and there is lots to think about.

Moving on to a slightly different subject, is there a need to encourage savers to do more shopping around, do you think, so that they do not see their dormant DC pension pots eroded by costs? How do you think that that could be done?

Dr Braun: I think you need to distinguish between workplace pensions and non-workplace pensions and retirement. Generally speaking, if you are in a workplace pension you cannot switch away without losing the employer contribution. I would suggest that that is probably okay because you have a charge cap. The charge cap protects people.

For your other pensions that you might have lying around because of your 11 jobs on average in your life, you can consolidate them. You can consolidate them with your existing provider or a provider of your choice. If you are working at your 11th employer you could consolidate pensions number 1 to 10 with pension number 11 or with pension number 5 or whatever you think. That is that bit in terms of workplace and non-workplace and it is important to distinguish the two.

When you then turn to retirement—that is also part of pensions—we in the ABI have been working on chopping around and switching for a number of years. Since the pension freedoms, the majority of people, 53%, buy their retirement income from a different organisation than the one they have saved with. Many of the ones who stay also have a guaranteed annuity rate, which is something that you have with some older pensions.

You can also switch Drawdown pensions, which is where pensions basically remain invested and you draw down rather than buying a guarantee, during the life of the product. It is not like an annuity where you buy in the guarantee at that point. Many people do their shopping around and switching before they buy the drawdown product. Does that make sense?

Rosie Duffield: Yes, thank you.

Dr Braun: There is more work to do. We are working with the Money Advice Service on a drawdown comparison tool. I agree with the very powerful points that were made by Mr Meech in the first session that the consumer experience should be the same, ideally, whether you buy a fridge or whether you buy a drawdown product. Transparency and ease in terms of shopping around and switching and comparing products is incredibly important.

We have invested an awful lot of time in the Pensions Dashboard, as you know, because we believe it is really important that people can find what they have and can find, according to the research that the Pensions Policy Institute have done for us, the £20 billion of lost pensions. There is quite a lot of work in train.

Nigel Peaple: I was going to make the last point again about the dashboard. I think it will help people become more aware of which pensions they have and once they can see them they are more likely then to decide on whether they want to do something with them. They might be happy just it leave it with their employer. It might be a defined benefit pension but they may want to consolidate and that is a natural thing to do.

Q103 **Chair:** Should the dashboard have a light going up that has a big question mark over it, "consolidate"?

Nigel Peaple: Personally I do not think it should do in its first phase because the first stage should be about helping people see what pensions they have, and helping them to understand whether they are on track for the right kind of retirement. I also think it is very important that the dashboard is designed in a way that will protect the members and will not be exposed to scams or mis-selling. In the first phase, caution first.

It may be possible at a later date when effective regulation is in place that you could have additional information on there that could lead to a discussion, say, with a financial adviser on whether it would make sense to transfer your pot but as you know there are lots of issues about transferring pots. For instance, are you losing certain defined benefit rights? Even with DC much will depend on the charges, the value and the growth you are getting out of it so we think it is something that should be done with caution.

Q104 **Nigel Mills:** Dr Braun stressed the importance of people who are about to start decumulating shopping around. It must be true that the more information they get on their choices the better. Do you think there is more we can do still to get more people to use the Pension Wise free guidance that is available to them and do you think all the industry is encouraging their existing members to take that up before they make any final decisions?

Dr Braun: They are. They have to. It is a regulatory requirement. But I agree with you. I think it is very important that it becomes just normal that people go to a soon-to-be single financial guidance body. It is very much our hope that, once you have the three existing bodies joined together—Pension Wise, the Pension Advisory Service and the Money Advice Service—it will have that much more heft in the guidance space. We certainly want people to take up guidance not just at retirement but much earlier.

That is why we are also strong advocates for the so-called mid-life MOT or mid-life review. We need people not to start engaging with this complex and difficult question at the point of retirement age but at a much earlier point. We need to somehow get to a point where people, difficult though it is, consider at maybe 45 or 50, what the rest of their working life looks like. What are my caring responsibilities? What are my financial responsibilities? What do I want to achieve? They should then still be able to make arrangements. If that happens, we will be at a much better place in terms of people taking the guidance and in terms of retirement.

Q105 **Nigel Mills:** You think your members would be pretty relaxed about the regulator making it much harder for people to opt out of the chance to use the Pension Wise guidance.

Dr Braun: We do not want anybody to opt out of the Pension Wise guidance.

Q106 **Nigel Mills:** You would be horrified if any of your members were gaming that process and suggesting to people, "I have to recommend this guidance to you and if you go ahead with it you will not get your money for a few weeks. There will be horrible delays and you will come back to us. But if you just opt out now magically you can have your money tomorrow". You would be horrified if any of your members were doing anything remotely like that, wouldn't you?

Dr Braun: Indefensible.

Q107 **Nigel Mills:** In fact you would throw them out of your organisation. You would refuse their memberships.

Dr Braun: The threat of being chucked out of the ABI is not so immense. I think regulatory action is a great deal more powerful.

Q108 **Nigel Mills:** Still people are not taking this free guidance. There is unlimited demand for free stuff normally and yet we still cannot get take-up for very good quality free assistance. It is bizarre, isn't it? You would think you would be on the phone to your pension provider and they would say, "Before you make this decision that will dramatically impact your retirement there is this is free advice". People just do not want it and it is bizarre.

Q109 **Chair:** Nigel, what do you say?

Nigel Peaple: I was going to chip in when Nigel mentioned that. It might be partly to do with the kind of people who are decumulating at the moment. The evidence from the FCA is people have often got substantial other pension savings such as DB and when they get in touch it is because they know they can get some cash. The cash component may be a small DC pension. They have made up their mind so that is why they are not interested in guidance.

I would imagine in some years' time, maybe 10, when people are coming up to retirement and they are looking at having a much larger DC pot and probably no defined benefit pension they will be much more engaged with trying to make the right decisions and seeking help.

Dr Braun: Could I come in on that as well?

Chair: Very quickly.

Dr Braun: It is a customer journey issue. It is a bit like on DB if you say to people, "Your transfer value is £500,000" they are not all that interested in going through an advice process. That was the point I was trying to make, much like Nigel says. If people just want to get their money out they will regard the provider saying to them, "You have to go over there to the Money Advice Service" as a bit of an imposition, whereas if you start that process much earlier and institute, as I described earlier, this consideration about your retirement and your financial situation we are going to be in a very different place. That is why it is very positive and important that the TPR and the FCA will look at the customer journey as one of the priorities in their joint strategy.

Q110 **Ruth George:** To return to the Pensions Dashboard for a minute, obviously a lot of what you talked about in answer to Rosie and these questions on the different funds will be dependent on getting the dashboard right. The Government's report says they expect it to start in 2019 but to take maybe three or four years and it will all be on there at least possibly in this first phase. How realistic is that?

Dr Braun: The Government said in the report 2019-20 and in the press statement that it will be available from 2019 and I think it is the Minister's prerogative to state ambitions. I think that is absolutely fine. We have said there is an awful lot of work to do and we are very keen to get stuck in. We are getting stuck in already but we also have to be realistic about it.

A great deal can be done in 2019. The independent implementation entity can be set up. We can start a process of commissioning the pension finder service infrastructure in the middle so I think we can make quite a bit of progress but we always have to remember if you commission that you will probably have to go through European procurement processes. They tend to take a little while so we have to be realistic. But I think it is very important to be ambitious with the timeframe.

Nigel Peaple: I agree with all that although I would temper it by saying it is more important we get the dashboard right and it is safe for members than we get it very quickly. That does not mean to say we are not going to push hard to drive it forward. When I talk to some large master trust schemes about their planning assumptions they said it is 12 to 18 months to the point when we know what we have to do.

For defined benefit schemes there are multiple issues including what exactly would you ask people on the dashboard? There are also

administrative issues because many DB schemes are smaller schemes. However, the assumption in there that DB might join in three or four years seems about right and I think the goal of getting the whole thing up and running in 2019-20 feels about right but very ambitious.

Q111 **Ruth George:** You said on the pension costs and transparency issues earlier in answer to Nigel that you felt that did not have to be compulsory at the moment because we were on a roll with voluntarism. Is it realistic to ask DB schemes to do both the dashboard and the cost transparency or is it more realistic to get DB schemes looking at transparency and all about their costs and all the work that will entail and then to get them onto the dashboard once they have those costs? That would give a timeframe for them coming on to the cost transparency.

Nigel Peaple: My feeling is it is realistic to do both at the same time. That would involve some different groups of experts. The reality is that the template is ready to be signed up to and used next year. With the dashboard, we will still be in the phase of getting up the infrastructure and working out what the requirements are so I think that might phase relatively well.

Q112 **Ruth George:** We should be getting on with the transparency and the data. On the dashboard, things like exit fees and costs of transferring are a key part of that. Should those be included in the dashboard right from the start because they are obviously, as you say, a very important part of people's decision-making processes?

Nigel Peaple: My feeling on that is in the initial dashboard where primarily people will just see what their pensions are to plan for retirement it is not essential to have those other figures there. If you do you might have it layered so it would not be too overwhelming at the top level of information but you could click through to it. If it came to a point, which could come quite quickly, where the dashboard would enable you to do lots of transfers of pots then it would be essential to have the information there but maybe a layer down.

Dr Braun: Likewise, we have said all along that you need to walk before you can run. We think if you can get the information there to at least, first of all, enable people to see what they have, it would be a very good first step. Even that is going to be a bit of an effort but I completely agree we want to get to a point relatively quickly where we have charges available as well, as Nigel said, in a layered way. On employer contributions, we would not want to be in a place where people transfer out of the pension they are in with an employer where they get an employer contribution and then lose it. Equally, if they have an existing pension with a guaranteed annuity, we absolutely would not want them to simply transfer out and not be aware of the guarantee.

Nigel Peaple: This point is a bit of a headache. Helpfully, instead of just talking about the cost side, we were getting into what people get for it. Ideally there would be some indicator of the overall value from the

pension that might not always be a financial figure. That is where the work on value for money that TPR and FCA say they will do next year could be very important.

Dr Braun: Can I endorse that? I think it is a really important point. The cost of everything but the value of nothing: there is a danger in this whole debate that the focus is purely on cost all the time and that cheap is good, better and fantastic. It is important that we also look at the other side—at the engagement and everything else members are receiving from the scheme—rather than completely focusing only on the cost side.

Q113 **Ruth George:** I have one final point. You have both said the voluntary system will work fine at the moment and that things are progressing. What should we look for to have happened in 12 months' time to progress both the dashboard and transparency in pension costs, and alarm bells should be ringing if we do not see those targets met by the sector?

Dr Braun: Can I start on the dashboard? The Pensions Bill 2019 requirement on schemes to produce information to be made available to dashboard is absolutely critical. I would say that we need a robust governance structure with an independent chair, very clear progress around the procurement of the pension finder service and a more defined plan with regard to the inclusion of state pension data in the dashboard, plus a credible road to the first dashboard available from the single financial guidance body.

Q114 **Chair:** Do you have anything to add, Nigel?

Nigel Peaple: Nothing on the dashboard and on the template. We would look to see whether we are hitting the timetable set out by the Institutional Disclosure Working Group that was launched this autumn of the follow-on body, the Cost Transparency Initiative. That has happened. We are just setting up the pilots to ensure the templates work with schemes, a rollout of the templates hopefully in early spring and I would say also then an assessment a year on. At the end of that year, I would be looking for a high level of adoption, certainly in terms of assets and members if not in schemes.

As you know, a relatively small number of very large schemes are better able to adopt things quickly and then there is a tail. We would be looking for an uptake on coverage. In the LGPS, apparently it is up to about 70% of assets at the moment of schemes signing up and saying they are going to do it.

Q115 **Chair:** The Government say this will be industry-led. Do you think they are setting you up as the fall guys with the timetables and everything else not quite fit what we are now hoping from this initiative?

Nigel Peaple: On the dashboard? I am encouraged by the high degree of Government involvement in this industry-led initiative because the SFGB is going to appoint the chair. They have said although the majority of

people on the steering group will be from industry we will also have the DWP there at a senior level, the TPR there and the FCA there. I hope that collectively we will be able to take the right decisions and get the right outcomes. The timeline is ambitious but they have said ultimately the timeline is—

Q116 **Chair:** Do you see it as industry-led or do you believe this is Government-led?

Nigel Peaple: I see it as industry-led but Government-facilitated—I think that is the term they use—because we need the Government involved in certain ways. The industry is leading it.

Chair: Thank you. Nigel, did you have a last point?

Q117 **Nigel Mills:** Can I go back to the cost transparencies? It all seems very encouraging. Do you have any thoughts on the Competition and Markets Authority investigation into the investment consultants market and their preliminary recommendations to require trustees to do some tendering before appointing certain advisers? You would be a little nervous, even in 2018, if you had trustees who had not quite realised that tendering before appointing consultants was a good idea. Does this not suggest that all is not quite as rosy as you suggest it might be?

Nigel Peaple: We are generally supportive of the CMA's conclusions. I might have to write to the Committee with the detail of our thinking on the tendering but from memory we were in favour of tendering periodically, but sometimes where there is already an incumbent, we said you might not have to retender every time. I would have to come back to you with the detail but generally we are in favour of tendering when it makes sense to do retenders.

Q118 **Nigel Mills:** Can you add anything different, Dr Braun?

Dr Braun: I would say if you look after other people's money you have the obligation to be professional or at least have some professionals involved. If that is not the case for some smaller trust-based schemes then that is a matter for the regulator.

Chair: On that hopefully happy note we conclude. Thank you both very much.